

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

For The Year Ended 30th June, 2015

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
Integrity
Objectivity
Independence
Confidentiality
Continuous Professional Development
Open Communication

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

17th February, 2017

The Honourable Minister
Ministry of Finance, Economic Planning and Development
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 Cap 37:01 I have the honour to submit my report on the results of the audit of the Accounts of the Government of the Republic of Malawi for the year ended 30th June 2015 for tabling in the National Assembly.

Yours faithfully,



Stephenson D. L. Kamphasa
Auditor General

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EXECUTIVE SUMMARY

In accordance with Section 6 of Public Audit Act 2003, I have, on behalf the National Assembly, examined and enquired into and audited the accounts of Controlling Officers, and Receiver of Revenue and persons entrusted with the collection, receipting custody or disposal of public moneys or public stores.

The Government budgetary operation registered expansion in both revenue and expenditure during the year under review. Total revenue collected increased by K114.5 billion to K636.4 billion which compares favourably with K521.9 billion realized in 2013/2014 financial year. Total expenditure increased by K134.1 billion from K450.9 billion in 2013/2014 to K585 billion. Domestic revenue remained relatively buoyant and continue to maintain an upward trend. This was mainly premised on the improved tax collection and administration by the Malawi Revenue Authority and other revenue collecting agencies.

The Revenue Account registered K636.4 billion in revenue and the recurrent expenditure of K607.2 billion, resulting into surplus of K29.2 billion. Development Account increased by K56.5 billion when compared to K70.4 billion for 2013/14 financial year. Total expenditure charged to the Development Account was K60.5 billion which decreased by K9.8 billion when compared to K70.3 billion for 2013/14 financial year. Government in this fiscal year continued to get donor support.

In the fiscal year of 2014/15 Controlling Officers continued to prepare financial statements using the approved and acceptable format introduced in the ministries and departments. The financial statements of the twenty votes, for the financial year ended 30th June, 2015 were submitted to me and audited and these represent fifty-two percent of the total votes and fifty – nine percent of the total budget expenditure. My audit opinions on these financial statements were qualified based on the various material matters that affected their true and fair view except for the Ministry's Agriculture, Irrigation and water Development, Education, Labour, Transport and Public Works, where I have issued a disclaimer of opinion due to limitation scope.

Although ministries and departments started preparing own financial statements for audit purposes there are still a lot of challenges which need to be mitigated in order to ensure timely preparation of the financial statements. The Accountant General should continue to train accounting personnel in the ministries and departments on the preparation of the accounts so as to enhance capacity and improve quality of the financial statements.

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 the 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 President and the National Assembly, 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 various stakeholders including the Law Commission have been initiated to have the inconsistency cleared. During the 2010/11 financial year an Institutional Review of National Audit Office was undertaken by the Department of Public Service Management in the Office of the President and Cabinet. The review report which was approved by the Government has included a recommendation that I should be reporting directly to the National Assembly.
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:-
 - (a) Revenue is properly assessed and collected;
 - (b) Expenditure is validly and correctly authorised;
 - (c) Revenue, expenses, assets and liabilities are properly recorded and accounted for;
 - (d) Resources are employed and managed in an economic, effective and efficient manner;
 - (e) There has been no waste or extravagance;
 - (f) Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
 - (g) Relevant government policies and legislation are being complied with;
 - (h) All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
 - (i) 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 auditors, this includes 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 money or 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 on any documents, books and accounts subject to audit and examination by my office to deliver all or any of them at a time and place and to such a 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 Consolidated Statements of Accounts within a period of four (4) months, but not later than 31st October after the closure 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 statement of financial position's date of the reporting period;

- (c) A Statement of Cash Flows showing the receipts and cash payments during the reporting period, and cash balance as at statement of financial position's date of the reporting period;
- (d) A Statement of Cash Balance showing breakdown of the balance 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 Investment 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 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;
- (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; and
- (j) A Statements 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 OFFICERS' RESPONSIBILITY

8. In terms of Section 10 of the Public Finance Management Act, it is the Controlling Officers' responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. 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 of 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.

The controlling officers prepared financial statements of their ministries for the 2014/2015 financial year and submitted them for audit before they were consolidated by the Accountant General.

SCOPE OF AUDIT

9. In line with Section 13 of the Public Audit Act (Cap.37.01 of the Laws of Malawi) which requires me to use Generally Accepted Auditing Standards, 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 International Standards of Supreme Audit Institutions (ISSAIs), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

The Public Audit Act (Cap.37.01 of the Laws of Malawi) 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 various ministries and departments which form part 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.

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:—
- (a) Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
 - (b) Evaluation and testing of the accounting and internal control systems;
 - (c) 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
 - (d) Reporting the audit findings based on the audit procedures performed and evidence gathered.

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 overemphasized.

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.

REPORTING PROCEDURE

12. 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 or dropped altogether. 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.

AUDIT OPINION ON THE ACCOUNTS

13. 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, 2015 is qualified based on the following material matters that affected its true and fair view:—
 - (a) There was significant failure and lack of application of the existing systems of internal controls in IFMIS – Central Payment System and Ministries, Departments and Agencies (MDAs). These lapses in control systems resulted in.
 - Material differences between Financial Statements Reported figures and IFMIS account balances of K26 billion. Out this amount, Ministry of Agriculture, Irrigation and Water development account for 71.9% amounting to K18.7 billion and Ministry of Education, Science and Technology account for 28.5% amounting to K7.4 billion,
 - misallocated expenditure amounting to K4.9 billion out this amount 73.5% amounting to K3.6 billion relates to Ministry of

Agriculture, Irrigation and Water Development and 24.4% amounting to K1.187 billion relate to Ministry of Education Science and Technology

- unsupported expenditure amounting to K16.4 billion out this amount 78.7% amounting to K29.9 billion relates to Ministry of Agriculture, Irrigation and Water Development, and
 - missing payment vouchers and other vital documentation with an amount of K29.9 billion out this amount, Ministry of Agriculture, Irrigation and Water Development account for 56.2% amounting to K16.8 billion and Ministry of Education, Science and Technology account for 34.3% amounting to K10.2 billion
- (b) A reconciliation of the Malawi Government Control Account No. 1 was not produced for my review.
- (c) Various MDAs continued to overlook observance of well-established procurement systems and procedures resulting in accumulation of arrears totalling MK2.3billion as at 30th June, 2015.

The audit opinion is presented separately in Volume 1 of the Consolidated Annual Appropriation Accounts for the year ended 30th June, 2015.

SUMMARY OF OBSERVATIONS PER VOTE LEADING TO QUALIFICATION

Vote	Without Supporting Documents	Missing Vouchers and other Documents	Misallocated Payments	Material Difference Financial Statement and IFMIS
National Assembly	5,757,635.00	568,130,319.52	—	—
Local Government and Rural Development	672,000.00	2,791,500.00	—	—
Lands and Urban Development	14,298,057.50	36,395,246.41	5,406,684.29	—
Shire Valley ADD	12,900,000,000.00	16,800,000,000.00	3,551,763,026.94	18,644,650,783.00
Irrigation and Water Development	—	4,750,193.00	—	—
Vice President	20,890,216.09	395,009,950.00	—	(260,646,464.00)
Education, Science and Technology	1,195,122,756.25	10,250,193,691.81	1,187,821,645.38	7,426,704,628.00
Finance (Treasury) Accountant General	35,351,329.95	—	6,606,378.00	—
Home Affairs	1,768,309,619.21	651,285,417.00	—	55,445,878.00
Malawi Police Service	4,517,035.28	74,440,596.26	—	—
Justice and Constitutional Affairs	—	2,300,000.00	—	—
Administrator General	—	7,484,073.28	—	—
Tourism	1,778,934.00	7,831,819.54	—	—

Labour Youth and Manpower Development,	376,000,000.00	1,104,500,000.00	105,000,000.00	183,732,877.00
Transport and Public Works	34,036,882.00	—	—	—
Geological Survey	1,534,005.00	—	—	—
Law Commission	8,743,863.00	—	443,927.29	—
	16,367,012,333.28	29,905,112,806.82	4,857,041,661.90	26,049,887,702.00

PART II

OVERALL BUDGET PERFORMANCE 2014/2015

BUDGET OUTTURN-REVENUE

14. Total revenue collected during the period ended 30th June, 2015 was K636.4 billion which reflected an increase of K114.5 billion over the 2013/14 amount of K521.9 billion. The main sources of revenue were Tax Revenue K470.6 billion, Project Grants K79.5 billion, Non-Tax Revenue K60.8 billion and Dedicated Grants K25.5 billion.

