



MALAWI GOVERNMENT

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

For The Year Ended 30th June, 2016

National Audit Office
P.O. Box 30045
Lilongwe 3

REPORT OF THE AUDITOR GENERAL
ON THE
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OF THE
REPUBLIC OF MALAWI

For The Year Ended 30th June, 2016

NATIONAL AUDIT OFFICE

- VISION** : “To be an autonomous Supreme Audit Institution that effectively contributes to public accountability, transparency and good governance.”
- MISSION** : “To promote accountability, transparent administration and good governance in the public sector through the provision of quality audit services which assure the Nation that public resources are economically, efficiently and effectively applied.”
- CORE VALUES** :
- Professionalism
 - Integrity
 - Objectivity
 - Independence
 - Confidentiality
 - Continuous Professional Development
 - Open Communication

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

18th May, 2017

The Right Honourable Speaker
National Assembly
Private Bag B362
Capital City
Lilongwe 3

Through: The Honourable Minister of Finance
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, 2016 for tabling in the National Assembly.

Yours faithfully,



S.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 audits have not been limited to the accounts for the year ended 30th June, 2016, but have where necessary extended into the reviews of the preceding years.

The Government budgetary operation registered an expansion in both revenue and expenditure during the year under review. Total revenue collected increased favourably by K105.8 billion from K636.4 billion realized in 2014/2015 financial year compared to K742.2 billion in financial year 2015/16 which represents an increase of 16.6%. Total expenditure increased by K135 billion from K585 billion in 2014/2015 financial year to K720.3 billion which represents an increase of 23.07%. 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.

The Revenue Account registered K742.2 billion in revenue while the recurrent expenditure was K720.3 billion. Some funds from the Recurrent Account were transferred to Development Account Part I and II amounting to K103.3 billion and K22.2 billion respectively. This brings the total expenditure on Recurrent Budget to K845.8 billion. The overall picture of the recurrent expenditure was a deficit of K103.5 billion. Development Account decreased by K1.5 billion to K125.4 billion when compared to K126.9 billion for 2014/15 financial year representing a decrease of 1.2%. Total expenditure charged to the Development Account was K118.7 billion which increased by K57.8 billion when compared to K60.5 billion for 2014/15 financial year which represents an increase of 94.9%. Government in this fiscal year continued to get donor support.

The fiscal year of 2015/16 is considered as a year of remarkable achievements in terms of financial reporting because Controlling Officers continued preparing financial statements using the approved and acceptable format introduced in the ministries and departments. My audit opinions on most of these financial statements were qualified based on the various material matters that affected their truthfulness and fairness.

Although ministries and departments are now getting used to preparing their own financial statements for reporting and 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 and at the same time Section 15 of the Public Audit Act requires me to report to the President and the Speaker of the National Assembly. Although the provision of Section 15 of the Public Audit Act is deemed to be inconsistent with the Constitution in a way, it gives me as an opportunity to submit a copy of my report direct to the Speaker of National Assembly whilst respecting the Constitution as a supreme law by reporting through the Minister Responsible for Finance. Consultations with the Ministry of Justice and Constitutional Affairs and the Law Commission have been initiated to have the deemed 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. Recent developments are that a Constitutional Amendment Bill on Section 184 of the Constitution and Public Audit Bill were sent to National Assembly. During the Parliament sitting of November 2016 these were tabled and deliberated. However, the plenary noted some gaps and referred to three committees for further scrutiny and make some more proposed amendments i.e. Legal and Constitutional Affairs, Public Accounts Committee, Budget and Finance Committee so that the two bills comply with INTOSAI declarations of Lima, October 1977, Mexico, November 2007 and also UN resolutions 66/209 and 66/288 of 22 December 2011 and 20 November 2014 respectively which call for independence of SAIs as a way of fostering sound public financial management and administration. The bills are expected to be re-tabled in May/June 2017 Budget plenary sessions following further amendments.
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;
 - (h) Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
 - (i) Relevant government policies and legislation are being complied with;
 - (j) All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
 - (k) 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 or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment; and
 - (f) The collection of public moneys is according to approved plans and the estimates.

The Controlling Officers prepared financial statements of their ministries for the 2015/2016 financial year and submitted them for audit before they were consolidated by the Accountant General. In the year 2015/2016 most Controlling Officers delayed in submission of financial statements for audit. The last submission date was as late as 17th February 2017. This contributed to the delay in completion of the audit. However, continued improvements by Controlling Officers in preparation of financial statements are noted.

SCOPE OF AUDIT

- 9. In line with Section 13 (1) of the Public Audit Act (Cap.37.01), I am required to use Generally Accepted Auditing Practice. In order to comply with the generally accepted auditing practices, 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. However, I provide an assurance in my audit opinion as to whether or not the financial statements fairly present in all material respects the consolidated financial position of the Government of Malawi as at 30th June, of each year, and of its consolidated financial performance for the year then ended. In addition, commencing year ended 30th June, 2013 each Controlling Officer is issued with a separate audit opinion on their individual financial statements.

The Public Audit Act Cap37:01 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. The audits have not been limited to the accounts for the year ended 30th June, 2016, but have where necessary extended into the reviews of the preceding years.

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, a significant number of Controlling Officers are unable to respond to audit reports in time as required by the Public Audit Act. The value of prompt feedback from Controlling Officers 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, 2016 is unmodified with Emphasis of Matter and Key Audit Matters as follows:

Opinion

I have audited the accompanying Consolidated Annual Appropriation Accounts of the Government of Malawi for the year ended 30th June, 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the Consolidated Annual Appropriation Accounts of the Government of Malawi present fairly, in all material respects, the financial position of the Government of Malawi as at 30th June, 2016, and of its financial performance for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and the provisions of the Public Finance Management Act.

Basis for Opinion

I conducted my audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Malawi Government in accordance with the International Standards of Supreme Audit Institutions 30-Code of ethics (ISSAI 30) as promulgated by the International Organisation of Supreme Audit Institutions (INTOSAI), and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

There were significant improvements in the financial reporting for the current period with respect to the following matters:

- (a) Misallocations have improved by reducing to K427,974,099.0 compared to K4,857,041,661.90 for the financial year ended 30 June 2015 which represent 91% improvement.
- (b) Unsupported payments have improved by reducing to K517,115,701.82 compared to K16,367,012,333.28 for the financial year ended 30 June 2015 which represent 97% improvement
- (c) Missing payment vouchers values reduced to K158,273,251.61 compared to K29,905,112,806.82 for the financial year ended 30 June 2015 which represents 99.5% improvement.
- (d) Various MDAs overlooked observance of well-established procurement systems and procedures resulting in accumulation of arrears. In total, arrears that were submitted for verification for the year ended 30 June 2016 were K26.7 billion. K25.4 billion was verified and recommended for payment.
- (e) Expenditure amounting to K32.2 billion for local councils is yet to be audited but this represent 3.8% of gross expenditure which is below my overall materiality level.
- (f) There has been significant improvement in the bank reconciliations resulting into the reduction of outstanding unreconciling items upon reviewing all outstanding issues from previous year. It is recommended that bank reconciliation of Government Accounts be continued to clear outstanding items this includes salaries account reconciliations with issues still to be resolved between Cashbooks and Bank Statement (Note 48 in of the Consolidated Annual Appropriation Accounts refers). However, progress made gives confidence in the improvement. My opinion was not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the Consolidated Annual Appropriation Accounts of the current period. These matters were addressed in the context of my audit of the Consolidated Annual Appropriation Accounts as a whole, and in forming my opinion thereon, and I did not provide a separate opinion on these matters.

Development Part I Receipts and Expenditure

MDAs that have donor funded projects are required to account for all receipts and expenditure from donors which are also reflected in the Consolidated Annual Appropriation Accounts. Some of the MDAs do not fully capture all the receipts and expenditure hence a risk of material misstatement of the financial statements. As a result, the test of these receipts and expenses was significant to my audit.

I have made tests to ensure that the amounts are not misstated and my work focused on comparing the figures of the audited Donor Funded Projects financial statements and amount in the accounts as captured through cash controls.

It was found that receipts and expenditure were understated by K60bn and K48bn respectively. I brought the matter to the Secretary to the Treasury and the concerned MDAs who corrected the figures and I tested for verification of the same. The tests revealed that there were overall understatements of K21.5bn and K3.6bn on receipts and expenditure respectively. The receipts and expenditure understatements translate to 2.5% and 0.43% of gross receipts and expenditure respectively which are far below my overall materiality levels.

The audit opinion is presented separately in Volume 1 of the Consolidated Annual Appropriation Accounts for the year ended 30th June, 2016.

PART II

OVERALL BUDGET PERFORMANCE 2015/2016

BUDGET OUTTURN – REVENUE

14. Total revenue collected for the period ended 30th June, 2016 was K742.2 billion reflecting an increase of K105.8 billion (16.6%) from the 2014/2015 collection of K636.4 billion. The main sources of revenue were Tax Revenue K564.4 billion, Non-Tax Revenue: K61.9 billion, Project Grants: K53.6 billion, Dedicated Grants: K44.8 billion and Programme Grants: K17.4 billion.

