

**REPORT OF THE AUDITOR GENERAL
ON THE
ACCOUNTS OF THE GOVERNMENT
OF THE
REPUBLIC OF MALAWI**

For The Year Ended 30th June, 2008

NATIONAL AUDIT OFFICE

VISION

: To be an autonomous Supreme Audit Institution that effectively contributes to public accountability, transparency and good governance.

MISSION

: To promote accountability, transparent administration and good Governance in the public sector through the provision of quality audit services which assure the Nation that public resources are economically, and effectively applied.

CORE VALUES

: Professionalism
Integrity
Objectivity
Independence
Confidentiality
Continuous Professional Development
Open Communication

National Audit Office
P.O. Box 30045
Capital City
Lilongwe 3
Malawi

30th December, 2009

The Honourable Minister of Finance
Ministry of Finance
P.O. Box 30049
Lilongwe 3
Malawi

Dear Sir,

Pursuant to the provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Public Audit Act, I have the honour to submit my Report on the results of the audit of the Accounts of the Government of Malawi for the year ended 30th June, 2008 for tabling in the National Assembly.

Yours faithfully,

R. A. KAMPANJE
Auditor General

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EXECUTIVE SUMMARY

In accordance with Section 6 of the Public Audit Act, I have, on behalf of the National Assembly, examined and enquired into and audited the accounts of Controlling Officers and Receivers of Revenue and persons entrusted with the collection, receipt, custody or disposal of public moneys or public stores.

The audits have not been limited to the accounts for the year ended 30th June, 2008 but have, where necessary, been continued into the subsequent year.

The Government budgetary operations registered expansions in both revenue and expenditure during the year under review. Total revenue collected increased by K16.0 billion to K127.0 billion which compares favourably with K111.0 billion realized in 2006/07 financial year. Total expenditures increased by K29.9 billion from K96.7 billion in 2006/07 to K119.6 billion in 2007/08 financial year. Domestic revenue remained relatively buoyant and continued to maintain an upward trend. This was mainly premised on the improved tax collection and administration by the Malawi Revenue Authority.

The Recurrent Account registered K127.0 billion in revenue while the Recurrent Expenditure was K119.6 billion resulting into a surplus of K7.4 billion. Development Account enjoyed resources amounting to K41.8 billion which is K10.4 billion more when compared to K31.4 billion for 2006/07 financial year. Total expenditure charged to the Development Account increased by K12.6 billion when compared to K27.4 billion for 2006/07. Government implemented sound fiscal and monetary policies that have resulted in the continued donor support during the period under review.

In the endeavor to improve financial management and expenditure control, Government implemented a number of public finance management reforms. During the year under review Government continued to implement the Integrated Financial Management Information System (IFMIS). It is hoped that with the introduction of IFMIS and its roll out to Assemblies including full implementation of the Public Finance Management Act, Public Audit Act and Public Procurement Act, Ministries and Departments should experience improved public expenditure management and control.

PART I

INTRODUCTION

Audit of Public Accounts

1. I am required by Section 184 (1) of the Constitution of the Republic of Malawi to audit and report on the public accounts of the Government of Malawi and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principal duties of my office.
2. Section 184 (2) requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the Public Audit Act requires me to report to the National Assembly through the President and Speaker, the provision is inconsistent with the Constitution, and since the Constitution is a supreme law, this provision is deemed to be invalid to the extent of the inconsistency. Consultations with the Law Commission have been initiated to have the inconsistency cleared.
3. The Public Audit Act provides, *inter alia*, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required in terms of Section 6 (4) (d) to determine whether the procedures and systems of internal control of each ministry, agency and public authority or body do ensure that—
 - Revenue is properly assessed and collected;
 - Expenditure is validly and correctly authorized;
 - Revenue, expenses, assets and liabilities are properly recorded and accounted for;
 - Financial and operating information is reliable;
 - Assets are safeguarded against loss or destruction;
 - Recourses are employed and managed in an economic, effective and efficient manner;
 - There has been no waste or extravagance;
 - Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
 - Relevant government policies and legislation are being complied with;
 - All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
 - The accounts and records have been properly kept.

4. Section 6 (2) of the Act requires me to undertake an audit programme to review and approve the audited accounts of statutory bodies and conduct audits of any statutory body that has not had its financial statements audited by a firm of private auditors, and where I do not approve the audited financial statements.
5. Section 6 (3) of the Act requires me to audit and examine transactions, books and accounts and other financial records associated with any project, programme, and any other activity receiving funding in whole or in part from public money, public resources which in my opinion justifies further investigations.
6. In fulfilling my duties, powers and responsibilities lawfully conferred on me under Section 7 (1) I am required and any person authorized by me to—
 - (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit, and to any place where they are kept;
 - (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by me;
 - (c) Give notice in writing, requiring any person having possession or control of any documents, books and accounts subject to audit and examination by the Auditor General to deliver all or any of them at a time and place and to such person specified in the notice;
 - (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
 - (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

Submission of Financial Statements

7. Section 83 (1) of the Public Finance Management Act requires the Secretary to the Treasury to prepare, sign and transmit to me the Statements of Accounts within a period of four (4) months but not later than 31st October after the close of each financial year. The form and content of the financial statements are as follows—
 - (a) A Consolidated Operating Statement showing revenue and expenditure and the surplus or deficit for the reporting period;
 - (b) A Statement of financial position showing the assets, liabilities and net financial position as at balance sheet date of the reporting period;
 - (c) A statement of cash flows showing the cash receipts and cash payments during the reporting period, and the cash balance as at balance sheet date of the reporting period;

- (d) A statement of cash balance showing breakdown of the balances held by type of holding;
- (e) A statement of Statutory Expenditure showing details of domestic debt servicing, external debt servicing, statutory remuneration and other material items of expenditure;
- (f) A statement of investments showing the nature or type of investment and current and non-current investments;
- (g) A statement of borrowings showing total debt and the breakdown of current and non-current debts; and for each debt showing the opening and closing balances for the reporting period and the nature of the movement during the period, the impact of exchange rate movements, average interest rate, and loan balances available for breakdown (if applicable);
- (h) A statement of ex-gratia payments approved under the provisions of an Act; budgets, actual performance and variations between actual and budget;
- (i) A statement showing for each account in the Trust Fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period;
- (k) A statement of accounting policies setting out the significant accounting policies on which the financial statements are prepared; and other information specified by the Secretary to the Treasury in Treasury Instructions as required to provide more detailed information or explanations.

Controlling Officer's Responsibility

8. In terms of Section 10 of the Public Finance Management Act, it is the Controlling Officer's responsibilities to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. The responsibilities of management also include ensuring that—
 - (a) Public funds are only used to the extent, and for the purpose intended by the National Assembly;
 - (b) All necessary precautions are taken to safeguard the collection and custody of public money;
 - (c) All necessary precautions are taken to safeguard public resources;
 - (d) All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;
 - (e) There is no over-expenditure or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment; and

- (f) The collection of public moneys is according to approved plans and the estimates.

Scope of Audit

9. The audit of public accounts is performed in accordance with International Standards of Supreme Audit Institutions (ISSAI). The audit is intended to provide an overall assurance of the general accuracy and propriety of Government's financial and accounting transactions. Although the audit is conducted in accordance with generally accepted auditing standards, practices and methods, it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

The Public Audit Act empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Substantive tests were made on selected areas of public accounts in order to form an opinion as to whether or not public money is expended economically, and in conformity with the wishes of the National Assembly. The audits have not been limited to the accounts for the year ended 30th June, 2008, but have where necessary extended into the subsequent year.

Audit Methodology

10. The core objective of the external audit function is to ensure accountability of public funds. To discharge this responsibility, my approach to audit involves the following—
- Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
 - Evaluation and testing of the accounting and internal control systems;
 - Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
 - Reporting the audit findings based on the audit procedures performed and evidence gathered.

