

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

For The Year Ended 30th June, 2009

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, efficiently 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 June, 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, 2009 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, 2009 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 K67.1 billion to K194.1 billion which compares favorably with K127.0 billion realized in 2007/08 financial year. Total expenditures increased by K70.0 billion from K119.5 billion in 2007/08 to K189.5 billion in 2008/09 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 K194.1 billion in Revenue while the Recurrent Expenditure was K189.5 billion resulting into a surplus of K4.5 billion. Development Account enjoyed resources amounting to K38.6 billion which is K3.0 billion less when compared to K41.7 billion for 2007/08 financial year. Total expenditure charged to the Development Account decreased by K3.9 billion when compared to K39.98 billion for 2007/08. 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 under 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 principle 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 the 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, department, 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;
 - Resources 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 responsibility 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 (ISSAIs). 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, 2009, 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 can not 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's institutional cooperation with the Office of the Auditor General of Norway continued through the Institutional Development Project II 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 a 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 and in terms of Section 15 of the Public Audit Act.

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, 2009 is unqualified and is presented separately in Volume I of the Consolidated Annual Appropriation Accounts for the year ended 30th June, 2009.

PART II

BUDGET OUT—TURN FOR 2008/2009

REVENUE

15. Total revenue collected during the period ended 30th June, 2009 was K194, 107.524 million reflecting an increase of K67,119.803 million over the 2007/08 revenue which was recorded at K126,987.721 million. The main sources of revenue were Customs and Excise K52,763.020 million, Income Tax K51,474.780 million and Value Added Tax (VAT) K18,683.378 million.

The revenue collection for 2008/09 was less than the revised amount of K203,131.400 million by K9, 023.876 million. In the main, the under-collection was attributed to Non-Tax Revenue, Budget Support (BOP) and National Aids Commission (NAC) which registered under-collections of K11,249.820 million, K3,843.241 million and K3,190.300 million, respectively. The trend of revenue collection for the past four years is tabulated as follows:

<u>Year</u>	<u>Provision K'000</u>	<u>Actual Collection K'000</u>	<u>Over-collection K'000</u>
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
2008/2009	203,131,400	194,107,524	(9,023,876)

EXPENDITURE

16. During the year under review, total expenditure charged to the Consolidated Fund was K189,558.933 million representing an increase in expenditure of K70,016.268 million when compared to the total expenditure of K119, 542.665 million for 2007/08. The overall picture of the voted expenditure was a net surplus of K4,548.591 million which compares unfavourably to a surplus of K7,445.056 million for 2007/08.

CONSOLIDATED REVENUE ACCOUNT

17. The consolidated revenue account showed a cumulative deficit of K47, 447.118 million as at 30th June, 2009 before prior year adjustments. However Note 3 to the accounts states that cumulative deficit had been understated since 2004/05 Financial Year due to unreported Treasury Bills. The adjustments for the understatements were made during the year under review and these adjustments had increased the cumulative deficit to K117, 392.280 arrived at as follows:—

			<i>MK'000</i>
Balance as at 1st July, 2008	..	..	51,995,709 DR
Add: Revenue for the year	..	..	194,107,524 CR
Subtotal	..	..	142,111,815 CR
Less: Expenditure for the year	..	..	189,558,933 DR
Cumulative Deficit as at 30th June, 2009 (unadjusted)	..	..	47,447,118 DR
Prior year understated deficit	..	..	46,978,860 DR
Prior years understated Treasury Bills	..	..	22,966,302 DR
Cumulative Deficit as at 30th June, 2009	..	..	117,392,280 DR

The planned recurrent surplus for the year under review was K10, 192.625 million. The actual Revenue Account out-turn as at 30th June, 2009 was a surplus of K4, 548.591 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:—

	2005/06	2006/07	2007/08	2008/09
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
Actual Revenue	94,126,858	110,975,886	126,987,721	194,107,524
Less: Actual Expenditure	81,589,832	96,664,357	119,542,665	189,558,933
Surplus/(Deficit)	<u>12,537,026</u>	<u>14,311,529</u>	<u>7,445,056</u>	<u>4,548,591</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, 2009 amounted to K36, 118.217 million reflecting a decrease of K3, 863.742 million over the previous year's expenditure of K39, 981.959 million.

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

	2005/06	2006/07	2007/08	2008/09
	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>	<u>K'000</u>
Revised Estimates	28,442,223	47,940,740	63,523,424	57,857,238
Actual Expenditure	18,708,760	27,375,685	39,981,959	36,118,217
	<u>9,733,463</u>	<u>20,565,055</u>	<u>23,541,465</u>	<u>21,739,021</u>

Twenty Six (26) votes recorded under expenditures of K22, 367.532 million. The largest unspent balances of K4, 565.734 million, K4,007.839 million and K3, 387.072 million were recorded against Vote 210—Water Development, Vote 310—Health and Vote 190—Agriculture and Food Security 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, 2009 was a cumulative surplus of K11,788.463 million, registering an increase of K2,532.937 million from K9,255.527 million recorded at the end of the 2007/08 financial year. Details are as follows:—

	<u>K'000</u>
Receipts during the year	38,651,153 CR
Less: Payments	36,118,217 DR
Surplus/(Deficit) for the year	2,532,936 CR
Add: Opening balance	9,255,527 CR
Cumulative Surplus as at 30th June, 2009	11,788,463 CR

THE CONSOLIDATED ACCOUNT

19. The Budget Statement for 2008/09 financial year envisaged a deficit of K21.1 billion on the Revenue Account while the Development Budget was expected to break-even at K57.1 billion.

During the year under review, the Recurrent Revenue Account collected K194, 107.524 million while the Recurrent Expenditure was K189, 558.933 million resulting into a surplus of K4, 548.591 million.

The Development Account realized K38, 651.153 million registering a decrease of K3, 091.578 million when compared to K41, 742.731 million of 2007/08 financial year.