The revenue collection for 2015/16 was less than the revised amount of K785.6 billion by K43.4 billion which represents 5.5% drop from the budget collection provision. The under-collection was attributed to Tax Revenue, Non Tax Revenue, Dedicated Grants and Programme Grants which in total registered an under-collection of K35.7 billion. The trend of revenue collection for the past four years is tabulated as follows:

Table 1: An analysis of Revenue collection for the past four years

<i>Year</i>	<i>Budget Provision K'000</i>	<i>Actual Collection K'000</i>	<i>Over/(Under) Collection K'000</i>	<i>Over/(Under) Collection %</i>
2012/2013	371,167,000	549,368,797	178,201,797	48%
2013/2014	525,108,000	493,481,100	(31,626,900)	(6%)
2014/2015	683,384,000	636,417,483	(46,966,517)	(7%)
2015/2016	785,646,869	742,229,582	(43,417,287)	(6%)

With reference to Table 1 above the general assessment of budget collection provision compared to the actual collection indicates that for the three years, though the differences have been negative but are minimal, the budget preparation for revenue collection was based on realistic projection factors unlike in the financial year 2012/13. It is therefore encouraged that such performance should continue using realistic budget projection factors.

BUDGET OUT TURN - EXPENDITURE

15. During the year under review, total recurrent expenditure charged to the Consolidated Fund was K720.3 billion representing an increase in expenditure of K135 billion when compared to the total expenditure of K585 billion for the financial year 2014/2015 which represents an increase of 23.07%. Some funds from the Recurrent Account were transferred to Development Account Part I and II amounting to K103.3 billion and K22.2 billion respectively. This brings the total expenditure on Recurrent Budget to K845.8. The overall picture of the recurrent expenditure was a deficit of K103.5 billion which compared unfavorably to a net saving of K38.9 billion for the financial year 2014/2015.

CONSOLIDATED REVENUE ACCOUNT

16. The consolidated revenue account did not improve in performance during the year under review since the account had a cumulative deficit of K79.2 billion as at 30th June, 2016, as compared to a cumulative surplus of K24.3 billion as at 30th June, 2015 and was arrived at as follows:

The Consolidated Revenue Account as at 30th June, 2016

<i>Description</i>	<i>K'000</i>
Surplus balance brought forward as at 1st July, 2015	24,315,732
<i>Add:</i> Revenue for the year	742,229,582
Net cumulative revenue after brought forward deficit	766,545,314
<i>Less:</i> Expenditure for the year	(720,320,857)
Transfer to Development Part II	(22,155,630)
Transfer to Development Part I	(103,279,358)
Cumulative Deficit brought forward as at 30th June, 2016	(79,210,531)

The planned recurrent surplus for the year under review was K63.3 billion since the Government planned to collect and spend K763.2 billion and K699.9 billion respectively but the cumulative cashbook balance was a deficit of K79.2 billion. The actual Revenue Account out-turn as at 30th June, 2016 was a deficit of K103.5 billion as shown in Table 2 below.

The annual deficit could largely be attributed to poor performance in revenue collections which registered under collections in both tax and none tax revenues and delays to inflows to donor budget support

Table 2: Recurrent Budget Performance for the past four years is as follows:-

<i>Years</i>	<i>2012/2013</i>	<i>2013/2014</i>	<i>2014/2015</i>	<i>2015/2016</i>
<i>-Amount in</i>	<i>K'000</i>	<i>K'000</i>	<i>K'000</i>	<i>K'000</i>
Actual Revenue	549,368,797	521,935,444	636,417,483	742,229,582
<i>Less:</i> Actual				
Expenditure	(341,485,074)	(450,859,755)	(585,307,849)	(720,320,857)
Transfer to				
Dev. Part II	(35,266,000)	(29,230,731)	(21,888,812)	(22,155,630)
Transfer to				
Dev. Part I	—	—	—	(103,279,358)
Surplus/(Deficit)	172,617,723	41,844,955	29,220,822	(103,525,262)

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, 2016 amounted to K118.7 billion reflecting an increase of K58.2 billion over the previous year's expenditure of K60.5 billion. A comparative analysis of expenditure out-turns of the Development Account for the past four years is as follows:

Table 3: Trend analysis of expenditure for four years of consolidated development account

<i>Years</i>	<i>2012/2013</i>	<i>2013/2014</i>	<i>2014/2015</i>	<i>2015/2016</i>
<i>Amount in</i>	<i>K'000</i>	<i>K'000</i>	<i>K'000</i>	<i>K'000</i>
Revised Estimates	97,823,505	156,175,784	192,939,579	202,495,205
Actual Expenditure	50,158,248	70,376,734	60,537,416	118,695,952
Under expenditure	47,665,257	85,799,050	132,402,163	83,799,253
Under expenditure %	9%	55%	69%	41%

Two (2) votes (Vote 050 – State Residences and Vote 100 – Ministry of Defence recorded over-expenditures of K0.5 million and K49.9 million respectively. Twenty seven (27) votes recorded under expenditures of K83.9 billion. The largest unspent balances of K20.3 billion, K9.8 billion, K7.7 billion, K7.3 billion, K6.1 billion and K4.1 billion were recorded against Vote 470 – Ministry of Natural Resources, Energy and Mining, Vote 190 – Ministry of Agriculture, Irrigation and Water Development, Vote 274 – Roads Fund Administration, Vote 270 – Ministry of Finance, Vote 180 – Ministry of Sports and Culture and Vote 090 – Office of President and Cabinet, 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 and lack of expertise.

The overall state of affairs of the Development Account as at 30th June, 2016 was a cumulative deficit of K19.6 billion, registering a decrease of K58.9 billion from K78.5 billion recorded at the end of the 2014/2015 financial year. Details are in Table 4 below as follows:

Table 4: showing cumulative deficit in Development Account

Receipts during the year	125,433,988.00
Less: Payments	(118,695,952.00)
Surplus for the year	6,738,036.00
Add: Opening balance	(26,355,712.00)
Cumulative Surplus as at 30th June, 2016	(19,617,676.00)

CONSOLIDATED FUND

FINANCING OF THE DEFICIT

18. The Budget Statement for 2015/2016 financial year envisaged a deficit of K135.1 billion on the total Budget while the Development Budget was expected to break-even at K224 billion.

During the year under review, the Recurrent Revenue Account collected K742.2 billion while the Recurrent Expenditure was K845.8 billion resulting into a deficit of K103.5 billion.

The Development Account realized K125.4 billion; registering a decrease of K1.5 billion when compared to K126.9 billion of 2014/2015 financial year. Expenditure for the year was K118.7 billion resulting into a surplus of K6.7 billion.

Table 5: The combined net cumulative position of the Recurrent and Development Accounts for the past four years is as follows:

<i>Year</i>	<i>Combined (Deficit)/Surplus K'000</i>
2012/13	82,764,457
2013/14	7,287,802
2014/15	102,852,990
2015/16	(98,828,207)

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 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, departments and agencies on the preparation of the accounts so as to enhance capacity and improve quality of the financial statements.

The financial statements of the votes listed below for the financial year ended 30th June, 2016 were submitted to me and audited and these represent sixty eight (68%) percent of total voted expenditure and budget. My audit opinions on these financial statements were qualified based on the various material matters that affected their true and fair view.

VOTE

MDA

80	National Assembly
90	Office of the President and Cabinet
110	Economic Planning and Development
120	Local Government and Rural Development
130	Lands and Housing and Urban Development
190	Agriculture, Irrigation & Water Development
240	Office of the Vice President
250	Education, Science and Technology
270	Finance, Economic Planning & Development
271	Accountant General
320	Gender, Children, Disability and Social Welfare
310	Ministry of Health
330	Information and Civic Education
340	Home Affairs and Internal Security
341	Malawi Police Service
370	Labour, Sports, Youth and Manpower Development
390	Ministry of Industry, Trade and Tourism
400	Ministry of Transport and Public Works

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

(a) Payment For Prepaid Airtime Units Without Record: K11,134,000.00

Treasury Instruction 5.13.1 inter alia states that adequate internal controls must exist within each Ministry and Department to meet control objectives which ensure that resources are employed and managed in an effective, economic and efficient manner and that there is no waste or extravagance.

A test check of payment vouchers revealed that purchased airtime valued at K11,134,000.00 was not recorded in a register and the audit team was unable to ascertain its accountability.

(b) Stores Items Not Traced to The Ledger: K20,752,362.18

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, invoices and stores ledgers disclosed that items valued at K20,752,362.18 purchased from different suppliers, were not recorded in the stores ledger. As a result, it was difficult to confirm whether goods purchased were delivered and properly utilized by the National Assembly

(c) Misallocation of Expenditure: K15,693,314.42

Treasury Instruction 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

A review of payment vouchers for the National Assembly revealed that management misallocated funds amounting to K15,693,314.42 without obtaining prior approval from the Secretary to the Treasury.

OFFICE OF THE PRESIDENT AND CABINET

21. An audit of the financial statements of the Office of the President and Cabinet for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Other Recurrent Transactions (Ort) Related Activities Charged To Development Part 2: K20,454,284.00

Treasury Instructions N0 4.14 (1) requires that all expenditure should be charged to an appropriate Vote and the expenditure should be classified strictly in accordance with estimates.

An examination of expenditure records for 2015/2016 financial year revealed that expenditure amounting to K20,454,284.00 was charged to Development part two when in actual fact it was for ORT.

(b) Irregular Payment of Water Bill for Capital Hill Restaurant: K529,406.00.

A review of expenditure records in respect of accounts payables (creditors) was carried out and it was observed that the Office of the President and Cabinet paid water bills amounting to K529,406.00 on voucher number 090pv4001892 dated 20th November, 2015 and cheque number 060773. The cheque was made payable to Lilongwe Water Board on Account number 0026468 which belongs to Capital Hill Restaurant not to OPC. Further enquiry indicated that there was no contract agreement of any kind between the restaurant and OPC.