Delays in Responding to Audit Reports

11. Section 14 (1) of the Public Audit Act requires a Controlling Officer, Head of an agency, statutory body or other affected person in respect of any matters that may relate to an audit, to respond to the Auditor General within fourteen (14) days of receiving the report.

Despite some progress in responding to audit queries, and reports, a significant number of Controlling Officers are unable to respond as required by the Public Audit Act. The value of audit recommendations and prompt and timely feedback from management cannot be over emphasized.

On many occasions Controlling Officers have been reminded of their responsibilities for the control and management of public funds entrusted to their care and their ultimate accountability to the National Assembly.

Co-operation with Office of the Auditor General, Norway

12. During the period under review, the National Audit Office entered into an institutional cooperation with the Office of the Auditor General of Norway and formulated a new Institutional Development Project to be financed by the Government of the Kingdom of Norway. The core objective of the institutional cooperation project is to build capacity of the NAO for better delivery of audit services

Reporting Procedure

13. In the course of preparing this report, each Controlling Officer was sent an appropriate draft paragraph for his/her comments and confirmation of the correctness of the facts presented. Where comments were received in good time and happened to be materially satisfactory, the affected draft paragraphs were amended accordingly. In cases where it was not possible for Controlling Officers to provide comments in the time available, the draft paragraphs formed part of this report without amendment.

This report is therefore submitted in accordance with the requirements of Section 184 (2) of the Constitution of the Republic of Malawi..

Certificate on the Accounts

14. I am required to express an opinion on the public accounts based on my audit. My audit opinion on the public accounts for the financial year ended 30th June, 2008 is unqualified and is presented separately in Volume I of the Consolidated Annual Appropriation Accounts for the year ended 30th June, 2008.

PART II

BUDGET OUT-TURN

REVENUE

15. Total revenue collected during the period ended 30th June, 2008 was K126,987.721 million which reflected an increase of K16,011.835 million over the 2006/07 amount of K110,975.886 million. The main sources of revenue were Customs and Excise K54,871.087 million and Taxes K43,086 million.

The revenue collection for 2007/08 exceeded the revised amount of K105,893 million by K21,094.721 million. In the main, the over-collection was attributed to Other (Miscellaneous) Receipts which registered an over-collection of K20,929.657 million. Customs and Excise registered an over-collection of K13,588.087 million. The trend of over-collection for the past four years is tabulated as follows—

<i>Year</i>	<i>Provision</i>	<i>Actual Collection</i>	<i>Over-collection</i>
<u> </u>	<u><i>K' Million</i></u>	<u><i>K' Million</i></u>	<u><i>K' Million</i></u>
2004/2005	54,575.288	85,674.558	31,077.517
2005/2006	62,039.215	94,126.858	32,087.643
2006/2007	62,039.215	110,975.886	48,936.671
2007/2008	105,893.000	126,987.721	21,094.721

EXPENDITURE

16. During the year under review, total expenditure charged to the Consolidated Fund was K119,542.665 million representing an increase in expenditure of K22,878.308 million when compared to the total expenditure of K96,664.357 million for 2006/07. The overall picture of the voted expenditure was a surplus of K7,445.056 million which compares unfavourably to a surplus of K14,311.529 million for 2006/07.

CONSOLIDATED REVENUE ACCOUNT

17. The consolidated revenue account had improved during the year under review since the cumulative deficit of K59,440.765 million as at 30th June, 2007 had decreased to K51,995.709 million as at 30th June, 2008, arrived at as follows—

	<i>K' Million</i>
Balance as at 1st July, 2007	59,440.765 DR
Add: Revenue for the year	126,987.721 CR
Subtotal	67,546.956 CR
Less: Expenditure for the year	119,542.665 DR
Cumulative Deficit as at 30th June, 2008	51,995709 DR

The planned recurrent deficit before grants for the year under review was K30,834.497 million. The actual Revenue Account out-turn as at 30th June, 2008 was a surplus of K7,445.056 million.

The annual surplus could largely be attributed to fiscal reforms including implementation of an Integrated Financial Management Information System (IFMIS) instituted by Government and improved expenditure management and control.

Recurrent Budget Performance for the past four years is as follows—

	<i>2004/05</i> <u><i>K' Million</i></u>	<i>2005/06</i> <u><i>K' Million</i></u>	<i>2006/07</i> <u><i>K' Million</i></u>	<i>2007/08</i> <u><i>K' Million</i></u>
Actual Revenue	85,674.558	94,126.858	110,975.886	126,987.721
Less: Actual Expenditure	<u>84,047.487</u>	<u>81,589.832</u>	<u>96,664.357</u>	<u>119,542.665</u>
Surplus/(Deficit)	<u>1,627.071</u>	<u>2,537.026</u>	<u>14,311.529</u>	<u>7,445.056</u>

Details of actual receipts and payments are articulated in statements 3 and 4 of the Appropriation Accounts.

CONSOLIDATED DEVELOPMENT ACCOUNT

18. The total expenditure charged to Development Account for the year ended 30th June, 2008 amounted to K39,981.959 million reflecting an increase of K12,606.274 million over the previous year's expenditure of K27,375.685 million.

A comparative analysis of expenditure out-turn of the Development Account for the past four years is as follows—

	<i>2004/05</i> <u><i>K' Million</i></u>	<i>2005/06</i> <u><i>K' Million</i></u>	<i>2006/07</i> <u><i>K' Million</i></u>	<i>2007/08</i> <u><i>K' Million</i></u>
Revised Estimates	22,086.870	28,442.223	49,007.102	63,523.424
Actual Expenditure	<u>14,520.521</u>	<u>18,708.760</u>	<u>27,375.685</u>	<u>39,981.959</u>
	<u>7,488.367</u>	<u>9,626.637</u>	<u>21,631.417</u>	<u>23,541.465</u>

Seven (7) votes, however, recorded under expenditures of K18,976.090 million. The largest unspent balances of K3,803.907 million and K3,481.878 million were recorded against Vote 210 - Water Development and Vote 310 - Health and respectively.

The unspent balances on the Development votes could be a reflection of projects which were not implemented in full due to inadequate counterpart funding, lack of expertise, or delays in aid inflows.

The overall state of affairs of the Development Fund as at 30th June, 2008 was a cumulative surplus of K9,255.526 million, registering an increase of K1,760.772 million from K7,494.754 million recorded at the end of the 2006/07 financial year. Details are as follows:—

		<i>K' Million</i>
Receipts during the year	41,742.731 CR
Less: Payments	39,981.959 DR
Surplus/(Deficit) for the year	1,760.772 CR
Add: Opening balance	7,494.754 CR
Cumulative Surplus as at 30th June, 2007	..	9,255.526 CR

CONSOLIDATED FUND

FINANCING OF THE DEFICIT

19. The Budget Statement for 2007/08 financial year envisaged a deficit of K9.9 billion on the Revenue Account while the Development Budget was expected to break-even at K11.3 billion.

During the year under review, the Recurrent Revenue Account collected K126,987.721 million while the Recurrent Expenditure was K119,542.665 million resulting into a surplus of K7,445.056 million.

The Development Account realized K41,742.731 million registering an increase of K10,385.659 million when compared to K31,357.072 million of 2006/07 financial year..

The combined net cumulative position of the Recurrent and Development Accounts for the past four years is as follows—

<u>Year</u>	<u>Combined (Deficit)/Surplus</u> <u>K' Million</u>
2004/05	(83,333.156)
2005/06	(70,238.927)
2006/07	(51,946.011)
2007/08	(42,740.183)

It is envisaged that full implementation of the Integrated Financial Management Information System (IFMIS) coupled with strict compliance with the provisions of the Public Finance Management Act and Public Procurement Act will further improve public financial management and control in Ministries, Departments and other Government Agencies.