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

Year	Combined (Deficit)/Surplus
	<u>K'000</u>
2005/06	— (70,238,927)
2006/07	— (51,946,011)
2007/08	— (42,740,182)
2008/09	— (105,603,817)

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 and 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 PUBLIC UTILITIES

LOCAL GOVERNMENT AND RURAL DEVELOPMENT

PHALOMBE DISTRICT ASSEMBLY

20. An audit inspection of the financial and stores records of Phalombe District Assembly was completed on 25th January, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 15th October, 2009. The report highlighted the following observations:—

(a) Stores Items Not Recorded In The Ledger—K468,901.00

An examination of stores records disclosed that the office did not record stores items valued at K468, 901.00 purchased between January and November, 2007 and as such it was difficult for the inspecting auditors to ascertain the accountability of the stores items in absence of any record.

(b) Failure To Maintain Fuel Register—K193,500.00

An examination of motor vehicle and fuel records disclosed that fuel worth K193,500.00 purchased between February and December, 2007 was not recorded in the fuel register and its disposal could not be established.

MWANZA DISTRICT ASSEMBLY

21. An audit inspection of financial and stores records of Mwanza District Assembly was completed on 5th May, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 5th January, 2010. The report highlighted the following observations:—

(a) Failure To Account For K149, 395.12

An examination of general receipt books, bank deposit slips and revenue cash books disclosed an under-banking of revenue amounting to K149, 395.12 during the period February, 2008 to March, 2009. The officer responsible Mrs. P.C. Batison failed to produce documents to account for the amount.

Below is the summary:—

Total revenue collected:	K1, 258,572.00
Less revenue deposited:	(K1, 109,176.88)
Revenue not accounted for:	K 149,395.12

(a) Payment Vouchers Without Supporting Documents (Operating Account) K189,615.76

Treasury Instructions require payment vouchers to be fully supported by original invoices, cash sales and related documents which must be firmly attached to the payment vouchers.

An examination of payment vouchers disclosed that payment vouchers amounting to K189, 615.76 for the period January, 2007 to March, 2008 had no supporting documents. It was therefore difficult to ascertain propriety of the payments made.

MANGOCHI DISTRICT ASSEMBLY

22. An audit inspection of financial and stores records of Mangochi District Assembly was completed on 14th February, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 28th July, 2009. The report highlighted the following observations:—

(a) Payment Vouchers for MASAF III not Presented for Audit—K5,217,347.00

Finance Management and Accounting Procedures for Assemblies require the Assembly to maintain proper records which should reflect all financial transactions undertaken during a particular financial year. During 2006/2007 financial year, the Assembly spent a total of K63, 101,212.00 in respect of seventeen (17) MASAF Projects

An examination of payment vouchers and project ledgers revealed that payment vouchers amounting to K5, 217,347.00 were not available for audit. The inspecting auditors were therefore unable to establish how the amount was used by the Assembly.

(b) Payment Vouchers for District Development Fund (DDF) not Presented for Audit—K1, 027,371.00

Finance Management and Accounting Procedures for Assemblies require the Assembly to maintain adequate records for all financial transactions undertaken during a particular period. During 2006/2007 financial year, the Assembly spent a total of K21, 839,129.00 on various DDF projects in the District.

An examination of payment vouchers and DDF cash book revealed that payment vouchers amounting to K1, 027,371.00 were not available for examination and as such it was difficult to ascertain the propriety of its expenditure.

CHIKHWAWA DISTRICT ASSEMBLY

23. An audit inspection of financial and stores records of Chikhwawa District Assembly was completed on 4th June, 2009. The audit review disclosed

weaknesses in financial control which were communicated to the Controlling Officer in my report dated 25th February, 2010.

The report highlighted the following observations:—

(a) Direct Payments from Revenue Collected Without Supporting Documents—K735, 928.40

An examination of payment vouchers for the period between July, 2007 and May, 2009 revealed that payments amounting to K735, 928.40 were made directly from revenue collected without supporting documents attached to them. It was therefore difficult for the inspecting auditors to ascertain the propriety of the payments. There was no evidence to show that appropriate authority was obtained to spend the revenue on site.

(b) Payment Vouchers Made Without Supporting Documents—K357,698.00

Treasury Instructions require payment vouchers to have supporting documents firmly attached to them.

An examination of payment vouchers for the period July, 2007 to April, 2009 revealed that payments amounting to K357, 698.00 were made without supporting documents. It was, therefore difficult for the auditors to ascertain whether the expenditure was a proper charge to public funds.

(c) Payments to Third Party Without Being Signed for By Recipients—K120, 000.00

Treasury Instructions require that payments to individuals should be evidenced by signatures or thumb prints of the recipients.

An examination of payment vouchers for the period between July, 2007 and December, 2007 disclosed that payments amounting to K120, 000.00 were made to individuals without signatures or thumb prints of the recipients. It was therefore difficult to ascertain whether the payments were made to rightful recipients.

(d) Trustee Funds Not Accounted for—K655,478.17

An examination of payment vouchers, third party registers, bank statements and interviews with beneficiaries revealed that Mr. Fulukiya, deceased and the trustee officer closed some trustee accounts with balances amounting to K655, 478.17 without the knowledge of the beneficiaries. The beneficiaries were not aware of the closure of the accounts and did not receive the funds. The officer could not account for the funds.

(e) Under Deposits in the Minors' Accounts—K556,412.76

An examination of payment vouchers, third party register and passbooks for minors revealed that Mr. Fulukiya deposited less money in the

minors' accounts and as a result, an amount of K556,412.76 was not accounted for.

RUMPHI DISTRICT ASSEMBLY

24. An audit inspection of the financial and stores records of Rumph District Assembly was completed in June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated December, 2009. The report highlighted the following observations:

(a) Under Banking of Revenue—K1,104,751.50

Treasury Instructions stipulate that revenue collected must be banked intact.

It was observed that the office did not bank revenue collected amounting to K1, 104,751.50 between February and July, 2007. The audit failed to establish how the office accounted for the collected revenue.

(b) District Development Funds Used on ORT Activities Without Treasury Approval—K1,704,350.00

District Development Fund Financial Management and Accounting Procedures Manual Chapter 1.2 specifically disallow the following expenditure to be made from District Development Fund;

- Expenses not related to the project's implementation.
- Operational expenses for the Assembly.

