



**MALAWI GOVERNMENT**

**REPORT OF THE AUDITOR GENERAL**  
**ON THE**  
**ACCOUNTS OF THE CITY AND DISTRICT**  
**COUNCILS**

**For The Year Ended 30th June, 2019**

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

# NATIONAL AUDIT OFFICE

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Ref

1st September, 2021

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

Through: The Honourable Minister of Finance, Economic Planning and  
Development  
P.O. Box 30049  
Lilongwe 3  
Malawi

Dear Madam,

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, 2020 for tabling in the National Assembly.

Yours faithfully,

THOMAS K. B. MAKIWA  
*Acting Auditor General*

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## ACRONYMS

CDF	:	Constituency Development Fund
DAHSP	:	Decent and Affordable Housing Subsidy Programme
DC	:	District Commissioner
DDF	:	District Development Fund
GRF	:	General Resource Fund
FS	:	Financial Statements
IFMIS	:	Integrated Financial Management Information System
IPC	:	Internal Procurement Committee
IPSAS	:	International Public Sector Accounting Standards
ISSAIs	:	International Standards of Supreme Audit Institutions
LGA	:	Local Government Act of 1998
MRA	:	Malawi Revenue Authority
NLGFC	:	National Local Government Finance Committee
ORT	:	Other Recurrent Transactions
PAA	:	Public Audit Act of 2003
PFMA	:	Public Finance Management Act of 2003
PPA	:	Public Procurement and Disposal of Public Assets no 41 of 2016

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## **EXECUTIVE SUMMARY**

In accordance with Section 6 of the Public Audit Act (PAA) of 2003 and Section 54(1) of the Local Government Act of 1998, I have, on behalf of the National Assembly, examined and enquired into and audited the accounts and other financial information of City, Town and District Councils for the year ended 30th June, 2019.

### **Scope of Audits**

The audit of the Councils' financial statements and compliance audits were conducted on thirty-two (32) Councils in Malawi for financial year ended 30th June, 2019. The audits were performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audits were intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audits were conducted in accordance with ISSAIs, they do not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

However, the PPA 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. Similarly, substantive tests were made on selected areas of the Councils' accounts in order to form an opinion as to whether or not the Councils funds were expended economically and in conformity with the wishes of the National Assembly.

### **Audit Methodology**

The core objective of the external audit function is to ensure accountability of public funds. In order to discharge this responsibility, my approach to audit involves the following:—

- planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management;
- evaluating the overall presentation of financial statements;
- evaluation and testing of the accounting and internal control systems;
- testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
- reporting the audit findings based on the audit procedures performed and evidence gathered.

## Findings

The findings have been classified into six (6) categories which have been summarized as follows:

- i. Expenditure Management
  - Unjustifiable and unaccounted for subsistence allowances
  - Unaccounted for Funds
  - Expenditures made without following procedures (Irregular expenditure)
  - Misallocation of Funds (funds spent on different functions other than which parliament approved)
  - Payments for non-existent and incomplete CDF Projects
  - Unjustified Over-payments
  - Failure to remit PAYE taxes to MRA
  - Failure to process transactions through IFMIS
  - Failure to service Loans
  - Failure to pay money due to a deceased estate
- ii. Financial Statement related issues
  - Failure to capitalise acquisition of Capital Assets
  - Notes to the Accounts figures Different from those presented in the Financial Statements
  - Non-valuation of The Council's Non-Current Assets
  - Payables Not Disclosed in The Financial Statements – Water Bills
  - Liabilities Not Disclosed in The Financial Statements (Locum Arrears)
  - Failure to journalise a prior year adjustment
  - Property, Plant & Equipment – Absence of Title Deeds
  - Failure To Depreciate Plant, Property And Equipment
  - Financial Statement Transactions without supporting schedules/notes
  - Failure To Provide Evidence On Figures Presented In The Financial Statements
  - Figures Brought Forward For Three Consecutive Accounting Periods Without Evidence
  - Overstatement Of Assets In The Financial Statements
- iii. Procurement
  - Procurement Of Goods And Services Without IPDC Approval
  - Mis-Procurement of Second Hand and Non-Runner Vehicle
  - Failure To Source Three Quotations

- Procurement of goods from a company owned by IPDC Member
  - Single Sourcing Of Quotations
  - Contract price adjustment without seeking "No Objection" from PPDA
  - Lack Of Renewal Of Security Services Contract
  - Procurement Of Goods And Services From Unregistered Suppliers
  - Unplanned procurements
- iv. Project Management
- CDF Projects Not Signed For By Area Development Committee (ADC) On The Project Identification Forms
  - CDF Project Without Contract Agreement Forms
  - CDF Projects Payments Made Without Attachment Of Certificate Of Level Of Completion
  - Non-Monitoring Of CDF Projects
  - Uncompleted CDF Projects Indicated As Completed In The Council Records
  - Advance payment to Contractors without advance payment guarantee
  - Under-Utilization Of Constituency Development Fund (CDF)
  - Failure To Compile Supervision Report For Monitoring Projects
  - Payment Relating to CDF not Supported with Project Appraisal Forms
  - Project not implemented at Kaulasisi Bridge
  - Implementation Of Projects Not On Plans
  - CDF Project Expenditures Without Project Implementation
  - CDF Projects initiated by Members of Parliament instead of the community
  - Uncompleted Works For Construction Of Mcherenje Class Block
  - Implementation Of Projects Without Project Implementation Committee
  - Procurement Of Materials For Unspecified Projects
- v. Receivables and Records Management
- Failure To Collect Debts Due From Clients
  - Failure to bill Council customers
  - Work in progress Certificates not Presented for audit
  - Payment Vouchers Not Presented For Audit
  - Payment Vouchers Without Supporting Documents

- Trade Payables not supported by Invoices
  - General Receipts (GR's) Not Produced For Audit Inspection
- vi. Revenue Management
- Failure To Deposit Revenue/Revenue Not Banked
  - Issued Market Fee Books Not Produced For Audit Inspection
  - Bank Reconciliation Not Conducted on ORT and Operations Account
  - Revenue not accounted for
  - Failure to collect rental fees
  - Under-collection of revenue
  - Market fee books not returned to the Council
  - Market fee books and General receipt books not presented for Audit Inspection
  - Under Collection of revenue
  - Outstanding Rentals For Shops At Thyolo Boma
  - Shops Occupied Without Tenancy Agreements

### **General Recommendations**

- (1) The Councils should speed up the process of getting title deeds for all their assets and thereafter including them in the books and financial statements
- (2) The NLGFC should be strict in ensuring that the Directors of Finance and accounting staff are maintaining proper books of account and adhering to the IPSAS accrual stages two (2) and three (3) as the case may be for each Council.
- (3) There is need to improve on the presentation of Financial Statements, especially on the notes to include comparative figures for the previous period.
- (4) The Councils need to strictly adhere to the Finance, Accounting and Procedures Manual on all aspects of record keeping and financial reporting.
- (5) Disciplinary procedures should be established for officers who deliberately violate accounting reporting procedures.
- (6) Each payment of Subsistence Allowance which is irregular should be investigated
- (7) All funds which have not been accounted for should be accounted for and the responsible officers dealt with in accordance with MPSR
- (8) All irregular expenditures should be probed further and responsible officers dealt with in accordance with MPSR

- (9) All those responsible for misallocation of funds without following the due process should face disciplinary action.
- (10) Investigation should be instituted for all payments which were made for non-existent and incomplete CDF projects.
- (11) All unjustified overpayments need to be investigated
- (12) Councils that failed to process some transactions through IFMIS should be probed as to why this was not done and appropriate action taken.
- (13) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly
- (14) Money which is due to a deceased estate and has not been paid, must be paid immediately.
- (15) The Council that failed to service loan should come up with a plan on how the loan can be serviced quickly to avoid penalties.
- (16) The Controlling Officers need to ensure henceforth that Fuel registers and logbooks are regularly checked and monitored and that each Motor Vehicle has a Maintenance File which is regularly updated and reviewed by Management.
- (17) All procurement flaws should be investigated.
- (18) Controlling Officers must ensure strict adherence to procurement laws and regulations
- (19) All project management flaws especially on CDF projects must be investigated.
- (20) The Controlling Officers must ensure strict adherence to CDF and other Funds guidelines and need to demand monthly reports on the same, taking disciplinary action against any officer in violation and reporting to law enforcement agencies for any member of parliament in violation.
- (21) The song of poor record keeping has been sang for far too long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action.
- (22) The Controlling Officers must on a monthly basis monitor all expenditure to ensure that all payment vouchers have supporting documents intact and that all payment vouchers for that particular month are intact.
- (23) The Controlling Officers must within a month of receiving this report, come up with a plan on how they will collect outstanding debts from their clients, and how they will deal with clients that they did not bill
- (24) All revenues not banked should be banked within seven days of receiving this report

- (25) All revenues not Accounted for must be accounted for within a month of receiving this report.
- (26) All revenue related documents not produced for audit inspection must be produced within 14 days of receiving this report.
- (27) All officers who did not account for revenue under their care must face disciplinary action.
- (28) The Controlling Officer(s) must come up with a way of collecting outstanding rentals for shops and that there are Tenancy agreements for all shops occupied.
- (29) The Controlling Officers need to ensure henceforth that Stores registers are on a monthly basis checked and monitored and reviewed by Management.

### **Acknowledgement**

I wish to place on record my profound gratitude and appreciation to staff in my office, auditors, who carried out their duties during the audit of the Councils.

I also wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance, Economic Planning and Development, the Accountant General, Ministry of Local Government and Rural Development, the National Local Government Finance Committee, District Commissioners, Chief Executive Officers and their staff during the period under audit. The cooperation enabled me to obtain information and documentation for the audit in a timely manner.

## PART I

### BACKGROUND AND GENERAL INFORMATION

#### Audit of Public Accounts

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi of 1994 to audit and report on the public accounts of the Government of Malawi including Local Authorities and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principle duties of my office.
2. Section 184 (2) of the same Constitution requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the PAA requires me to forward the report to the President and to the Speaker of National Assembly, this is somehow inconsistent with the Constitution as explained in paragraph 1 above. Consultations with the Law Commission and relevant stakeholders have been initiated to have the inconsistency cleared. The issue is still work in progress
3. The PAA requires, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required under Section 6 (4) (d) of the same Act to determine whether the procedures and systems of internal control of each Ministry, Department, Agency and public authority or body do ensure that: -Revenue is properly assessed and collected;
4. Section 6 (3) of the PAA requires the Auditor General to audit and examine transactions, books and accounts and other financial records associated with any project, programme, and any other activity receiving funding in whole or in part from public money, public resources which in my opinion justifies further investigations.
5. In fulfilling these duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of the PAA, I am required and any person authorized by me to:—
  - (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit, and to any place where they are kept;
  - (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by me;
  - (c) Give notice in writing, requiring any person having possession or control of any documents, books and accounts subject to audit and

examination by me to deliver all or any of them at a time and place and to such person specified in the notice;

- (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
- (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

### **Compilation and Submission of Financial Statements**

- 6. Section 53 (1) of the Local Government Act of 1998, requires all the Councils to keep proper books of accounts and other records in relation thereto and to balance their accounts for each year and produce Statements of final accounts within six months from the end of each financial year. Subsection (2) of the same requires the Councils to submit the final accounts to the National Local Government Finance Committee which is shall forward a copy to me.

### **Controlling Officer's Responsibility**

- 7. In terms of LGA as read together with Section 10 of the PFMA, it is the Controlling Officer's responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. The Act also requires the Councils to keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Councils and enable them to ensure that the financial statements comply with the Public Finance Management Act, Public Procurement and Disposal of Assets Act, Public Audit Act, Financial Management and Accounting Procedures for District Councils, District Development Fund Management Manual and other relevant Acts of Parliament.
- 8. In preparing the financial statements, the Controlling Officers have the following responsibilities:—
  - (a) Maintenance of proper accounting records;
  - (b) Selection of suitable accounting policies and applying them consistently;
  - (c) Making judgments and estimates that are reasonable and prudent;
  - (d) Compliance with applicable standards when preparing financial statements subject to any material departures being disclosed and explained in the financial statements;
  - (f) Preparation of financial statements on a going concern basis (sustainability of service) unless it is inappropriate to presume that the Council will continue in business.

9. It is also the responsibility of the Controlling officer to ensure 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 in accordance with approved plans and the estimates.

### **Scope of Audit**

10. In compliance with Section 13 of the PAA which requires me to use Generally Accepted Auditing Standards, the audit of the Councils' accounts was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audit was intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud. The audit of the financial statements and compliance was conducted in all thirty-five Local Authorities in Malawi for financial year ended 30th June, 2019.
11. The PAA 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 Councils' accounts in order to form an opinion as to whether or not Councils' money is expended economically, and in conformity with the wishes of the National Assembly.