PART III
MINISTRIES, DEPARTMENTS AND OTHER ENTITIES
NATIONAL ASSEMBLY
STRATEGIC PLAN PROJECT

20. An audit inspection of the financial and stores records of the National Assembly Strategic Plan Project was completed in June, 2008. The audit review disclosed weaknesses in financial control as follows—

(a) Double payment to Lords Best Collection: K320,035.00

An examination of payment vouchers and bank reconciliation statements disclosed that the project paid Lords Best Collection twice using the same invoice. The first payment was made on cheque number 505 and payment voucher number 5 dated 9th August, 2007 for MK320,035.00 while the second payment which was based on a photocopy invoice was made on cheque number 528 and payment voucher number 26 dated 27th September, 2007 for the same amount of MK320,035.00

As at the date of audit, the amount had not been claimed from Lords Best Collection.

(b) Withholding tax not deducted from payment made to D. Milanzi for consultancy fees: MK374,581.00

Taxation Act requires that a 20% withholding tax should be deducted from all payments for consultancy services provided by suppliers who do not possess valid withholding tax exemption certificates.

An examination of payment vouchers disclosed that the project did not deduct 20% withholding tax totaling K374,581.00 from consultancy fees payments made to Mr. D. Milanzi between August, 2007 and December, 2007.

I have not received any response from the Controlling Officer.

OFFICE OF THE PRESIDENT AND CABINET

Revenue Account

Revenue Under Collected

Vote 090	:	Office of the President and Cabinet
Controlling Officer	:	The Chief Secretary to the Office of the President and Cabinet
Provision for listed items	:	K1,728,000
Actual Collection	:	-
Under Collection	:	K1,728,000

21. An examination of Financial Statements of revenue account showed under-collection on the following items—

<i>Source</i>	<i>Type</i>	<i>Centre</i>	<i>Type of Receipt</i>	<i>Type of Revenue</i>	<i>Specific Revenue</i>	<i>Details</i>	<i>Revenue Estimates</i>	<i>Actual Collection</i>	<i>Under Collection</i>	<i>% Under Collection</i>
							K	K	K	
1						Local				
	3					Revenue Receipts				
		01				Headquarters				
			02			Non-Tax Revenue				
				23		Sales proceeds				
						from department				
					353	Sales of Prequalification				
						Documents	1,728,000	-	1,728,000	100
							<u>1,728,000</u>	=	<u>1,728,000</u>	<u>100</u>

I enquired from the Controlling Officer reasons which led to failure to collect revenue, but at the date of writing this report I had not received any reply.

CENTRE FOR DEVELOPMENT COMMUNICATION PROGRAMME (MBALIYANGA PROJECT)

22. An audit inspection of the financial and stores records of Centre for Development Communication Programme (Mbaliyanga Project) was completed in June 2008. The audit review disclosed weaknesses in financial control as follows—

(a) Failure to deduct tax: K35,533.19

The Taxation Act 41:01, Section 102 requires all Government Institutions to deduct withholding tax at various rates when making payments to suppliers of goods and services who do not possess withholding tax exemption certificates.

An examination of payment vouchers disclosed that between June and November 2007 the Project paid a sum of K355,331.92 in respect of rentals to CLAIM MABUKU, the land lords, without deducting K35,533.19 withholding tax as required by the Taxation Act.

(b) Fuel not recorded in a fuel register: K334,088.00

It was observed that control and accountability of fuel was not satisfactory. The project did not maintain a fuel register to record fuel purchases and as a result, fuel worth K334,088.00 bought between March, 2007 and November 2007 was not recorded. Consequently, the inspecting auditors could not establish how the fuel was accounted for.

(c) Payment vouchers not produced for examination: K252,733.00

The Public Audit Act empowers the Auditor General to have access to all books and records relating to accounts of all public offices for examination.

An examination of payment vouchers for the period ended 31st December, 2007 disclosed that four (4) payment vouchers totaling K252,733.00 were not presented for audit review. Consequently, the propriety of the expenditure could not be ascertained.

DEMOCRACY CONSOLIDATION PROGRAMME

23. An audit inspection of the financial and stores records of Democracy Consolidation Programme was completed in May 2008. The audit disclosed weaknesses in financial control as follows—

(a) Unsatisfactory management of imprest: K126,600.00

The Civil Liberties Committee (CILIC) has District Offices in some parts of the country which are funded centrally through periodic disbursements in form of imprest for operational expenses. The District offices are required to account for the disbursements to CILIC headquarters in order to access subsequent resources.

An examination of disbursement records revealed that out of K509,350.00 which was disbursed to District Offices, a total of MK126,600.00 was supported by receipts which were not valid as some receipts were either issued from one receipt book or self generated by the same person inspite of the fact that services rendered were completely different in nature and from different district offices. Consequently, the propriety of the expenditure could not be ascertained.

(b) Failure to deduct withholding tax: K53,911.00

The Taxation Act 41:01, Section 102 stipulates that all government Ministries and Institutions should deduct withholding tax when making payments to suppliers of goods and services who do not possess valid withholding tax exemption certificates.

An examination of payment vouchers for the period ended 31st December, 2007 disclosed that the project did not deduct withholding tax amounting to K53,911.00 from payments of MK539,610.89 made to MPICO.

LOCAL GOVERNMENT AND RURAL DEVELOPMENT

MULANJE DISTRICT ASSEMBLY

24. An audit inspection of the financial and stores records of Mulanje District Assembly was completed in March 2008. The audit review disclosed the following irregularities:—

(a) Use of revenue collection before banking: K515,105.00

Financial Management and Accounting Procedure number 4.5.2. for District Assembly requires that all payments should be made by cheques except for petty cash payments. Further, Treasury Instructions require that revenue collected should be banked intact.

An examination of the financial records disclosed that between July 2006 and October 2007 the Assembly made cash payments amounting to K515,105.00 from revenue collected before it was banked. This was tantamount to spending over and above the parliamentary approved provision. There was no evidence to show that action was taken to correct the situation.

(b) Deceased estates funds not accounted for: K1,980,089.04

An examination of records pertaining to deceased estates funds, revealed that between January 2006 and November 2007 Mr. Francis Makweya received cash amounting to K1,980,089.04 from Miss Martha Mageretta which was meant for opening minors' accounts, but he failed to account for it. The matter was reported to Police and the officer was in police custody awaiting court trial. I have not received any information on the conclusion of the matter.

(c) Underbanking of deceased estates funds in the minors' bank accounts.

An examination of payment vouchers, Trustee registers and minors' bank passbooks revealed that between May 2006 and August 2007, Mr. Francis Makweya underbaked deceased estates funds by K551,684.52 in various minors bank accounts. The misappropriation was attributed to weaknesses in the system of internal checks and control.

(d) Misappropriation of deceased estates funds: K196,726.80

A further examination of payment vouchers and interviews with some beneficiaries revealed that between August and October 2007, Mr. Makweya failed to account for K196,726.80 deceased estates funds. The misappropriation was perpetrated through forgery of documents in respect of minors' bank accounts.

(e) Failure to pay deceased estates funds to the beneficiaries: K505,961.27

An examination of payment vouchers disclosed that between April 2005 and November 2007, Mr. F. Makweya received cash amounting to K505,961.27 in respect of deceased estates to pay the beneficiaries, but this was not done and the money could not be accounted for. There was no evidence to show that measures had been taken to ensure that the concerned beneficiaries were paid.

I have not received any response from the Controlling Officer.