The revenue collection for 2014/15 was less than the revised amount of K683.4 billion by K47 billion. The under-collection was attributed to Tax Revenue, Dedicated Grants and Non Tax Revenue which in total registered an under-collection of K41.3 billion. The trend of revenue collection for the past four years is tabulated as follows:

Year	Provision K'000	Actual Collection K'000	Over/(under) collection K'000
2011/2012	245,070,578	243,587,354	(1,483,224)
2012/2013	371,167,000	549,368,797	178,201,797
2013/2014	525,108,000	493,481,100	(31,626,900)
2014/2015	683,384,000	636,417,483	(46,966,517)

BUDGET OUT TURN-EXPENDITURE

15. During the year under review, total expenditure charged to the Consolidated Fund was K585 billion representing an increase in expenditure of K134.1 billion when compared to the total expenditure of K450.9 billion for 2013/2014. The overall picture of the voted expenditure was a net saving of K38.9 billion which compared unfavorably to a net saving of K106.6 billion for 2013/2014.

CONSOLIDATED REVENUE ACCOUNT

16. The consolidated revenue account had improved in performance during the year under review since the account had a cumulative surplus of K147 billion as at 30th June, 2015, which is an improvement from a cumulative surplus of K117.8 as at 30 June, 2014 and was arrived at as follow:

The Consolidated Revenue Account as at 30th June, 2015

Description	K'000
Deficit balance brought forward as at 1st July, 2014	(4,905,090.00)
Add: Revenue for the year	<u>636,417,483.00</u>
Net cumulative revenue after brought forward deficit	631,512,393.00
Less : Expenditure for the year	(585,307,849.00)
: Transfer to Development Part II	<u>(21,888,812.00)</u>
Cumulative Surplus brought forward as at 30th June, 2015	<u>24,315,732.00</u>

The planned recurrent surplus for the year under review was K101.1 billion but the cumulative cashbook balance was a surplus of K24.3 billion . The actual Revenue Account out-turn as at 30th June, 2015 was a surplus of K29.2 billion.

The annual surplus could largely be attributed to fiscal reforms instituted by Government and improved expenditure management and control.

Recurrent budget performance for the past four years

Years Amount in	2011/2012 K'000	2012/2013 K'000	2013/2014 K'000	2014/2015 K'000
Actual Revenue	243,587,354	549,368,797	521,935,444	636,417,483
Less : Actual Expenditure	238,866,153	341,485,074	450,859,755	585,307,849
: Transfer to Dev. Pt II	<u>33,207,931</u>	<u>35,266,000</u>	<u>29,230,731</u>	<u>21,888,812</u>
Surplus/(Deficit)	<u>(28,486,730)</u>	<u>172,617,723</u>	<u>41,844,955</u>	<u>29,220,822</u>

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

CONSOLIDATED DEVELOPMENT ACCOUNT

17. The total expenditure charged to Development Account for the year ended 30th June, 2015 amounted to K60.5 billion reflecting a decrease of K9.9 billion over the previous year's expenditure of K70.4 billion.

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

Years Amount in	2011/2012 K'000	2012/2013 K'000	2013/2014 K'000	2014/2015 K'000
Revised Estimates	70,174,568	97,823,505	156,175,784	192,939,579
Actual Expenditure	<u>47,226.99</u>	<u>50,158,248</u>	<u>70,376,734</u>	<u>60,537,416</u>
	<u>22,947,583</u>	<u>47,665,257</u>	<u>85,799,050</u>	<u>132,402,163</u>

Five (5) votes (Vote 110 – Development Planning and Cooperation, Vote 200 – Disability, Vote 210 – Water Development, Vote 360 – Tourism and Vote 480 – Climate Change recorded over-expenditures of K0.044 billion, K0.009 billion, K0.152 billion, K0.09 billion and K0.014 billion respectively.

Twenty five (25) votes recorded under expenditures of K132.7 billion. The largest unspent balances of K56.7 billion, K19.2 billion, K8.8 billion and K6.2 billion were recorded against Vote 190 – Ministry of Agriculture, Vote 470 – Ministry of Energy and Mines, Vote 120 – Ministry of Local Government and Rural Development and Vote 250 – Ministry of Education, respectively.

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

The overall state of affairs of the Development Account as at 30th June, 2015 was a cumulative surplus of K78.6 billion, registering an increase of K66.4 billion from K12.2 billion recorded at the end of the 2013/2014 financial year. Details are as follows:

	K'000
Receipts during the year	126,881,782
<i>Less:</i> Payments	(60,537,416)
Surplus/(Deficit) for the year	66,344,366
<i>Add:</i> Opening balance	<u>12,192,892</u>
Cumulative Surplus as at 30th June, 2015	<u>78,537,258</u>

CONSOLIDATED DEVELOPMENT ACCOUNT

FINANCING OF THE DEFICIT

18. The Budget Statement for 2014/2015 financial year envisaged a deficit of K107.1 billion on the total Budget while the Development Budget was expected to break-even at K110.3 billion.

During the year under review, the Recurrent Revenue Account collected K636.4 billion while the Recurrent Expenditure was K607.2 billion resulting into a surplus of K29.2 billion.

The Development Account realized K126.9 billion; registering an increase of K56.5 billion when compared to K70.4 billion of 2013/2014 financial year. Expenditure for the year was K60.5 billion resulting into a surplus of K66.3 billion.

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

Year	Combined (Deficit)/Surplus K'000
2011/12	(114,218,316)
2012/13	82,764,457
2013/14	7,287,802
2014/15	102,852,990

It is envisaged that 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.

Preparation of Financial Statements by Ministries and Departments

19. The Controlling officers started preparing financial statements for their ministries and departments from 2011/2012 financial year for submission to my office for audit before they were consolidated by the Accountant General. This process did not start in earnest, until 2012/2013 financial year when an acceptable format for presenting the financial statements was approved and introduced in the ministries and departments.

Although ministries and departments started preparing own financial statements from 2011/2012 financial years there are still a lot of challenges which need to be mitigated in order to ensure timely preparation of the financial statements. The Accountant General should continue to train accounting personnel in the ministries and departments on the preparation of the accounts so as to enhance capacity and improve quality of the financial statements.

The financial statements of the thirty four votes, for the financial year ended 30th June, 2015 were submitted to me and audited and these represent sixty-one percent of the total votes and fifty – six percent of the total budget expenditure. It is pleasing a significant of major ministries and departments were among the 34 votes. My audit opinions on these financial statements were qualified based on the various material matters that affected their true and fair view except for the Accountant Generals Department, Ministry of Finance, Economic planning and Development, Ministry’s Agriculture, Irrigation and water Development, Ministry of Education, Science and Technology, Ministry of Labour, Ministry of Transport and Public Works, Ministry of Industry and Trade and Ministry of Gender, Children, Disability and Social Welfare where I have issued a disclaimer of opinion due to limitation scope.

VOTE	MDA
70	The Judiciary
80	National Assembly
90	Office of the President and Cabinet
100	National Defence
101	Malawi Defence Force
111	National Statistics Office
120	Local Government and Rural Development
121	National Local Government Finance Committee

130	Lands, Housing and Urban Development
190	Agriculture, Irrigation & Water Development
210	Irrigation and Water Development
240	Office of the Vice President
250	Education, Science and Technology
260	Foreign Affairs and International Cooperation
270	Finance, Economic Planning & Development
271	Accountant General
310	Health
320	Gender and Child Development
330	Information and Civic Education
340	Home Affairs and Internal Security
341	Malawi Police Service
342	Prisons
343	Immigration
350	Justice and Constitutional Affairs
352	Registrar General
353	Administrator General
360	Tourism, Culture and Wildlife
370	Labour and Manpower Development
371	Geological Survey
390	Industry and Trade
400	Transport and Public Works
470	Natural Resources
550	Ombudsman
560	Law Commission

The National Audit Office categorises the findings into;

A-Significant and Material, B-Significant and Immaterial and C-Insignificant and Immaterial. For category C, the MDAs with such findings do not appear in this report. As for the categories A and B they appear in this report except for those that were cleared after satisfactory explanations and provision of the relevant documentation

PART III

MINISTRIES, DEPARTMENTS AND AGENCIES

NATIONAL ASSEMBLY

20. An audit of the financial statements of the National Assembly for the financial year ended 30th June, 2015 was completed in November, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Payments for goods without evidence of delivery-K1, 258,200.00

Treasury Instruction 5.23.2 states that expenditure shall be charged against government account when the goods or services are received.

A review of payments by the entity revealed that a payment of **K1, 258,200** was made without documentary evidence that the goods were indeed delivered. Below are the details for the payment:

Date	Cheq No	Payee	Details	Amount (K)
19.06.15	40600	Xerographics	Purchase of toner	1,258,200.00

(b) Failure to source a minimum of three quotations

Section 35 of the Public Procurement Act requires that procuring entities should request quotations from at least three bidders in order to achieve value for money in the procurement of goods and services.

A review of procurement records disclosed failure by the National Assembly to abide by the procurement regulations. It was noted that goods and services amounting to K41,367,835.22 were procured using the single source method. There was no justification to warrant the use of the method.