It was noted that Rumph District Assembly used District Development Funds totaling K1,704,350.00 on Other Recurrent Transactions activities without seeking authority from Treasury. The funds were used for normal operations of the office instead of development activities as required by Government regulations. There was no evidence to show that the amount was paid back to the account.

(c) District Development Funds (DDF) Used For Payment of Subsistence Allowances—K437,778.00

District Development Fund Financial Management and Accounting Procedures Manual Chapter 1.2 specifically disallow the following expenditure to be made from District Development Fund;

- Expenses not related to the project's implementation.
- Operational expenses for the Assembly.
- Personal loans.
- Wages and salaries.

It was observed that during the period between February and September 2008, the office spent District Development Funds amounting to K437,778.00 on subsistence allowances for officers who were away

from their duty station to do jobs which were not related to the project. There was no evidence to show that the amount was paid back to the account.

REGIONAL COMMISSIONER FOR LANDS (SOUTH)

25. An audit inspection of the financial and stores records of Commissioner for Lands (South) was completed on 18th April, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 21st July, 2009. The report highlighted the following:—

Ground Rent Not Collected

The Land Act Chapter 58:01, require property owners to pay ground rent at the end of each year.

An examination of records in respect of lease tenants disclosed that between February, 2003 and June, 2006 the office did not collect ground rents amounting to K2, 890,857.01. In some cases the rented charges were very low when compared to the prevailing economic conditions possibly due to delays in revising them. It was also noted that there was lack of proper coordination between the regional office and headquarters which led to failure to make follow ups even for known cases.

EDUCATION, SCIENCE AND TECHNOLOGY

MINISTRY HEADQUARTERS

Construction of Girls Hostels Project

26. An investigative audit on implementation of Construction of Girls Hostels Project and award of contracts at the Ministry was completed in January, 2009. The audit disclosed some weaknesses in compliance with relevant procedures on construction of Government buildings, resulting in delayed work progress and loss of public funds which were communicated to the Controlling Officer in my report dated January, 2009. The report highlighted the following observations:—

(a) Lack of Coordination and Insufficient Budget for Project Planning

It was expected of the Ministry of Education Science and Technology to document the project initiating authority, implementation plans and procedures. It was also expected that technical assistance on Structural Designs, Bills of Quantities, and Engineers' Total Estimated costs (TEC) was to be obtained from responsible authority, the Department of Buildings. It was further expected that from the engineers estimated costs, the project budget was supposed to be formulated and submitted to the Treasury for consideration and financing of the project.

The audit review however, disclosed that there was no evidence that

management followed the required procedure and the Department of Buildings was only involved after construction work was already in progress and the structure designs were not economical. There was also no evidence that Treasury was contacted to discuss the feasibility of the project in terms of availability of financial resources and formulation of the project budget. Under part two of the 2006/2007 budget estimates, there was an original approved provision of MK80 million which was revised to MK380 million for 2007/2008 and an estimate of MK400 million for 2008/2009 which was projected to MK420 million for 2009/2010.

The budget was unrealistic when compared to the actual cost of putting up the first ten (10) Schools' Hostels structures by the Ministry which had a contract sum of MK1, 1470,126.00. This resulted in failure to implement the project within a reasonable time.

(b) Delays in Project Implementation Attracted An Extra Cost of K27,681,196.00

It was observed that although there was steady construction work in progress in line with technical supervisor's certificate of work done and payments made within reasonable time after the issuance of certificates, most of the projects work in progress were delayed due to various problems encountered which were beyond the control of the contractors and the Ministry. The inordinate delays ranged from twenty-two (22) to fifty-one (51) weeks after the expiry of the contract period of the ten (10) school contracts.

Poor co-ordination between the Ministry and other stakeholders contributed to delayed implementation of projects at some of the sites thereby attracting substantial revision of costs as was the case with Kasakula in Ntchisi and Wenya in Chitipa. As a result of the delay, an extra cost of K27, 681,196.00 due to revised rates was added. The contract was awarded in early 2006 and work commenced in May, 2007. Had it been that implementation was done timely, the extra costs would have been avoided.

(c) Advance Working Capital not Recovered After the Contractor Had Abandoned Mbenjere Project—K18,562,223.27

An examination of project documents disclosed that the project at Mbenjere Secondary School in Machinga was abandoned by the contractor, Panthunzi Building Contractor for unknown reasons after being paid a sum of K18, 562,223.27 as advance working capital. The amount was not refunded to the Government by the contractor.

At the date of last certificate No. 4, the value of work done by the contractor as verified by the audit team was a gross amount of K18, 562,994.64. At that stage, the contractor was paid a total of K37, 125,217.91 which included an advance working capital of K21, 857,154.82. The Contractor abandoned the work with a balance on

advance payment of K18, 562,223.27 for work not done.

MWANZA DISTRICT EDUCATION OFFICE

27. An audit inspection of the financial and stores records of Mwanza District Education Office was completed on 1st May, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 5th January, 2010. The report highlighted the following observations:—

(a) Payment Made Without Supporting Documents—K1,001,740.00

Treasury Instructions require that payment vouchers must have supporting documents which must be firmly attached to the vouchers.

An examination of payment transactions disclosed that payment vouchers amounting to K1, 001,740.00 were passed for payment without supporting documents between June, 2008 and February, 2009. Consequently the propriety of the expenditure could not be ascertained.

(b) Receipted Vouchers Not Produced For Audit—K559,66.58

Section 7 of the Public Audit Act states, among other things that the Auditor General shall have full access at all reasonable times to all documents, books and accounts, public funds and securities and to any place where they are kept.

An examination of payment cash books disclosed that some receipted vouchers amounting to K559, 666.58 processed between August 2008 and March 2009 were not available for audit review. It was therefore difficult for the inspecting auditors to verify the propriety of expenditure in absence of the vouchers.

(c) Salaries Not Signed For By Recipients—K215, 432.66

Treasury Instructions require all salaries paid through the payroll to be signed for by the recipients.

An examination of payrolls disclosed that salaries amounting to K215, 432.66 paid between February and March, 2009 were not signed for by recipients and as such, it was difficult to ascertain the accountability of the amount that was disbursed.