MACHINGA DISTRICT ASSEMBLY

25. An audit inspection of the financial and stores records of Machinga District Assembly was completed in August 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Failure to account for trustees` cash: K32,237.76

An examination of trustees accounts records disclosed that cash amounting to K32,237.76 withdrawn from the deceased estate account of late Charles Jede of Peter Grant Village T.A Chamba was not accounted for. The Cash was paid on payment voucher No. 23 and cheque No. 000153 dated 24th August, 2005, in favour of Mr. A. E. L. Liyale. The cash was supposed to be deposited into account No. 10060334082019 belonging to Steve Jede at New Building Society Bank.

(b) Failure to record stores in the Ledger: K869,351.51

An examination of payment vouchers in respect of stores purchases disclosed failure by the office to record receipt of stores items in the stores ledger valued at K869,351.51 which were purchased between February 2003 and September 2006. It could not be established how the stores items had been accounted for.

ZOMBA MUNICIPAL ASSEMBLY

26. An audit inspection of the financial records of Zomba Municipal Assembly (Now Zomba City Assembly) was completed on 29th June, 2007. The audit review disclosed the following irregularities—

(a) Payment vouchers not produced for examination: K1,168,956.21

An examination of expenditure cash books disclosed that payment vouchers amounting to K1,168,956.21 for the period July to December 2005 were not produced for audit examination as follows—

<u>Description</u>	<u>Amount</u>
Zomba Assembly (July - August 2005)	K557,144.67
Zomba District Education Manager (Urban) (August - December 2005)	K611,811.54
	<u>K1,168,956.21</u>

It was, therefore difficult for the inspecting auditors to ascertain the validity of the expenditure in absence of payment vouchers.

(b) Failure to deduct withholding tax: K241,275.00

Taxation Act Cap 41:01 requires all Government Institutions to deduct withholding tax at various rates when making payments to suppliers of goods and services who do not possess withholding tax exemption certificates.

An examination of payment vouchers disclosed that withholding tax totaling K214,275.00 was not deducted from payments made to suppliers of goods and services during 2005/06 financial year. There was no evidence to indicate that the suppliers had withholding tax exemption certificates.

(c) Payment vouchers without supporting documents: K949,158.05

An examination of expenditure records for the period January 2005 to May 2006 disclosed that payment vouchers totaling K949,158.05 were passed for payment without attaching supporting documentation to substantiate the expenditure.

I have not received any response from the Controlling Officer.

NATIONAL DEFENCE

MALAWI DEFENCE FORCE HEADQUARTERS

27. An audit inspection of the financial and stores records of Malawi Defence Force Headquarters was completed in June, 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Payment vouchers without supporting documents: K89,033.66

An examination of expenditure records disclosed that payment vouchers totaling K89,033.66 for the period April 2005 to September 2006 were passed for payment without supporting documentation such as invoices. As a result, it was difficult to ascertain whether such payments were a correct charge to public funds.

(b) Received payment vouchers not produced for examination: K41,582,665.79

Treasury Instructions stipulate, among other things, that where a cheque is drawn to pay several officers, each officer or payee must sign on the payment vouchers against his or her name. In cases where stores or goods and other services are purchased using cash, a cash sale receipt must be obtained to support the expenditure and fully acquitted or clearly signed payment voucher must be returned to the cash office for record and audit purposes.

An examination of financial records disclosed that adequate measures were not instituted to monitor accountability of larger sums of money drawn by officers for various field activities. It was noted that payment vouchers for cash drawn between February 2005 and November 2006 amounting to K41,582,665.79 were not produced or returned to cash office by paymasters to support the utilization of cash withdrawn. Consequently, the propriety of the expenditure could not be ascertained.

(c) Maintenance of government vehicles at private garages: K1,424,803.00

Ministries and Departments may authorize repairs of motor vehicles and self propelled plants up to K30,000.00. Estimates for repairs of between K30,000.00 and K500,000.00 must be referred to the Controller of Plant Vehicle Hire Organization (PVHO) for authority prior to repairs being undertaken as required by Government regulations.

An examination of motor vehicle maintenance records disclosed that a sum of K1,424,803.00 was paid in respect of motor vehicle maintenance works carried out by commercial private garages between July 2004 and July 2006 without approval of PVHO.

(d) Use of salaries account funds for operational activities: K10,604,166.65

Treasury Instructions require that expenditure should always be charged to appropriate vote or account. The regulations further state that expenditure must be classified strictly in accordance with the estimates and that funds should be spent for the intended purposes and that no expenditure may be charged to another allocation without Treasury approval and subsequent ratification by the National Assembly.

An examination of salaries account records for the period 2004/2005 and 2005/2006 disclosed that expenditure on approved Budget Estimates was not charged accordingly. It was observed that operational expenses amounting to K10,604,166.65 in respect of fuel, stationery, overseas students allowances, air tickets , printing costs and building

materials were paid from Salaries Account without Treasury's approval contrary to financial regulations.

(e) Stores not recorded in the Ledger: K50,261,734.34

It was observed that stores worth K50,261,734.34 purchased by the Malawi Defence Force Headquarters between May 2004 and September 2006 were not recorded in stores ledgers and efforts to establish whether the items were delivered by the suppliers proved futile as the stores delivery notes could not be traced. Consequently, the accountability of the stores could not be ascertained.

(f) Fuel not recorded in Register: K17,624,155.38

An examination of fuel records disclosed lapses in control of fuel purchases and maintenance of fuel records. It was observed that fuel valued at K17,624,155.38 purchased between June 2004 and August 2006 was not recorded in the registers and as a result, accountability of such fuel could not be established

(g) Purchase of stores without the approval of the Internal Procurement Committee: K17,371,240.59

An examination of procurement records disclosed that purchases of stores valued at K17,371,240.59 were made without the approval of the Internal Procurement Committee. In some cases, the purchases were completed in a manner that only one quotation was attached to the payment voucher instead of three or more as stipulated in the Public Procurement Act.

I have not received any response from the Controlling Officer.

YOUTH DEVELOPMENT AND SPORTS

Revenue Account

Revenue Under Collected

Vote 180	:	Youth Development and Sports
Controlling Officer	:	Secretary for Youth Development and Sports
Revised provisions for listed items		K 1,733,280
Actual Collection	:	K -
Under Collection	:	K1,733,280

28. An examination of Financial Statements of revenue account showed under collection on the following items—

<i>Bud- get Source</i>	<i>Cost Type</i>	<i>of Receipt</i>	<i>Reve- nue</i>	<i>Type of Specific Revenue</i>	<i>Details</i>	<i>Revenue Estimates</i>	<i>Actual Revenue</i>	<i>Under Collection</i>	<i>% Under Collection</i>
						K	K	K	
1					Local				
	3				Revenue Receipts				
		01			Headquarters				
			02		Non-Tax Revenue				
				22	Administrative Charges				
				106	Censorship Board	237,600	-	237,600	100
				156	Stadium Charges	1,297,680	-	1,297,680	100
				168	Censorshp/grading				
					Video Tape-Old Title	198,000	-	198,000	100
						1,733,280		1,733,280	

I enquired from the Controlling Officer reasons which led to failure to collect revenue, but at the date of writing this report, I had not received any reply

KAMUZU STADIUM

29. An audit inspection of the financial and stores records of the Kamuzu Stadium Offices was completed on 28th April, 2008. The audit review disclosed the following irregularities—

Institutional houses occupied by non-eligible staff - K1,598,400.00

The Malawi Public Service Regulation 1:607 requires that on occupation and vacating institutional quarters, such quarters must conform with the arrangements made by their responsible officers and that rentals are payable by a civil servant for the whole period during which he/she is in occupation of the institutional quarters, irrespective of whether he/she is on duty, on holiday or on sick leave. Responsible officers must ensure that proper rental charges are deducted from a civil servant's salary

The institution has nine (9) staff houses in various areas in Blantyre. It was noted that three (3) of these houses were occupied by non-eligible staff, namely Mr. F. J. Mpangeni who retired in 2006, Mr. G. W. I Saenda and Mr. Phiri who left the Stadium in January, 2007.