(c) Payments made without supporting documents

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payments vouchers at the National Assembly disclosed that payments amounting K5,757,635.00 were not supported by adequate supporting documents. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

(d) Failure to account for fuel used

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

A review of fuel expenses for the entity revealed that fuel amounting to K10,020,400.00 was not recorded in the fuel register and motor vehicle logbooks.

(e) Incomplete fixed asset registers

Treasury Instruction Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal controls exist with the department or ministry to ensure that all assets are recorded and safeguarded against loss, destruction or unauthorized use. In addition, the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled ‘Government Physical Assets Register’, requires the maintenance of an asset register which should among other things indicate the monetary values of the assets and their condition.

A review of the fixed assets register for the National Assembly revealed that the register does not indicate monetary values of the assets and their condition.

(f) Failure to deduct withholding tax: K1,180,168.38

Section 102 (A) of the Taxation Act (14:01) requires among other things, that withholding Tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate.

A review of the payments at the National Assembly revealed that withholding tax totaling K1,180,168.38 was not deducted from payments made to various suppliers of goods and services, who did not have withholding tax exemption certificates between January and June, 2014.

(g) Over-commitments to suppliers - K388,874,055.55

Section 10 (f) of The Public Finance Management Act provides that each controlling officer is responsible for ensuring that there is no over-expenditure or over-commitment of funds in relation to his/her ministry.

A review of obligations of the entity revealed that the National Assembly had outstanding commitments of K388,874,055.55 to various suppliers as at June 2015. This contravenes the above quoted legal provision and defeated the objectives of the Cash Budget System being implemented by Government.

(h) Telephone units not accounted for through telephone units register

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

Contrary to this requirement, a review of payment vouchers for the National Assembly revealed that telephone units worth K12,002,400.00 were not recorded in ledgers for proper accountability.

(i) Failure to provide schedules for advances and loans

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

A review of financial records for the National Assembly for the year ending 30th June, 2015 disclosed that there were new disbursements for General Purpose Advance, Education Advance, Motor Vehicle Advance and Emergency Advances with a total of K42,789,000.00 and recoveries made to the tune of K40,400,668.57. However, no supporting schedules were provided in support of the same.

(j) Payment vouchers not presented for audit inspection

Treasury Instructions 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers at the National Assembly revealed that payment vouchers totalling K568,130,319.52 passed for payment were not presented for inspection.

(k) Procurements made without IPC authority

Section 8 of the Public Procurement Act among other things requires all public institutions and agencies to procure goods and services through the scrutiny and approval of the Internal Procurement Committee (IPC).

A review of procurements made by the entity revealed that procurements with a total amount of K19,815,362.41 were between July, 2014 and June, 2015, made without IPC authority.

(l) Misuse of trust account funds

National Assembly holds a trust account with Malawi Savings Bank whose main purpose is to be used to consolidate and disburse money

meant for mutual claims and other related claims for office staffs who are retiring from service and deceased Members of Parliament.

The review of transactions for the account revealed that payments with a total amount of K23,810,773.81 were passed through the account although they were not related to the purpose of the account. The payments mainly were in respect of allowances, fuel, maintenance of motor vehicles and others.

(m) Stores items not recorded in the stores ledger

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of stores records for the financial year July 2013 to June 2014 disclosed that purchases of stores items amounting to K16, 933,528.26 were not recorded in stores ledger.

(n) Failure to recover misappropriated funds

A review of transactions of the National Assembly revealed that funds amounting to K1, 263,000 were misappropriated by Mr M. Komwa, a senior security officer through insertion of names of people who were not police officers on duty during June 2014 budget session.

(o) Matters from internal auditor's report

The Internal Auditor carried out a number of audits during the period under review. The observations raised in the internal auditors' reports have not been responded to by management.

The following are the major findings which need to be addressed;

i. Failure to recover staff loans

<i>Resignation</i>	Enerst Chaona	K1,882,606.12
	Francis Machado	K1,117,923.91
	Daniel Kamoto	K999,998.66
	Mc Neil Mhango	K980,996.13
<i>Retirement</i>	Washington Ganga	K650,000.00

ii. Over payment of external travel allowance

The Internal Auditor noted that the following Members of Staff listed below were erroneously over paid external travel allowance by 4 days whilst on study tour to the Scottish Parliament from 11th to 24th August, 2014 due to wrong number of days applied thus 17 days instead of 13 days. See the analysis below:

NAME	DESCRIPTION	DAYS	ALLOWANCE		AMOUNT (MK)
			PER DAY	RATE	
P. Kayira	External travel allowance to UK	4	370	411.7013	609,317.92
	Telephone	4	60	411.7013	98,808.31
					<u>708,126.24</u>
R. Gondwe	External travel allowance to UK	4	470	411.7013	773,998.44
	Telephone	4	120	411.7013	197,616.62
					<u>971,615.07</u>
Rt Hon. R. Msowoya	External travel allowance to UK	4	650	411.7013	1,070,423.38
	Telephone	4	120	411.7013	197,616.62
					<u>1,268,040.00</u>

iii. Double payment of allowances to Hon. Lilian Patel

It was noted that the sum of K689,814 was paid to Hon Lilian Patel as allowances for Commissions, statutory and state enterprises committee meeting from 16- 22 November 2014 , however during the stated period the Hon Member was in France attending ACP- JPA Meeting.

iv. Irregular allowance to Hon Khumbize Chiponda and Hon. Bon Elias Kalindo

It was noted that a sum of K521,215 was paid to Hon Khumbize Chiponda as allowances for Industry ,Trade and Tourism committee meeting from 19-23 January 2015 , however during the stated period the Hon Member was in Zambia for SADC PF observer mission from 11- 24 January ,2015

It was also noted that a sum of K690,935 was paid to Hon Bon Elias Kalindo as allowances for Media, Information and Communication committee meeting from 19-23 January 2015, however, during the stated period the Hon Member was in Zambia for SADC PF observer mission from 11- 24 January ,2015.

As at the time of audit, there was no evidence that the amounts were recovered from the Honourable Members.

v. **Payment of double allowances to Hon Members while attending different committees**

It was noted that ten Hon Members received double allowances totaling K7,651,700 for attending various committee meetings which were held during the same period between 12th January and 16th January 2016. Poor scheduling of committee meetings by Committee Section had led to payment of double allowances to Hon Members.

MINISTRY OF LOCAL GOVERNMENT AND RURAL DEVELOPMENT

21. An audit of the financial statements of the Ministry of Local Government and Rural Development for the financial year ended 30th June, 2015 was completed in September, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Payment vouchers not presented for audit inspection

Treasury Instructions 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers at the Ministry revealed that payment vouchers totalling K2,791,500.00 were not presented for inspection. Details are as follows;

	AMOUNT(MK)
Headquarters (ORT)	1,119,500.00
Headquarters (Development)	1,672,000.00
	<u>2,791,500.00</u>

(b) Payment Vouchers with Inadequate Supporting Documents: - MK672, 000.00

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payment vouchers disclosed that payment vouchers amounting K672,000.00 were not supported by adequate supporting documents. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

22. An audit of financial transactions of the Ministry of Lands, Housing and Urban Development for the financial year ended 30th June, 2015 was completed in November, 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Missing Payment vouchers-K36,395,246.41

Treasury Instructions 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers for the Ministry revealed that payment vouchers totalling K36,395,246.41 were not presented for inspection. Details are as follows;

COST CENTRE	AMOUNT (MK)
Headquarters	3,737,379.00
Regional Lands Office North	2,091,469.39
Regional Lands Office Centre	169,230.00
South Eastern Region Lands	383,000.00
Physical Planning Headquarters	2,198,543.00
Physical Planning South	633,208.00
Housing Headquarters	16,597,796.02
Northern Region Housing	700,300.00
Central Region Housing	1,306,921.00
Buildings Headquarters	2,597,500.00
Buildings North	78,000.00
Buildings Central	2,587,900.00
Surveys Headquarters	2,629,000.00
Surveys Centre	685,000.00
	36,395,246.41

(b) Payment Vouchers with Inadequate Supporting Documents: - K14,298,057.50

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An examination of payment vouchers for the Ministry revealed that payment vouchers totalling K14,298,057.50 were passed for payment without adequate supporting documents. Details are as follows;

COST CENTRE	AMOUNT (MK)
Regional Lands Office North	150,000.00
Regional Lands Office Centre	2,403,231.00
Physical Planning South	260,000.00

Housing Headquarters	3,854,466.00
Northern Region Housing	3,172,000.00
Central Region Housing	613,200.00
Buildings Headquarters	742,547.25
Buildings South	361,000.00
Surveys Centre	2,741,613.25
	<u>14,298,057.50</u>

(c) Misallocation of expenditure: K5,406,684.29

Treasury Instructions No 4.14.1 stipulates that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

An examination of payment vouchers for the Headquarters of the Department of Housing revealed that the office charged funds totalling K5,406,684.29 on unrelated items without seeking approval for virement of funds from the Secretary to the Treasury.