### **Audit Methodology**

12. The core objective of the external audit function is to ensure accountability of public funds. The Public Audit Act empowers me to use discretion and make tests in any particular case. To discharge this responsibility, the audit approach in this assignment involved the following:—
- Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;

- Evaluation and testing of the accounting and internal control systems;
- Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
- Reporting the audit findings based on the audit procedures performed and evidence gathered.

### **Audit Reports**

13. Section 14 (1) of the PAA requires the 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 me within fourteen (14) days of receiving the report.

### **Audit Opinion**

14. For the year ended 30th June 2019, I issued a qualified (Except for) opinion on the following Councils; Balaka District, Blantyre District, Blantyre City, Chikwawa District, Kasungu Municipal, Kasungu District, Lilongwe City, Luchenza Municipal, Machinga District, Mangochi District, Mangochi Municipal, M'mbelwa District, Mulanje District, Nsanje District, Ntcheu District, Ntchisi District and Salima District. I also issued an adverse opinion on the following Councils; Chiradzulu District, Chitipa District, Dedza District, Karonga District, Likoma District, Mwanza District, Mzuzu City, Nkhata-Bay District, Nkhota-kota District, Phalombe District, Rumphu District and Thyolo District Council. I also issued a disclaimer of opinion on Dowa District, Mchinji District and Neno District.

## PART II

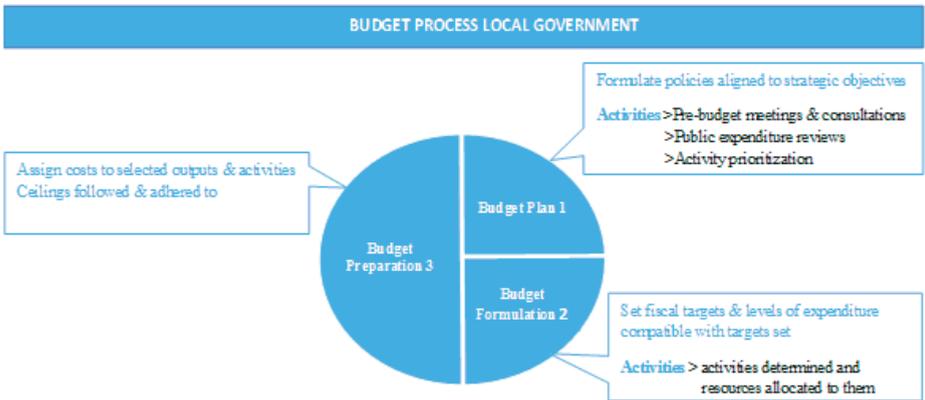
### STRUCTURE AND OVERALL PERFORMANCE

#### Financial Management and Administration Policies

15. The Local Authorities' Financial Management is governed by the Local Authorities Accounting and Financial Management Procedures Manual of May, 2009. However, the following prevailing legal instruments provide the overarching framework:—
- The Constitution of the Republic of Malawi, 1994;
  - The Public Finance Management Act (PFMA), 2003;
  - The Public Audit Act (PAA), 2003;
  - The Public Procurement and Disposal of Assets Act (PPDA), 2017;
  - The Local Government Act (LGA), 1998;
  - Local Authority Accounting and Procedures Manual 2014;
  - The Corrupt Practices Act (CPA), 1998; and
  - By-laws of the Local Authority

#### Budgeting Process

16. The Budgeting guidelines used in the Local Authorities were developed by Ministry of Finance, Economic Planning and Development. These are further elaborated by the NLGFC to include locally generated revenues, development partners grant to the Local Authorities and sectoral guidance for the planning period. The budgeting process undergoes several stages which are shown in Figure 1 below:



Once completed, the budget is submitted to the National Local Government Finance Committee (NLGFC) for technical review. Final consolidated budget is approved by the NLGFC and submitted to Parliament by Minister of Local Government for noting. However the component of the Local Authorities budgets covering central transfers are submitted to Ministry of Finance.

Figure 1: Budgeting process for the Councils

## 17. Budget planning

- involves formulating policies aligned to strategic objectives and priorities at both micro and macro level; and
- activities include Pre-budget meetings and consultations, public expenditure reviews and activity prioritization.

## 18. Budget Formulation

- includes setting fiscal targets and levels of expenditure which are compatible with the set targets; and
- Activities are then determined in order of their competing needs and finally resources are allocated to those activities.

## 19. Budget Preparation

The figure below depicts the budget preparation process for local Councils.



Figure 2: Budget preparation for Councils

## The Role of National Local Government Finance Committee on Accounting and financial reporting for local authorities

20. The functions of the National Local Government Finance Committee in relation to the accounting and financial reporting for Local Authorities are:
- To receive all estimates of revenue and all budgets of local authorities;
  - To prepare a consolidated budget for all local authorities' annual revenue and expenditure estimates in consultation with the Ministry of Finance for presentation to the National Assembly;
  - To examine and supervise accounts of local authorities in accordance with any Act of Parliament, subject to recommendations of the Auditor General;
  - To make recommendations relating to the distribution of funds allocated to local authorities by Central Government and to vary from

time to time the amounts of allocation in accordance with economic realities on the ground; and

- To make application to the Minister for supplementary funds where necessary.

## **Analysis of Findings**

21. The findings from the Financial and Compliance audit of the Local Authorities for the year ended 30th June, 2019, have been classified into six (6) categories for ease of understanding. The analysis has been done using charts. The charts paint a picture in summary of the extent of non-compliance as well as failure to follow the International Public Sector Accounting Standards when preparing Financial Statements.

The six (6) Categories are as follows:

- i. Expenditure Management
- ii. Financial Statement related issues
- iii. Procurement
- iv. Project Management
- v. Receivables and Records Management
- vi. Revenue Management

### **(a) Expenditure management**

This occupies the largest chunk of the findings. As such it has been sub-classified as follows:

- Allowance irregularities
- Failure to Account
- Irregular expenditure
- Misallocation of funds
- CDF payments without completion certificate
- Payments for non-existent CDF projects
- Over-payments
- Failure to remit PAYE taxes to MRA &
- Miscellaneous Expenditure Management queries

I now present the charts on each of the findings.