(d) Fuel Issued But Not Signed For—K345, 901.51

An examination of fuel records disclosed that fuel valued at K345, 901.51 issued to various officers was not signed for in the register and as such it was difficult to ascertain how the fuel was accounted for.

BLANTYRE DISTRICT EDUCATION OFFICE (URBAN)

28. An audit inspection of the financial and stores records of the Blantyre Education Unit (Urban) was completed on 12th June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 31st December, 2009. The report highlighted the following observation:—

Salaries Not Signed For By Recipients—K300, 450.00

An examination of payrolls disclosed that the office paid salaries amounting to K300,450.25 between December, 2008 and February, 2009 without the recipients signing for them. It was therefore, difficult to ascertain whether the payments were made to the rightful employees.

CHIKHWAWA DISTRICT EDUCATION MANAGER’S OFFICE

29. An audit inspection of the financial and stores records of Chikhwawa District Education Manager’s office was completed on 17th June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 25th February, 2010. The report highlighted the following observations:—

(a) Failure to Produce Payment Vouchers for Leave Grants—K1,004,400.00

An examination of payment vouchers for the period between January, 2008 and February, 2009 revealed that a sum of K1, 004,400.00 was paid to teachers as leave grants through the headmasters of various primary schools. However, the relevant receipted vouchers were not produced for audit. It was therefore difficult for the auditors to ascertain the accountability of the amount paid.

(b) Payment Vouchers Without Supporting Documents—K101,950.00

Treasury Instructions state that all payment vouchers must be supported by original invoices or any valid documents which should be attached to the payment vouchers before payments are made.

An examination of payment vouchers disclosed that the office made payments amounting to K101,950.00 between September, 2007 and July, 2008 without supporting documents. It was, therefore difficult for the inspecting auditors to ascertain the propriety of the payments in absence of supporting documents.

CHIKHWAWA SECONDARY SCHOOL

30. An audit inspection of the financial and stores records of Chikhwawa Secondary School was completed on 19th June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling officer in my report dated 4th December, 2009. The report

highlighted the following observations:—

(a) Failure to Produce General Receipts for Audit Review—K829,062.00

An examination of records for Parents and Teachers Association Fund, Boarding and General Purpose Fund, Text Book Revolving Fund for 2007 and 2008 academic years could not be undertaken because management did not produce general receipt books on which revenue amounting to K829,062.00 was collected. Consequently, it was difficult for the inspecting auditors to ascertain whether all revenue collected was banked.

(b) Direct Payments from Revenue Collected—K1,131,651.00

Treasury Instructions and Ministry of Education, Science and Civic Education guidelines require all revenue collected to be banked intact.

An examination of revenue cash books and expenditure records disclosed that the school used revenue amounting to K1,131,651.00 collected between February, 2008 and May, 2009 before it was banked. There was no evidence to show that authority was sought from Treasury before spending.

(c) Payment Vouchers Without Supporting Documents—K1,067,104.00

Treasury Instructions require every payment voucher to be fully supported by original invoices and related documents before any payment is made.

An examination of payment vouchers for the period between January, 2008 and February, 2009, disclosed that the school paid an amount of K1,067, 104.00 for goods and services without attaching the supporting documents like invoices and cash sales.

(d) Stores not Recorded in the Stores Ledger—K1, 728,822.00

Treasury Instructions require that all receipts of stores must be recorded in the stores ledgers for proper accountability.

An examination of stores ledgers and delivery notes disclosed that stores items valued at K1,728,822.00 received between July, 2008 and May, 2009 were not recorded in the ledger. Consequently, it was difficult for the inspecting auditors to ascertain the accountability of the stores items.

CHIMWANKHUNDA COMMUNITY DAY SECONDARY SCHOOL

31. An audit inspection of financial and stores records of Chimwankhunda Community Day Secondary School was completed on 8th April, 2009. The audit review disclosed weakness in financial controls which were

communicated to the Controlling Officer in my report dated 20th January, 2010. The report highlighted the following observations:—

(a) Payments Made Without Payment Vouchers—K374,660.00

Treasury Instructions require that all payments must be made on payment vouchers which should be dully authorized and countersigned and that relevant supporting documents should be firmly attached to them.

An examination of expenditure records disclosed that between January and February, 2009, payments amounting to K374,660.00 were made without payment vouchers. It was further observed that the expenditure was not supported by relevant documentation. Consequently, the propriety of these payments could not be ascertained.

(b) Payments Made Without Being Signed for by Recipients—K371, 157.00

Government financial rules require that all payments must be signed for by recipients as a way of acknowledgement receipt.

An examination of payment vouchers for the period July, 2008 and March, 2009 disclosed that cash amounting to K371, 157.00 was paid out without the signatures or thumb prints of the recipients. It was therefore difficult to ascertain whether the payments were made to the rightful payees.

(c) Payment Vouchers Without Supporting Documents—K101,337.75

Treasury Instructions state that all payments must be supported by an original invoice or any valid document attached to the payment voucher before payment is made.

An examination of payment vouchers disclosed that the school made payments amounting to K101, 337.75 between July, 2008 and March, 2009 without supporting documents.

NJAMBA SECONDARY SCHOOL

32. An audit inspection of the financial and stores records of Njamba Secondary was completed on 28th January, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 13th July, 2009. The report highlighted the following observations:

(a) Allowances not Signed for by the Recipients—K118,400.00

Treasury Instructions state, among other things, that where recipients are unable to write, there should be records on the voucher, either their thumb prints or marks whenever money is paid.

An examination of payment vouchers disclosed that cash amounting to K118, 400.00 in respect of allowances was paid out between May, 2006 and September, 2008 without being signed for by the recipients. It was therefore difficult for the inspecting auditors to satisfy themselves whether the money was indeed paid to rightful owners.

(b) Missing Apparatus in the Physical Laboratory—K348,236.00

An examination of assets' records and the physical inspection of laboratory equipment disclosed that some apparatus valued at K348, 263.00 were missing. Management was aware of the matter, but no action was taken against the officer involved.