(d) Disparities between revenue cash cashbook and NBS reports: K5,305,404.00

The revenue cash book obtained from the Accountant General did not agree with the cash control summary or the NBS daily cash reports for revenue collection. This results in poor audit trail and in high risk of incomplete revenue receipts due to fraud and error.

Below are the details;

Name of Payee Description	Amount as per NBS daily report	Amount as per Cashbook	Difference (K)
Revenue for September	46,831,471.37	6,935,360.21	39,896,111.16
Revenue for June	52,813,775.16	34,430,488.51	18,383,286.65
Revenue for April	47,872,584.85	97,705,530.96	(49,832,946.11)
Revenue for March	52,154,019.86	65,905,875.56	(13,751,855.70)
Totals	<u>199,671,851.24</u>	<u>204,977,255.24</u>	<u>(5,305,404.00)</u>

MINISTRY OF AGRICULTURE, IRRIGATION AND WATER DEVELOPMENT

Ministry Headquarters

23. An audit of financial transactions of the Ministry of Agriculture, Irrigation and Water Development for the financial year ended 30th June, 2015 was completed in November 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Material differences between Financial Statements and IFMIS account balances

It was noted that there were material differences between financial statements expenditure presented to the Auditor General with IFMIS balances as tabulated below:

Particulars	Other Recurrent Transactions	Development	Total (K)
Financial Statement Balances	60,996,476,639	20,723,953,196	81,720,429,835
IFMIS Balances	(57,148,082,711)	(5,927,696,341)	(63,075,779,052)
Differences	<u>3,848,393,928</u>	<u>14,796,256,855</u>	<u>18,644,650,783</u>

We further noted that total expenditure as per financial statements and vote summary had a difference of K60.7m.

Overall; no reconciliation was made between the amounts disclosed on the face of the financial statements and related records with IFMIS underlying records for corrective measures. This may lead to financial statements being inaccurate and thus unreliable.

(b) Material variances in funding figures Treasury confirmation and financial statements

It was observed during the audit that there were material differences between funding confirmed by Ministry of Finance as having been remitted to the Ministry of Agriculture, Irrigation and Water Development. Personal Emoluments, Other Recurrent Transactions and Development Part II were understated by a total of K 992m while Development Part I was overstated by K22b giving an overall

Particulars	2015 Funding Confirmed	2015 Financial Statements	Variance
Personal Emoluments	9,594,579,966	9,488,063,631	106,516,335
Other Recurrent Transactions	62,247,456,098	61,870,165,201	377,290,897
Development Part I	12,000,000	21,706,014,944	(21,694,014,944)
Development Part II	<u>1,867,708,922</u>	<u>1,359,939,686</u>	<u>507,769,236</u>
Totals	<u>73,721,744,986</u>	<u>94,424,183,363</u>	<u>(20,702,438,377)</u>

(c) Failure to provide master payrolls for audit

Sufficient relevant audit evidence on salaries stated at K9.3b in the financial statements, was not obtained because of non - availability of monthly master payrolls. These are the payrolls that were affected by the K165.8m salary scam where some 80 members of staff were interdicted.

It was also noted that Master payrolls were not backed up both at the Ministry and Department of Human Resources Management and Development. In the circumstance accuracy, completeness and validity of salaries were compromised.

(e) Payment Vouchers without Supporting Documents:- K20, 385,233,303.51

Section 10 (a) of the Public Finance Management Act 2003 requires the Controlling Officer to comply with the provisions of the Act while section 10 (c) requires the Controlling Officer to maintain proper accounts and records of the Ministry. It was however noted that supporting documents for the payment of goods, services and other supplies amounting to K20,385,233,303.51 were not presented as follows:

	AMOUNT(K)
FISP Payments	12,312,435,239.51
Transport Claim	764,971,051.92
Grants and Subvention	7,213,032,973.00
Other supplies/services	94,794,039.08
	<u>20,385,233,303.51</u>

Out of the K20.4bn, transactions amounting to K7.5bn had payment vouchers missing as well.

(f) Misallocation of Expenditure: K3,551,763,026.94

Treasury Instructions No 4.14.1 stipulates that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

It was noted that transactions amounting to K3,551,763,026.94 were misallocated to incorrect budget and expenditure codes. For instance, supply of 2013/2014 FISP amounting to K1.141bn was charged as 2014/2015 FISP budget line instead of referring to Ministry of Finance to be paid as arrears or charged accordingly. Transportation of fertilizer amounting to K90m was charged to subsistence allowances Transportation of Fertilizer for FISP amounting to K2.3bn was charged to internal travel budget codes "transport claim" instead of Agricultural Subsidies codes or instead of creating an Agricultural Subsidy transport services codes.

(g) Failure to account for FISP proceeds

FISP 2014/2015 report by an independent Logistics Unit show that 2,976,083 FISP vouchers were redeemed from farmers translating to K1,488bn of FISP receipts for Malawi Government. However, the following was noted:

- ADMARC collected K1,283,058,000 on behalf of Malawi Government instead of K1,317,559,000 for the 2,635,118 vouchers redeemed, understating Malawi Government receipts by K34,501,000

- FISP receipts collected by ADMARC for the year ended 30th June 2015 amounting to K1,001,198,000 are said to have been banked. However, we were not provided with evidence as to the account name, account number or deposit slips.
- Out of the K171 m collected by SFFRFM, K71m was banked after year end on 4th August 2015. However the deposit slips were very faint for one to verify the account name and number.

In all cases, FISP holding bank accounts for ADMARC and SFFRM at the Reserve Bank of Malawi had nil opening and closing balances on 30th June 2015 casting doubts if indeed any FISP receipt was ever banked.

(h) Failure to account for proceeds from sale of maize

The Ministry funded National Food Reserve Agencies K4.8b for purchase of maize. Out of the +50,648.525MT of maize purchased; 8,999.943MT worth K1,398,293,648 were sent to ADMARC for sale on behalf of Malawi Government. ADMARC is yet to confirm receipt of this maize.

However the sale of this maize at K80 per kilogram would have realised K720m.

As at the time of audit, no cash realized from the sale of any Malawi Government Maize was banked in the Consolidated Fund.

(i) FISP fertiliser closing stock at ADMARC declared not fit for purpose without approval of any competent authority

ADMARC records indicated a total of 10,289.50 MT (4,587NPK + 5,902.50 Urea) fertilizer as FISP closing stock at the end of the 2014/2015 growing season. Representations revealed that this fertilizer was not fit for purpose because it was damaged in the selling points. The minimum average value of this stock was K2.8b (K1,257,497,574 + K1,602,855,684).

These volumes are quite big to declare them not fit for purpose or damaged without special investigations. There was no evidence as to whether this stock was approved by the board or any other competent authority as not fit for the purpose or as damaged.

(j) Failure to deduct and remit withholding tax

Taxation Act (14:01) requires among other things, that withholding Tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate and 146 (6) of the Act require that the amounts of withholding tax deducted should be remitted to the Malawi Revenue Authority within 14 days from the end of the month in which such deduction was made.

A review of the payments at the Ministry revealed that withholding tax totaling K13,206,051.00 was not deducted from payments made to various suppliers of goods and services, who did not have withholding tax exemption certificates. It was further noted that withholding tax totaling K34,571,515.00 was deducted from payments made to various suppliers of goods and services, who did not have withholding tax exemption certificates but was not remitted to Malawi Revenue Authority.

Shire Valley Agricultural Development Division

24. An audit of the financial statements of the Shire Valley Agricultural Development Division for the financial year ended 30th June, 2015 was completed in May, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Under Banking of revenue: K782,585.00

Treasury Instructions 5.13.1 (c) requires all public money to be correctly banked and held in a secure environment.

An inspection of general receipt books and deposit slips for 2014/2015 financial year disclosed that revenue amounting to K3,478,785.00 was collected and only K2,696,200.00 was banked leaving a balance of K782,585.00.

(b) Payment of subsistence allowances within duty station-K2,188,000.00

Treasury Instruction number 5.13.1 state that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government. Further, Treasury Instruction number 5.13.1 (k) stipulate that management should ensure that there is overall effective and efficient management of the financial resources of Government.

Contrary to the requirement, the examination of payment vouchers for subsistence allowances disclosed that the office had paid to officers subsistence allowances amounting to MK 2,188,000.00 while working within duty station.

(c) Fuel issues not signed for by the recipients: K3,435,975.00

Treasury instructions state that fuel ledger for the purpose of recording the receipts and issues of all fuel will be kept for each office and all issues signed for by the recipients.

An examination of the fuel register disclosed that the entity issued fuel worth K3,435,975.00 without being signed for by recipients. In view of this, it was difficult to ascertain whether the fuel was really used for official duties.