(c) Cash Drawn Not Liquidated: K5,620,000.00

Treasury Instructions No. 5.26.1 stipulates that a person making the payments shall file properly and all paid documents duly stamped PAID together with an acknowledgement receipt from the beneficiary. All signed receipted payment vouchers should be returned to the cash office for the record and audit purposes within ten (10) days after the closure of the activity.

An examination of payment vouchers revealed that the Office of the President and Cabinet paid K5,620,000.00 worth of allowances in cash to its members of staff but there were no liquidation sheets in terms of signatures of beneficiaries as evidence of receipt. As such it was difficult to ascertain how the funds drawn were accounted for.

(d) Transfer of Funds From Other Recurrent Transactions: K453,542,173.31

Treasury Instructions 5.9.6 states that public money shall be paid into Government bank accounts designated by the Secretary to the Treasury for that purpose, and these accounts shall form part of the Consolidated Fund.

Contrary to the requirement above, an inspection of payment vouchers revealed that the Office of the President and Cabinet transferred funds amounting to K453,542,173.31 from ORT to the Secretary to the Government Account between January 2015 and June 2016. Management did not produce any regulation or authority covering these payments or any documentation to account for the money that was being transferred.

ECONOMIC PLANNING AND DEVELOPMENT

22. An audit of the financial statements of the Department of Economic Planning and Development for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Fuel Purchases Not Recorded In The Fuel Register: K67,730,640.00

Treasury Instructions no. 11.7.1.5 States that a Stores Ledger for the purpose of recording the receipts and issues of all stores will be kept for each store.

An examination of payment vouchers and fuel register revealed that during 2015/2016 financial year, the office purchased fuel amounting to K67,730,640.00 which was not recorded in the fuel register. This was paid from Development and ORT for K32,645,928.00 and K35,084,712.00 respectively.

(b) Payment Vouchers Without Supporting Documents: K2,875,609.18

Treasury Instructions No. 5.15.1 States that controlling officers 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.

Contrary to the above requirement, payments amounting to K2,875,609.18 were made without relevant supporting documents. In the absence of the documents, it was difficult for the inspecting auditors to ascertain whether the expenditure made was a correct charge to public funds.

(c) Stores not recorded in stores ledger: K14,974,362.00

Treasury Instruction 11.7.1.5 requires that a stores ledger be opened and maintained for the purpose of recording receipts and issues of all stores.

Contrary to this requirement, it was observed that during the year 2015/2016, stores items worth K14,974,362.00 were not recorded in the stores ledger.

MINISTRY OF LOCAL GOVERNMENT AND RURAL DEVELOPMENT

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

(a) Use of Single Source Method of Procurement Without ODPP's Approval: K297,916,243.69

The Public Procurement Act section 30 (11) stipulates that use of a method of procurement other than tendering or, in the case of procurement of consultants' services, a method other than request for proposals, is subject to approval by the Director (of Public Procurement); and the procuring entity shall note in the record of the procurement proceedings the grounds for the choice of the procurement method.

An examination of procurement records revealed that the Ministry used a single source method of procurement on 9th May 2016 to procure services valued at K297,916,243.69 from Wisdom Construction Limited for construction of Nsanje Boma structures. The decision to single source from Wisdom Construction by the evaluation team happened after another bidder, Ziuya Building Contractor was already awarded the contract to construct the structures using open tendering. Later, the Ministry changed its stance and single sourced from Wisdom Construction because it felt that the winner of the original open tendering process, Ziuya Building Contractor had too many contracts with the Ministry and therefore may not fulfil its contractual obligation satisfactorily. ODPP's approval was not sought first before the procurement as required by the Public Procurement Act. The no objection letter found in the procurement file was the one requesting ODPP to allow the Ministry and the Contractor adjust the contract value from K158,020,186.91 to K297,916,423.69.

(b) Payment of Subsistence Allowances Without approved “To Leave Duty Forms”: K8,364,600.00

Treasury Instructions No 5.15.1 states 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.

An examination of payment vouchers for the period ending 30th June, 2016 revealed that payment vouchers for subsistence allowance totaling K8,364,600.00 were processed for payment without being supported by approved request to leave duty station forms as required by Treasury Instructions. Consequently, it was difficult to verify whether the trips were undertaken.

(c) Unliquidated Funds: K86,366,897.73

Treasury Instructions No 5.26.6 stipulates that the person making the payment shall file properly all paid documents duly stamped ‘PAID’ together with an acknowledgement of receipt from the beneficiary.

During the period under audit review, it was observed that payments totaling K22,000,000.00 were paid to two officers in order to pay market vendors who lost their goods during a fire in Lilongwe and Salima. In addition, payments totaling K64,366,897.73 were sent to various district councils to pay vendors who lost their merchandise due to fire and pay for certain activities at the councils. However, the Ministry did not provide any document on how these funds were accounted for. The funds came from the Department of Disaster Management Affairs

(d) Purchase of Fuel Not Accounted For: K 48,198,263.19

Treasury Instructions No 11.5.1 stipulates that in terms of the Public Audit Act, 2003, the Auditor General and his staff shall at all times be entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers shall give them every facility for inspecting such documents.

Contrary to the above quoted instruction, the Ministry did not provide for audit inspection, the fuel register for the period of the audit review hence the accountability of fuel purchases worthy K48,198,263.19 could not be verified.

(e) Purchase of Airtime Not Accounted For: K3,467,000.00

Treasury Instructions No 11.5.1 stipulates that in terms of the Public Audit Act, 2003, the Auditor General and his staff shall at all times be entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers shall give them every facility for inspecting such documents.

An examination of payment vouchers for the period under review showed that the Ministry purchased telephone units prepaid cards (airtime) valued at K3,467,000.00 for various officers and functions. However, their accountability could not be ascertained because the office did not provide any document of accountability.

(f) Failure To Deduct Withholding Tax: K1,210,930.09

The Taxation Act Section 102A (l) states that every person who makes any payment specified in the Fourteenth Schedule to any other person shall, before making such payment withhold tax in accordance with the rates specified in that Schedule subject to and in accordance with any regulations made by the Minister under section 146, notwithstanding that the recipient has not been assessed in respect of the amount in question: Provided that where the recipient produces a valid with-holding tax exemption certificate issued by the Commissioner, withholding tax shall not be deducted but so, however, that no exemption from payment of withholding tax shall be granted in respect of bank interest and rent, royalties, fees, commissions and payment of casual labour, and the expression "bank interest" shall have the meaning assigned to it in the Fourteenth Schedule.

An examination of payment vouchers for the period of the audit showed that the Ministry did not deduct withholding tax totaling K1,210,930.09 from suppliers who had no withholding tax exemption certificate contrary to the above quoted regulation.

(g) Stores Items Not Accounted For: K6,843,922.00

Treasury Instructions No 11.7.1.5 stipulates that a Stores Ledger for the purpose of recording the receipts and issues of all stores will be kept for each store.

An examination of payment vouchers in respect of purchase of stores items disclosed that stores items amounting to K6,843,922.00 were not recorded in the stores ledger. In addition, the delivery notes were also not provided for audit inspection. As a result, the accountability of the items procured could not be determined

(h) Development Expenditure Account Funds Used For Other Recurrent Transactions' Activities: K5,596,470.00

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 revealed that between August 2015 and June 2016 the Ministry used funds amounting to K5,596,470.00 which were budgeted and approved by parliament for development expenditure activities on Other Recurrent Transactions (ORT) without obtaining Treasury Approval.

(i) Missing Fuel Payment Vouchers: K7,445,062.19

Treasury Instructions No 11.5.1 stipulates that in terms of the Public Audit Act, 2003, the Auditor General and his staff shall at all times be entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers shall give them every facility for inspecting such documents.

Payment vouchers for fuel for the period under review were posted to the cheque dispatch register and it was noted that payment vouchers amounting to K7,445,062.19 were not provided for audit. Furthermore, the cheque dispatch register could not be posted to the fuel register to ascertain the accountability of the fuel in question because the fuel register was also not provided for audit inspection.

(j) Procurement Without IPC Approval: K1,327,850.00

The Public Procurement Regulation No 18(1) stipulates the functions of the IPC which include the following among other things: comparison and evaluation of bids and selection of the winning bid, and maintaining minutes of the Internal Procurement Committee meetings.

An examination of procurements valued at K1,327,850.00 for the month of October 2015 against the Internal Procurement Committee Minutes (IPC) for the month showed that the procurements which were made from Canotech LTD and Liwonde Motors for stationery and service of MG 646 AD respectively were not approved by the IPC as there were no IPC minutes available in respect of the procurements.

MINISTRY OF LANDS, HOUSING AND URBAN DEVELOPMENT

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

(a) Payment Vouchers Not Submitted For Audit: K93,821,718.65

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 inspection of payment vouchers for the Ministry of Lands and Housing revealed that payment vouchers for the year 2015/2016, amounting to K93,821,718.65 were not presented for inspection. It was therefore difficult to ascertain the validity and propriety of the expenditure incurred.