It was further noted that the tenants were not paying rents and the houses had accumulated rental charges amounting to MK1,598,400.00 as at the date of audit. There was no evidence to show that efforts were being made to collect the outstanding amount.

IRRIGATION AND WATER DEVELOPMENT

Revenue Account		
Revenue Under Collected		
Vote 210	:	Irrigation and Water Development
Controlling Officer	:	Secretary for Irrigation and Water Development
Provision for listed items	:	K19,380,000
Actual Collection	:	K -
Under Collection	:	K19,380,000

30. An examination of Financial Statements of revenue account showed under collections on the following items—

<u>Source</u>	<u>Type</u>	<u>Cost Centre</u>	<u>Type of Receipt</u>	<u>Revenue</u>	<u>Details</u>	<u>Revised Estimates</u>	<u>Actual Collection</u>	<u>Under Collection</u>	<u>% Under Collection</u>
						K	K	K	
1					Local				
3					Revenue Receipts				
	01				Headquarters				
		02			Non-Tax Revenue				
			21		Administrative Fees				
				062	Laboratory Fees	1,150,000		1,150,000	100
				063	Discharge Fess	9,200,000		9,200,000	100
	05								
		02			Non tax revenue				
			22		Administrative Charges		-		
				192	Water right certificate	9,030,000		9,030,000	100
						<u>19,380,000</u>		<u>19,380,000</u>	<u>100</u>

I enquired from the Controlling Officer reasons which led to failure to collect revenue, but at the date of writing this report I had not received any reply.

LANDS, PHYSICAL PLANNING AND SURVEYS

REGIONAL COMMISSIONER OF LANDS (NORTH)

31. An audit inspection of the financial and stores records of Regional Commissioner of Lands (North) was completed in December 2006. The audit review disclosed weaknesses in financial control as follows—

(a) Failure to account for revenue: K314,249.89

Treasury Instructions stipulate that revenue should be banked intact and that no part of revenue collected must be used before banking is done without authority from Treasury.

An examination of revenue collection and banking records disclosed that revenue totaling K314,249.89 collected between July 2005 and September 2006 was neither banked nor available in the cash chest. Consequently, it could not be established how the revenue collected was accounted for.

(b) Payment vouchers without supporting documents: K647,634.62

Treasury Instructions stipulate that all vouchers must be complete in themselves with all relevant supporting documents attached to afford independent checks.

An examination of payment vouchers disclosed that vouchers totaling K647,634.62 for the period June 2004 to October 2005 were processed for payment without supporting documents. As a result, the validity of the expenditure could not be ascertained.

I have not received any response from the Controlling Officer.

EDUCATION, SCIENCE AND TECHNOLOGY

MINISTRY HEADQUARTERS

32. An internal audit inspection of the financial and stores records of Ministry of Education, Science and Technology was completed on 27th November, 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Misappropriation of funds: K457,050.00

An examination of payment transactions disclosed failure by the Ministry to put in place effective internal control procedures in the procurement section so as to curb malpractices. It was observed that payments amounting to K242,550.00 and K214,500.00 made on cheque numbers 128155 and 138271, respectively were fraudulently processed and cashed by Mr. Msaka the proprietor of Joam Enterprises for goods which were not supplied. The supplier was assisted by Mrs. Khumbanyiwa who was the Assistant Procurement Officer at the Ministry. In the process, the Ministry lost a sum of K457,050.00.

(b) Payment for goods not delivered: K245,500.00

A further review of payment vouchers in respect of supplies of goods disclosed that the Assistant Procurement Officer Mrs. Khumbanyiwa, assisted in processing cheques payable to Joam Enterprises in respect of goods which were not delivered as detailed below—

<u>Date</u>	<u>Cheque No.</u>	<u>Amount</u>	<u>Payee</u>
		K	
30/03/07	128155	245,500.00	Joam Enterprise

(c) Stores purchases not delivered: K1,715,145.00

The audit review further disclosed that a sum of K1,715,145.00 was paid out to various suppliers in respect of purchases of goods. There was however, no evidence to suggest that the goods were delivered

(d) Under delivery of stores items: K255,500.00

An examination of procurement records disclosed that goods valued at K255,500.00 were not delivered in full. Details are as follows—

<u>Date</u>	<u>VR No</u>	<u>Payee</u>	<u>Details</u>	<u>Qty Paid</u>	<u>Qty Delivered</u>	<u>Under delivery</u>	<u>Amount</u>
22/12/06	7903	Orient General Dealers	Tonner 12A	1	-	1	15,000
30/07/07	202	A B General Dealers	Boxes A3 Eyeline Blue Computer Port 3	200	170	30	240,000
							<u>K255,000</u>

(e) Stores not recorded in the Ledger: K2,424,970.90

Treasury Instructions require that all stores should, on delivery, be recorded in the ledger before they are issued out. It was noted that stores items valued at K2,424,970.90 purchased in 2006/2007 were not recorded in the stores ledger. Consequently, the disposal of the items could not be verified.

I have not received any reply from the Controlling Officer.

BALAKA DISTRICT EDUCATION OFFICE

33. An audit inspection of the financial and stores records of Balaka District Education Office was completed in June 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Allowances not signed for: K2,511,923.12

An examination of payment transactions for the period June to July 2007 disclosed that a sum of K2,511,923.12 was paid to officers as allowances without obtaining their signatures contrary to the Treasury Instructions.

(b) Payment vouchers without supporting documents: K1,225,012.65

An examination of payment vouchers for the period September 2006 to June 2007 disclosed that vouchers amounting to MK1,225,012.65 were passed for payment without supporting documents to substantiate the expenditure. This was contrary to Treasury Instructions.

MULUNGUZI SECONDARY SCHOOL

34. An audit inspection of the financial and stores records of Mulunguzi Secondary School was completed in August 2007. The audit review disclosed the following irregularity—

Payment vouchers without supporting documents: K112,370.00

Treasury Instructions require that all payments must be supported with relevant documents such as invoices to substantiate the transactions.

An examination of payment vouchers revealed that between January 2007 and August 2007 payments totaling K112,370.00 were made without supporting documents contrary to the Treasury Instructions. It was therefore, difficult for the auditors to ascertain the propriety of the expenditure

BALAKA SECONDARY SCHOOL

35. An audit inspection of the financial and stores records of Balaka Secondary School was completed in July 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Payments without supporting documents: K3,099,867.80

An examination of payment vouchers for the period July 2005 to June 2007 disclosed that payments amounting to MK3,099,867.80 were made without supporting documents. The validity of the payments could therefore not be ascertained in the absence of supporting documents.

(b) Allowances not signed for: K168,250.00

An examination of receipted payment vouchers for the period November 2005 to December 2006 in respect of allowances disclosed that a sum of K168,250.00 was paid without obtaining signatures of the payees. Consequently, accountability of the amount could not be ascertained.

PHOKERA COMMUNITY DAY SECONDARY SCHOOL

36. An internal audit inspection of the financial and stores records of Phokera Community Day Secondary School was completed in August 2006. The audit review disclosed the following irregularity—

Under-collection of School fees: K370,950.00

The financial regulations require that school fees must be paid within the first two weeks of each term.

An examination of receipt books and enrolment register revealed that the school failed to collect a sum of K370,950.00 in respect of various fees from students during 2005 and 2006 school years as detailed below—

<u>Type of Fees</u>	<u>Uncollected Amount</u> 2006 K	<u>Uncollected Amount</u> 2005 K	<u>Total (K)</u> K
Tuition	80,000.00	142,500.00	222,500.00
Text book			
Rev. fund	21,500.00	17,750.00	39,250.00
General purpose fund	60,000.00	49,200.00	109,200.00
	<u>K161,500.00</u>	<u>K209,450.00</u>	<u>K370,950.00</u>

There was no evidence to show that efforts were made by the school management to collect the outstanding fees.