(d) Vouchers not produced for audit inspection: K4,750,193.00

Treasury Instructions number 5.9 (a) state that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

An inspection of payment voucher, fuel register, fuel sale receipt and telephone register revealed that vouchers with monetary value of K4, 750,193.00 were not available at the time of the audit inspection

MINISTRY OF IRRIGATION AND WATER DEVELOPMENT

25. An audit of financial transactions of the Ministry of Irrigation and Water Development for the financial year ended 30th June, 2015 was completed in November 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Material differences between Financial Statements and IFMIS account balances

It was noted that there were material differences between financial statements expenditure presented to the Auditor General with IFMIS balances as tabulated below:

Particulars	Other Recurrent Transactions	Development	Total (K)
Financial Statement Balances	351,551,865	309,452,306	661,004,171
IFMIS Cleaned Balances	(341,079,323)	(580,571,312)	(921,650,635)
Differences	10,472,542	(271,119,006)	(260,646,464)

It was also observed that ORT was overstated by K10.5m representing expenditure not captured in the IFMIS while development was understated by K271m. It was further noted that expenditure in the financial statements did not include development expenditure as presented by statement 2b and Vote summary amounting to K309, 452,306.

As at the time of audit there was no evidence that reconciliation made between the amounts disclosed in the financial statements and related records with IFMIS underlying records for corrective measures.

(b) Material variances in funding figures Treasury confirmation and financial statements

It was observed during the audit that there were material differences between Funding confirmed by the Ministry of Finance as remitted to the Ministry of Irrigation and Water Development. The analysis showed an overall variance of K499,259,672.00 as tabulated below:

Particulars	2015 Funding Confirmed	2015 Financial Statements	Variance
Personal Emoluments	243,817,081	315,958,142	72,141,061
Other Recurrent Transactions	-	37,517,131	37,517,131
Development Part I	-	-	-
Development Part II	-	389,601,480	389,601,480
Totals	243,817,081	743,076,753	499,259,672

(c) Failure to present payroll for audit review

Sufficient relevant audit evidence on salaries stated at K316m in the financial statements was not presented for audit review because of non - availability of monthly master payrolls.

We also noted that electronic Master payrolls were not backed up at the Ministry. Computers keeping these payrolls were reported to have crashed but no report was made for the same to the authority for appropriate action. Department of Human Resources Management and Development did not have these backups either. In the absence of the master payrolls it was difficult to ascertain the validity of the figure for salaries.

(d) Payment vouchers not presented for audit

Treasury Instructions 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers for the Ministry revealed that payment vouchers totalling K79,009.950.00 passed for payment were not presented for inspection.

OFFICE OF THE VICE PRESIDENT

26. An audit of financial transactions of the Office of the Vice President for the financial year ended 30th June, 2015 was completed in January 2017. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Payment vouchers without supporting documents

Treasury Instruction 5.9(a) states that proper accounting records must be maintained to support all financial and related transactions. Full supporting documents must be retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

An examination of payment vouchers disclosed that payments for subsistence allowances totalling K10,058,000.00 were made without duly completed authority to leave duty station forms. In addition, other payments apart from subsistence allowances, amounting to K10,832,216.09 were passed without supporting documents such as invoices and imprest requisition forms. The Authenticity of the payments could therefore not be ascertained.

(b) Failure to properly account for stores items

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An examination of payment vouchers along with delivery notes disclosed that stores items valued at K16,157,359.02 were purchased during the period under review but were not recorded in the stores ledger. It was, therefore, difficult for the auditors to ascertain their accountability.

(c) Failure to properly account for fuel

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An examination of the fuel records revealed that fuel amounting to K68,183,316.90 was not recorded in fuel register and that the monthly fuel expenditure returns were not maintained to assist in control of fuel usage making the ascertainment of fuel usage difficult.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

Ministry Headquarters

27. An audit of financial transactions of the Ministry of Education, Science and Technology for the financial year ended 30th June, 2015 was completed in January 2017. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(d) Material differences between Financial Statements and IFMIS account balances

It was noted that there were material differences between financial statements expenditure presented to the Auditor General with IFMIS balances as tabulated below:

Particulars	Other Recurrent Transactions	Development	Total (K)
Financial Statement Balances	92,002,469,316	2,175,453,900	94,177,923,216
IFMIS Cleaned Balances	(86,751,218,588)	-	(86,751,218,588)
Differences	5,251,250,728	2,175,453,900	7,426,704,628

As depicted from the table above, ORT transactions amounting to K5.3b disclosed in the financial statements were not recorded in the IFMIS. Development expenditure was not tested for completeness

because information for the same was not provided. Overall, no reconciliation was made between the amounts disclosed in the financial statements and related records with IFMIS underlying records in order to track down differences with supporting documents for corrective action.

(e) Failure to provide documentation for Development Account

Section 184 (8) of the constitution requires persons or authority not to inhibit the Auditor General in the conduct of his or her functions and duties. Section 7 (a) and (b) of the Public Audit Act 2003 gives the Auditor General or anyone working on his behalf to have unrestricted access to information for audit purposes at all reasonable time.

However, the Ministry failed to produce for audit, development part 1 and 2 receipts, payments and project information requested for audit purposes at the Education Infrastructure Management Unit (EIMU), Development receipt from all sources and K2.1b expenditure reported in the Ministry's statement of cash receipts and payments and related projects information. Therefore completeness, validity, accuracy, existence of the transactions were not confirmed.

(f) Failure to provide master payrolls for audit

Sufficient relevant audit evidence on salaries stated at K74bn and rural teacher allowance stated at K6.3b in the financial statements was not obtained due to non - availability of monthly master payrolls. These are the payrolls that were affected by irregularities as reported by the Auditor General in his May 2015 Payroll Audit Report

It was also noted that Master payrolls were not backed up both at the Ministry and Department of Human Resources Management and Development. In the circumstance accuracy, completeness and validity of salaries were compromised.

(g) Payment Vouchers without Supporting Documents:- K1,195,122,756.25

Section 10 (a) Section 10 (c)) requires the Controlling Officer to maintain proper accounts and records of the Ministry.

It was however noted that transactions amounting to K1,195,122,756.25 selected for substantive testing did not have supporting documents or had inadequate supporting documents (Invoices/fee notes/certificates, proof of deliveries, cash sales, signing for cash received etc.)

(h) Payment Vouchers not produced for audit: -K750,193,691.81

Section 10 (a) Section 10 (c)) requires the Controlling Officer to maintain proper accounts and records of the Ministry.

It was however noted that payment vouchers for transactions selected for substantive testing amounting to K750,193,691.81 were not

provided. Therefore, validity and accuracy of transactions were compromised.

(i) Misallocation of Expenditure: K1,187, 821, 645.38

Treasury Instructions No 4.14.1 stipulates that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

It was noted that transactions amounting to K1,187,821,645.38 were charged to wrong account codes. For instance, K416m for tuition, purchase of stationary and fuel and lubricants were charged to purchase of text books, K412m for subsistence allowances, hotel charges and others were charged to internal training.

(j) Inefficient Management of public schools grants

Financial information at the Ministry indicated that K270m grants were reported as disbursements to all public secondary schools for their operations. However, we noted following:

- K168m was disbursed to all public secondary schools in the year under review for operations purposes
- The moneys were deposited directly in each school bank account. However, we were not provided with any evidence of respective schools acknowledging receipt of the funds.
- No evidence suggesting that either management or internal auditors track down as to how the funds provided were used.
- No evidence to suggest that beneficiary schools did submit monthly or quarterly returns to explain how the money were used

(k) Payment of schools fees outside the approved budget

It was noted that the Ministry paid K215m to Kamuzu Academy being fees for the school year 2013/2014 without approved budget. While the amount was budgeted for in 2013/2014, it was not in the Ministry's budget in 2014/2015. It was in arrears under Ministry of Finance.

In a related development, Mk207m was paid as fees for 2014/2015 school season for sixty eight (68) students. We noted that sixty six (66) students were on bursary at Kamuzu Academy and thus overpaying fees by Mk6m. The Ministry is yet to request for a refund or credit note on this overpayment.

(l) Purchase and Distribution of Teaching & Learning Materials

The Ministry purchased for K128.6m the following items: 200 each of computers, LCD monitors, external speakers for the desktops, uninterrupted power supply 1500VA, port extenders, LaserJet printers

and USB; in total 1,400 IT equipment items. They were all delivered on 25th February 2015. The ministry also purchased 222,000 schemes and record workbooks at K76m. The last batch was delivered on 26th November 2014.