(b) Payment Vouchers Without Adequate Supporting Documents: K126,435,107.49

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 the financial records disclosed that payment vouchers amounting to K126,435,107.49 were processed and passed for payment without supporting documents like loose minutes, receipts, and delivery notes where necessary. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

MINISTRY OF AGRICULTURE IRRIGATION AND WATER DEVELOPMENT

Ministry Headquarters

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

(a) Payment For Prepaid Airtime Units Without Record: K1,720,000.00

Treasury Instruction 5.13.1 inter alia states that adequate internal controls must exist within each Ministry and Department to meet control objectives which ensure that resources are employed and managed in an effective, economic and efficient manner and that there is no waste or extravagance.

A test check of payment vouchers revealed that purchased airtime valued at K1,720,000.00 was not recorded in a register and the audit team was unable to ascertain its accountability.

(b) Stores Items Not Traced To The Ledger: K4,179,063.98

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 inspection of payment vouchers, delivery notes, invoices and stores ledgers disclosed that items valued at K4,179,063.98 were purchased from different suppliers, but the audit team failed to ascertain accountability because the items purchased were not recorded in the stores ledger. As a result, it was difficult to confirm whether goods purchased were delivered and properly utilized by the Ministry.

(c) Fuel Not Accounted For: K22,633,360.00

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.

A review of payments for purchase of fuel revealed that fuel amounting to K22,633,360.00 purchased in the year was not recorded in the fuel register and was not supported with motor vehicle log books. It was, therefore, difficult for the audit team to ascertain the disposal of the fuel.

(d) Payments Made Without Supporting Documents: K7,446,764.00

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 the financial records disclosed that payment vouchers amounting to K7,446,764.00 which were processed and passed for payment had no supporting documents like loose minutes and receipts where necessary. In absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

(e) Failure to Furnish Payroll Records For Audit Inspection

Section 7 (1) of the public Audit Act, 2003 states that; “for the purpose of fulfilling the functions and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him-

- (a) shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books and accounts relating thereto and subject to audit, and to any place where they are kept;

Contrary to the provision above, the Ministry of Agriculture failed to provide payroll records to the audit team, to enable it carry out its functions.

We also noted that Master payrolls were not backed up both at the Ministry and Department of Human Resources Management and Development.

AGRICULTURE SECTOR WIDE APPROACH

- 26. An audit of financial transactions of the Agriculture Sector Wide Approach for the financial year ended 30th June, 2016 was completed in December, 2016. The audit disclosed weaknesses in financial and internal controls which highlighted the following observations:

(a) Unsupported payments: K106,521,302.00

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 payments amounting to K106, 521,302.00 were not adequately supported by third party documentation at the Ministry of Agriculture and cost centres as detailed below:

<i>Cost Centre</i>	<i>Amount (K)</i>
Blantyre ADD	1,122,600
Headquarters	67,356,590
Lilongwe ADD	31,660,858
Mzimba DADO	1,759,438
Rumphi DADO	3,233,215
Shire Valley ADD	900,000
Thyolo DADO	488,600
Total	<u>106,521,302</u>

(b) Payments with no activity reports: K28,259,329

The audit inspection team noted that some payments made towards training and workshops were not verified to activity reports in some cost centres as detailed below:

<i>Cost Centre</i>	<i>Amount (K)</i>
Lilongwe ADD	22,349,400
Mchinji DADO	601,200
Mzimba DADO	4,278,729
Rumphi DADO	1,030,000
Total	<u>28,259,329</u>

(c) Fuel not accounted for: K37,414,979.78

The audit inspection team noted that there was no evidence that fuel registers were maintained and that usage of fuel was monitored through the use of log books in the following cost centres:

<i>Cost Centre</i>	<i>Fuel Amount (K)</i>
Lilongwe ADD	33,602,350.58
Shire Valley ADD	1,343,629.20
Machinga ADD	2,469,000.00
Total	<u>37,414,979.78</u>

(d) Non Implementation of some planned activities

The audit inspection team noted that the budget and expenditure report indicated that some expenditure lines had no expenditure and others had less expenditure indicating that the related activities were not fully implemented. Below are the details.

<i>Details</i>	<i>Allocation K'000</i>	<i>Actual K'000</i>	<i>Variance K'000</i>	<i>Variance %</i>
ASWAP Management and Coordination Support				
ASWAP Secretariat	62,960	26,188	36,772	58%
Capacity Strengthening Team	100,000	17,175	82,825	83%
ASWAP Orientation and Visibility	100,000	—	100,000	100%
Planning, monitoring and evaluation				
Monitoring and evaluation	2,943,067	699,591	2,243,476	76%
Technical Systems Development				
Technical Assistance	500,000	—	500,000	100%
Professional Training	500,000	16,371	483,629	97%
Sustainable Productivity Growth Initiative				
Improve seed development and use of legumes	2,046,096	745,388	1,300,708	64%
Sustainable land and rain water management	—	105,663	(105,663)	100%
Farm Input Subsidy Programme	3,500,000	—	3,500,000	100%
Strengthening Market Based Agri Risk Management				
Capacity Building for Integrated Commodity Risk Management	128,000	8,192	119,808	94%
Promotion of legume production and marketing				
Support for Legume Crop Diversification	223,000	44,441	178,559	80%
Project Coordination				
Facilitate Conduction of meetings	206,000	3,048	202,952	99%
Conduct monitoring of the project by management	183,147	70,034	113,113	62%
Office running costs	407,800	220,637	187,163	46%
Rural Roads				
Improvement and maintenance of rural roads	7,029,600	15	7,029,585	100%
Road management capacity building	106,087	—	106,087	100%
Road component project management	921,780	—	921,780	100%
Total	18,957,537	1,956,743	17,000,794	

OFFICE OF THE VICE PRESIDENT

27. An audit inspection of the financial and other records of the Office of the Vice President for the financial year ended 30th June 2016 was completed in December, 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Payment Vouchers Without Supporting Documents: K45,567,098.03

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 and their supporting documents revealed that management processed and passed for payment vouchers totaling K45,567,098.03 without supporting documents. In the absence of the supporting documents, the auditors could not ascertain the validity of the expenditure incurred.

(b) Procurements Made Using Single Source: K8,053,671.22

Section 8 of the Public Procurement Act requires that procurement of goods and services should be authorized by the Internal Procurement Committee (IPC). Further, Section 35 (1) provides that when making procurements, at least three competitive quotations from different suppliers should be obtained. In other circumstances, the no objection from the Director of Public Procurement should be obtained for the single bidder to be chosen.

Contrary to the requirement, the Office of The Vice President procured items worth K8,053,671.22 without IPC approval and without sourcing at least three quotations.

(c) Purchased Fuel Not Accounted For: K83,499,671.43

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 K83,499,671.43 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.

(d) Misallocation of Funds: K55,862,648.36

Treasury Instructions number 4.14.1 provides that expenditure should strictly be in accordance with budget estimates. It further states that funds should be spent for the intended purposes.

The audit review disclosed that K55,862,648.36 was misallocated and utilised on transactions not related to relevant sub-items in the budget. There was no evidence that Treasury authority was obtained to vire the funds.

(e) Payment Vouchers Without Approved “Request to Leave Duty Station Forms: K3,320,000.00

Government accounting procedure requires that payment vouchers should be accompanied by adequate original supporting documents firmly attached to the voucher before payment is made so as to ensure validity of the transactions.

An examination of payment vouchers disclosed that payments for subsistence allowances totaling K3,320,000.00 were made without duly completed authority to leave duty station forms. The Authenticity of the payments could therefore not be ascertained.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

Ministry headquarters

28. An audit of the financial statements of the Ministry of Education, Science and Technology for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Expenditure Charged To Wrong Budget Line Items: - K65,311,802.00

Treasury Instruction 4.1.4 (1) of 2004 states 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 for 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 disclosed that between 24th August, 2015 and 23rd June, 2016, payment vouchers in respect of Other Recurrent Transactions (ORT) amounting to K65,311,802.00 were charged to wrong budget line items contrary to the requirements of the above Treasury Instruction. There was no evidence to show that approval to vire funds within the sub items was sought from the Secretary to the Treasury.

MINISTRY OF FINANCE, ECONOMIC DEVELOPMENT AND DEVELOPMENT

Ministry Headquarters

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

(a) Poor Fuel Management System – K7,059,000.00

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.

An examination of fuel records disclosed that fuel purchases worth K7,059,000.00 could not be traced in the fuel register or motor vehicle log books. As such it was difficult to ascertain the accountability of the fuel.

(b) Payments of Subsistence Allowances Without ‘To Leave Duty Stations Forms’- K10,015,000.00

Treasury Instructions number 5.22.2 among other things stipulates that a payment voucher shall be supported by relevant documents in respect of that particular payment.

An examination of payment vouchers for the period ending 30th June 2016 revealed that subsistence allowances amounting to K10,015,000.00 were paid without authority to leave duty station forms.

(c) Employees Missing on Payroll But Found on ATS File: K4,088,576.52

A review of the payroll and automated funds transfer system files (ATS Files) revealed that some employees on the ATS files could not be traced on the payroll for the month of June 2016. The authenticity of these officers were not ascertained. The total salaries for the employees amounted to MK4,088,576.52.

Local Development Fund (LDF)

30. An audit of financial transactions of the Local Development Fund for the financial year ended 30th June, 2016 was completed in January 2017. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Payment Vouchers For Wages Not Supported by Original Registers From The Site/Project: K97,725,000.00

LDF engage vulnerable people in the village for public works programme. The system is that, after the people have worked for a particular day, they are supposed to have their names ticked in the job cards register. It is this preliminary ticked job cards that form basis for payment. When the payment is done all recipients are supposed to sign or thumbprint against their names.