**(i) Bar Chart of Expenditure Management-Allowance Irregularities**

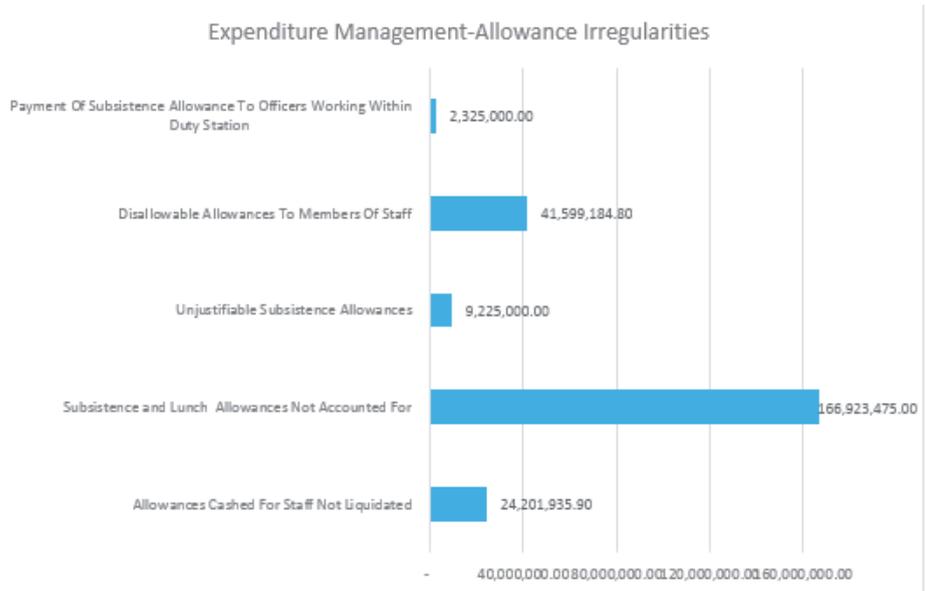


Figure 3: Expenditure Management-Allowance Irregularities

**(ii) Bar Chart of Expenditure Management-Failure to Account**

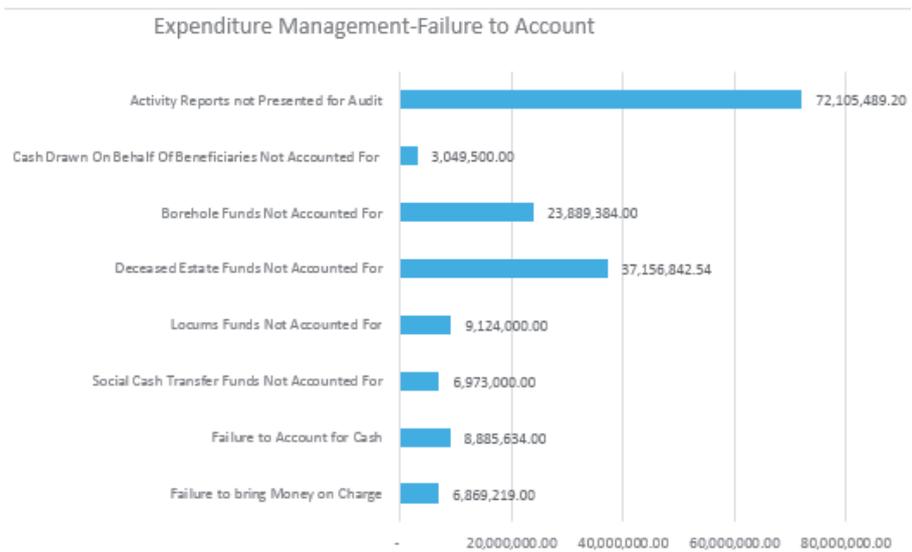


Figure 4: Expenditure Management-Failure to Account

**(iii) Bar Chart of Expenditure Management-Irregular Expenditure**

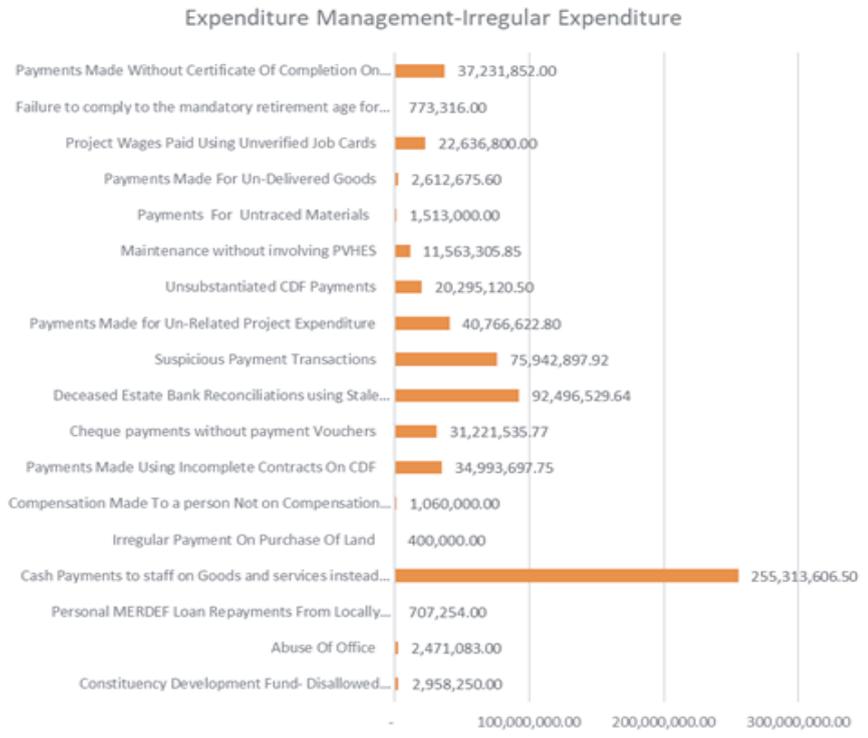


Figure 5: Expenditure Management-Irregular Expenditure

**(iv) Bar Chart of Expenditure Management-Misallocation of Funds**

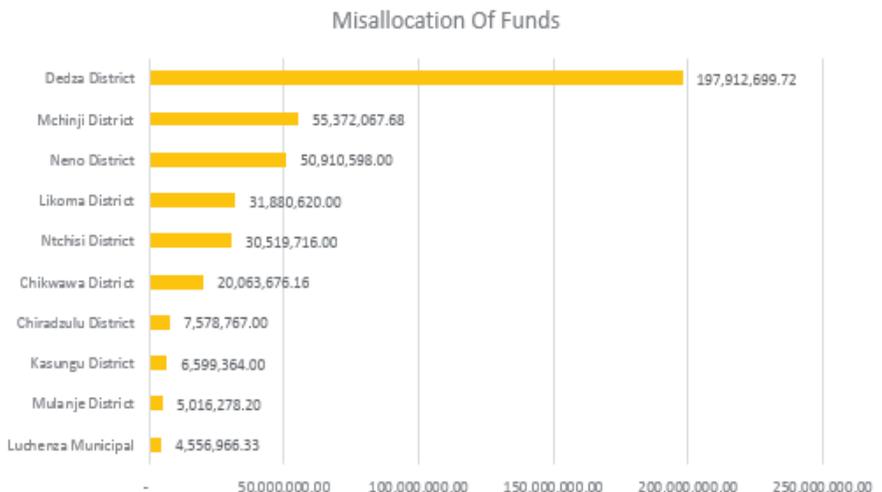


Figure 6: Expenditure Management-Misallocation of Funds

**(v) Bar Chart of Expenditure Management-CDF Payments without completion certificates**

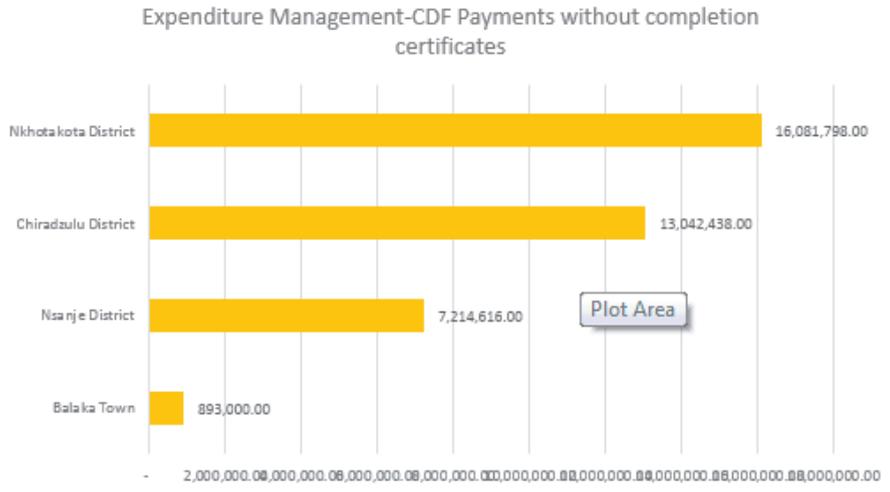


Figure 7: Expenditure Management-CDF Payments without completion certificates

**(vii) Bar Chart of Expenditure Management-Overpayments**

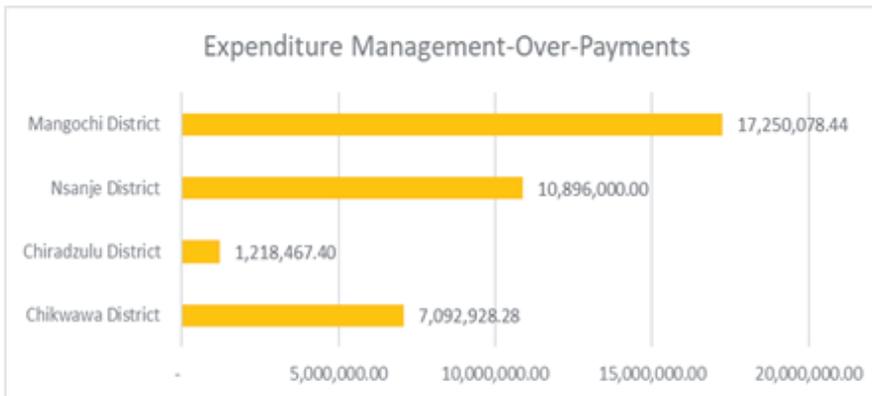


Figure 8: Expenditure Management- Over-Payments

**(viii) Bar Chart of Expenditure Management- Payments for Non-Existent CDF Projects**

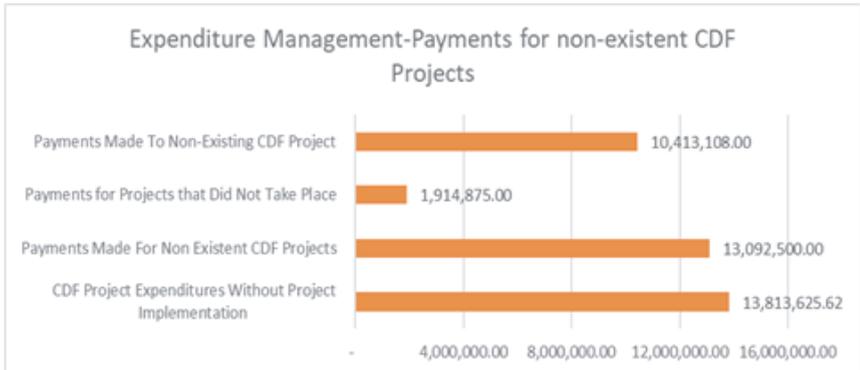


Figure 9: Expenditure Management- Payments for Non-Existent CDF Projects

**(ix) Bar Chart of Expenditure Management-Failure to Remit Tax to MRA**

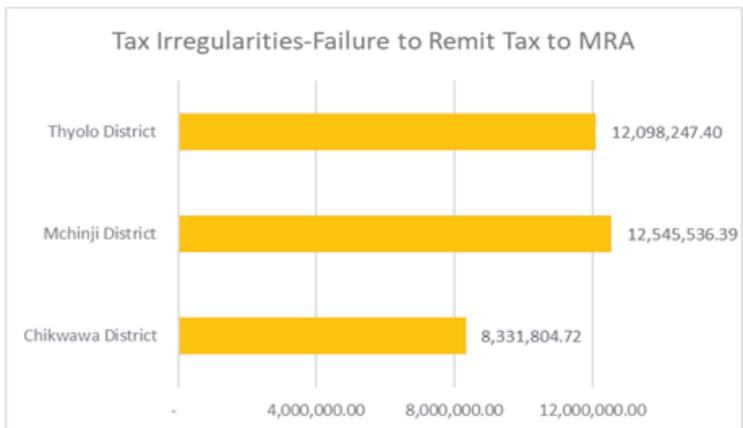


Figure 10: Expenditure Management- Failure to Remit Tax to MRA

**(x) Bar Chart of Expenditure Management- Miscellaneous Irregularities**

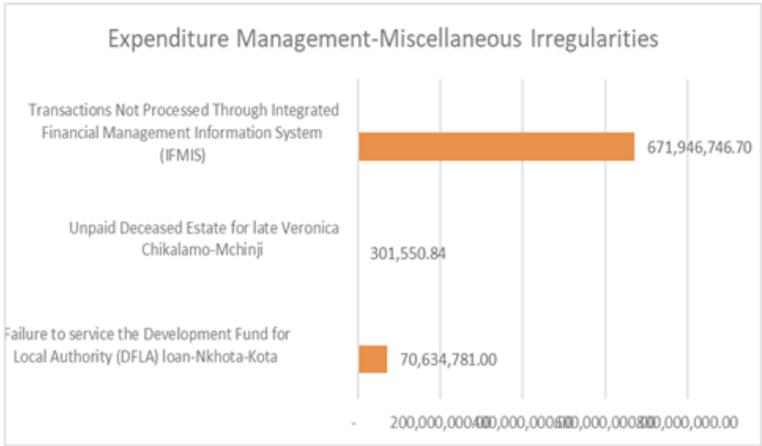


Figure 11: Expenditure Management- Miscellaneous Irregularities

**(b) Financial Statement related issues**

The findings in this category relate to the shortcomings of the Councils in preparing financial reports that comply with international best practice. Qualified audit opinions were issued to most Councils as a result of these deficiencies. These irregularities have been sub classified into 5 categories as follows:

- i. Assets not included in the Financial Statements
- ii. Differences between the Financial Statements and Notes
- iii. Failure to present supporting schedules to the figures in the Financial Statements
- iv. Overstatement of figures in the Financial Statements &
- v. Miscellaneous irregularities

I will now present a chart depicting the figures under each subcategory;

**(i) Bar Chart of Financial Statement Irregularities-Assets not included in FS**



Figure 12: Financial Statement Irregularities-Assets not included in FS

**(ii) Bar Chart on Financial Statement Related Irregularities-Differences between Notes and Financial Statement Figures**

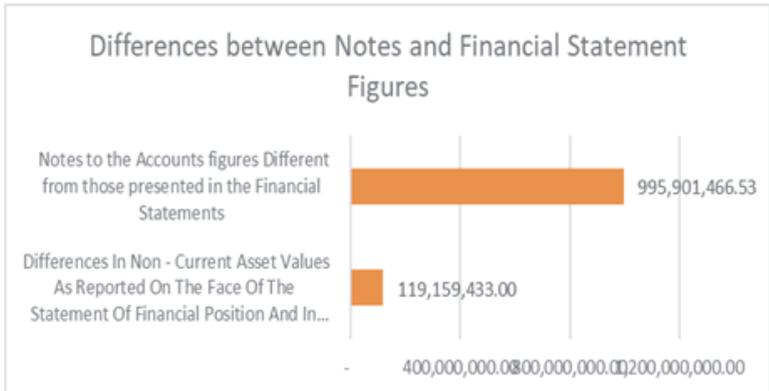


Figure 13: Financial Statement Related Irregularities-Differences between Notes and FS figures

**(iii) Bar Chart on Financial Statement Related Irregularities-Failure to provide supporting schedules**

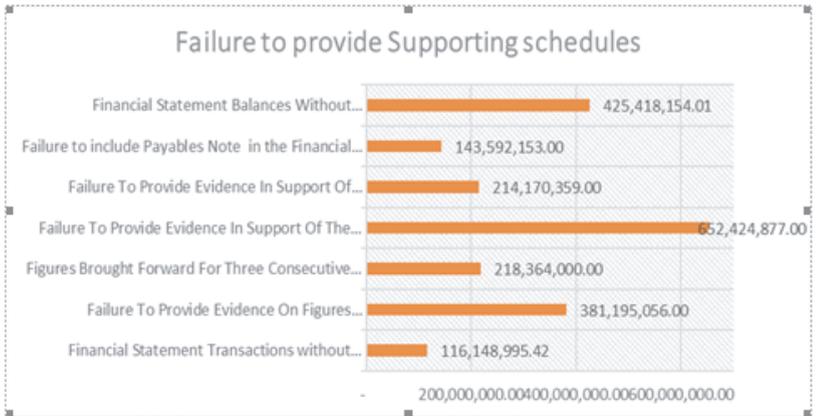


Figure 14: Financial Statement Related Irregularities-Failure to provide supporting schedules

**(iv) Bar Chart on Financial Statement Related Irregularities-Over-Statement of Balances**

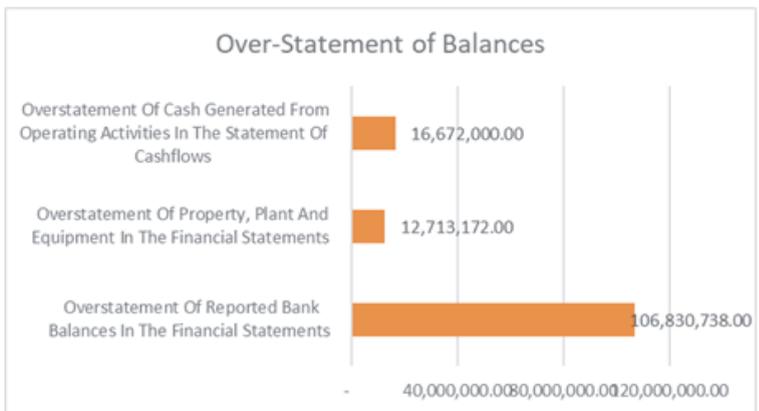


Figure 15: Financial Statement Related Irregularities-Over-Statement of Balances

(v) **Bar Chart on Financial Statement Related Irregularities- Miscellaneous**

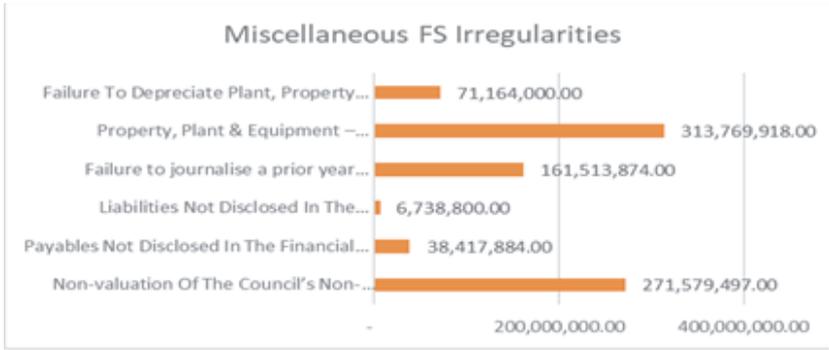


Figure 16: Financial Statement Related Irregularities-Over- Miscellaneous

(c) **Procurement Irregularities**

The findings in this category relate to the shortcomings of the Councils complying with procurement laws and regulations.