BANGULA SECONDARY SCHOOL

37. An internal audit inspection of the financial and stores records of Bangula Secondary School was completed on 27th April, 2008. The audit review disclosed the following irregularity—

Under-collection of fees: K1,466,850.00

Financial regulations require that fees must be paid within a period of two weeks from the beginning of each school term.

An examination of general receipts and enrolment registers disclosed that fees totaling K1,466,850.00 were not collected from students during 2006 academic year as detailed below—

<u>Fees not collected</u>	<u>Amount (K)</u>
Tuition	158,000.00
Boarding	991,600.00
Development fund	100,750.00
Text Book Revolving fund	28,500.00
General Purpose fund	<u>188,000.00</u>
	<u>1,466,850.00</u>

There was no evidence to show that efforts were made by management of the school to collect the outstanding fees.

MPEMBA COMMUNITY DAY SECONDARY SCHOOL

38. An internal audit inspection of the financial and stores records of Mpemba Community Day Secondary School was completed in March 2007. The audit review disclosed the following irregularity—

Failure to collect school fees: K483,300.00

Financial Regulations require that school fees must be paid within a period of two weeks from the commencement of each school term.

An examination of cash receipt books and enrolment register revealed that school fees amounting to K483,300.00 were not collected during 2006 and 2007 school years as shown below:

<u><i>Type of fees</i></u>	<u><i>Amount (K)</i></u>
Tuition	176,000.00
Development	125,300.00
TRF	12,500.00
G.P. F.	169,500.00
Total	<u>483,300.00</u>

There was no evidence to show that efforts were being made to collect the outstanding fees.

SOUTH EAST EDUCATION DIVISION

39. An audit inspection of the financial and stores records of South East Education Division was completed on 12th April, 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Receipted vouchers not signed for: K1,295,110.00

An examination of payment vouchers disclosed that the office paid a sum of K1,295,110.00 in respect of subsistence allowances between April and August 2005 without obtaining signatures of the payees. Consequently, the accountability of the money could not be ascertained.

(b) Misappropriation of school fees: K265,377.00

An examination of revenue records for Thumu Community Day Secondary School revealed that Mr. Saidi the Headmaster of the school misappropriated funds for various fees totaling K265,377.00. The matter was reported to Police, but the culprit could not be apprehended because he was at large.

Below are the details—

<u>Description</u>	<u>Amount</u> (K)
Examination fees	84,602.00
Photographing fees	45,425.00
Tuition, GPF, TRF and Development fund	170,200.00
Subtotal	300,227.00
Less cash found on hand	<u>(34,850.00)</u>
	<u>265,377.00</u>

(c) Fuel not recorded in the register: K1,904,760.00

Treasury Instructions require that a stores ledger should be maintained for the purpose of recording receipts and issues of stores.

A review of fuel purchases disclosed that fuel valued at K1,904,760.00 purchased between February 2005 and June 2006 was not recorded in the register for proper accountability. It was therefore, difficult to ascertain the accountability of the fuel in the absence of any record.

MZIMBA SOUTH DISTRICT EDUCATION OFFICE

40. An audit inspection of the financial and stores records of Mzimba South District Education Office was completed in November, 2006. The audit review disclosed weaknesses in financial control as follows

(a) Failure to record stores in the stores ledger: K472,500.89

Treasury Instructions stipulate that an officer in charge of stock of non-consumable stores should open consumable stores ledger for purposes of recording receipts and issues of stores items.

An examination of stores records disclosed that stores valued at K472,500.89 purchased between October 2005 and December 2006 were not recorded in Stores Ledger. It was therefore, not possible to establish how the stores were accounted for.

(b) Fuel coupons not recorded in the Motor Vehicle Logbooks: K131,000.00

Treasury Instructions stipulate that the officer in charge of the vehicle or major item of self propelled plant must ensure that full details of all petrol, oil and lubricant requisition issued in respect of the item are entered in the vehicle logbook.

An examination of fuel issues records and motor vehicle log books disclosed that fuel valued at K131,000.00 issued to motor vehicle registration numbers 025 MG 536 and 025 MG 216 was not recorded in the respective vehicles log books. Consequently, accountability of the fuel could not be ascertained

LILONGWE TECHNICAL COLLEGE

41. An audit inspection of the financial and stores records of Lilongwe Technical College was completed in April, 2008. The audit review disclosed weaknesses in financial control as follows—

(a) Operating unauthorized bank account: K87,066,653.84

An examination of bank transactions disclosed that the college operated unauthorized bank account with the Standard Bank, Lilongwe Branch into which K87,066,653.84 was deposited between 2005 and 2007. The account number was 0140004778500, known as Production Unit (PU). There was no Treasury authority to operate the account contrary to Government Instructions which require all government Ministries and Departments to close all deposit and the recurrent bank accounts following the introduction of the Central Payment System.

It was also noted that the account was operated solely on management discretion. Most of the financial transactions from the account were not in line with government regulations and procedures. Cash books and ledgers were not maintained and receipts and payment vouchers were not properly kept. The account was used to administer funds collected through fees and other income generating activities. It was further noted that no authorized budget for the funds and expenditure control mechanisms were in place. The College managed the public funds outside Government accounting systems and regulations. In this regard, transparency and accountability were seriously compromised.

(b) Payment for stores items without evidence of delivery: K14,251,979.75

A verification of delivery, custody and disposal of general stores purchases for PU and TEVET between February 2005 and February 2008 disclosed that various stores items were not recorded in stores ledger and delivery notes were not produced to substantiate receipt of goods. Consequently, the delivery and disposal of stores worth K14,251,979.75 could not be ascertained.

I have not received any reply from the Controlling Officer.

FINANCE

MULANJE TREASURY CASHIER

42. An audit inspection of the financial and stores records of Mulanje Treasury Cashier was completed on 16th June, 2006. The audit review disclosed the following irregularity—

Unclaimed deceased estates funds: K100,922.19

Deceased estates funds are deposited with the Treasury Cashier by the District Assembly for the safe keeping and the moneys are paid whenever they are claimed by the beneficiaries.

A test check of general receipts, bank deposit slips, third party registers and GP 96 disclosed that the deceased estates funds totaling K100,922.19 which were deposited in the Treasury Cashier's Bank Account No. 0141575011700 between 3rd July 2001 and 19th May 2006 were not distributed to the beneficiaries as at the date of audit although the beneficiaries' addresses were duly endorsed in their respective deceased estates files. There was no evidence to show that vigorous efforts were made to trace the beneficiaries.

I have not received any response from the Controlling Officer.

HEALTH

Revenue Account

Revenue Under Collected

Vote 310	:	Ministry of Health
Controlling Officer	:	Secretary for Health
Provision/for listed items	:	K46,978,000
Actual Collection	:	Nil
Under Collection	:	K46,978,000

43. An examination of Financial Statements of revenue account showed under collection on the following items—

<u>Source</u>	<u>Type</u>	<u>Centre</u>	<u>Receipt</u>	<u>Type of</u>	<u>Reve-</u>	<u>Specific</u>	<u>Revenue</u>	<u>Details</u>	<u>Revenue</u>	<u>Actual</u>	<u>Under</u>	<u>% Under</u>
									<u>Estimates</u>	<u>Collection</u>	<u>Collection</u>	<u>Collection</u>
									K	K	K	
1								Local				
	3							Revenue Receipts				
		01						Headquarters				
			02					Non-Tax Revenue				
				21				Administrative Fees				
					58			User Fees	19,166,00		19,166,00	100
					354			Sale of Health Booklets	564,00		564,00	100

02			Non-Tax Revenue		-		
	21		Administrative Fees				
		58	User Fees	23,450,000	-	23,450,000	100
		354	Sale of Health Booklets	540,000	-	540,000	100
06			Mzuzu Central Hospital		-		
	02		Non-Tax Revenue		-		
		21	Administrative Fees				
		058	User Fees	2,940,000	-	2,940,000	100
		354	Sale of Health Booklets	318,000	-	318,000	100
				<u>46,978,000</u>	-	<u>46,978,000</u>	

I enquired from the Controlling Officer reasons which led to failure to collect revenue, but at the date of writing this report I had not received any reply.