MULUNGUZI COMMUNITY DAY SECONDARY SCHOOL

33. An audit inspection of Mulunguzi Community Day Secondary School was completed on 9th April, 2009. The audit review disclosed weaknesses in financial controls which were communicated to the Controlling Officer in my report dated 20th January, 2010. The report highlighted the following observations:—

(a) Stores items not Recorded in Stores Ledger—K850,500.00

Treasury Instructions require that all receipts and issues of stores must be recorded in the stores ledger.

An examination of stores ledgers against physical balances of stocks revealed that stores items valued at K850, 500.00 were not recorded in the stores ledgers. As a result the accountability of these stores could not be ascertained.

(b) Stores Items not Signed for by the Recipients—K184,380.00

Treasury Instructions state that all stores items must be signed for by the recipients as a way of acknowledging receipt.

An examination of stores ledger for the period January to March, 2009 disclosed that stores items worth K184, 380.00 were collected without being signed for by the recipients. It could not be established whether the stores were properly used.

RUMPHI SECONDARY SCHOOL

34. An audit inspection of the financial and stores records of Rumphu Secondary School was completed in June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated November, 2009. The report highlighted the following observation:—

(a) Payment Vouchers Without Supporting Documents—K235,940.00

Treasury Instructions stipulate, among other things, that a payment voucher must be supported by original invoices or cash sale receipts.

An examination of payment vouchers revealed that vouchers amounting to K235,940.00 for the period under review had no supporting documents. Consequently, it was difficult to ascertain whether the expenditure in question was a proper charge to public funds.

BLANTYRE TEACHERS' COLLEGE

35. An audit inspection of the financial and stores records of Blantyre Teachers' College was completed on 13th May, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 13th October, 2008. The report highlighted the following observation:—

Non Deduction of House Rent—K5, 937,021.00

Government employees residing in institutional houses are required to pay economical rent through deduction from their salaries. An examination of the establishment records and payrolls disclosed that the College did not deduct house rentals amounting to K5, 937,021.00 for the period January, 2005 to March, 2008.

INTERNAL AFFAIRS AND PUBLIC SECURITY

IMMIGRATION HEADQUARTERS (BLANTYRE)

36. An audit inspection of the financial and stores records of Immigration Headquarters (Blantyre) was completed on 13th June, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 16th December, 2008. The report highlighted the following observations:—

(a) Payment Vouchers Without Supporting Documents—K1,531,620.00

Treasury Instructions state that a voucher must be supported by an original invoice. Statements of accounts rendered will not be accepted in lieu of invoices as attachment to payment vouchers.

An examination of payment vouchers for the period January, and November, 2007 disclosed that payment vouchers amounting to K1, 531,630.00 were processed without supporting documents. It was therefore difficult for the inspecting auditors to ascertain the propriety of the payments.

(b) Revenue not Collected From Sale of Visas and Passports In Malawi Missions Abroad—K67,040,000.00

A review of dispatch passport register disclosed that the Immigration Headquarters in Blantyre was issuing passports and visas to Malawians and Foreigners respectively staying outside the country through the Malawi Missions abroad without having any record and follow up

process on how the money collected from the passports and visas was accounted for.

It was noted that between January, 2007 and May, 2008, the office issued passports and visas valued at K67, 040,000 to various Malawi Missions abroad, but no follow up was made to find out whether the amount was collected and properly accounted for.

(c) Missing of Thirteen (13) Blank (Unused) Passports—K114, 000.00

An examination of passports ledgers and computer print-outs of processed passports disclosed that thirteen (13) blank passports valued at K114, 000.00 were missing. The passports were stolen from writers section where printing is done.

Further investigation revealed that among the stolen passports, passport number MW169132 was issued to a Nigerian National, Mr. Victor Ikechukwu who was arrested and convicted while passport number MW232344 was processed and issued to a Malawian National, Miss Fyness Magwembere. However no action was taken against the custodian of the passports although the matter was reported to management for appropriate action.

MWANZA PRISON

37. An audit inspection of the financial and stores records of Mwanza Prison was completed on 5th May, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 5th January, 2010. The report highlighted the following observations:—

(a) Stores Items Not Recorded In The Ledger—K230,700.00

Treasury Instructions require that all receipts and issues of stores must be recorded in the stores ledgers for proper accountability.

An examination of stores records disclosed that stores items worth MK230, 700.00 purchased between 7th January and 10th April, 2009 were not recorded in the stores ledger. It was therefore difficult for inspecting auditors to establish how the stores items were accounted for.

(b) Salaries Not Signed For By The Recipients—K106,777.00

Treasury Instructions require that payment of salaries should be signed for by recipients.

An examination of salaries records disclosed that between September, 2007 and November, 2008, salaries amounting to K106, 777.00 were paid out without being signed for by the officers. It was therefore difficult for inspecting auditors to ascertain whether the salaries were properly paid.

BLANTYRE POLICE STATION

38. An audit inspection of the financial and stores records of Blantyre Police Station was completed on 28th November, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 5th June, 2009. The report highlighted the following observations:—

(c) Revenue Spent Before Banking—K2,966,714.00

Treasury Circular Number 2 of 2001 (Reference Number 8/1/270) states among other things, that Controlling Officers in Ministries and Departments should ensure that revenue is banked intact.

An examination of revenue records disclosed that a sum of K1, 611,234.00 in respect of revenue collected between June, 2007 and May 2008 was spent before banking. There was no evidence to show that authority to spend was sought from Treasury.

A further examination of revenue records revealed that between October 2007 and May, 2008, the Regional Commissioner of Police (South) collected cash from Blantyre Police Station totaling K1,345,480.00. The cash was neither banked nor refunded to Blantyre Police Station but was used by the Regional Commissioner's Office (South) without authority from the Treasury.

(d) Payment Vouchers Without Supporting Documents—K1,710,789.00

Treasury Instructions require that payment vouchers must be fully supported by original invoices which must contain sufficient particulars to justify the payments made.

An examination of payment vouchers disclosed that between December 2007 and October, 2008, the office made payments totaling K1,710,789.00 without supporting documents. Consequently, the propriety of these payments could not be ascertained.