**Bar Chart on Procurement Irregularities**

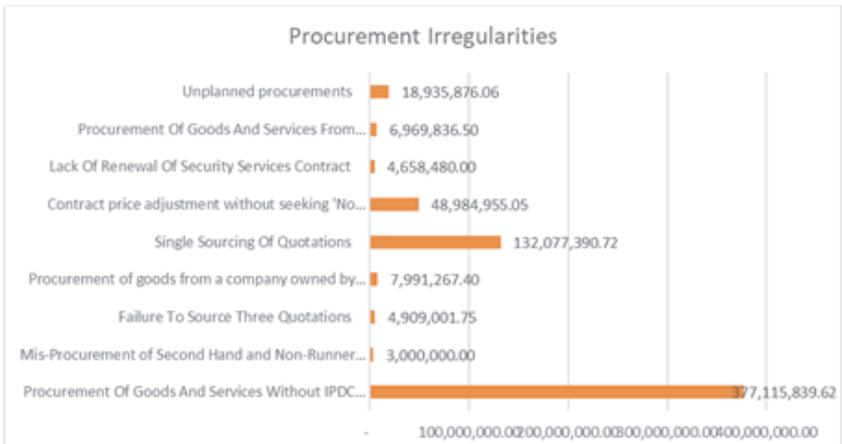


Figure 17: Procurement Irregularities

(d) **Project Management Irregularities**

The findings in this category relate to the shortcomings of the Councils in managing projects such as those under Constituency Development Fund, District Development Fund among many of those implemented by the Councils.

## Bar Chart on Project Management Irregularities

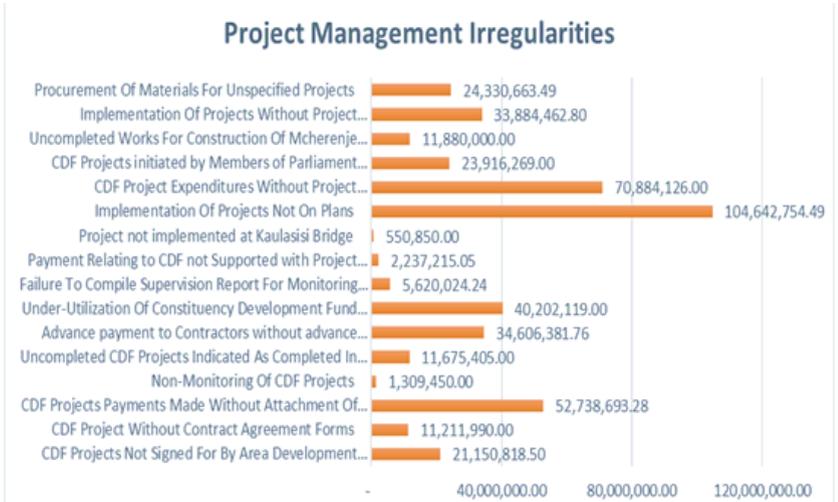


Figure 18: Project Management Irregularities

### (e) Receivables and Records Management Irregularities

The findings in this category relate to the shortcomings of the Councils in Managing debtors as well as in maintaining accounting and other financial records.

## Bar Chart on Receivables and Records Management Irregularities

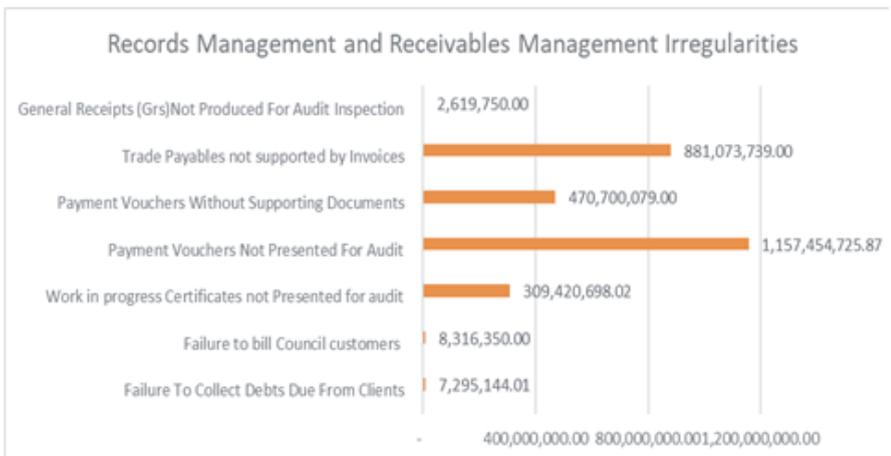


Figure 19: Receivables and Records Management Irregularities

**(f) Revenue Management Irregularities**

The findings in this category relate to the shortcomings of the Councils in collecting, recording and accounting for revenue.

**Bar Chart on Revenue Management Irregularities**

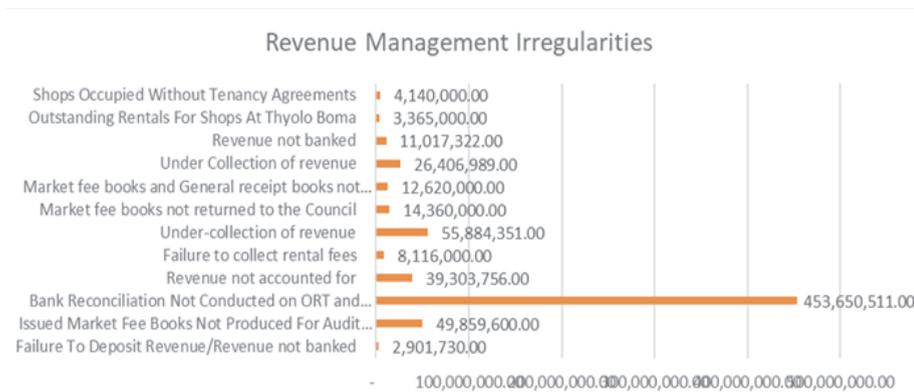


Figure 20: Revenue Management Irregularities

**Local Councils' General Resource Fund Performance For 2019**

- 22. The 2019 General Resource Fund (GRF) for Local Councils had a total of approved budget of K219.5 billion which was revised to K247.3 billion. Actual Expenditure was K232 billion. This translates to 93.8 percent expenditure over revised budget. Table 1 below has the details.

**Table 1: General Resource Fund Performance for 2019**

Council	Vote	Approved	Revised	Actual	Variance	Actual as %
		Budget	Estimates	Expenditure		of Revised
		2018/2019	2018/2019	2018/2019		Budget
		MK'000	MK'000	MK'000	MK'000	2018/2019
Blantyre City Council	601	3,797,705	3,614,970	614,970	3,000,000	17.0%
Lilongwe City Council	602	3,663,775	3,497,493	497,493	3,000,000	14.2%
Mzuzu City Council	603	2,902,138	2,774,024	274,024	2,500,000	9.9%
Zomba City Council	604	1,815,052	1,695,700	195,700	1,500,000	11.5%
Kasungu Municipality Council	806	53,228	25,745	25,745	(0)	100.0%
Luchenza Municipality Council	807	52,407	22,947	22,947	-	100.0%
Mangochi Town Council	807	55,634	29,520	29,520	0	100.0%
Balaka District Council	901	5,750,757	6,679,065	6,675,531	3,533	99.9%
Blantyre District Council	902	10,520,857	12,609,791	12,609,791	(0)	100.0%
Chikwawa District Council	903	7,787,923	7,912,988	7,909,694	3,294	100.0%
Chiradzulu District Council	904	6,140,098	6,134,260	6,129,620	4,640	99.9%
Chitipa District Council	905	4,155,655	4,668,364	4,649,102	19,262	99.6%
Dedza District Council	906	8,785,583	10,064,226	10,062,901	1,325	100.0%
Dowa District Council	907	8,180,862	9,695,922	9,695,922	-	100.0%
Karonga District Council	908	5,115,422	6,191,168	2,060,988	4,130,179	33.3%
Kasungu District Council	909	10,205,322	12,165,670	12,157,600	8,070	99.9%
Likoma District Council	910	475,571	472,902	472,631	271	99.9%
Lilongwe District Council	911	23,044,601	27,122,160	26,772,983	349,177	98.7%
Machinga District Council	912	7,139,205	8,766,428	8,766,428	-	100.0%
Mangochi District Council	913	10,552,432	13,133,951	13,131,087	2,864	100.0%
Mchinji District Council	914	8,021,017	8,264,939	8,264,649	290	100.0%
M'mbelwa District Council	915	16,348,156	16,464,943	16,464,656	287	100.0%
Mulanje District Council	916	8,214,397	9,714,922	9,711,829	3,092	100.0%
Mwanza District Council	917	2,385,637	2,734,128	2,732,971	1,157	100.0%
Neno District Council	918	2,531,458	2,854,835	2,854,576	259	100.0%
NkhataBay District Council	919	4,740,888	5,461,283	5,457,933	3,350	99.9%
Nkhota kota District Council	920	5,362,418	6,271,993	6,267,384	4,608	99.9%
Nsanje District Council	921	4,381,811	5,132,139	5,132,140	(1)	100.0%
Ntcheu District Council	922	8,679,815	9,213,851	9,209,240	4,611	99.9%
Ntchisi District Council	923	5,175,887	5,207,809	5,207,067	743	100.0%
Phalombe District Council	924	5,376,894	5,984,894	5,981,723	3,171	99.9%
Rumphi District Council	925	3,905,344	4,436,592	4,435,702	890	100.0%
Salima District council	926	6,019,072	6,974,900	6,974,900	-	100.0%
Thyolo District Council	927	8,346,426	9,621,226	8,908,602	712,624	92.6%
Zomba District Council	928	9,781,681	11,684,715	11,684,715	-	100.0%
<b>Total</b>		<b>219,465,128</b>	<b>247,300,462</b>	<b>232,042,766</b>	<b>15,257,696</b>	<b>93.8%</b>

Table 1: Local Councils' General Resource Fund Performance For 2019

## PART III

### AUDIT RESULTS OF THE COUNCILS

#### General audit observations

23. An audit of financial statements of the Local Councils for the year ended 30th June 2019 was completed in August, 2020. Between September, 2020 and June, 2020, I engaged the Controlling Officers (District Commissioners and Chief Executive Officers) to provide responses to the observations raised in their respective management letters. Further, reference sheets were issued to them as a final reminder. The findings included in this report relate to the observations that were not satisfactorily responded to in both the Management Letters and Reference Sheets. Observations of some Councils may not necessarily appear in this report because they were resolved at management level.

Most of the audit findings are recurring and management of the Councils should take issues of accountability seriously as the audit disclosed the following internal control weaknesses which cut across all the Councils.

#### Expenditure Management Irregularities

24. The audit has revealed that most Councils failed to manage expenditure in accordance with provisions in the Public Finance Management Act, 2003 and other financial regulations such as Treasury Instructions, Desk Instructions, CDF Guidelines, DDF guidelines and LA Accounting and FM procedures Manual among others. This was observed through irregularities such as: undeserving, disallowable, unjustifiable, unaccounted for and unliquidated subsistence allowances; unaccounted for expenditures, expenditure made without following procedures and for non-existent projects, Over-payments and misallocation of expenditure.

#### Preparation of Financial statements.

25. Local Government Act of 1998 Sections 53 (1) requires all Councils to keep proper books of accounts and other records from which financial statements or final accounts will be produced. The audit has revealed that most Councils had difficulties in preparing Financial Statements in accordance with generally accepted Accounting Principles, as such there were a number of irregularities as follows; Assets not being revalued, Assets not being included in the Financial Statements, differences between the notes and figures as presented on the face on the financial statements, failure to present supporting schedules to the figures in the financial statements, overstatement of figures in the financial statements. Additionally, most Councils presented notes without comparative figures for the previous year.

## Receivables and Records Management

26. Treasury Instructions (2004), Section 5.9(a) states 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.

Contrary to this requirement, it was observed that a number of payment vouchers were not presented for audit inspection, a number of supporting documents were not attached to the payment vouchers at the time of audit.

It was also observed that most Councils had problems in managing their debtors. Most debts remain uncollected by the Councils.

27. Apart from the observations above, the following were also noted:

- There were a number of problems to do with billing, collecting, banking and accounting for revenue.
- There were also a number of procurement flaws such as making unplanned procurements, not involving IPDC when making procurements, using expired contracts, among other irregularities.
- The Councils also failed a great deal in managing CDF projects.

## SPECIFIC AUDIT FINDINGS

### BALAKA DISTRICT COUNCIL

28. An audit of Balaka District Council for the year ended 30th June, 2019 was completed on 3rd April, 2019. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Trade Payables Not Supported by Invoices: K 881, 073, 739.00**

Treasury Instructions (2004), Section 5.21.3 states that Every Controlling Officer shall Ensure in respect of receipts, invoices and debit notes their entity holds that they are kept secure in a strong room, safe or strong lockable box until required for use.

Contrary to requirement, the council did not produce the invoices for the trade payables amounting to K881,073,739.00 recorded in the ledger and in the financial statements.