However, it was noticed that at Mulanje District Council, wage sheets were not ticked and signed by foremen, Group Village Headmen and Councilors as evidence of tasks accomplished by the beneficiaries. It was therefore difficult for the audit team to ascertain the legitimacy of the payments made. Details are given in the table below;

Unsupported wages payments

<i>Date</i>	<i>Chq no</i>	<i>Payee</i>	<i>Details</i>	<i>Amount (K)</i>
5/8/2016	2230	E. Kudambo f/s	MASAF 4 wages for Mulanje North Constituency	13,960,800.00
24/08/2016	2227	E. Kudambo f/s	MASAF 4 wages for Mulanje West Constituency	13,960,800.00
24/08/2016	2229	E. Kudambo f/s	MASAF 4 wages for Mulanje South Constituency	13,960,800.00
29/07/2016	2211	E. Kudambo f/s	MASAF 4 wages for Mulanje Bale Constituency	13,960,800.00
24/08/2016	2225	E. Kudambo f/s	MASAF 4 wages for Mulanje South West Constituency	13,960,800.00
29/07/2016	2210	E. Kudambo f/s	MASAF 4 wages for Mulanje Pasani Constituency	13,960,800.00
24/08/2016	2228	E. Kudambo f/s	MASAF 4 wages for Mulanje South East Constituency	13,960,800.00
Total				97,725,600.00

(b) Claiming Full Rate Of Subsistence Allowances Instead Of Lunch Allowances: K7,703,824.00

Government regulations through circular letters and LDF guidelines on allowances, require members of staff to claim subsistence allowances if they are working outside their duty station and lunch allowances are claimed when the members of staff are working within the district but far from their duty station.

Contrary to these regulations, management paid subsistence allowances instead of lunch allowances to officers. The total allowances paid were K7,703,824.00. Details are in the table below;

Subsistence allowances paid instead of lunch allowances

<i>Council</i>	<i>Amount K</i>
Dedza	1,110,000.00
Mangochi	450,000.00
Chikwawa	1,363,824.00
Mulanje	4,790,000.00
Total	7,703,824.00

ACCOUNTANT GENERAL'S DEPARTMENT

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

(a) Fuel Not Accounted for: K7,690,993.00

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.

An examination of the fuel records revealed that fuel amounting to K7,690,993.00 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.

(b) Misallocation of Funds: K38,232,502.00

Treasury Instruction 4.14.1 states that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further states that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

A review of payment vouchers for the Accountant General revealed that management misallocated funds amounting to K38,232,502.00 without obtaining prior approval from the Secretary to the Treasury.

BANK RECONCILIATION STATEMENT

32. A review of the bank reconciliation statements for Government Accounts was conducted and highlighted in the following paragraphs are the observations:

(a) Outstanding Amounts Under Investigation

A review of the Malawi Government Account No.1 reconciliation statement revealed that some transactions were still uncleared after the reconciliation and were being investigated. Among the outstanding amounts were unrepresented cheques of more than three months old. Therefore the validity of such transactions could not be ascertained. Below are the details of the transactions;

<i>Consolidated ORT Account</i>	<i>K</i>
Receipts/Credits in bank statement not in cashbook	—
Payments in bank not in cashbook	4,410,512.30
Payments on bank statement not in cash book	524,837,744.51

(b) Deposit Account and Salaries Account

A review of Deposit Account reconciliation statement and a correspondence letter from the Accountant General, Reference No. T8026, dated 23rd November 2016, revealed that the account was affected by fraud of K6.3 million that occurred at the Ministry of Defence. The account needs full forensic audit to ascertain the validity of all the transactions involved. Total payments from the account for the year, amounted to K1,174,208,391.89 as per the cashbook.

The Bank Reconciliation for Salaries Account was submitted but I could not make a conclusion on the account as I was not furnished with the Cashbooks and Bank Statement relating to the account.

MINISTRY OF HEALTH

33. An audit of the financial records of the Ministry of Health for the financial year ended 30th June, 2016 was completed in October 2016. The audit which was in respect of Centre for Disease Control/Malawi disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Allowances provided to non-deserving staff: K61,537,000.00

Implementation of several activities such as ART/PMTCT refresher trainings, ART/PMTCT quarterly meetings, VVMC social mobilization, Clinical Review Meetings and others under CDC/Malawi Government Cooperative Agreement had a component of supervision by technical teams from Ministry of Health and other implementing partners in Malawi. The technical teams comprised medical personnel such as doctors, clinicians and nurses.

In contravention of this provision, it was discovered that allowances amounting to K61,537,000.00 were made to no-medical personnel which included members of staff from Finance, Administration, Human Resources such as Secretaries and Messengers and other support departments. We believe these officers were included for the sake of drawing the allowances and were not involved in the actual assignment which technically they could not do. These officers, therefore, received allowances for an assignment they never participated and should be disciplined accordingly and the funds recovered.

(b) Allowances paid to officers who are not bona fide civil servants: K265,423,140.00

Most of the activities implemented by the CDC/Malawi Government COAG such as clinical review meetings, CHBC & Palliative care training, TB/HIV support supervision involves technical officials such as clinicians, nurses from the Ministry of Health and other implementing partners. The activity information such as officers involved and the designations are indicated on related specific program and payments documents so that participants can easily be identified. However, most officials who were included on the activities were not officials from the Ministry of Health or implementing partners. We obtained the establishment warrant of the Ministry to cross check the list of employees including District Health Offices and database of employees from the Human Resources

Management System (HRMIS). These names could not be traced in any of these Government employee database. We, therefore, considered these individuals as dubiously included on the program with intent to defraud public funds.

(c) Allowances paid to officers whose names are not traceable: K399,421,090.00

A review of payment records revealed that some officers who received allowances could not be validated because they could not be traced due to incomplete information i.e. their names were not written in full as such they could not be checked on the list of all employees for Ministry of Health. Further, their designated positions were not indicated on the payment vouchers or other supporting documents. It was, therefore, difficult to identify and match these names to other documents such as payment vouchers. Further investigation is needed to trace the account numbers of these beneficiaries and compare them with the names that were provided to us.

(d) Daily subsistence allowances paid to officers using rates not on the approved list: K73,475,400.00

Allowances and other payments under the CDC Project are made to officers and participants using donor approved rates. These rates are used across various activities. In order to avoid undesired incentives and unfair treatment while at the same time improving successful outcomes of activities, guidelines were put in place for donor events and missions where allowances are harmonized. Contrary to this, the audit team discovered that some officers and participants pocketed allowances using the unapproved rates. We were not provided with any information why different rates were used other than the approved ones. We believe the rates were manipulated unfairly. Further, most of the beneficiaries could not be traced indicating elements of fraud

(e) Non-medical personnel disguised as medical personnel: K5,378,200.00

A review of payment vouchers and other documentation revealed that some supporting staff disguised their official designated positions and included themselves in activities where they were illegible. This was deliberately done in order to get approvals for their payments through fraudulent means. The activities were technical in nature such as VMMC trainings, clinical trainings, ART/PMTCT refresher training, etc. The main culprit was accounts department and HR department whose officials received allowances as nurses and clinicians. The audit team suspects that this was done to conceal their identities in order to defraud government.

(f) Transposing of designations with intention to defraud: K12,916,800.00

It was noted through review of payment vouchers and supporting documents that medical personnel had obtained allowances using different designation of other medical personnel than what they hold. For instance hospital attendants and health surveillance officers were indicated as nurses and medical assistants indicated as pharmacy technician or clinical officers and received allowance for activities such as ART/PMTCT refresher trainings, Quarterly supervision, etc. From our analysis, this happened across all activities. We wonder how a hospital attendant can do the work of a clinical officer as an example. We strongly believe that this was done deliberately with intent to receive an illegal benefit.

(g) Failure to prepare bank reconciliations and Payment Management System Reconciliations

It is an accounting requirement that any organization should prepare monthly bank reconciliations. In contravention to this, the audit team noted that bank reconciliations for June 2015 to December 2015 and reconciliations for drawdowns from the Payment Management System (PMS) against cash received at Reserve Bank Holding account were not prepared for the period under review.

SUPPORT FOR NUTRITION IMPROVEMENT PROJECT (SNIC)

34. An audit of financial transactions of the Support for Nutrition Improvement Project (SNIC) for the financial year ended 30th June, 2016 was completed in January 2017. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) External travel allowances paid at inappropriate rates

A review of expenses relating to external travel allowances paid to officers travelling outside the country revealed that allowances were paid to the officers at higher rates than those stipulated in the government circular from the Secretary for Human Resources Management and Development, referenced DPSM/POL/2 dated 25th July, 2012 titled 'Rates of Allowances for Training'. The disparity in the rate used to pay external travel allowances led to an overpayment of K16,062,186. Below are the details:

<i>Payee</i>	<i>Position</i>	<i>Amount (K)</i>
A Sambani	Principal Planning Officer	2,675,904
B Muwalo	Chief Nutrition Programmes Officer	528,030
K Mpeniuwawa	Project Manager	2,114,735
F Phiri	Project Coordinator	2,322,206
Mrs C Salaniponi	Procurement Officer	124,992
C Gawani	Planning Officer	2,028,840
S Thyolani	Systems Analyst	2,028,840
T Msuku	Planning Officer	2,028,840
Janet Guta	Deputy Director	180,960
A Chautala	Planning Officer	2,028,840
		<u>16,062,187</u>

(b) Expenses not related to SNIC Project: K47,407,716.47

SNIC project finance management manual states that expenses incurred by NGOs should only be those that were budgeted for and relate to the project. A review of project transactions for Farmers Union of Malawi revealed that the NGO was using the project bank account for other transactions not relating to SNIC project. Such transactions amounted to K47,407,716.47 during the year under review, however, the NGO made a refund of K37,829,319.00 to the project account, leaving an outstanding balance of K9,578,397.47.