DOWA DISTRICT HOSPITAL

44. An internal audit inspection of the financial and stores records of Dowa District Hospital was completed on 9th February, 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Payment of salaries to retired officers - K115,360.00

An examination of payrolls and personnel records for the period April, 2006 to December, 2006 disclosed that some officers who had retired and resigned were still appearing on the payrolls and they drew salaries amounting to K115,360.00. There was no evidence to show that efforts were being made to recover the amount from the officers concerned.

(b) Unauthorized payment of allowances: K518,100.00

An examination of payment vouchers for the period September 2005 to July 2006 disclosed that medical staff who had just been recruited and had not yet been introduced on the payrolls were being paid monthly allowances. The payment of allowances was made without authority from the Department of Human Resource Management and Development and there was no arrangement that the allowances would be deducted from their salaries once their names were inserted on the payrolls. The total amount of allowances paid was K518,100.00.

(c) Payment for foodstuff in excess of tender price : K1,126,140.00

An examination of payment vouchers in respect of purchase of foodstuffs for the hospital disclosed that some suppliers were charging the hospital in excess of the agreed prices that were indicated in the tender agreements. As a result of this anomaly, the hospital paid the suppliers K1,126,140.00 in excess of the agreed amounts during the period January to June 2006.

(d) Fuel not verified: K6,393,499.00

An examination of payment vouchers disclosed that during the period March 2005 to July 2006, the hospital purchased fuel valued at K6,393,499.00 from BP Malawi and Caltex. However, the hospital management could not indicate how the fuel was accounted for since fuel registers, receipts and motor vehicles logbooks could not be produced for examination.

MULANJE DISTRICT HOSPITAL

45. An audit inspection of the financial and stores records of Mulanje District Hospital was completed in March 2008. The audit review disclosed the following irregularity—

Fuel not recorded in the ledger: MK7,050,000.00

Treasury Instructions stipulate that stores items purchased must be entered in the ledger before they are issued.

An examination of payment vouchers and the fuel register disclosed that between July 2006 and November 2007 the office purchased fuel valued at Mk7,050,000.00 which was not recorded in the ledger. Consequently, it could not be ascertained how the fuel was accounted for.

I have not received any response from the Controlling Officer.

INFORMATION AND CIVIC EDUCATION

REGIONAL INFORMATION OFFICE (NORTH)

46. An audit inspection of the financial and stores records of Regional Information Office (North) was completed in July 2007. The audit review disclosed weaknesses in financial control as follows:

(a) Failure to record stores in the Stores Ledger: K255,059.55

Treasury Instructions require that a stores ledger shall be kept for the purposes of recording receipts and issues of stores.

An examination of payment vouchers for the period June to March 2007 and stores ledger disclosed that stores valued at K255,059.55 were not recorded in Stores Ledger. As a result, accountability of the stores could not be ascertained.

An examination of receipted payment vouchers disclosed that between August 2005 and November 2006 a sum of K37,610.00 was paid to officers without obtaining signatures or thumbprints as required.

(b) Fuel not recorded in motor vehicles log books: K38,000.00

Treasury Instructions stipulate that the officer in charge of a vehicle or major item of self propelled plant must ensure that full details of all petrol, oil and lubricants requisition issued in respect of the item are entered in the Vehicle Log book.

A review of fuel coupon register and motor vehicle log books disclosed that fuel valued at K38,000.00 issued to motor vehicle registration numbers MG 437T and 033MG 055 between March 2005 and January 2007 was not recorded in the log books.

I have not received any reply from the Controlling Officer.

INTERNAL AFFAIRS AND PUBLIC SECURITY

Revenue Account

Revenue Under Collected

Vote 341	:	Police
Controlling Officer	:	The Secretary for Internal Affairs and Public Security
Provision for listed items	:	K17,600,000
Actual Collection	:	K -
Under Collection	:	K17,600,000

47. An examination of Financial Statements of revenue account showed under collections on the following items—

<i>Source</i>	<i>Type</i>	<i>Bud- get Centre</i>	<i>Cost Receipt</i>	<i>Type of Reve- nue</i>	<i>Type of Specific Revenue</i>	<i>Details K</i>	<i>Revenue Estimates K</i>	<i>Actual Collection K</i>	<i>Under Collection</i>	<i>% Under Collection</i>
1						Local				
		3				Revenue Receipts				
			01			Headquarters				
				02		Non-Tax Revenue				
					21	Administrative Fees				
					052	Fire Arm Licence Fees	540,150	-	540,150	100
					22	Administrative charges				
					124	Hire of Police				
						at Party Functions	4,972,500	-	4,972,500	100
					125	Hire of Police				
						Band	691,600	-	691,600	100
					173	Motor Vehicle Hire				
						Clearance Charges	6,550,000	-	6,550,000	100
					174	Abstract Report	3,025,750	-	3,025,750	100
					175	Police Report	1,300,000		1,300,000	100
				25		Miscellaneous Receipts				
					606	Police Stores and				
						Miscellaneous	520,000	-	520,000	100
							17,600,000		17,600,000	100

I enquired from the Controlling Officer reasons which led to failure to collect revenue, but at the date of writing this report I had not received any reply.

NATIONAL POLICE HEADQUARTERS

48. An audit inspection of the financial and management operations of the Malawi Police Service, National Headquarters was completed on 31st March 2007. The audit review disclosed weaknesses in financial control as follows—

(a) Incomplete payment vouchers passed for payment:K31,734,428.01

An examination of expenditure records disclosed that incomplete payment vouchers were passed for payment contrary to Treasury Instructions which require that a payment voucher must have supporting documentation such as invoices, local purchase orders and that the payment voucher must be authorized and countersigned by senior officers.

It was observed that payment vouchers amounting to K31,734,428.01 for the period under review were passed for payment without adequate documentation and in some cases, the payment vouchers were not authorized and countersigned. Consequently, the propriety of the expenditure could not be ascertained.

(b) Stores not recorded in ledger: K9,625,242.00

It was observed that stores in respect of building materials, stationery, motor vehicle spare parts valued at K9,625,242.00 were not recorded in stores ledger during 2005/2006 and 2006/2007 financial years. It could not be ascertained how the stores were accounted for.

(c) Fuel not recorded in the ledger: K4,387,500.75

An examination of fuel records disclosed that control over fuel purchases and maintenance of fuel records was not effective. It was noted that fuel coupons and other stocks of fuel worth K4,387,500.75 were not recorded in the ledger and accountability of such fuel coupons and stocks of fuel could not be ascertained.

(d) Procurement of stores without approval of Internal Procurement Committee and exceeding authorized limit: K3,795,284.15

Ministries and Departments are required to establish Internal Procurement Committees (IPCs) to deal with matters relating to procurement. The general functions of the IPCs should, among other things involve identification of procurement needs, planning, processing and approving purchases within their limit of K300,000 as stipulated in OPC circular letter dated 9th June 2000.

An examination of stores records revealed that procurement of goods and services were in some cases not done in accordance with the procurement rules and procedures. It was observed that procurement of stores worth K3,795,284.15 was not approved by the IPC contrary to the procurement regulations and in addition the authorized limit of K300,000.00 was exceeded.