**(b) Failure to Add Accumulated Depreciation to Depreciation Charge for The Year**

Generally Accepted accounting practices requires that Accumulated depreciation from the previous year be added to the depreciation charge for the year and the total amount be subtracted from the cost of the non-current assets.

Contrary to the requirement the council did not add the accumulated depreciation from the previous year to the charge for the year.

**(c) Failure To Include A Receivable Note Or Schedule In The Financial Statements: K143,592,153.00**

IPSAS 1 stipulates how financial statements for public entities should be presented and paragraph 122 (b) states that, among other things, notes to the financial statements of an entity should provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

Balaka District Council presented a lump-sum figure of receivables totalling K143,592,153.00 on the face of the financial statements for the year ended 30th June, 2019, but failed to provide a note or a schedule detailing the composition and other details of the receivables. Consequently, the audit team failed to determine if the receivables figure shown in the statement of financial position was fairly presented.

**(d) Failure To Include Prior Year Figures For Items Shown In The Financial Statements In The Notes To The Accounts**

IPSAS 1 stipulates how financial statements for public entities should be presented and paragraph 122 (b) states that, among other things, notes to the financial statements of an entity should provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

An inspection of the financial statements against notes to the accounts showed that the Council did not include prior year figures in the notes for all items showed in the financial statements for the period ending 30th June, 2018.

**(e) Notes To The Accounts Figures Different From Those Presented In The Financial Statements: K180,961,909.00**

IPSAS 1 stipulates how financial statements for public entities should be presented and Paragraph 122 (b) states that, among other things, notes to the financial statements of an entity should provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

An inspection of the financial statements for the period ending 30th June 2018 and 2019 against notes to the accounts showed that in certain cases the figures presented in the notes differed from the ones presented on the face of the financial statements. This resulted in accumulated variance of K180,961,909.00.

**(f) Purchase Of CDF Goods And Services Without IPDC Approval: K10,183,345.00**

Public Procurement and Disposal of Assets Act (2017) Section 26.2c among other things requires all procuring entities to procure goods and services through the scrutiny and approval of the Internal Procurement & Disposal Committee (IPDC).

A review of payment vouchers and other procurement records revealed that CDF goods and services valued at K10,183,345.00 were purchased without the IPDC approval as there were no IPC minutes to show that the IPDC approved the procurement.

**(g) Payment For CDF Projects Without Certificate Of Completion: K893,000.00**

CDF guidelines paragraph 16.4 requires that CDF payments for contracts shall only be paid after issue of a certificate of completion by personnel with technical expertise on that contract such a Director of Public Works.

It was however, noted that the council paid the contractor money amounting to K893,000.00 for the CDF projects without completion

certificate. This made it difficult to ascertain whether these projects were indeed completed or not.

## **BLANTYRE DISTRICT COUNCIL**

29. An audit of Blantyre District Council for the years ended 30th June, 2019 was completed on 19th November, 2019. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Use of Single Sourcing (DDF Account): K3,084,199.84**

The Public Procurement and Disposal of Public Assets Act (PPDA) (2017), Section 37 (8) states that the request for quotations method may be used for the procurement of goods, works and routine services when the estimated value of the procurement does not exceed the amount set by the regulations.

An inspection of payment vouchers, invoices and delivery notes disclosed that during period under review, the Council procured DDF materials amounting K3,084,199.84 using single sourcing of quotation method. Quotations were not solicited from a minimum of three perspective suppliers without any relevant circumstance or authority from the Office of the Director of Public Procurement and Asset Disposal Authority thereby threatening the purpose of obtaining valued for money in public procurement.

**(b) Overstatement Of Property, Plant And Equipment In The Financial Statements: K12,713,172.00**

Local Authority Accounting and Financial Management Procedure Manual (2009), Section 2.1.1 states that each Local Assembly shall prepare and maintain a Fixed Assets Register which includes all the fixed assets owned by the Local Assembly. All fixed assets should be reflected in the balance sheet.

To the contrary, an inspection of the Asset Register maintained by the Council during the period under review, against financial statements prepared at the end of the period, disclosed a discrepancy in value of the property, plant and equipment such that Asset Register showed a balance of K40,557,828.00 while the financial statements indicated a balance of K53,271,000.00 resulting into an over statement of K12,713,172.00.

**(c) Assets Physically Available But Not Included In The Assets Register**

Local Authority Accounting and Financial Management Procedure (2009), Section 2.1.1 states that each Local Assembly shall prepare and maintain a Fixed Assets Register which includes all the fixed

assets owned by the Local Assembly. All fixed assets should be reflected in the balance sheet. Treasury Instruction 2004 2.6.1 (i) requires all Controlling Officers to take all necessary precautionary measures in order to safeguard government resources and assets against loss and wastage.

To the contrary, an inspection of the asset register together with assets physically available at the Council disclosed that during the period under review, usable assets were not included in the asset register.

**(d) Revaluation of Property, Plant and Equipment Not Conducted**

Local Authority Accounting and Financial Management Procedure Manual (2009,) Section 2.1.1 on fixed Assets, require all fixed assets to be reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The revaluation exercise shall be undertaken by qualified valuers.

Contrary to the regulation, an inspection of the Fixed Asset Register disclosed that during the period under review, the Council did not revalue its assets making it difficult to determine if the assets values shown in the fixed asset register reflected the state of affairs as at 30th June, 2019.

**(e) Review of Useful Life of Plant, Property and Equipment Not Conducted**

Local Authority Accounting and Financial Management Procedure Manual (2009) Section 2.1.1 requires the useful life of fixed assets to be reviewed by qualified values after expiry of the depreciation periods as stipulated above. Subsequent depreciation calculations shall be based on the revised useful economic life.

An inspection of the Fixed Asset Register revealed that the Council did not conduct a review of the useful life of its Property, Plant and Equipment indicated in the financial statements making it difficult to ascertain the truthfulness of their values in the financial statements.

**(f) Liabilities Not Disclosed in The Financial Statements (Locum Arrears): K6,738,800.00**

Local Authority Accounting and Financial Management Procedure Manual (2009), Section 2.1.7 requires that Local Authority may accrue creditors only to the level of the provision in the annual or supplementary estimates of the Local Authority. Therefore, creditors will be recognized in the books of accounts as soon as goods have been received and services provided. The Local Authorities shall

ensure that creditors are paid within the agreed period of the service acquired.

An inspection requisitions processed under Blantyre D.H.O disclosed that the council accumulated LOCUM arrears valued at K6,738,800.00 out of which K4,489,200 were for Nurses while K2,289,600.00 were for Clinicians.

## **CHIKWAWA DISTRICT COUNCIL**

30. An audit of Chikwawa District Council for the year ended 30th June, 2019 was completed on 9th April, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Fixed Assets Register Not Maintained**

Local Authority Accounting and Financial Management Procedure Manual (2009), Section 2.1.1 states that each Local Assembly shall prepare and maintain a Fixed Assets Register which includes all the fixed assets owned by the Local Assembly. All fixed assets should be reflected in the balance sheet.

An inspection of fixed assets together with enquiries into fixed assets management system revealed that the Council does not have fixed assets register for recording fixed assets thereby defeating the accountability requirement on Local Authorities.

**(b) Overstatement Of Cash Generated From Operating Activities In The Statement Of Cash flows: K16,672,000.00**

The International Public Sector Accounting Standard (IPSAS 2) which is derived from IAS 7 requires the presentation of information about historical changes in cash and cash equivalents of an entity by means of a cash flow which classifies cash flow during the period according to operating, investing and financing activities.

A review of the Council's Statement of Cash Flow for the period under review revealed that increase in receivables was added to the cash from operating activities instead of being subtracted resulting in overstatement of cash generated from operating activities.

**(c) Unsupported Adjustments In Operating Activities Of The Statement Of Cash flows: K331,039,000.00 Other Adjustments And (K165,337,000) Suspense Account**

The International Public Sector Accounting Standard (IPSAS 2) which is derived from IAS 7 requires the presentation of information about historical changes in cash and cash equivalents of an entity by means of a cash flow which classifies cash flow during the period according to operating, investing and financing activities.

A review of the Council's Statement of Cash Flow for the period under review disclosed unexplained adjustments in form of other adjustments and suspense account valued at K331,039,000.00 and (K165,337, 0000) respectively, in the operating activities such that it was difficult to confirm the integrity of the figures.

**(d) Revenue and Expenditure Transactions Not Posted In IFMIS: K31,573,942.93**

Treasury Instruction (2004) Section 5.10 states that all payments, receipts and other accounting transactions must be entered and processed into Integrated Financial Management Information System (IFMIS) approved by the Secretary to the Treasury to enhance transparency and accountability of public funds.

A review of monthly revenue summaries and manual cashbook revealed that the Council did not post into the IFMIS all of its locally generated revenue and expenditure amounting to K9,510,110.00 and K22,063,832.93 for revenue and expenditure respectively.

**(e) No Basis For The Carrying Amount Of All Assets In The Financial Statements**

International Public Sector Accounting Standards (IPSAS) 17's objective is to prescribe the accounting treatment for property plant and equipment so that users of financial statements can discern information about an entity's investment in its property plant and equipment and any changes in such investment. The standard outlines the accounting treatment of Property, Plant and Equipment, that it is initially measured at cost and subsequently measured either using the cost or revaluation model and depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.

An inspection of the physical assets and the asset source documents to establish how the Council arrived at the carrying amounts of the assets, revealed that there were no readily available source documents to back up the value attached to the assets as presented in the Financial Statements.

**(f) Fuel Not Accounted For: K56,699,200.54**

Treasury Instructions (2004), Section 5.16 requires every Controlling Officer to ensure that internal control measures and procedures are in place with respect to the processing of transactions for payment.

An inspection of payment vouchers for the year under review revealed that fuel amounting to K55,595,549.54 was not recorded in the fuel ledgers and K1,103,651.00 was not recorded in motor vehicle logbooks totaling K56,699,200.54. Utilization of the fuel could not be ascertained in the absence of fuel ledgers.

**(g) Stores Items Not Accounted For: K42,318,938.11**

Treasury Instructions (2004), Section 11.7.1.2 states that, where consumable stores are received in bulk for subsequent issue in small lots, transactions will be entered in a Consumables Stores Ledger.

An inspection of payment vouchers and stores ledgers revealed that building materials and consumables valued at K42,318,938.11, purchased during the period under review were not accounted for through the ledger such that disposal of the purchases could not be established.

**(h) Unliquidated Allowances: K2, 084,000.00**

Accountant General Desk Instruction (2007), Section 7.5.1 (i) on Control of Receipted Vouchers states that the cashier shall ensure that all claimants have signed against their names and amounts before cash is paid.

An inspection of payment vouchers revealed that subsistence allowances drawn on behalf of staff amounting to K2,084,000.00 were not liquidated making it difficult for the inspecting auditors to establish the integrity of the payments.

**(i) Unjustifiable Subsistence Allowances: K9,225,000.00**

Treasury Instructions (2004), Section 5.9 (a) 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 staff.

An inspection of payment vouchers revealed that subsistence allowances were paid to staff who did not travel and spend a night outside the duty station thereby defeating the regulation of appropriateness of subsistence allowance payment.

**(j) Training Funds Used On Allowances: K6,337,192.00**

Treasury Instructions (2004), Section 5.16.1 states that every Controlling Officer must ensure that internal control measures and procedures are in place with respect to the processing of transactions for payment.

An inspection of payment vouchers against the budget estimates disclosed that training funds were mostly used on subsistence and other allowances without proper virements.

**(k) Misallocations Of Funds: K20,063,676.16**

Treasury Instructions (2004), Section 4.14.1 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 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 inspection of payment vouchers disclosed that funds amounting to K11,621,749.34 meant for other activities were used on unrelated activities without any approval from the Secretary to the Treasury and K8,441,926.82 charged to code number 2453 which is not among the codes provided in IFMIS.

**(l) Payments Without Adequate Supporting Documents: K8,907,500.00**

Treasury Instruction (2004), Section 5.9 (a) 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 staff.

An inspection of Payment vouchers revealed that payments for subsistence allowances amounting to K8,907,500.00 were made without supporting authority to leave duty station forms. It was difficult to ascertain the validity of the subsistence allowances.

**(m) DDF Payment Vouchers Not Presented For Audit: K17,834,573.95**

Treasury Instructions (2004), Section 5.9(a) states 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 inspection of payment vouchers and expenditure statement by cost centre revealed that payment vouchers amounting to K17,834,573.95 for DDF were not presented for audit.

**(n) Project Wages Paid Using Unverified Job Cards: K22,636,800.00**

Treasury Instructions (2004), 5.16.1 states that every Controlling Officer must ensure that internal control measures and procedures are in place with respect to the processing of transactions for payment.

An inspection of payment vouchers for various projects revealed that funds amounting to K22,636,800.00 for projects were paid without the certification of the foreman as regards to the quality and level of completion of such projects.

**(o) Implementation Of Projects Not On Plans: K104,642,754.49**

Treasury Instruction (2004), Section 5.16.1 states that every Controlling Officer must ensure that internal control measures and procedures are in place with respect to the processing of transactions for payment.