(c) Failure to deliver layers chicks to beneficiaries: K2,910,000.00

A review of transactions for the World Relief, an NGO implementing SNIC project activities revealed that the NGO entered into a sales agreement with Bwemba Hatchery on 4th December, 2015 to supply 2000, 6 weeks layers chicks. The agreement was that upon receipt of payment, Bwemba will deliver the chicks. The payment was done through cheque no. 211 amounting to K2,910,000.00 and Bwemba Hatchery acknowledged receipt of the cheque on GR no. 2130014. However, a verification visit in Ntchisi where the project is implemented showed that the chicks were not delivered to beneficiaries as at 19th December, 2016, one year after the payment was made.

REVIEWS NOT YET CLEARED

Mental Hospital

35. An audit of the financial records of the Mental Hospital for the financial year ended 30th June, 2015 was completed in October 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Failure to Produce Bids Documents: K12,519,395.00

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.

Bids documents totaling K12,519,395.00 were not produced for audit.

(b) Payments Made Without Supporting Documents: K38,726,283.00

Treasury Instruction 5.16.1 requires that all control shall be placed for all payments. Payments amounting to K38,726,283.00 had no supporting documents.

(c) Fuel Not Accounted: K13,461,000.00

Treasury Instruction 5.13.1 inter alia states that adequate internal controls must exist within each Ministry, Department and Agency. Fuel totaling K13,461,000.00 was not recorded in the register.

(d) Building Materials Not Properly Accounted For: K9,403,210.00

Treasury Instruction 11.6 states that items of stores should be recorded and accounted for like cash. It further states that Controlling Offices must ensure that an efficient system of stores procedures exists within the ministries or departments to sufficiently safeguard and govern procurement transactions. Building Materials totaling K9,403,210.00 was not accounted for.

(e) Contracts Made Without Contract Agreement: K10,342,582.44

The contracts totaling K10,342,582.44 were made without contract agreement as per schedule below:-

Table 7 Contracts values without Contract agreements

<i>Date</i>	<i>Lot Number</i>	<i>Name</i>	<i>Amount Per Month</i>	<i>Amount Per Year</i>
-	6	Integrated Security Solutions Ltd	629,700.00	7,549,200.00
-	2	Maziko Cleaning Services	232,781.87	2,793,382.44
TOTAL				<u>10,342,582.44</u>

MINISTRY OF INFORMATION, COMMUNICATIONS & CIVIC EDUCATION

Ministry Headquarters

36. An audit of the financial statements of the Ministry of Information, Communications and Civic Education for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed

weaknesses in financial and internal controls as highlighted in the following observations:

(a) Misallocation of Expenditure: K43,618,811.24

Treasury Instruction 4.14 (1) of 2004 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 IFMIS.

However, the audit review disclosed that funds amounting to K43,618,811.24 were misallocated and utilised on transactions which were not related to relevant sub-items in the budget. There was no evidence that Treasury authority was obtained to transfer funds between sub-items (virement).

(b) Failure to Produce Payment Vouchers for Audit: K19, 272,480.87

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 Ministry of Information, Communications and Civic Education Headquarters cost center revealed that payment vouchers made between October, 2015 and June, 2016 totaling K19,272,480.87 were not produced for audit.

(c) Fuel Not Accounted for: K27,130,265.77

Treasury Instructions number 5.9 (b) of 2004 requires Controlling Offices to ensure that all transactions are recorded in a primary Government record or ledger.

An examination of payment vouchers revealed that fuel valued at K27,130,265.77 was not entered in the Fuel Register. It was therefore difficult to ascertain how the fuel was accounted for.

(d) Stores not Accounted for: K18,010,527.81

Treasury Instructions 11.7 of 2004, 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 for the period under review disclosed that the Ministry purchased stores items valued at K18,010,527.81 but not recorded in the stores ledger. As such it was difficult to confirm the accountability of the stores.

Malawi Digital Broadcasting Network Limited (MDBNL)

(a) Non maintenance of Asset Register: K553,002,105.00

Section 5.19.1 (d) of the Treasury Instruction of 2013 requires that revenue, expenditure, assets and liabilities are properly recorded and accounted for.

The inspecting auditors observed that Malawi Digital Broadcasting Network Limited MDBNL did not have the required Fixed Asset Register for its equipment and other valuable assets valued at K553,002,105.00.

(b) Payments without Supporting documents: K46,907,863.08

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. One of such controls is to ensure that supporting documents such as invoices and receipts be firmly attached to payment vouchers before payment is made in order to support the payment and for accountability purposes.

An examination of payment vouchers for the period under audit review revealed that vouchers amounting to K46,907,863.08 were paid without supporting documents.

(c) Fuel purchases not Accounted for: K3,478,721.32

Treasury Instruction number 5.9 (b) of 2004 requires Controlling Offices to ensure that all transactions are recorded in a primary Government record or ledger.

An examination of payment vouchers for the period under review revealed that fuel valued at K3,478,721.32 was not entered in the Fuel Register. It was therefore difficult to ascertain how the fuel was accounted for.

MINISTRY OF HOME AFFAIRS AND INTERNAL SECURITY

37. An audit of the financial statements of the Ministry of Home Affairs and Internal Security for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Stores Items Not Accounted For: K42,097,192.93

Section 11.7.1.5 of Treasury Instructions among other things require that a Stores Ledger be opened and maintained for the purpose of recording receipts and issues of goods purchased.

Contrary to the requirement, it was noted that stores items worth K42,097,192.93 were not accounted for as there was record in the stores ledgers to confirm the receipt and disposal of the goods.

(b) Fuel Not Accounted For: K35,970,740.92

Treasury Instruction number 5.9 (b) of 2004 states that items of stores like fuel should be recorded in the fuel register before being issued out. It further states that Controlling Officers must ensure that an efficient system of stores procedures exists within the ministries or departments to sufficiently safeguard and govern procurement transactions.

An examination of the payment vouchers revealed that fuel worth K35,970,740.92 was not recorded fuel in the register. As such, it was difficult for the audit team to ascertain the accountability of the fuel in question.

MALAWI POLICE SERVICE

38. An audit of the financial statements of the Malawi Police Service for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Stores Items Not Accounted for: K197,515,000.00

Treasury Instructions 11.7 of 2004, 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 K197,515,000.00 purchased from various suppliers between July 2015 and June 2016 were not recorded in the stores ledger. In the circumstances, the inspecting auditors could not ascertain how the stores items were accounted for.

(b) Fuel Not Accounted for: K77,911,220.06

Treasury Instruction 11.6 states that items of stores like fuel should be recorded in the fuel register before being issued out. It further states that Controlling Officers must ensure that an efficient system of stores procedures exists within the ministries or departments to sufficiently safeguard and govern procurement transactions.

An examination of the payment vouchers revealed that fuel worth K77,911,220.06 purchased between July 2015 and June 2016 was not recorded in the fuel register and the audit team could not ascertain the accountability of the fuel and its usage.

(c) Payments Made Without Supporting Documents: K22,140,584.25

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 totaling K22,140,584.25 which were processed and passed for payment had no supporting documents like receipts, to leave duty station forms, 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.

POLICE TRAINING COLLEGE - ZOMBA

39. An audit of the financial records of the Police Training College for the financial years ended 30th June, 2014, 2015 and 2016 was completed in January 2017. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Payment Vouchers not Produced for audit: K3,453,087.91

Public Audit Act (2003) requires that all audited entities present all document, books and accounts as requested, to the audit team for examination.

A review of the payment vouchers for the period under audit, revealed that payment vouchers amounting to K2,178,507.91 and K1,274,580.00 for 2013/14 and 2014/15 respectively, were missing and consequently not produced for audit.

(b) Fuel Not Recorded in Motor Vehicle Log Books-K1,379,367.83

Treasury instruction No.5302 requires that all fuel bought must be recorded in the fuel register and issues reflected in the register as well as in motor vehicle logbooks to promote transparency and accountability of fuel usage.

Examination of fuel register and motor vehicle logbooks for the period of July 2013 to June 2014 revealed that fuel amounting to K1,379,367.83 was not recorded in the motor vehicle logbooks and accountability of the fuel could not be ascertained.

MINISTRY OF LABOUR, SPORTS, YOUTH AND MANPOWER DEVELOPMENT

40. An audit of the financial statements of the Ministry of Labour, Sports, Youth and Manpower Development for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Failure To Present Payment Vouchers For Audit Inspection: K37,733,990.00

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 and related records for the Ministry revealed that payment vouchers amounting to K37,733,990.00 were not produced for audit. As a result the audit team could not ascertain how this money was used.

(b) Misallocation of Expenditure: K134,713,676.69

Public Finance Management Act No. 7 section 25 (1) of 2003 states that specific approval is required before any allocation of funds is vired or transferred from one expenditure item to another. The Act states that upon the request of a Controlling Officer, the Secretary to Treasury, with the approval of the Minister is authorised to direct the transfer of funds between the provisions assigned to expenditure items.