CHILEKA POLICE STATION

39. An audit inspection of the financial and stores records of Chileka Police Station was completed on 1st April, 2009. The audit review disclosed weaknesses in financial control which were communicated to you in my report dated 20th October, 2009. The report highlighted the following observations:

(a) Subsistence Allowances Not Signed For By Recipients—K109,000.00

An examination of payment vouchers disclosed that between January and October, 2008, subsistence allowances amounting to K109, 000.00 were paid out without being signed for by recipients. Consequently, it could not be ascertained how the amount was accounted for.

(b) Failure To Account For Motor Vehicle And Cycle Spare Parts—K554, 731.50

Government financial rules and regulations require that stores items must be recorded in the stores ledger as soon as they are received. Stores items represent cash in another form and the same care must be given to their custody and accounting.

An examination of payment vouchers disclosed that between January, 2008 and January, 2009, the office purchased spare parts worth K554, 731.50, but these were not recorded in the stores ledger. It was further noted that the delivery notes for the items could not be traced. Consequently, the accountability and disposal of the spare parts could not be ascertained.

JUSTICE AND CONSTITUTIONAL AFFAIRS

REGISTRAR GENERAL

40. An audit inspection of the financial and stores records of Registrar General's Office was completed on 18th June, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 13th January, 2009. The report highlighted the following observation:—

(a) Under Collection of Stamp Duty—K797, 546.00

An examination of stamp duty registers and general receipts for the period March, 2007 and April, 2008 disclosed that total amount assessed as per stamp duty register was K1,438,084.50 while total amount collected as per general receipts amounted to K640,538.50, leaving a balance of K797,546.00. There was no evidence to show that vigorous efforts were being made to collect the outstanding amount.

JUDICIARY

HIGH COURT OF MALAWI

41. An audit inspection of the financial and stores records of The High Court of Malawi was completed in July, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 9th July, 2009. The report highlighted the following observations.

(a) Revenue collected used at source—K162,556.00

Government financial rules and regulations require that revenue collected must be banked intact before it is used.

An examination of revenue records and bank slips disclosed that revenue totaling K162, 556.00 collected between July, 2006 and March, 2008 was used by office before banking. There was no evidence to show that authority to spend the revenue was granted by Secretary to the Treasury.

(b) Revision Of Contract Sum For City Building Contractors Limited Without Authority From The Office Of The Director Of Public Procurement.

An examination of payment vouchers in respect of payments made to City Building Contractors Limited for the construction of new Magistrate Court Offices at Chichiri, disclosed that the contract sum was revised upwards by K251, 272,725. 72. The initial contract sum was K168, 922,686. 00 but was later revised to K666, 392, 138. 65 without the authority from ODPP. It was, however noted that the total amount paid as at the time of audit was K917, 664, 864. 37 resulting in excess amount of K251, 272, 725. 72 which was spent without authority from the Office of the Director of Public Procurement.

(c) Payment Vouchers Without Supporting Documents—K696, 524. 86

Government accounting procedures require that payment vouchers must be fully supported by original invoices which must contain sufficient particulars to support the payments made.

An examination of payment vouchers disclosed that between January, 2006 and October, 2006, the office made payments totaling K696, 524.86 without supporting documents. Consequently the propriety of these payments could not be ascertained.

(d) Payment of Salary to An Officer on Unpaid Leave—K171, 489.19

A review of personal files disclosed that Mrs. B. Maluwa who was on unpaid leave for three years since June, 2007 received her salary for the first six (6) months of the unpaid leave period totaling K171, 489.19. There was no evidence to show that the salary was recovered from the officer as at the date of audit.

(e) Occasional Meal and Subsistence Allowances not Signed for by Recipients—K2,176,746.68.

An examination of payment vouchers disclosed that between June, 2006 and March, 2006 the office paid meal and subsistence allowances amounting to K2, 176, 746. 68 to various officers without obtaining their signatures as a way of acknowledging receipt of cash. It was therefore, difficult for the inspecting officers to ascertain whether allowances were properly accounted for.

CHIKHWAWA DISTRICT MAGISTRATE COURT

42. An audit inspection of the financial and stores records of the Chikhwawa District Magistrate Court was completed in June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 5th January, 2010. The report highlighted the following observation:—

**(a) Failure to Account for Compensations and Bail Bonds—
K573,615.00**

An examination of third party registers disclosed that Mr. W. Magulu and late Mr. E.A. Sadi failed to account for sums of K531, 227.00 and K42, 388.00 respectively collected between December, 2006 and March, 2009. Details are as follows:—

Mr. W. Magulu

	K
Cash received from Mr. G.T. Kondwani and Late E.A. Sadi	393,657.00
Cash collected by Mr. W. Magulu	428,263.00
Cash withdrawn by Mr. W. Magulu not paid to beneficiaries	<u>197,060.00</u>
	1,018,980.00
Less payments and bank deposits	<u>487,753.00</u>
Funds not accounted for	<u>531,227.00</u>

Late Mr. E.A. Sadi had a shortage of K42, 388.00 at the time of handing over between Mr. G.T. Kondwani and Late E.A. Sadi.

The matter was reported to Police and Mr. Magulu was awaiting court trial at the date of audit.

TRANSPORT AND PUBLIC INFRASTRUCTURE

CENTRAL GOVERNMENT STORES (SOUTH)

43. An audit inspection of financial and stores records of Central Government Stores (South) was completed on 30th November, 2008. The audit disclosed a weakness in control which was communicated to the Controlling Officer in my report dated 11th January, 2010. The report highlighted the following observation:

Revenue Collected but not Accounted for—K541, 819.55

An examination of the general receipts and bank deposit slips used for the collection of revenue from the sale of stores and boarded-off items between June, 2007 and November, 2008 disclosed that revenue collected amounting to K541,819.55 was not banked, instead it was misappropriated by Mr. B. Khumbanyiwa. Management however did not report the case to Police instead they decided to recover the money from his salary.

AGRICULTURE AND FOOD SECURITY

RUMPHI DISTRICT AGRICULTURE DEVELOPMENT OFFICE

44. An audit inspection of the financial and stores records of Rumphu District Agriculture Development Office was completed in June, 2009. The audit

review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 4th December, 2009. The report highlighted the following observation:—

Fuel not Recorded in Fuel Register—K1, 674,980.00

Treasury Instructions stipulate that all consumable stores must be recorded in stores ledger.