An examination of payment vouchers for various projects against the annual plan revealed that some projects were paid which were not on the plan as new ones or continuing previous projects.

**(p) Overpayments On Uncompleted Projects: K7,092,928.28**

Treasury Instructions (2004), Section 5.16.1 states that every Controlling Officer must ensure that internal control measures and procedures are in place with respect to the processing of transactions for payment.

An inspection of payment vouchers for CDF projects revealed that some projects payments were in excess of what was in the contract without any evidence of justification. This resulted into total excess payments of K7,092,928.28.

**(q) Failure To Remit Pay As You Earn (PAYE) Tax To MRA: K8,331,804.72**

Taxation Act of (2006), Section 102 (1) requires that when making payment of, or on account of, any emolument at a rate exceeding an amount established by the Minister of Finance per annum received or accrued in respect of services rendered, whether payable under any contract of employment or service or not, whether paid or payable weekly or monthly or at other intervals, and including any amounts assessable under Sections 16, 17 and 18, income tax shall, subject and in accordance with any regulations made by the Minister under section 146, be deductible by the person making the payment and be remitted to Malawi Revenue Authority. The Fourteenth (14th) Schedule of the Act further requires the deducted PAYE to be remitted to MRA within Fourteen (14) days of the end of the month in which it was deducted.

Contrary to the above requirements, the Council did not remit to the Commissioner the deducted income tax amounting to K8,331,804.72 under rule 3 within fourteen days of the end of the month in which it was deducted.

## CHIRADZULU DISTRICT COUNCIL

31. An audit inspection of the financial and other information for Chiradzulu District Council for the year ended 30th June, 2019 was completed on 8th July, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Revenue Collected Not Accounted For: K4,461,406.00**

Treasury Instructions (2004), Section 5.7.2 (d) requires sound cash management by ensuring that revenue which is due is collected and banked promptly.

An inspection of general receipt books and cashbooks for the period under review revealed that the office collected revenue amounting to K4,461,406.00 but it did not account for such that there was no proof of any deposit slips to establish that such revenue was banked nor any documentation to substantiate its accountability.

**(b) Market Fee Books Not Returned To The Council's Cashier: K14,360,000.00**

Local Authority Accounting & Financial Management Procedures Manual (2014), Section 1.3.4 (b), (c) and (d) states that in line with the Fiscal Decentralisation process, District Commissioners (DC) and Chief Executives (CE) are the Controlling Officers of the Local Authorities. The following are therefore responsibilities of the DC and CE as stipulated in the PFMA, 2003: Provide advice on financial management to the Assembly, ensure that all accounts and records relating to the functions and operations of the Local Authority are properly maintained and ensure that all necessary precautions are taken to safeguard the collection and custody of public funds.

An inspection of the security document register revealed that some market fee books whose face value was K14,360,000.00 which were collected by different market masters were not returned to the cashier of the Council. It was difficult to ascertain accountability of the revenue collected.

**(c) General Receipt Books Not Recorded In The Security Documents Register**

Treasury Instructions (2004), Section 5.13.1 (f) and (g) states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognised as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objectives are met, all assets are safeguarded against loss or destruction, and unauthorized use, resources are employed and managed in an effective, economic and efficient manner.

An inspection of security document register revealed that some General Receipt Books were issued for use without being recorded in the security document register.

**(d) Social Cash Transfer Funds Not Accounted For: K5,387,800.00**

Treasury Instructions (2004), Section 5.13.1(d) states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objective is met that revenue, expenditure, assets and liabilities are properly recorded and accounted for.

An inspection of social cash transfer payment vouchers, signing sheets and deposit slips revealed that revenue amounting to K5,387,800.00 which was not disbursed to beneficiaries was not accounted for as there was no proof that the funds were deposited back to the bank and no cash was available at hand.

**(e) Payments Made Using Incomplete Contracts On CDF: K34,993,697.75**

Public Procurement and Disposal of Assets Act (2017), Section 30 states that all public procurement proceedings shall be conducted in a manner which promotes transparency, accountability, non-discrimination, fairness, open competition, economy, efficiency and responsiveness to modern information and communication technology.

Inspection of payment vouchers for the period under review revealed that some payments amounting to K34,993,697.75 were made to different suppliers using incomplete contracts as they were only signed by one party.

**(f) Unsubstantiated CDF Payments: K20,295,120.50**

Treasury Instructions (2004), Section 5.16.2.1 states that no officer of a Ministry or Department shall spend or commit public money except with the approval of the Controlling officer or a properly delegated officer or authorized officer of that Ministry or Department.

An inspection of payment vouchers, cheque pads, invoices and loose minutes revealed that the office made some payments for Constituency Development Funds amounting to K20,295,120.50 without raising a payment voucher, Request for Quotations (RFQ) and Internal Procurement and Disposal of Assets Committee minutes. It was difficult to ascertain the validity of the payments and ascertain whether the services/goods were really rendered/delivered to the Council.

**(g) Payments Made Outside IFMIS: K19,207,016.18**

Treasury Instructions (2004), Section 5.10 states that all payments, receipts and other accounting transactions must be entered and processed through Integrated Financial Management System (IFMIS) approved by the Secretary to the Treasury to enhance transparency and accountability of public funds.

An inspection of payment vouchers and expenditure statement by cost centre revealed that the Council made some payments totalling K19,207,016.18 outside the IFMIS which was contrary to regulations.

**(h) Cashing Of Allowances And Payments For Suppliers In The Name Of Staff: K22,117,935.90**

Government circular No ST/87 of 2010 from the Secretary to the Treasury states that all employees of Government must receive their dues through banks and any payment to suppliers must be made direct to the suppliers which means that the cash payment system was abolished.

An inspection of payment vouchers revealed that management paid cash to various officers in respect of allowances for staff and suppliers of goods and services amounting to K18,140,190.90, K3,547,745.00 and K430,000.00 instead of banks.

**(i) Abuse Of Office: K2, 471,083.00**

Public Finance Management Act (2003) Section 10.1 (h) and 10.1(I) states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste; and all necessary precautions are taken to safeguard public resources.

An inspection of fuel records revealed that the fuel register together with the fuel card were left at the fuel pump filling stations so that any Council official could access the fuel as such some officers took advantage of their position within the Council to misuse government resources in the sense that fuel could be drawn in bulk from the fuel pump filling stations and put into their private personal cars. In some cases, vehicles could draw more fuel than their tank capacities. Fuel amounting to K2, 471,085.00 was misused in that manner.

**(j) Payments Made Without Certificate Of Completion On CDF: K13,042,438.00**

Local Authority Accounting and Financial Management Procedure Manual (2009), Section 5.5.3 (d) (v) requires payments for contracts to be effected only when a completion certificate has been issued by personnel with technical expertise on that contract.

It was however, noted that the Council paid a sum of K13,042,438.00 to different contractors without attaching completion certificates. It was difficult to ascertain whether these projects were indeed completed.

**(k) Cheque Dispatch Register Not Signed For: K6,888,610.00**

Treasury Instruction number 5.13.1(e) of 2004 states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, appropriate control objectives are met and that all financial and operating information is accurate and reliable.

A review of cheque dispatch register for the period under review disclosed that some cheques amounting to K4,498,175.00 and K2,390,435.00 issued to different suppliers by the Secretariat and the Agriculture Sector were not signed for by the recipients and recorded in the dispatch cheque register respectively.

**(l) Subsistence Allowances Paid Without Disclosing Period And Places Of Travel: K6,917,800.00**

Accountant General's Final Desk Instructions (2007), Section number 6 (ix) states that description of journey (column "from and to") shall indicate, in date sequence, each station from which the journey commenced and each station of duty.

An inspection of payment vouchers and authority to leave duty station forms in respect of allowances for different activities revealed that K6,617,800.00 was paid with the support of incomplete Authority to leave duty station forms as information such as dates and destination of travel, among others was missing on the forms.

**(m) Cash Payments Without Receipted Vouchers: K3,702,456.00**

Accountant General Final Desk Instruction (2007), Number 7.1.1 (i) and (iv) on Control of Receipted Vouchers states that the cashier shall ensure that all claimants have signed against their names and amounts before cash is paid and any unclaimed money shall be brought on charge.

An inspection of payment vouchers for the period under review disclosed that cash payments amounting to K3,702,456.00 were made to officers and ward councilors without receipted vouchers. It was therefore, difficult for auditors to ascertain if the cash was indeed received by the recipients.

**(n) Social Cash Transfer Funds Not Brought On Charge: K1,585,200.00**

Local Authority Accounting & Financial Management Procedures Manual (2014), Section 8.6.1 (a) and (c) stipulates that for the Control of Received Vouchers, the cashier shall ensure that all claimants have signed against their names and amounts before cash is paid and that receipted payment vouchers, shall be returned within ten days from the last date of payment. If the vouchers are not returned within ten days, efforts by the DOF to follow up on the vouchers shall be made. Any monies unpaid shall be brought on charge.

Inspection of payment vouchers, signing sheets for beneficiaries and deposit slips revealed that some signing sheets totaling K1,585,200.00 were not signed by the beneficiaries yet cash was not deposited back into account. According to the cashier, cash was not remitted by accounts personnel who carried out the pay parade. Unfortunately, the audit team was not provided with the list of names of the officers who were holding the cash. It was also learnt that some monies were borrowed by the Council for other activities.

**(o) Refunds Made Without Proper Basis: K651,158.00**

Treasury Instruction number 2.6.1 (h) of 2004 states that the responsibilities of Controlling Officers include ensuring that all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste.

An inspection of payment vouchers and its relevant supporting documents revealed that the office paid an amount of K651,158.00 in respect of refunds which had no basis as some payments had no invoices and for those payments which had invoices, such invoices were irrelevant to the particular claims. A claim could be for the purchase of refreshment but the invoice attached could be from a supplier whose business is stationery and hardware materials.

**(p) Procurement Of Goods Without Approval Of Internal Procurement And Disposal Committee: K9,389,399.47**

Public Procurement & Disposal of Assets Act (2017), Section 26 (2) (a-g) outlines the functions of the Internal Procurement & Disposal Committee in all procuring and disposing entities as; ascertaining the availability of funds to pay for each procurement; approving the methods of procurement and disposal to be used in each case; approving the procurement and disposal plans for the procuring and disposing entity; appointing the chairperson of the bid opening from amongst its membership; appointing ad-hoc evaluation team for the examination, evaluation and comparison of bids; reviewing and approving bid evaluation reports and reviewing and approving any contract amendments.

An inspection of payment vouchers and Internal Procurement and Disposal of Assets Committee minutes revealed that the office procured some goods and services without the committees' approval, amounting to K9,389,399.49 comprising of K1,713,900.00 for Secretariat and K7,675,499.47 for District Education Manager's Office which is contrary to regulations.

**(q) Locum Funds Not Accounted For: K9,124,000.00**

Treasury Instruction (2004), Section 5.9 (a) requires that proper accounting records must be maintained to support all financial and related Transactions and further that full supporting documents must be retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

A review of the payment vouchers and locum rosters revealed that the DHO paid out locum to nurses amounting to K7,767,000.00 without the actual rosters being maintained, and K1,357, 000.00 was spent in respect of locum and wages to individuals for staff working at hospitals although the officers who collected the cash on behalf of others were not even on the list of beneficiaries and the program. This made it difficult to ascertain how the Council calculated the locum entitlement paid to each nurse.

**(r) Lack Of Renewal Of Security Services Contract: K4,658,480.00**

Public Finance Management Act (2003), Section 10.1 (h) and 10.1 (i) requires every Controlling Officer to ensure that all expenditures are incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste and all necessary precautions are taken to safeguard public resources.

An inspection of payment vouchers and invoices revealed that the office did not have a service level agreement for the security services offered by the Ultimate Security Service for a period of 5 years although a sum of K4,658,480.00 was paid to the Security Company.

**(s) Failure To Source At Least Three Quotations: K2,251,885.00**

Public Procurement and Disposal of Asset Act (2017), Section 37(8) states that the request for quotations method may be used for the procurement of goods, works and routine services when the estimated value of the procurement does not exceed the amount set by the regulations.

An inspection of payment vouchers and supporting documents disclosed that goods and services amounting to K2,251,885.00 for District Education Manager's Office were purchased using single source method.

**(t) Payments Made For Un-Delivered Goods: K2,612,675.60**

Treasury Instructions (2004) Section 5.19.1 of states that payment for goods and services received shall be effected upon verification and confirmation that the goods were received or that services were rendered. Public Finance Management Act (2003) number 10 (h) (I) of 2003 further states that every Controlling Officer should ensure that all expenditures are incurred with due regard to economy, efficiency and effectiveness and avoidance of waste and all necessary precautions are taken to safeguard public resources.