During the period under review, an examination of payment vouchers revealed that payments amounting to K134,713,676.69 which were budgeted for various expenditure items were wrongly charged to different expenditure items without seeking approval from the Secretary to Treasury.

(c) Contracts Awarded To Contractors Without A Tax Clearance Certificate: K82,272,981.96

Among the minimum requirements of documents to be submitted by contractors to be awarded a contract, according to stipulations laid down in the Public Procurement Act 2003 Section 13 (2), is a Tax Clearance Certificate issued by the Malawi revenue Authority. This document acts as a reference to government that indeed the concerned party has duly complied with MRA requirements.

An examination of the payments of contracts made during the financial year running from 1 July 2015 to 30 June 2016 amounting to K82,272,981.96 revealed that the contractors had no tax clearing certificates.

(d) Failure To Deduct Withholding Tax: K6,051,891.06

An examination of the payments to contractors from 1 July 2015 to 30 June 2016 revealed that payments were made without deducting Withholding tax of K6,051,891.06 regardless of the fact that the Withholding Tax Exemption certificates were not presented and in the instances where the Withholding Tax Exemption were presented they had expired.

(e) Subsistence allowances drawn without ‘authority to leave duty station forms’: K37,584,223.39

Treasury Instructions 5.9 (a), state 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. And in case of subsistence allowances authority to leave duty station forms should be firmly attached.

An examination of payment vouchers relating to subsistence allowances disclosed that payments amounting to K37,584,223.39 for the period under review had no authority ‘to leave duty station forms’. It was therefore difficult for the audit team to ascertain the propriety of these payments as there was no evidence to show that the trips in question were authentic and duly authorized by relevant authorities.

(f) Payment Vouchers Without Supporting Documents: K9,353,247.70

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 for the period from 1st July 2015 to 30th June 2016 disclosed that payment vouchers totaling to K9,353,247.70 had no supporting documents like receipts, to leave duty station forms, and delivery notes where necessary. In the absence

of the supporting documents it was difficult to ascertain whether the payments were a proper charge to public funds.

(g) Fuel Not Accounted For: K22,401,644.50

Treasury Instructions No 11.5.1 stipulates that in terms of the Public Audit Act, 2003, the Auditor General and his staff shall at all times be entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers shall give them every facility for inspecting such documents.

Contrary to the above quoted instruction, the Ministry did not provide for audit inspection, the fuel register for the period of the audit review hence the accountability of fuel worth K22,401,644.50 could not be verified.

(h) Stores Items Purchased Not Accounted For: K14,179,099.19

Section 11.7.1.5 of Treasury Instructions requires that all stores items purchased should be recorded in the stores ledger and on bin cards for proper accountability.

An examination of stores records disclosed that stores worth K14,179,099.19 purchased between July, 2015 and July, 2016 were not recorded in the stores ledger. It was, therefore, difficult to ascertain the disposal and movement of stores in the absence of any records.

MINISTRY OF INDUSTRY AND TRADE

41. An audit of the financial statements of the Ministry of Industry and Trade for the financial year ended 30th June, 2016 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) Misallocations of Expenditure: K4,982,891.84

Public Finance Management Act No. 7 section 25 (1) of 2003 states that specific approval is required before any allocation of funds is vired or transferred from one expenditure item to another. The Act states that upon the request of a Controlling Officer, the Secretary to Treasury, with the approval of the Minister is authorised to direct the transfer of funds between the provisions assigned to expenditure items.

An examination of payment vouchers and expenditure reports by cost center for the period under review revealed that expenditures amounting to K4,982,891.84 were misallocated from Professional and Technical services, Hiring cost and Hotel charges to External travel allowance.

(b) Stores Not Accounted for: K7,518,829.53

Section 11.7.1.5 of Treasury Instructions requires that all stores items purchased should be recorded in the stores ledger and on bin cards for proper accountability.

Contrary to the requirement, stores items worth K7,518,829.53 which were purchased during the year under review, were not recorded in the stores ledger. Consequently, it was difficult for the audit team to ascertain the accountability of the stores.

(c) Fuel Not Accounted for: K20,753,368.44

An examination of payment vouchers and other documents during the period under audit review, revealed that fuel worth K20,753,368.44 was not recorded in the fuel register and motor vehicle log books. It was therefore difficult for the audit team to ascertain the accountability of the fuel.

MINISTRY OF TRANSPORT AND PUBLIC WORKS

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

(a) Fuel Not Accounted for: K35,527,493.00

Fuel records for the ministry were examined. It was noted that the records were not kept systematically. Records of receipts as well as issues of fuel in most cases could not be traced in the fuel register. This led to having fuel worth K35,527,493.00 not being ascertained of its use. Of this amount K22,445,952.00 was for headquarters, K9,528,000 for Civil Aviation and K3,553,541.00 for Marine Department.

(b) Stores Not Accounted for: K7,815,751.00

Treasury Instruction 11.7.1.5 requires that a stores ledger be opened and maintained for the purpose of recording receipts and issues of all stores.

Contrary to this requirement, it was observed that during the year 2015/2016, stores items worth K7,815,751.00 were not recorded in the stores ledger. From the total amount, K4,375,257.00 was for the headquarters, and K3,440,494.60 for Aviation.

REVIEWS NOT YET CLEARED

MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING

Forest Research Institute of Malawi

43. An audit of the financial records of the Forest Research Institute of Malawi for the financial year ended 30th June, 2015 was completed in December 2016. The audit disclosed weaknesses in financial and internal controls as highlighted in the following observations:

(a) ICT equipment not Accounted for: K1,312,327.77

A physical verification of assets procured in the period under review disclosed that some ICT equipment were missing. Details are given in the table below;

<i>Supplier</i>	<i>Date</i>	<i>Cq No</i>	<i>Details</i>	<i>Amount</i>	<i>Remarks</i>
Consumer Electronics	29/11/05	991/992	Sony Digital Camera	139,950.00	Issued to Dr Chilima
IT Centre Ltd	18/5/15	-	Digital Camera	139,950.00	Issued to Mr Chithila
IT Centre Ltd	06/5/11	-	Sony Projector	259,001.64	Issued to Dr Chilima
IT Centre Ltd	30/11/06	-	Laser jet printer	296,840.25	Issued to Dr D. Kayambazinthu
IT Centre Ltd	30/11/06	-	HP4370 Scanner	39,381.30	Issued to Dr D. Kayambazinthu
Business Machine Ltd	5/01/06	-	Laptop	437,204.58	Issued to Dr D. Kayambazinthu
Totals				<u>1,312,327.77</u>	

HUMAN RESOURCE MANAGEMENT INFORMATION SYSTEM (HRMIS) AND PAYROLL AUDIT

44. Government of Malawi through funding from cooperating partners under Financial Reporting and Oversight Improvement Project (FROIP) funded the audit of Human Resource Management Information System (HRMIS) and Payroll. The audit which covered transactions for the period between January 2014 and February 2015 was aimed at providing reasonable assurance on the design and operating effectiveness of the controls within HRMIS and Payroll operating environment and validate payroll and personnel data integrity. The audit disclosed control weaknesses as highlighted in the following observations:

(a) Fraudulent Duplication of Payment of Monthly Salary: K1,340,084.00

A review of payroll records disclosed that Mr Clement Komwa who was an employee of Ministry of Agriculture had been receiving two salaries of K104,694.00 per month from April 2014 to February 2015. In total the officer received unearned salary of K1,340,084.00.

(b) Fraudulent Payment of Monthly Arrears: K3,729,315.08

It was noted during the review of the payroll of Ministry of Education that Mr. Kenan Banda was paid K3,729,315.08 in salary arrears for the period between January 2014 and February 2015. The officer was fraudulently claiming monthly salary and Rural Teachers' allowance arrears of K246,859.22 and K10,000.00 respectively.

(c) Overpayments of Leave Grants and Other Staff Allowances: K51,336,000.00

The analyses of pay code items on the payroll showed that some employees were getting more in form of leave grants than their entitlements while others were getting leave grants every month. Below are the MDAs with overpayments of leave grants and other allowances to officers:

<i>Vote</i>	<i>MDA</i>	<i>Amount (K)</i>
070	Judiciary	884,000.00
190	Ministry of Agriculture	3,057,500.00
250	Education	1,785,000.00
310	Health	44,465,500.00
341	Police	1,144,000.00
		<u>51,336,000.00</u>

(d) Officers Earning Two Salaries Per Month: K119,288,025.35

Further analyses of the payroll showed that some employees were earning two salaries per month, either from the same ministry or from different ministries. The analysis covered a period of 14 months and the expected outcome was 14 instances per employee representing 14 salaries. Some selected employees (based on proximity) were interviewed and confirmed to have been receiving two salaries per month. Below are totals per MDA:

<i>Vote</i>	<i>MDA</i>	<i>Amount (K)</i>
130	Ministry of Lands, Housing and Urban Development,	3,047,618.10
190	Ministry of Agriculture,	18,729,847.60
250	Ministry of Education,	76,319,832.84
310	Ministry of Health,	6,784,207.70
330	Ministry of Information, Tourism and Civic Education	771,564.18
560	Law Commission	13,634,954.93
Totals		<u>119,288,025.35</u>

(e) Ghost Employees: K1,572,547.00

While validating irregularities in the HRMIS, it was noted that a retired nurse from Blantyre District Health Office was reintroduced on the payroll in November 2014 on a month to month basis twice with two slightly different names, Joyce Kapanga and Joyce Kapange. It was discovered that Joyce Kapanga and Joyce Kapange are one person. The payroll reflected the name of Joyce Kapanga and that of Joyce Kapange was paid fraudulently by way of manipulating the S2S file submitted to the bank.