The following observations were made:

- While goods received note (GRNs) were raised when receiving schemes and record workbooks, none was raised when receiving the 1,400 IT equipment
- The 1,400 IT equipment and the 222,000 schemes and record workbooks were not recorded in any stores inventory or ledger or register
- It is not known how, when and where the 1400 IT equipment and 222,000 schemes and record workbooks were distributed because there was no distribution lists for respective items.
- There is no record or evidence of any beneficiary acknowledging receipt of either the IT equipment or schemes and record workbooks

(m) Subsistence allowances not properly accounted for

Subsistence allowance amounting to K23.8m sampled for substantive testing had the following inadequacies;

- Payment vouchers were not attached with source documents; duly completed authority to leave duty station
- Source corroborative evidence such as vehicle number used with related logbooks or transport claim or trip report were all missing; not attached to the payment vouchers.
- Those who received subsistence allowances did not sign acknowledging receipt of the same.

It was further noted the following:

- Voucher number 25OPV3025492 with cheque number 041481 had several members of staff paid 15 days subsistence allowances for mostly working within Lilongwe, their duty station.
- Voucher number 25OPV3021378 with cheque number 021752 had +Mk625,000 spent on forty six lecturers and twenty four support staff who went to Liwonde National Park on educational visit.

(k) Failure to deduct and remit withholding tax

Taxation Act (14:01) requires among other things, that withholding Tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate and 146 (6) of the Act require that the amounts of withholding tax deducted should be remitted to the Malawi Revenue Authority within 14 days from the end of the month in which such deduction was made.

A review of the payments at the Ministry revealed that the Ministry did not deduct withholding tax from suppliers. For instance, K902m was paid to suppliers without deducting K27m withholding tax yet withholding tax exemption certificates were not attached.

On the other hand, K1.7m withholding tax was deducted but was not remitted to Malawi Revenue Authority. Analytical review over payments shows that no withholding tax payment had ever been remitted to Malawi Revenue Authority in the year under review.

Ngabu Secondary School

28. An audit of the financial statements of the Ngabu Secondary School for the financial year ended 30th June, 2015 was completed in May, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Unpaid school fees:- K2, 478, 750.00

An examination of school fees register for the period between June 2014 and June 2015 revealed that the office failed to collect school fees amounting to K2,478,750.00 from pupils on Bursary and self-sponsorship.

MINISTRY OF FINANCE, ECONOMIC PLANNING AND DEVELOPMENT

29. An audit of financial transactions of the Ministry of Finance, Economic Planning and Development for the financial year ended 30th June, 2015 was completed in November, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Bank Account balances not disclosed in the financial statements

Section 13 of PFM Act 2003, requires that financial statements should be prepared in accordance with Generally Accepted Accounting Practice (GAAP). GAAP is defined as standards and practices promulgated by the International Federation of Accountants as applicable to Governments and statutory bodies. This means that financial statements have to be prepared in line with Cash IPSAS requirements

A review of financial statements alongside reserve Bank of Malawi bank statements revealed that there are bank accounts shown on the Reserve Bank statements with bank balances but were not disclosed in the financial statements of the Ministry. The amounts may be subjected to abuse as they may not be subjected to any audit. Below are the accounts and their balances.

Account No	Description	Closing Balance as at 30 June 2015
13003430054	Ministry of Finance-Maize Proceeds Account	100,000.00
13003430092	Ministry of Finance-MASAF Phase 3 Part 1	246,211,112.00
13003430129	Ministry of Finance-THD Social Act Fund	15,715,983.00
13007800010	EP & D Malawi Poverty and Environmental Initiative (PEI)	65,620,381.00
		<u>327,647,476.00</u>

(b) Misallocation of Expenditure: K6, 606,378.00

Treasury Instruction 4.14.1 stipulates that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

It was observed that payment of K6,606,378.00 to Fedex was allocated to Public Utilities without approval through virement or transfer of funds forms. Misallocation of funds creates room for fraudulent activities and over expenditure between budget lines.

(c) Failure to maintain a fixed assets register

Treasury Instruction Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal controls exist with the department or ministry to ensure that all assets are recorded and safeguarded against loss, destruction or unauthorized use. In addition, the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled 'Government Physical Assets Register', requires the maintenance of an asset register which should among other things indicate the monetary values of the assets and their condition.

It was observed that the Ministry has no fixed asset register except for an inventory list pinned behind the door in each office which is not in all offices. This may lead into failure to track the used and existence of the assets which may result into loss of Government assets through theft.

(d) Fuel not recorded in the log books

Treasury Instructions 5.13.1 (g) states that resources should be employed and managed in an effective, economic and efficient manner.

During the audit, it was observed that fuel purchased amounting to K69,591,621.41 did not have adequate supporting documents indicating the usage of the fuel purchased such as log books.

(e) Payments made without supporting documents

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payments at the Ministry disclosed that payment vouchers amounting K35,351,329.95 were not supported by adequate supporting documents. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

ACCOUNTANT GENERAL'S DEPARTMENT

30. An audit of financial transactions of the Accountant General's Department for the financial year ended 30th June, 2015 was completed in October, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Material differences between Financial Statements and IFMIS account balances

Treasury Instruction 5.9 (a) requires maintenance of proper accounting records to support all financial and related transactions.

It was observed that there was unexplained difference between the underlying general ledger record in IFMIS and the financial statements of K55,445,878.00. In this regard the reported amounts in the financial statements may contain unexplained errors and irregularities, resulting into financial statements not reflecting a true financial position and performance of the Ministry or MDA. Details are as follows:

Details	Amount (MK)
Total payments per financial statements	3,599,223,011.00
Total payments per general ledger in IFMIS	(3,654,668,889.00)
	<u>(55,445,878.00)</u>

(b) Unaccounted bank accounts

According to PFM Act 2003, Section 31, Public money is the property of the State. Therefore, all accounts maintained or opened by the Secretary to the Treasury in accordance with his powers have to be accounted for in the general ledger and the financial statements.

A review of financial statements alongside reserve Bank of Malawi bank statements revealed that there were bank accounts shown on the Reserve Bank statements with bank balances not accounted for in the books and financial statements of the Accountant General's

Department. The amounts may be subjected to abuse as they may not be subjected to any audit.

The following accounts identified from the Reserve Bank statements with a net balance of K260,681,365,251.43 were not reflected in the financial statements under review for both Treasury and Accountant General:

Account No	Description	Closing Balance as at 30 June 2015
13006160070	Accountant General	8,305,595.26
13006161211	Accountant General - Deposit	79,169,262.19
13006160004	Accountant General – Public Debt foreign	–
13006160003	Accountant General – Public Debt – TBS	(10,822,315,328.02)
13006160055	Accountant General – Public Debt – Local	271,416,205,722.00
		<u>260,681,365,251.43</u>

(c) Un supported payments: MK 1,768,309,619.21

Treasury Instruction 5.9(a) states that proper accounting records must be maintained to support all financial and related transactions. Full supporting documents must be retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

A review of payments made during the year under review revealed that payment vouchers totaling K 1, 768,309,619.21 were processed and passed for payment without supporting documents. Details are shown below:

Account Description	Amount (MK)
Subscriptions	689,655,913.22
Public Utilities	314,497,903.14
Loans to civil servants	274,864,060.85
Bank commission	322,513,936.75
Licenses	122,591,372.41
Acquisition of assets	36,869,168.84
	<u>1,760,992,355.21</u>

(d) Personnel emoluments differences

Treasury Instruction 5.9(a) states that proper accounting records must be maintained to support all financial and related transactions.

It was observed that there is unexplained difference between the Financial Statements and the amount shown in the summaries from the GP5 forms of MK2, 088,726.03.

(e) Failure to maintain fixed asset register

Treasury Instruction 5.13.1 (f) states that all assets should be safeguarded against loss or destruction, and unauthorized use as such should be recorded in s fixed assets register.

It was observed during the audit that the Department does not maintain a fixed assets register except for an inventory list pinned behind the door in each office which is not in all offices. Failure to maintain an asset register may result in government assets being misused or lost through theft without trace.

(f) Missing payment vouchers and supporting documentation

Treasury Instruction 5.13.1 (f) states that all assets should be safeguarded against loss or destruction, and unauthorized use as such should be recorded in s fixed assets register.

An examination of payment vouchers at the department revealed that payment vouchers totalling K 651,285,417.00 processed and passed for payment during the year under review were not presented for inspection.

MINISTRY OF HEALTH

NGABU RURAL HOSPITAL

31. An audit of the financial statements of the Ngabu Rural Hospital for the financial year ended 30th June, 2015 was completed in May, 2016. The audit disclosed some weaknesses in the financial controls as in highlighted the following observations:

(a) Drugs not recorded in the stock cards:- K5,848,000.00

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

However, it was noted that drugs valued at K5,848,000.00 received from Chikwawa District Health Office between July, 2014 and June, 2015 were not recorded in the stock cards.