(e) Maintenance of Government Vehicles at private garage without approval of the Plant and Vehicle Hire Organization (PVHO): K2,578,289.01

Controlling Officers are authorized to service or repair vehicles and self propelled plants up to K30,000 at private garages. Estimates of repairs between K31,000.00 and K500,000 must be referred to the Controller of PVHO for authority prior to work being undertaken.

An examination of expenditure records for motor vehicle maintenance revealed that the Malawi Police Service mechanical workshops which were fully equipped were not being utilized. Instead, the motor vehicles were being serviced or repaired at private commercial garages without PVHO approval. During the period under review expenditure totaling K2,578,289.01 in respect of these repairs was incurred. Failure to comply with the rules and procedures may lead to loss of public funds.

(f) Failure to delete from payroll names of officers who had died, retired and absconded: K711,946.06

The system of internal check and control for the preparation of the payroll was weak. It was observed that names of officers who had resigned, absconded, retired and died continued to appear on the payroll during some months of the year under review. There was no evidence to show that salaries amounting to K711,946.06 were brought on charge.

(g) Payment of salaries to officers whose contracts had expired: K2,756,348.00

A further examination of the payroll disclosed that salaries amounting to K2,756,348.00 were paid to officers whose contracts had expired. There was no evidence to indicate that the amount had been recovered and accounted for.

I have not received any reply from the Controlling Officer.

ZOMBA POLICE COLLEGE

49. An audit inspection of the financial and stores records of Zomba Police College was completed in June 2007. The audit review disclosed the following irregularity—

Payment vouchers without supporting documents: K3,079,866.73

Treasury Instructions require that all payments must be supported with relevant documents such as invoices to validate the payment transactions.

An examination of payment vouchers disclosed that vouchers totaling K3,079,866.73 for the period July, 2004 to May, 2007 were processed

without supporting documents contrary to Treasury Instructions. Consequently, propriety of the expenditure could not be ascertained.

MZIMBA POLICE STATION

50. An audit inspection of the financial and stores records of Mzimba Police Station was completed in October 2005. The audit review disclosed weaknesses in financial control as follows—

Revenue used for other recurrent transactions (ORT): K2,000,409.92

Treasury Instructions stipulate that revenue should be banked intact and that no part of revenue collected must be used before banking is done without authority from Treasury.

An examination of revenue records disclosed that K2,000,409.92 revenue collected was used to pay for Other Recurrent Transactions (ORT) between January 2004 and December 2005. This expenditure was evidenced by cash payment vouchers that were being kept by the cashier.

I have not received any response from the Controlling Officer.

JUSTICE AND CONSTITUTIONAL AFFAIRS

Revenue Account		
Revenue Under Collected		
Vote : 352	:	Registrar General
Controlling Officer	:	The Secretary for Justice and Constitutional Affairs
Provision for the listed items	:	K277,800,000
Actual Collection	:	K -
Under Collection	:	K277,800,000

51. An examination of financial statement of revenue account showed under collections on the following items—

<i>Bud- get</i>	<i>Cost</i>	<i>Type of</i>	<i>Type of</i>	<i>Reve- nue</i>	<i>Specific</i>	<i>Details</i>	<i>Revenue Estimates</i>	<i>Actual Collection</i>	<i>Under Collection</i>	<i>% Under Collection</i>
<i>Source</i>	<i>Type</i>	<i>Centre</i>	<i>Receipt</i>	<i>nue</i>	<i>Revenue</i>	<i>Details</i>	<i>K</i>	<i>K</i>	<i>K</i>	<i></i>
1						Local				
	3					Revenue Receipts				
		01				Headquarters				
			02			Non-Tax Revenue				
				21		Administrative Fees				
					015	Trade Marks and				
						Patents Fees	609,000		609,000	100
					32	Registrar General's				
						Fees	21,567,000		21,567,000	100
					066	Stamps Duties	205,308,000	-	205,308,000	100
			22	116		Administrative				
						Charges				
						Estate Duties	<u>50,316,000</u>	-	<u>50,316,000</u>	100
							<u>277,800,00</u>	-	<u>277,800,00</u>	

I enquired from the Controlling Officer reasons which led to failure to collect revenue, but at the date of writing this report, I had not received any reply.

LABOUR AND SOCIAL DEVELOPMENT

Revenue Account

Revenue Under Collected

Vote : 370	:	Labour and Social Development
Controlling Officer	:	Secretary for Labour and Social Development
Provision for the listed items	:	K13,608,400
Actual Collection	:	K15,000
Under Collection	:	K13,593,400

52. An examination of financial statement of revenue account showed under collections on the following items—

<i>Bud- get</i>	<i>Cost Centre</i>	<i>Type of Receipt</i>	<i>Type of Reve- nue</i>	<i>Specific Revenue</i>	<i>Details</i>	<i>Revenue Estimates</i>	<i>Actual Collection</i>	<i>Under Collection</i>	<i>% Under Collection</i>
<i>Source</i>	<i>Type</i>	<i>Type</i>	<i>Type</i>	<i>Type</i>		K	K	K	
1					Local				
3					Revenue Receipts				
	01				Headquarters				
		02			Non-Tax Revenue				
			21		Administrative Fees				
				016	Trade Testing Fees	8,332,150	15,000	8,332,150	99.82
				018	Tuition Fees	1,782,900	-	1,782,900	100
				031	Pressure Vessels and Inspection	1,935,000	-	1,935,000	100
				033	Registration and Renewal of Factory Fees	1,071,000	-	1,071,000	100
			22	107	Administrative Charges				
					Certificate Replacement	285,300	-	285,300	100
		23			Sale Proceeds from Departments				
					Miscellaneous Receipts				
				608	Miscellaneous	202,050	-	202,050	100
						<u>13,608,400</u>	<u>15,000-</u>	<u>13,593,400</u>	<u>99.69</u>

I enquired from the Controlling Officer reasons which led to failure to collect revenue, but at the date of writing this report I had not received any reply.

PART IV

RECOMMENDATIONS AND ACKNOWLEDGEMENTS

RECOMMENDATIONS

53. In the course of my audit of the 2007/2008 Accounts of the Government of the Republic of Malawi, each Controlling Officer was sent appropriate management letter with recommendations, regrettably, evidence has shown that these recommendations have not been given due consideration. A summary of my recommendations included—
- (a) To ensure greater accountability, Government should request Ministries and Departments to prepare their own annual financial statements for my audit before they are consolidated into the National Accounts;
 - (b) The standard of internal audit should be enhanced in order to provide assurance to management regarding conformance and performance of Ministries' and Departments' internal control systems and administrative processes;
 - (c) There is immediate need to strengthen Audit Committees in all Ministries and Departments so as to speed up implementation of audit recommendations;
 - (d) Procurement of goods and services should be executed within set processes and procedures;
 - (e) Losses of public funds and stores should be expeditiously investigated and reported to in accordance with the Treasury Instructions, and appropriate disciplinary action taken against officers concerned;
 - (f) Knowledge and skills of the accounting personnel should be regularly upgraded through training including refresher courses and workshops in order to improve public sector financial management; and
 - (g) Public Financial Management Reforms such as implementation of the Integrated Financial Management Information System (IFMIS) both at the Centre and Local Assemblies should be given serious attention by all policy makers.

ACKNOWLEDGEMENTS

54. I wish to acknowledge the assistance and cooperation given to me during the year under review by the Chief Secretary, Secretary to the Treasury, the

Accountant General and Controlling Officers and their staff. The cooperation enabled me to obtain information and documentation for the audit services.

I wish also to place on record my profound gratitude and appreciation to staff in my office who carried out their duties diligently despite some resources constraints.

30th December, 2009.