The official records had Joyce Kapange, a person that never exists. The records were endorsed by Tiwonge Kondowe, the Human Resource Officer.

The analysis of the bank statement showed that Joyce Kapanga (the real name) was getting one salary only. However, she did not get any salary during the months of January and February yet the records showed that she was paid up to February 2015. When interviewed, Mrs. Joyce Kapanga presented a letter of resignation effective December 2014 and she confirmed to have stopped reporting for duties. However, she was still appearing on the payroll.

(f) Manipulation of S2S Files: K80,333,501.06

S2S file was a secure way of transferring Government employees' monthly salaries to their personal banks accounts. The aim was to reduce the risk of ghost workers and delays associated with payment of salaries.

GP 5A which is a summary of the payroll, feeds into the S2S file. The names and amounts on the GP5A are supposed to be the same as on the S2S file.

It was noted during the review of the payrolls and the S2S files that in certain cases the amount on the GP 5A was less than the amount on the S2S file. This is an indication that some officers were manipulating the S2S file when sending the salaries to the banks. The following are the sampled MDAs that had the S2S file figures more than the GP5A.

<i>Ministry</i>	<i>Amount (K)</i>
Judiciary	330,000.00
Ministry of Local Government	1,388,846.51
Ministry of Agriculture	67,091,406.23
Ministry of Education	43.343,818.10
Ministry of Health	5,536,546.07
Malawi Police	5,986,702.25
Totals	80,333,501.06

i. Judiciary

It was noted that the personnel involved in the malpractices were Charles Mphonde (responsible for processing salaries) and Loveness Chilunda, a Court Marshal. When interviewed, Charles Mphonde admitted the offence citing financial problems as the reason for his actions. He further accepted responsibility for the irregularity against Loveness Chilunda's salary manipulation. He argued that he had taken a loan (katapila) from Loveness and repaid the loan by way of manipulating her net salary. They both confirmed to have shared the money.

ii. Local Government

Ministry of Local Government had six employees who had their net salaries manipulated during the months of December 2014 and January 2015. When asked, Yona Ngwira and Dorothy Mvula admitted to have manipulated their net salaries. Even though Odala Kamudziaka was not interviewed, her colleagues (Yona and Dorothy) confirmed that the three connived to commit the offence citing financial problems as the reason for their actions. Dorothy and Odala worked in salaries section while Yona Ngwira was working in IT department (PPPI). Ronex Kamanga, the other beneficiary on the list was not available for interrogation.

iii. Ministry of Agriculture

In Ministry of Agriculture, a total of K67,091,406.23 was overpaid as a result of net salary manipulation which was reported for the period under review – January 2014 to February 2015.

The audit team interviewed some of the personnel involved and summarised below were the findings:

- **Chitedze Research Station** – fraud was facilitated by Langson Thauzeni (Salaries Officer) and Beaton Mbulumbunde (HR Officer). Both were responsible for processing of salaries and together, they used to go to the headquarters to check and balance payroll. It was reported that some of the excess money was given to officials at the headquarters. Cosmas Chafulumira and Chimwemwe Kampanje were mentioned as masterminds behind the fraud. Both were working at the headquarters in the IT department (PPPI) and were interdicted on similar offences.
- **Fisheries Headquarters** – fraud was facilitated by Senister Kanyimbo. He was not cooperative during the interrogation.

All personnel interviewed admitted to have received the excess money in their bank accounts and confirmed to have used the money.

- **Shire Valley A.D.D** – Fraud was facilitated by Mabvuto Chilimba and Owen Suliali. Both were working in accounts and were responsible for processing salaries. Mabvuto Chilimba was interdicted on similar offences while Owen Suliali was still working. The other officers were also interviewed and confirmed to have used the money.
- **Lilongwe A.D.D** – fraud was facilitated by Alex Kadza of Dedza RDP and John Faifi, Jacob Nanthupi and Phillip Dzingwangwa of Ntcheu RDP. Alex Kadza confessed that he was sharing the money with Cosmas Chafulumira, while the team from Ntcheu did not disclose their accomplices.
- **Headquarters** – all personnel involved were interviewed and admitted to have used the money. They were working in Accounts, Salaries, HR or IT and were involved in salary processing. All were still working except Cosmas Chafulumira, Chimwemwe Kampanje and Mwaiwawo Chipatso who were interdicted on similar offences.

iv. Ministry of Education

For the Ministry of Education alone, a total of K43,343,818.10 was overpaid as a result of data manipulation which was reported for the period under review – January 2014 to February 2015.

Some of the employees were interviewed and all of them admitted to have received excess cash in their bank accounts. While the majority of employees interviewed argued that they used the money thinking it was the outstanding arrears, others were very honest and mentioned employees involved in the malpractice and summarised below were the findings:

- **Mzimba North DEM** – Some of the teachers interviewed mentioned Tommy LC Munyenyenbe as the facilitator of the fraud. Tommy admitted to have been approached by Mrs. Tiyenkhu Nkhambule to find teachers to be assisted with education loans. He however noted that the excess money was being shared with other officers from Ministry headquarters. Employees that were mentioned were Alice Nyirongo, Augustine Banda, and Mr. Phungwako. All were working at Ministry of Education Headquarters in the IT department (PPPI).

- **Mzimba South DEM** – The syndicate also involved Mrs. Tiyenkhu Nkhambule and Tommy LC Munyenembe.
- **Rumphi DEM** – The fraud were facilitated by Mr. Ndimbwa, the Accounts Assistant.
- **Ntcheu DEM** – Augustine Banda of Ministry headquarters was specifically mentioned that part of the excess money was given to him.

v. **Ministry of Health**

For the Ministry of Health alone, a total of K5,536,546.07 was overpaid as a result of data manipulation which was reported for the period under review – January 2014 to February 2015.

All personnel interviewed admitted to have received the excess money as reported. For the personnel interviewed, Sungani Manjolo from Chiradzulu District Hospital and Sphiwe Mankhwala from Mwanza District Hospital were the professional health officers and the irregularities arose during the payments of their arrears. The other differences involved personnel from Accounts Section and Human Resources Department responsible for processing salaries. Several scenarios were established as follows:

- **Kamuzu Central Hospital** – the irregularities were facilitated by Catherine Meke Banda, a supervisor in the accounts section. All personnel interviewed admitted to have received the excess amount. The excess amount was reportedly for the deceased employee (Mr. Matchado Kalele) and they argued that the excess money was remitted to Mr Kalele's wife. There was no evidence for the remittance. The Accountant disappeared during the interrogation.
- **Chiradzulu District Hospital** – The irregularities were facilitated by Judith Banda, accounts clerk responsible for salaries.
- **Mulanje District Hospital** – The irregularity was facilitated by Mercy Dulani working in accounts section and responsible for salaries. She argued that the excess money was for new employees who did not have bank accounts but there was no evidence that the money was used for that purpose and the DHO disputed this argument.

- **Dowa District Hospital** – Mr. Alick Ngwira (Laundry Attendant) admitted to have received excess cash in his bank account. Other personnel mentioned in the scam include Mr. Gwaza, Edna Bonga and Harrison Dimingu.

All personnel interviewed mentioned Edna Bonga, data entry clerk, from Ministry Headquarters working in IT department (PPPI) as the one responsible for making irregular changes.

vi. Malawi Police

For the Malawi Police Services, a total of K5,986,702.25 was overpaid as a result of data manipulation for the period under review – January 2014 to February 2015.

(g) Irregular Rural Teachers' Allowance: K19,070,000.00

As one way of motivating rural primary school teachers, government introduced the rural teachers' allowances. During the period of review, the entitlement per teacher was K10,000.00 per month.

The analysis of payment of the allowances from the payroll showed that some teachers were earning more than their entitlement. From January 2014 to February 2015 a total of **K19,070,000.00** was paid as rural teachers' allowances above entitlement.

(h) Irregular Top Up Allowances: K29,350,125.00

An examination of payroll records of Ministry of Health disclosed that some of the employees were receiving irregular top up allowances. The expectation was that for the fourteen (14) months period each employee expected to receive the allowances fourteen (14) times but some received up to twenty nine (29) times.

PART IV

RECOMMENDATIONS AND ACKNOWLEDGEMENT

RECOMMENDATIONS

46. In the course of my audit of the 2015/16 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 includes: -

- (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 addressed 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 implementation 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;

- (i) The systems requirements and procedures should be reinforced with capable supervision; and
- (j) Further investigations should be conducted by special teams on the areas suspected that public resources may have been lost or mismanaged.
- (k) The Secretary to the Treasury should ensure that monthly and quarterly bank reconciliations are performed timely and ensure that bank reconciliations are properly completed, checked and approved in a timely manner.
- (l) The Secretary to the Treasury should ensure that all the outstanding reconciling amounts are followed up and provide valid reasons for their occurrence and they should be checked to ensure that they relate to genuine timing differences.
- (m) The Secretary to the Treasury should review the IFMIS system of recording receipts and payments in the cash book so that proper records are used for reconciliation statements.

ACKNOWLEDGEMENTS

47. 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.

18th May, 2017

LILONGWE, MALAWI