MINISTRY OF HOME AFFAIRS AND INTERNAL SECURITY

32. An audit of financial transactions of the Ministry of Home Affairs and Internal Security for the financial year ended 30th June, 2015 was completed in September, 2016. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Missing payment vouchers

Treasury Instructions 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers for the Ministry relating to the year 2014/2015 revealed that payment vouchers totalling K55,979,594.26 passed for payment were not presented for inspection. In absence of these documents, it is not possible to verify the genuineness, validity and classification of these expenses.

(b) Payrolls not produced

Treasury Instructions 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

There was no evidence to show that personnel costs were fairly stated as cost in respect of personnel costs amounting to K18,461,002.00 could not be traced to the monthly payrolls because monthly payrolls for National Registration and Identification Services for July, August, September, October, November 2014 and May 2015 were not produced for audit.

(c) Failure to properly account for fuel used

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

A review of fuel expenses for the entity revealed there was no evidence to show proper control on fuel usage for purchases of K18,621,788.00, these were not supported by Malswitch liquidation receipts and K9,229,675 of the above could not be traced to the fuel usage register and log books.

(d) Failure to source three quotations or open tendering

Section 30 (1) of the Public Procurement Act states that public procurement shall be realized by means of open tendering proceedings, subject to the exceptions provided in the Act. In addition, Section 35 of the same act requires that procuring entities should request quotations from at least three bidders when procuring goods and services when using a Request for Quotation (RFQ) method.

Contrary to the above requirement, it was noted that there was no evidence that standard proper procurement procedures of sourcing at least three quotations or opening tender were followed on the payments amounting to MK55,175,306.94. Out of the total amount there was K46,247,630.00a procurement of rehabilitation services whose tender documents were not available.

(e) Stores items not recorded in the stores ledger

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of stores records for the financial year July 2014 to June 2015 disclosed there was no evidence to show that items purchased amounting to K2,986,456.32 were used for the intended purpose as they could not be traced to stores records.

MALAWI POLICE SERVICE

33. An audit of financial transactions of the Malawi Police Service for the financial year ended 30th June, 2015 was completed in January, 2017. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Stores items not recorded in the stores ledger:K101, 068,376.62

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of payment vouchers, delivery notes along with the stores ledgers disclosed that purchases of stores items valued at K101,068,376.62 which were purchased from various suppliers between July 2014 and June 2015 were not recorded in the stores ledger. In the circumstances, the inspecting auditors could not ascertain how the stores items were accounted for.

(b) Failure to properly account for fuel

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An examination of the payment vouchers revealed that fuel worth K263,863,429 purchased between July 2014 and June 2015 was not properly accounted for because the Department did not register the fuel in the fuel register and the audit team could not ascertain the authenticity of expenditure on fuel and its usage.

(c) Payments made to an individual instead of the supplier's registered business name

Section 14 of the Public Procurement Act states that in order to be eligible to be awarded a procurement contract, a bidder must be registered, depending upon the nature of the contract, with the Registrar of Companies. Government accounting procedure requires that payment for such goods and services should be paid by cheques to the registered name of the suppliers.

Examination of payment vouchers disclosed that various goods and services provided and rendered in 2014/2015 financial year amounting to K6,615,457.25 were paid to individuals' names. The cheques were issued in the names of staff instead of the company names of service provider.

(d) Payments made to an individual instead of the supplier's registered business name:K1, 073,113,400

Public Audit Act Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

An examination of Expenditure statement by Cost Centre for the Department revealed that payment vouchers amounting to K1,073,113,400 were not produced for audit. As a result the audit team could not ascertain the validity of the expenditure.

(e) Payment vouchers without supporting documents:K4, 517,035.28

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An examination of the financial records disclosed that payment vouchers amounting to K4, 517,035.28 which were processed and passed for payment had no supporting documents like receipts, to leave duty station form, and delivery notes where necessary. In absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

(f) Failure to deduct Withholding Tax

The Taxation Act (Chapter 41:01 Section102A) requires that Withholding Tax should be deducted at source on all payments of goods and services unless the suppliers possess a valid Withholding Tax Exemption Certificate.

Contrary to the requirement, Withholding Tax amounting to K6,296,787.81 was not deducted from payments to suppliers made during the financial years under audit review.

MALAWI PRISON SERVICES

34. An audit of financial transactions of the Malawi Prison Services for the financial year ended 30th June, 2015 was completed in September, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Project funds diverted: K90, 000,000.00

Section 10(1)(e) Public Finance Management Act, holds each controlling officer responsible for ensuring that all expenditure is properly authorised and applied to the specific purposes for which it is appropriated.

An examination of water supply project revealed that out of the K208 million which Malawi Prison Services transferred to the Board for putting up water system at Chitedze, the Central Region Water Board (CRWB) had used K90 Million on activities other than the project. In addition, the project has stalled from 2013 to November 2016. Further enquiries from CRWB demonstrated tangible commitment that the project would be completed by June 2017 and also undertook to bear all cost increases caused by delayed completion. Visiting auditors observed that CRWB staff went onto the ground to continue with project.

MINISTRY OF JUSTICE AND CONSTITUTIONAL AFFAIRS

35. An audit of financial transactions of the Ministry of Justice and Constitutional Affairs for the financial year ended 30th June, 2015 was completed in September, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Missing payment vouchers

Treasury Instructions 5.9 provides that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers for the Ministry revealed that payment voucher for purchase of fuel worth K2,300,000.00 paid through cheque number 295315 dated 20/01/2015 to Total Filling station was not presented for inspection. In the absence of the payment voucher it was not difficult to ascertain the validity of the expenditure.

(b) Exceeded budget lines

It is a requirement that Controlling Officers should spend in line with what Parliament has appropriated without deviations. If at any point the Controlling Officer envisages likely over expenditure on a budget line, authority should be sought from the Secretary to the Treasury to vire funds from budget lines that are expected to have some savings.

Although the Ministry did not over spend on the overall vote, it was observed that it had over spent on three budget lines as shown in the table below and there was no evidence to indicate that authority to vire funds was provided:

Budget line	Revised Estimates (K)	Actual Expenditure	Excess Expenditure
Internal Travel	98,332,094.00	101,140,738.00	-2,808,644.00
Public Utilities	33,836,060.00	34,678,472.00	-842,412.00
Motor vehicle running expenses	39,258,015.00	60,991,281.00	-21,733,266.00
	171,426,169.00	196,810,491.00	-25,384,322.00

ADMINISTRATOR GENERAL

36. An audit of financial transactions of the Administrator General for the financial year ended 30th June, 2015 was completed in September, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Failure to produce payment vouchers and expenditure returns for audit

Public Audit Act Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

An examination of expenditure records revealed that payment vouchers amounting to K7,484,073.28 were missing as per the table below:

Cost Centre	Amount(K)
Lilongwe	6,447,073.28
Blantyre	1,037,000.00
	<u>7,484,073.28</u>

In addition payments for the cost centre of Mzuzu, amounting to K 14,361,720.58, were not verified to supporting documentation because Expenditure Return for the period was not provided. In the absence of support documentation it is difficult to prove the validity of payment.

(b) Unreasonable payment of subsistence allowances: K2,532,000

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

It was noted that payments of subsistence allowances amounting to K2,532,000 were not made on reasonable number of days for the

activity that was carried. An example is payment of subsistence allowances for seven nights for delivering mail to Kasungu. In some cases it was just indicated official duties without being specific. The breakdown is as follows;

Cost Centre	Amount(K)
Lilongwe	1,296,000.00
Blantyre	1,236,000.00
	<u>2,532,000.00</u>

(c) Failure to provide activity reports for the subsistence allowances paid:K1,855,000

It was noted that payments of subsistence allowances amounting to K1,855,000 were not substantiated with activity reports. Therefore there was no evidence that activities took place. The breakdown is as follows;

Cost Centre	Amount(K)
Lilongwe	933,000.00
Blantyre	922,000.00
	<u>1,855,000.00</u>

MINISTRY OF TOURISM, WILDLIFE AND CULTURE

37. An audit of financial transactions of the Ministry of Tourism, Wildlife and Culture for the financial year ended 30th June, 2015 was completed in December, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Failure to produce payment vouchers for audit:K7,831, 819.54

Public Audit Act Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

An examination of expenditure statement by cost centre revealed that the ministry did not produce payment vouchers amounting to K7,831,819.54.

(b) Subsistence allowances paid using incomplete forms:-K6,685,000.00

In compliance with Treasury Instructions, officers are supposed to undertake official assignments away from their duty station upon filling-in of “authority to leave duty station form”.

An examination of records revealed that during the period under review subsistence allowances amounting to K1,591,000.00 for ORT and K5,094,000.00 for Development were paid to officers whose “authority

to leave duty station forms” were not properly completed e.g. date of travel, places of travelling, signature and date of applicants not indicated. In this case, allowances may be drawn for activities not related to the Ministry for trips not undertaken.