An examination of payment vouchers and fuel register revealed that fuel valued at K1, 674,980.00 purchased between May, 2007 and October 2008 was not recorded in fuel register. As a result, accountability of the fuel could not be ascertained.

HEALTH

QUEEN ELIZABETH CENTRAL HOSPITAL

45. An audit inspection of the financial and stores records of Queen Elizabeth Central Hospital was completed on 16th October, 2008. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 7th July, 2009. The report highlighted the following observation:—

(a) Use of Revenue Collected before Banking—K1,959,731.12

An examination of general receipts, deposit slips and cash books disclosed that the hospital used revenue collected amounting to K1, 959,731.12 between August, 2007 and November, 2008 without authority from Treasury.

(b) Stores not Recorded in Stores Ledger—K475,095.00

An examination of stores ledgers disclosed that delivery notes for some stores items purchased between March and September, 2008 valued at K475, 095.00 were not produced for audit. The items were not recorded in the stores ledgers and it was therefore difficult for the inspecting auditors to ascertain how the stores were accounted for.

CHIKHWAWA DISTRICT HOSPITAL

46. An audit inspection of financial and stores records of Chikhwawa District Hospital was completed on 11th June, 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 25th February, 2010. The report highlighted the following observations:—

(a) Irregular Payment of Subsistence Allowance—K525,500.00

It is a government requirement that subsistence allowances should only be paid to officers spending nights away from their duty station on official duties.

An examination of payment vouchers for the month of February, 2009 revealed that subsistence allowances amounting to K525,500.00 were paid to officers for attending Internal Procurement Committee meetings within their duty station. There was no evidence to show that the amount had been recovered from the officers concerned.

(b) Payment Vouchers Without Supporting Documents—K260,059.28

Treasury Instructions require payment vouchers to have supporting documents firmly attached to them.

An examination of payment vouchers for the period between July, 2006 and February, 2009 disclosed that payments amounting to K260, 059.28 were made without any supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

ENERGY MINES AND NATURAL RESOURCES

DEPARTMENT OF FORESTRY

47. An investigative audit inspection of the financial records of the Department of Forestry was completed in February, 2009. The audit review disclosed weaknesses in financial control on Improved Forest Management for Sustainable Livelihood (IFMSL) Project, Carbon Sequestration and other Ecosystem (CARBON) Project, Forest Replanting and Tree Nursery Project (FOREP) and Presidential Initiative Project, which were communicated to the Controlling Officer in my letter dated 29th September, 2009. The report highlighted the following observations:—

IMPROVED FOREST MANAGEMENT FOR SUSTAINABLE LIVELIHOOD IFMSL)

(a) Improper Accounting for Project Funds

An examination of the project accounting records at Mzimba District Forest Office disclosed lack of transparent accounting procedures for project funds. Most of the activities which were alleged to have been undertaken were not supported with documented plans. There was no evidence to show performance of activities and delivery of goods or service paid for as noted below:—

(i) Plant Sisal Contract: Payment Without Evidence Of Work Done—K164,500.00

Two payments totaling K164, 500.00 were made for Plant Sisal Contract for undisclosed location in name of a Forestry Officer, Ms Lucy C. Gondwe. There was no evidence that the sisal planting was performed. The District Forestry Officer was unable to explain why the payment was made without indicating the project site since the concerned officers were out of office.

(ii) Community Training Allowances Paid Without Activity Plan and not Accounted for—K3, 501,831.00

An examination of payment vouchers for daily subsistence allowances (DSA) for training of communities, revealed that payments were not supported by budget plans to describe the type of training, target group, location held, reference of participants and the sanctioning authority. During the period April 2006 to July 2008, several payments totaling K3,501,831.00 were made to cashiers who had difficulties to explain or give evidence of the said activities and identify the people on the signature list. The signature list was therefore not valid evidence and insufficient to account for the Project funds that were paid out.

(iii) Payment for Stores and Services Without Evidence of Delivery—K1, 945,623.25

Several payments were made to suppliers of goods and services, but there was no evidence of delivery. During the period April, 2006 to September, 2008, a total of K1,945, 623.25 was paid to local suppliers for goods and services but there was no documentary evidence to support delivery of goods and services rendered. The authorizing officers were unable to give satisfactory explanation on the goods or services for which payments were made.

(iv) Fuel not Accounted For—K2,632,476.28

It was observed that several payments amounting to K2, 632,476.28 were made to fuel stations under BP Malawi for the supply of fuel. The paid cheques were only acknowledged with receipts from fuel stations, but there was no evidence to show the delivery of fuel. The responsible officers were unable to give satisfactory explanation on how the fuel was accounted for.

CARBON SEQUENCESTRATION AND OTHER ECOSYSTEMS PROGRAMMES

(b) Weakness in Internal Control

It was observed that during the first two years ending 2007/2008 of the five year first phase, the project implementation lacked proper documentation to account for the funds spent. The expenditure could not be assessed with project activities because expenditure returns and technical performance reports were not produced. Financial regulations and procedures were in most cases not compiled with. Cash books, stores and fuel registers were not maintained and filling of accounting records was not in order. There was also no indication that procurement was sanctioned by an Internal Procurement Committee (IPC) since no records of IPC were available.

The weaknesses in internal control resulted in some project funds not being accounted for as was noted in the following:—

(i) Cash For Purchase Of Seedlings Not Accounted For—K1,265,600.00

A payment of K1,265,600.00 was made through an Accounts Assistant at Mzuzu Regional Forestry Office for the purchase of 26,596 seedlings. Enquiries with the payee disclosed that the cash was handed over to Chitipa and Karonga District Forestry Officers as follows:—

Mr. C.A. Khondowe—Karonga 11/04/2008 — K666, 660.00

Mr. E.B.C. Nyirongo—Chitipa 11/04/2008 — K598, 940.00

No receipted voucher was produced by the two District Forestry Officers to account for the funds and as such it was difficult for auditors to ascertain whether the seedlings were purchased.