An inspection of District Development Fund payment vouchers, invoices, delivery notes and stores ledger revealed that on 20th December, 2018, the Council made a payment to Makawa Building Contractors using cheque number 021598 amounting to K2,612,675.60 for the supply of building materials but there was no evidence to show that the goods were delivered as there were no delivery notes or entries in the store's ledger.

**(u) Procurement Of Goods And Services From Unregistered Suppliers: K6,969,836.50**

Section 52 (a) of the Public Procurement and Disposal of Assets Act of 2017 states that in order to be eligible for an award of a procurement contract, a bidder shall- (a) be registered, depending upon the nature of the contract, with the Registrar of Companies, or with the National Construction Industry Council of Malawi, or such other entity as may be prescribed by regulations; (b) be tax compliant; and (c) not be debarred from participating in procurement proceedings under this Act: Provided that the sole absence of an application for entry in the registry or classification system is not a ground for exclusion of a bidder from participation in procurement proceedings.

An inspection of payment vouchers against supporting documents revealed that procurement of goods and services worth K6,969,836.50 were made from suppliers which were not registered with the Registrar of Companies.

**(v) Over Payment of Security Services: K1,218,467.40**

Public Procurement and Disposal of Assets Act (2017), Section 51 (i) states among other issues that a procuring and disposing entity shall be responsible for the administration of procurement contracts into which they enter and to that end, they shall establish procedures for contract administration and provide the necessary material and human resources for their implementation.

Treasury Instructions (2004), Section 5.19.1 further states that payment for goods and services received shall be effected upon

verification and confirmation that goods were received or that services were rendered.

An inspection of payment vouchers, invoices, delivery notes and guards' logbook revealed that only fourteen (14) security guards were available on duty, seven (7) for day shift and another Seven (7) for night shift, instead of nineteen (19) as per the invoice claimed by the supplier (Ultimate Security Services) resulting in an excess payment of K1,218,467.40.

**(w) Misallocations Of Expenditure: K1,241,575.00**

Treasury Instructions (2004), Section 4.14.1 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 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 inspection of payment vouchers disclosed that expenditures amounting to K1,014,000.00 for the Agriculture Sector and K227,575.00 for the District Education Manager's Office totalling K1,241,575.00 meant for other activities were used on unrelated activities without any approval from the Secretary to the Treasury.

**(x) Failure To Secure Government Assets**

Treasury Instruction (2004), Section 2.6.1 (i) requires all Controlling Officers to take all necessary precautionary measures in order to safeguard government resources and assets against loss and wastage.

An inspection of motor vehicle log books and files along with physical verification of the vehicle fleet revealed that the office had two vehicles. Land Cruiser registration number MG 550V and Mitsubishi Pajero Registration Number MG 910V. Motor Vehicle registration number MG 910V was sent for servicing at Stecelia Garage in Chilimba Blantyre in 2009 while vehicle registration number MG 550V was sent for service at Kunsonde Garage in Zomba in June 2017. It was however noted that as at the date of audit both vehicles had not been released by the owners of the Garage.

An interview with the owner of Stecelia Garage revealed that vehicle registration number MG 910V could not be released since the District Health Office had outstanding bills for other vehicles services including the vehicle held amounting to K2,879,320.00. On the other hand, the owner of Kunsonde Garage revealed that it was just laxity on his part and indicated that once given time he would work on the vehicle. He therefore, requested to be given more time to work on the vehicle and that the vehicle could be ready for collection by the 18th

November 2019 without failure. Kunsonde had received an advance part payment of K900,000.00.

It was however observed that management failed to exercise its responsibility of safeguarding some government assets under its charge.

## **CHITIPA DISTRICT COUNCIL**

32. An audit inspection of the financial and other information for Chitipa District Council for the year ended 30th June, 2019 was completed on 13th December, 2019. The audit disclosed some weaknesses in the financial controls as in highlighted the following observations;

**(a) Payments To Staff Instead Of Supplier Or Service Providers: K40,387,384.80**

Paragraph 1.2.1.1 of Circular No. T 7634, dated 7th February 2011 from Accountant General; directs that allowances, advances, leave grants and other payments will be paid to government employees through bank accounts. Treasury Instructions (2004), Section 5.19.3 states that wherever possible payments for all payments must be made by cheque or direct debit to a bank account.

An inspection of payment vouchers revealed that funds amounting to K40,387,354.80 for allowances and other payments were paid to individuals using “for staff” method instead of paying them directly using either cheque or direct payment.

**(b) Implementation Of Projects Not Extracted From The District Development/Annual Investment Plan: K100,774,765.75**

Guidelines for on the utilization of Development budget (Revised), Paragraph 3.0 states that the criteria for selecting the projects to be considered for financing has a bearing on the District Development Plans and Annual Investment Plans. These projects have to be justified on their economic, social, technical, financial and institutional feasibility. Paragraph 4.0.1. States that projects should be extracted from the District Development Plans (DDP’s) especially the Annual Investment Plans (AIP’s).

In addition, these projects have to be designed to contribute to the national goals, objectives and priorities as stipulated in the Malawi Growth and Development Strategy II (MGDS II).

An inspection of payment vouchers and the District Development Plan revealed that the Council implemented projects valued at K100,774,765.75 which were not extracted from the District Development Plan.

**(c) CDF Project Expenditures Without Project Implementation Committee's (PIC) Involvement: K70,884,126.00**

Constituency Development Fund guidelines (Revised) (2014), Paragraph 8 states that a Member of Parliament shall work with the relevant ADC/Urban Development Committee (UDC) and VDC/NC to facilitate project implementation. For each project, there shall be a Project Implementation Committee (PIC) consisting of not less than 5 persons, one of whom shall be a representative of the MP, and the other 4 appointed by the ADC and the respective ward councilor(s). For all education related projects, School Management Committees shall automatically serve as PICs. The Project Implementation Committee shall be responsible for planning and execution of the projects.

An inspection of payment vouchers and contract files revealed that K70,884,126.00 was spent on CDF projects which did not have Project Implementation Committees (PIC) involvement as per the guidelines.

**(d) Activity Reports Not Presented for Audit: K20,725,143.80**

Government Circular Reference Number 15/15/7 dated 18th December, 2015 from the Chief Secretary states that in line with travel policy, each officer who is paid subsistence allowances must submit a report to the Controlling Officer indicating among other aspects, where she/he travelled to, the purpose of the trip, the institutions/persons consulted and benefits of the trip to the Ministry/Department.

An inspection of payment vouchers revealed that subsistence allowances amounting to K20,725,143.80 were paid but activity reports were not produced to support the expenditures.

**(e) Deceased Estate Funds Not Accounted For: K37,156,842.54**

Treasury Instructions (2004), Section 5.9 (b), as read together with Section 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 inspection of ledgers together with bank statements revealed that deceased estate funds amounting to K4,185,605.25 indicated as drawn in the ledger but not in the bank and K32,971,237.29 indicated as drawn in the bank but not in the ledger giving a total amount of K37,156,842.54 were not properly accounted for.

## DEDZA DISTRICT COUNCIL

33. An audit of Dedza District Council for the year ended 30th June, 2019 was completed on 7th March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Lack of Internal Audit Department**

The Local Assembly Financial Procedures Manual Chapter 2.1.15 states that local assemblies shall establish and maintain an Internal Audit Department, as a tool for management to enhance the internal control systems. Successful implementation of audit recommendations requires strong management planning and such implementation planning should involve key departments including the internal audit function.

An inspection of the staff return for the Council and internal audit reports revealed that the Internal Audit Department has not been established.

**(b) Payments Made Not Recorded in The IFMS Cashbook (ORT): K98,004,188.04**

Local Authority Accounting & Financial Management Procedure Manual (2009), Section 5.4.1 requires that all transactions for receipts and payments should be posted in the cash book.

An inspection of payment vouchers, bank statements and the Other Recurrent Transactions (ORT) cashbooks' amounts processed during the period of the audit revealed that payments totaling K98,004,188.04 were not captured in the cashbook.

**(c) Documents Not Produced for Audit Inspection: K396,334,384.57**

Treasury Instructions (2004), Section 11.6.1 as read with the Public Audit Act, 2003 state that the Auditor General and his officers shall at all times 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 inspection of financial records for the period of the audit review revealed that the Council did not submit several accounting documentations. Consequently, it was difficult for the auditors to ascertain the propriety of the expenditure in respect to procurement of goods and services, salaries, third party funds, advances, among other things.

**(d) Misallocation of Expenditure: K197,912,699.72**

Treasury Instructions (2004), Section 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 in adequate, he may submit an application to the Secretary to Treasury in writing to vire or transfer funds between a Programme /Item within the same vote.

An inspection of payment vouchers and itemized expenditure statement revealed that payments amounting to K197,912,699.72 were allocated to irrelevant sub items.

**(e) Payments Without Adequate Supporting Documents: K186,328,544.89**

Treasury Instructions (2004), Section 5.9 (a) 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 inspection of payment vouchers disclosed that payment vouchers amounting to K186,328,544.89 were processed and passed for payment without supporting documents. Consequently, it was difficult to ascertain the propriety of the expenditure.

**(f) Use of Single Sourcing Method of Procurement Without Approval: K16,599,490.88**

Public Procurement and Disposal of Public Assets Act 2017), Section 37(10) states that prior to the use of single sourcing method, the Council should obtain approval from the Director General of Public Procurement and Disposal of Assets.

An inspection of payment vouchers for procurements undertaken in the financial year ended 30th June 2019 revealed that the Council procured items amounting to K16,599,490.88 using single sourcing method of procurement without seeking approval from the Director General of Public Procurement and Disposal of Assets Authority.

**(g) Failure to Scrutinize Motor Vehicle Logbooks by The Controlling Officer: K68,976,499.98**

Government circulars (OPC) Ref. No CS/S/002 dated 2nd March, 2010 and CS/S/001 dated 23rd March 2018 states that Controlling Officers should take personal interest and responsibility to scrutinize all vehicle logbooks from time to time in order to ensure compliance by authorizing officers and drivers in the maintenance of travel records and movement of the vehicle.

An examination of payment vouchers, cashbooks and bank statements against motor vehicle logbooks disclosed that the Controlling Officer of the Council failed to scrutinize motor vehicle logbooks to ascertain whether details relating to fuel totaling K68,976,799.98 was properly recorded in the logbooks for accountability purposes.

**(h) Maintenance of Motor Vehicles Not Recorded in Motor Vehicle Files: K20,579,344.41**

Treasury Instructions (2004), Section 5.9 (b) states that all transactions shall be recorded in a primary Government record or ledger, either within the records held by a Ministry with the approval of the Secretary to the Treasury and summarised in the ledgers held by the Ministry of Finance, or in a record maintained by the Ministry of Finance.

An inspection of payment vouchers, loose minutes and requisitions revealed that the Council repaired its motor vehicles at a cost of K20,579,344.41 at various garages without recording this information in the individual vehicle files and motor vehicle logbooks. It was, therefore, difficult for the inspecting auditors to ascertain the frequency of these maintenances and repairs and whether these were a proper charge against public funds. undertake a reconciliation of monthly fuel consumption against fuel control ledgers.

**(i) Procurement Made without IPDC Approval: K55,414,721.69**

Public Procurement and Disposal of Public Assets Act (2017), Section 26 (1) stipulates that there shall be established in all procuring and disposing entities Internal Procurement and Disposal Committees (IPDC). Furthermore, Subsection 2 (b) of the same section of the Act states that the function of the committee includes approving the methods of procurement and disposal to be used in each case.

An examination of payment vouchers for the period of the audit revealed that the Council made procurements worth K55,414,721.69 without the approval of the IPDC.

**(j) Failure to Depreciate Buildings**

International Public Sector Accounting Standard (IPSAS) 17, Section 71 requires that depreciation of an asset must begin when it is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Section 88 further requires that the financial statements shall disclose, for each class of property, plant and equipment recognized in the financial statements: (a) the measurement basis used for determining the gross carrying amount (b) the depreciation methods used; (c) The useful lives or the depreciation rates used.

An inspection of the financial statements for the year ended 30th June,2019 disclosed that the Council did not depreciate buildings as there was no disclosure of the measurement basis used, depreciation rate, accumulated depreciation and the gross carrying amount of the buildings, contrary to the above quoted International Public Sector Accounting Standard.

**(k) Payments Without Payment Vouchers: K24,000,000.00**

Local Assembly Accounting and Financial Management Procedures Manual (2009), Section 5.5.3 states that a payment voucher is the authority to process the drawing of public funds. Payment vouchers are the basis for entry of transactions in the accounts and shall be carefully prepared and Section 5.5.3 (c) further states that the payment vouchers must be dully signed by those who prepared, checked and authorized.

The Council made payments for DDF projects to Mwiza Munthali for drilling and installation of Boreholes in Dedza South Constituency, amounting to K24,000,000.00 without raising payment vouchers, which made it difficult for the audit team to ascertain the validity of the payments. The bank statements showed that the amounts were indeed transferred to the supplier.