(c) Payment Vouchers without Supporting Documents: -K1,778,934.00

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

It was, however, observed that payments amounting to K1,778,934.00 for ORT were processed and passed for payment without adequate supporting documentation like “authority to leave duty station forms “and electricity bills. Consequently, the propriety of the expenditure could not be ascertained.

(d) Stores items not recorded in the stores ledger: K20,622,161.76

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of payment vouchers alongside the stores records disclosed that stores items worth K9,268,996.00 for ORT and K11,353,165.76 for Development expenditure were not recorded in the stores ledger hence the accountability of these stores could not be ascertained.

MINISTRY OF LABOUR AND MANPOWER DEVELOPMENT

38. An audit of the financial statements of the Ministry of Labour and Man Power Development for the financial year ended 30th June, 2015 was completed in November, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Material differences between the Financial Statements and IFMIS Account balances -K1, 258,200.00

It was noted that there were material differences between financial statements expenditure presented to the Auditor General with IFMIS balances as tabulated

Particulars	Transactions	Other Recurrent Development	Variance
Financial Statement Balances	1,357,515,198.00	607,819,343.00	1,965,334,541.00
IFMIS Balances	(1,174,179,324.00)	(607,422,340.00)	(1,781,601,664.00)
Differences	<u>183,335,874.00</u>	<u>397,003.00</u>	<u>183,732,877.00</u>

We further noted that total expenditure as per financial statements and vote summary had a difference of K60.7m.

Overall; no reconciliation was made between the amounts disclosed on the face of the financial statements and related records with IFMIS underlying records for corrective measures. This may lead to financial statements being inaccurate and thus unreliable.

(b) Failure to substantiate personnel emoluments figure

Treasury Instruction 5.9(a) states that proper accounting records must be maintained to support

There was no sufficient relevant audit evidence to support salaries stated in the underlying records and financial statements at K801 million. Monthly master payrolls both physical and electronic were not made available for review.

It was also noted that electronic Master payrolls were not backed up. Computers keeping these payrolls were said to have crashed but no report was made for the same to the authority for appropriate action. The Department of Human Resources Management and Development did not have these backups as well.

(c) Payment vouchers without supporting documents / not presented for audit review

Section 10 (a) of the Public Finance Management Act 2003 requires the Controlling Officer to comply with the provisions of the Act while section 10 (c)) requires the Controlling Officer to maintain proper accounts and records of the Ministry.

It was observed during the audit that supporting documents for the payment of goods, services amounting to K679.5 million were not made available for audit.

It was further observed that payment vouchers amounting to K303.5 million out of the K679.5 million were not presented for audit review. In the absence of the payment vouchers and the related supporting documents, the validity of the expenditures could not be ascertained.

(d) Misallocation of expenditures

Treasury Instructions No 4.14.1 stipulates that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

It was observed that transactions amounting to K105.0 million were misallocated to incorrect budget lines without authorization of the Secretary to Treasury.

Overall, K87.9m subsistence allowances and K17.2m other expenses were charged to computer expenses, examinations expenses, rehabilitation of buildings and external travel.

(e) Failure to deduct withholding tax / remit withholding tax to MRA

Taxation Act (14:01) requires among other things, that withholding Tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate.

A review of the payments at the Ministry of Labour and Manpower Development revealed that withholding tax totaling K1.9 million was not deducted from payments made to various suppliers of goods and services, who did not have withholding tax exemption certificates during the year under review.

It was also observed that withholding tax amounting to K3.5 million deducted from various suppliers of goods and services was not remitted to the Malawi Revenue Authority as required by the Act.

(f) Stores items not accounted for

Treasury Instructions 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An examination of stores records for the financial year July 2013 to June 2014 disclosed that purchases of stores items amounting to K280.0 million in respect of teaching supplies in Public Technical Colleges were not recorded in stores ledgers neither were delivery notes or Goods Received Notes presented to support the delivery of the items in question. In the absence of proper record it was difficult to ascertain how the stores items were accounted for.

(g) Fuel purchases not accounted for

Treasury Instructions 5.15.1 state that a Controlling Officer should ensure that proper accounting records are maintained to support all financial and related transactions.

Contrary to the above requirement, it was observed that the office did not maintain fuel registers and log books during the year under review. As a result, the audit team failed to verify how fuel purchased during the year under review amounting to K71.0 million was accounted for.

MINISTRY OF TRANSPORT AND PUBLIC WORKS

39. An audit of financial transactions of the Ministry of Transport and Public Works for the financial year ended 30th June, 2015 was completed in November 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Un supported expenditure: K 34,036,882.00

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payments disclosed that payment vouchers amounting K34,036,882.00 were not supported by adequate supporting documents. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

**MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING
GEOLOGICAL SURVEYS**

40. An audit of financial transactions of the Geological Surveys for the financial year ended 30th June, 2015 was completed in June, 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Fuel purchased but not properly accounted for: K6,601,539.00

Treasury Instructions 5.13.1 (g) states that resources should be employed and managed in an effective, economic and efficient manner. Examination of fuel register and payment vouchers revealed that fuel valued at K6,601,539.00 was not recorded in the fuel register. In the absence of these records it was difficult for audit team to ascertain the accountability of the fuel purchased.

(b) Payment Vouchers with Inadequate Supporting Documents: - K1,534,005.00

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An examination of payment vouchers for the period July 2014 to June 2015 disclosed that payments amounting to K1,534,005.00 had no supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

OFFICE OF THE OMBUDSMAN

41. An audit of financial transactions of the Ombudsman for the financial year ended 30th June, 2015 was completed in November 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Non maintenance of fuel ledgers and motor vehicle log books

Treasury Instructions 2013 Section 5.15.1 state that a Controlling Officer should ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request.

Contrary to the above requirement, it was observed that the office did not maintain fuel ledgers and log books during the year under review. As a result, the audit team failed to verify how fuel purchased amounting to K5,445,456.31 was accounted for.

MALAWI LAW COMMISSION

42. An audit of financial transactions of the Malawi Law Commission for the financial year ended 30th June, 2015 was completed in January 2016. The audit disclosed some weaknesses in the financial and internal controls as highlighted in the following observations:

(a) Lack of an Audit Committee

Enquiries to establish whether the Law Commission has an audit committee revealed that since its establishment the Law Commission has never had an Audit Committee.

This may result into inadequate review of the adequacy of internal controls and management's compliance with all relevant legislation and statutory requirements thereby leading into failure to achieve the Commission's goals and objectives.

(b) Misallocation of Expenditure

Treasury Instruction 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another as represented by codes in the Integrated Financial Management Information System.

An examination of expenditure records made for the year under review revealed that the Law Commission made payments amounting to K 443,927.29 which were charged against wrong budget codes. As a result other planned activities may have not been implemented.

(c) Payments with inadequate supporting documents

Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment.

An examination of payment vouchers for the period under audit disclosed that the Law Commission effected some payments amounting to K2, 513,613.00 without adequate supporting documents contrary to the above requirement. These documents include receipts, invitation letters, to leave duty station authorisation forms among others.

PART IV

RECOMMENDATIONS AND ACKNOWLEDGEMENT

RECOMMENDATIONS

43. In the course of my audit of the 2014/2015 Accounts of the Government of the Republic of Malawi, each Controlling Officer was sent appropriate audit inspection report with recommendations, regrettably, evidence has shown that in certain cases the recommendations have not been given due consideration by the Controlling Officers.

A summary of recommendations include:-

- (a) Although Ministries started preparing own financial statements with effect from 2011/2012 financial year, there are a lot of challenges which need to be mitigated in order to ensure timely preparation of the financial statements. The Accountant General's Department should continue to train accounting personnel in the ministries on the preparation of the accounts so as to enhance capacity;
- (b) There is immediate need to strengthen Audit Committees in all Ministries and Departments to facilitate speedy responses to audit reports and to ensure implementations of audit recommendations;
- (c) Procurement of goods and services should be executed within set processes and regulations and procedures to ensure that maximum value of money is obtained;
- (d) Knowledge and skills of accounting personnel should be regularly enhanced through continuing professional development for the qualified accounts and the rest through generic training, including refresher courses and workshops;
- (e) In compliance with Government financial rules and regulations, bank reconciliations should regularly be prepared for all bank accounts maintained by the Reserve Bank of Malawi;
- (f) Strict compliance with financial provisions should be enforced in the MDAs in order to improve public financial management and control;
- (g) The use of proforma invoice to support a payment should be stopped forthwith and no payment should be made without adequate and valid supporting documentation;
- (h) Ministries and Departments should set up an effective filing system that allows easy location of all documentation;and
- (i) The systems requirements and procedures should be reinforced with capable supervision.

ACKNOWLEDGEMENTS

44. I wish to place on record my profound gratitude and appreciation to staff in my office who carried out their work 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 all Controlling Officers and their staff. The cooperation enabled me to obtain information and documentation for the audit services.

17thFebruary 2017

LILONGWE, MALAWI