(ii) Payment for Allowances Without Receipted Vouchers—K5,765,460.00

It was observed that several payments were made in the name of various cashiers for subsistence allowances to staff of District Forestry Officers. The activities were not disclosed on the payment vouchers. The cashiers were also unable to produce the receipted vouchers to account for the money paid to them. Payments totaling K5,765,460.00 were made from July 2007 to April 2008, but the relevant receipted vouchers were not produced to account for the amount. There was also no satisfactory explanation on the activities for which the allowances were paid.

(iii) Fuel Not Accounted For—K9,690,682.25

It was further observed that several payments were made for bulk supply of fuel, but no record was produced to account for the fuel. The suppliers delivery notes were not produced and the fuel was not recorded in the register at headquarters. Fuel claimed to have been bought for the outstations was not supported by any internal delivery notes. A total of K9,690,682.25 was paid between July 2007 and April 2008 for the purchase of fuel but no record was produced to account for the fuel.

FOREST REPLANTING AND TREE NURSERY PROJECT (FOREP)

(c) Weaknesses in internal control

An examination of financial records at the Department of Forestry disclosed lack of proper documentation and compliance with financial regulations and procedures. It was observed that payments made to

suppliers of goods and services were authorized without following procurement procedures and the payments had no sufficient documentation. Allowances were paid to staff for undisclosed activities and without completing the required forms to leave duty station. Bulk purchases of fuel were not supported with evidence of delivery and disposal.

These weaknesses in internal controls resulted in some project funds not being accounted for as follows:—

(i) *Payment for Replanting Contract Without Evidence of Work Done—K6,440,368.91*

The process of identifying contractors for replanting trees was not transparent and the engagement was not supported by contract documents. Basic procurement procedures were not followed as a result, payments made between November, 2006 and May, 2008 for replanting contracts totaling K6,440,368.91 were not supported with evidence of work done. Some of the payments were made in the names of officers in the accounts section on behalf of contractors who could only produce receipted vouchers without evidence of work done by the contractors. It was therefore not possible to identify and verify the payees and the work done in absence of contract forms and quotations.

(ii) *Allowances Paid Without Stating Activity and not Accounted For—K2,009,050.00*

It was observed that some cashiers from various stations including headquarters were paid large sums of money in respect of subsistence allowances on behalf of other staff. Most of the payments were made without disclosing the activity on the voucher. A number of cashiers did not return the receipted vouchers to account for the amounts paid in their names. A total of K2,009,050.00 was paid between September, 2006 and May, 2008 to various cashiers who did not produce receipted vouchers.

(iii) *Fuel not Accounted For—K5,527,950.00*

An examination of payment records disclosed that several payments for supply of fuel were not supported by delivery notes and fuel was not recorded in the registers at the intended station. A total of K5,527,950.00 was paid to BP fuel stations between September, 2006 and April, 2008 which was not accounted for.

PRESIDENTIAL INITIATIVE (SPECIAL FUNDING)

(d) Weaknesses in Implementation of the Project

The project was initiated with a view to distributing tree seedlings country wide. The seedlings were sourced from various suppliers who were paid substantial amounts of money. It was noted that the sourcing

and distribution records were not properly maintained resulting in payments for seedlings which were not supported with evidence of delivery. The amounts paid were, therefore not accounted for as noted in the following transactions:—

(i) *Payment For Seedlings Without Evidence Of Delivery Or Distribution—K32,721,600*

An examination of records disclosed that project activities were controlled at the Department of Forestry Headquarters where invoices for the supply of seedlings were approved for payment. It was expected that each invoice would have been accompanied by delivery note signed by beneficiaries and confirmed by the District Forestry Officer before authorizing payment. It was also expected that a technical report would have been compiled from the same information to come up with a performance report on the project achievement. These records were, however, not produced by management at Headquarters and as such, there was no evidence of delivery and distribution of seedlings for funds paid. A total of K32,721,600.00 was paid to various suppliers of seedlings in various districts, but there was no evidence of delivery and distribution of the seedlings.

(ii) *Fuel Not Accounted For—K1,400,000.00*

It was observed that a sum of K1,400,000.00 was paid through payment voucher No. 24 and cheque No. 120280, dated 13/3/2008 to BP Malawi for supply of fuel. This transaction was neither supported by delivery note nor recorded in the register. Consequently, the inspecting auditors were unable to ascertain the accountability of the fuel purchased.

REGIONAL FORESTRY OFFICE—SOUTH

48. An audit inspection of financial and stores records of the Regional Forestry Office was completed in March 2009. The audit review disclosed weaknesses in financial control which were communicated to the Controlling Officer in my report dated 20th April, 2009. The report highlighted the following observations:—

(a) *Fuel Not Recorded in the Ledger—K2,341,112.31*

An examination of payment vouchers in respect of fuel purchases against fuel ledgers disclosed that between January, 2007 and April 2008 fuel worth K2,341,112.31 was not recorded in the ledger. Consequently, the accountability and usage of the fuel could not be ascertained.

(b) *Payments not signed for—K85,460.00*

Treasury Instructions require that payments made through receipted vouchers must be signed for by recipients.

An examination of payment vouchers for the period September, 2006 to June, 2008 disclosed that cash drawn for staff amounting to K85,460.00 was not signed for by recipients. It was therefore, difficult for the inspecting auditors to ascertain whether the money was properly accounted for.

PART IV

RECOMMENDATIONS AND ACKNOWLEDGEMENTS

RECOMMENDATIONS

49. In the course of my audit of the 2008/2009 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 require 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 effectiveness of internal control systems and administrative processes in ministries and departments;
 - (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 Treasury Instructions, and appropriate disciplinary action taken against officers concerned;
 - (f) Knowledge and skills of accounting personnel should be regularly enhanced through generic training, including refresher courses and workshops;
 - (g) Public Financial Management Reforms such as implementation of the Integrated Financial Management Information System (IFMIS) should be given serious attention by all policy makers.

ACKNOWLEDGEMENTS

50. I wish to place on record my profound gratitude and appreciation to staff in my office who carried out their duties diligently despite resources constraints. I also wish to acknowledge the assistance and cooperation given to me during the year under review by the 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.

30th December, 2008

Lilongwe, Malawi



MALAWI GOVERNMENT

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

FOR THE YEAR ENDED 30TH JUNE, 2009