**(l) Failure to Sign Certificates of Completion for Works Done: K5,529,000.00**

Local Authorities Accounting and Financial Management Procedures Manual (2009), Section 5.5.3 (d) states that payment vouchers must have the following supporting documents where applicable before authorisation: Original Local Purchase Order; Expenditure Requisition; Original Invoices; Certificate of supply of goods and services. In addition, the Council should have a sample certificate of completion, which is supposed to be signed by the Chief Public Works Officer after reviewing the works done to ensure that payments are made for works that have actually been carried out according to the contract specifications.

An inspection of payment vouchers revealed that certificates of completion forms amounting to K5,529,000.00 for DDF projects which were attached to the payment vouchers were not signed by the Chief Public Works Officer and the Project Implementation Committee of the Council as required. As such, it was difficult for the audit team to authenticate whether the suppliers were paid for works that were properly done.

**(m) Failure to Develop A District Development Plan for DDF Projects: K13,514,305.20**

Guidelines on the Implementation of the Development Budget (2020), Section 4 requires the criteria for selecting the projects to be considered for financing to have a bearing on the District Development Plans and Annual Investment Plans. Projects should be extracted from the District Development Plans (DDP's), especially the Annual Investment Plans (AIP's).

An inspection of payments vouchers and inquiry from management disclosed that the Council did not have a District Development Plan as required by the guideline. Therefore, it was difficult for the audit team to confirm the selection criteria of the sampled Projects amounting to K13,514,305.20 done during the year.

**(n) Use of Single Source Method of Procurement Without ACB Approval: K110,141,815.00**

Public Procurement and Disposal of Assets Act (2017), Section 37(11) stipulates that single source method of procurement or any high value procurement shall be subject to vetting by the Anti-Corruption Bureau, pursuant to the powers conferred on the Bureau under Section 10 of the Corrupt Practices Act.

The Council procured goods and services amounting to K110,141,815.00 for COMSEP using single sourcing method of procurement without the ACB approval.

**(o) Payments Made for Un-Related Project Expenditure: K40,766,622.80**

The implementation modalities for the Community Managed Socio-Economic Projects Fund Reference number LG/1/13/79 of 28th May, 2018 provides guidelines on the use of the fund as funds to the communities to solve immediate short term social and economic problems identified by the communities. The Fund was established as an inclusive government managed local community funding mechanism in order to focus public expenditure on initiatives that more effectively and efficiently respond to the felt needs and opportunities of the local communities.

The Council made payments for goods and services amounting to K40,766,622.80 which are not related to the project needs of the communities.

**(p) Disallowed Expenditure Charged to CDF Account: K3,915,750.00**

Constituency Development Fund Guidelines (Revised) (2014), Paragraph 4 states that all non- project related expenditures and all expenditures having an attribute accruing personal benefits shall not be drawn against the CDF.

An inspection of payment vouchers revealed that payments for Constituency Development Fund (CDF) worth K3,915,750.00 were made for purchases of tree seedlings, which is contrary to CDF guidelines.

**(q) Payments Made Without Indicating Project Names: K13,322,570.70**

Constituency Development Fund Guidelines (Revised) (2014), Paragraph 3 requires the completion of application forms for each preferred project before undertaking any project and also, Constituency Development Fund Guidelines (Revised) (2014), Paragraph 8 states that the Project Implementation Committee needs to keep and maintain project records.

An inspection of payment vouchers revealed that the Council made payments for CDF projects totaling K13,322,570.70. No record was provided to the audit team indicating the names of the projects for which the payments were made for. In the absence of such records, it was difficult for the team to ascertain the validity of these payments.

**(r) Payments for Projects that Did Not Take Place: K1,914,875.00**

Constituency Development Fund Guidelines (Revised) (2014), Paragraph 2 states that the objective of CDF is to provide Members of Parliament and their constituent communities with the opportunity to make choices and implement projects that maximize their welfare in line with their needs and preferences. The CDF is there to respond to immediate, short term community development needs.

The verification exercise conducted by the audit team on sampled CDF projects for the year under review revealed that payments for some CDF projects amounting to K1,914,875.00 were made for projects which did not take place.

**(s) Uncompleted Constituency Development Fund (CDF) Projects: Chilamba Primary School, Kamenya Primary School and Kabwazi Primary School**

Constituency Development Fund Guidelines (Revised) (2014), Paragraph 8 stipulates the Project Implementation of CDF projects. The Members of Parliament shall work with the relevant ADC/Urban Development Committee (UDC) and VDC/NC to facilitate project implementation. For each project there shall be a Project Implementation Committee (PIC). The Project Implementation Committee shall be responsible for planning and execution of the project and the PIC shall maintain and keep records of all aspects of the project under their responsibility.

The verifications exercise on sampled Project revealed that some CDF projects were not yet completed during the year under review. There were no records maintained at the project sites. There was no proper coordination between the Members of Parliament and the ADC and VDC thus contributing to delays in completing the Projects.

## **DOWA DISTRICT COUNCIL**

34. An audit inspection of the financial and other information for Dowa District Council for the year ended 30th June, 2019 was completed on 31st March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payment Vouchers Without Adequate Supporting Documents: K24,629,558.61**

Treasury Instructions (2004), Section 5.9 (a) states that proper accounting records should be maintained to support all financial and related transactions and further that full supporting documents should be retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

An inspection of payment vouchers disclosed that payments amounting to K24,629,558.61 had no supporting documents. Consequently, it was difficult for the audit team to ascertain the propriety of the expenditure.

**(b) Failure to Maintain Fixed Assets Register**

Treasury Instructions (2004), Section 5.13.1(d) requires each Ministry and Department to have adequate internal controls to ensure that revenue, expenditure, assets and liabilities are properly recorded and accounted for.

During the audit inspection, it was revealed that Dowa District Council did not maintain a fixed asset register as required by the Treasury Instructions.

## **KARONGA DISTRICT COUNCIL**

35. An audit inspection of the financial and other information for Karonga District Council for the year ended 30th June, 2019 was completed on 16th March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Monthly Shop And House Rentals Not Collected: K8,116,000.00**

Section 10 (1) paragraph (d) of the Public Finance Management Act (2003) provides that each Controlling Officer is responsible for ensuring that all necessary precautions are taken to safeguard the

collection and custody of public money. In addition, paragraph 1.3.5 (g) of the Local Authority Accounting and Finance Management Procedures (2009) states that the Director of Finance (DOF) must ensure the timely collection of debts.

An examination of Locally Generated Revenue (LGRs) records and inspection of market shops revealed that the Council did not collect monthly rentals from tenants who had occupied both shops and institutional houses. Shop occupants stopped paying rentals in October 2018 when Council had raised the rental charges from K6,000.00 to K15,000.00. On the other hand, the Council did not enforce tenancy agreements with the occupants of its institutional houses.

**(b) Failure To Account For Cash: K8,885,634.00**

Paragraph 13.1 of The Local Authority Accounting and Finance Management Procedures (2009) defines loss of public funds as “loss of cash”. Paragraph 13.4 of the procedure manual states that losses exceeding K10,000.00 shall normally be investigated by a Board of Enquiry and the Controlling Officer (that is, the District commissioner) shall forward the report of enquiry together with his recommendations to the Finance Committee of the Assembly, Accountant General, NLGFC and the Auditor General.

An examination of revenue records and loss assessment reports revealed that the Council lost cash amounting to K8,885,634 during between 4th and 5th July, 2019. The District Commissioner (a Mr. Emmanuel Bulukutu) suspected theft and hence reported the case to Karonga Police Station for further investigations. In a Police Report reference number KA/CR/06/07/2019 dated 18th July, 2019, Mr Bulukutu was on record that following the fire which had destroyed office buildings, a built-in lockable cash chest got moved out and the cash got either burnt or stolen by unknown peaceful demonstrators who later turned violent. At the time of audit in February and March 2020, police investigations stalled and no recoveries had been made.

**(c) Mis-Procurement Of Second-Hand And Non-Runner Vehicle: K3,000,000.00**

Section 39 (1) of the 2017 Public Procurement and Disposal of Assets Act (2017) states that procuring and disposing entities shall plan procurement and disposal activities with a view to achieving maximum value from both public expenditures and disposal proceedings including other objectives set forth in this Act. In addition, paragraph 8.3.2 of the Local Authority Accounting and Finance Management Procedures (2009) provides that before a payment voucher is raised there shall be authority for payment in

terms of the Treasury Instructions, Office of the Director of Public Procurement (ODPP) or Internal Procurement Committee (IPC).

Inspection of fixed assets for the Council established that, in the 2018-2019 financial year, Secretariat purchased a 32-seater Toyota Coaster which was second-hand and non-runner. Further inquiries revealed that the Internal Procurement and Disposal Committee (IPDC) of the Council was not aware of the procurement transaction. The procurement officer (a Mr. Stewart Chirambo) informed the visiting National Audit Office (NAO) auditors that the vehicle had been bought from Paradin (Africa) Ltd (Kayerekera Mine) at Three Million Malawi Kwacha (that is, K3,000,000.00) and the District Commissioner (a Mr. Hara) approved the transaction.

## **KASUNGU DISTRICT COUNCIL**

36. An audit inspection of the financial and other information for Kasungu District Council for the year ended 30th June, 2019 was completed 7th April, 2020. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

### **(a) Failure To Prepare Procurement Plan**

Public Procurement and Disposal of Assets Act (2017), Section 25 (2b) states that “Procuring entities shall submit annual procurement and disposal plans, quarterly reports and other statutory reports as may be prescribed from time to time; plan procurement with a view to achieving maximum value for public expenditures and the other objectives set forth in this Act, and in accordance with the applicable budgetary procedures”.

An inspection of payment vouchers and procurement records disclosed that management did not prepare a procurement plan for 2018/2019 financial year.

### **(b) Misallocation of Expenditure: K6,599,364.00**

Treasury Instructions (2004), Section 4.14.1 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 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 inspection of payment vouchers and itemized expenditure statement revealed that expenses amounting to K6,599,364.00 were charged to wrong sub-items. There was no evidence to show that virement of funds was sought from the Secretary to the Treasury.

**(c) Procurement Made Without IPDC Approval: K138,903,489.96**

Public Procurement & Disposal of Assets Act (2017), Section 26 (c) states that (1) there shall be established in all procuring and disposing entities Internal Procurement and Disposal Committees. (2) The functions of the Internal Procurement and Disposal Committees shall include- (b) approving the methods of procurement and disposal to be used in each case.

An inspection of payment vouchers and procurement records revealed that the Council procured various CDF materials worth K138,903,489.96 without IPDC approval.

**(d) Payment Vouchers Without Adequate Supporting Documents: K52,168,167.50**

Treasury Instructions (2004), Section 5.9 (a) 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 staff.

At the time of audit, the payment vouchers did not have some key supporting documents such as invoices and contract agreements amounting to K52,168,167.50. It was therefore difficult to ascertain the basis for the amount paid.

## **LIKOMA DISTRICT COUNCIL**

37. An audit inspection of the financial and other information for Likoma District Council for the year ended 30th June, 2019 was completed on 14th March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payment Vouchers Not Presented For Audit: K45,037,946.50**

Public Audit Act (2003), Section 7 (I) (a) requires that the Auditor General and any officer assigned by him should be given right and access to the information he deems fit for the discharge of his oversight duties.

An inspection of payment vouchers, cashbooks and other related records showed that the Council did not submit payment vouchers amounting to K45,037,946.50 for COMSEP and DDF between 25th August 2018 and 19th June 2019.

**(b) Procurement Of Goods And Services Without IPDC Approval: K41,997,185.51**

Public Procurement and Disposal of Assets Act (2017), Section 26 states that there shall be established in all procuring and disposing entities, Internal Procurement and Disposal Committees.

An inspection of payment vouchers and procurement records made between 24th and August, 2018 to 20th June 2019 revealed that the office procured items valued at MK41,997,185.51 without IPC approval.

**(c) Misallocation of Funds: K31,880,620.00**

Treasury Instructions (2004), Section 4.14.1 states that specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/ item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. 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 to vire or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

An inspection of payment vouchers for Likoma District Council revealed that funds for CDF, Bole hole and CMSEP projects amounting to K31,880,260.00 were spent on DDF projects without virement approval from Secretary to the Treasury.

**(d) Failure to Produce Activity Reports: K22,497,150.00**

Treasury Instructions (2004), Section 5.13.1 states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognised as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the revenue, expenditure, assets and liabilities are properly recorded and accounted for;

Contrary to the requirement, an inspection of payment vouchers for subsistence allowances disclosed that Likoma District Council paid subsistence allowances amounting to K22,497,150.00 to officers' between 23rd August 2018 and 2nd May 2019 but there were no activities reports produced.

**(e) CDF Project Expenditures Without Project Implementation Committee (PIC) Involvement: K13,813,625.62**

CDF Guidelines Revised (June 2014), Section 8 of the states that any Member of Parliament shall work with the relevant ADC/Urban Development Committee (UDC) and VDC/NC to facilitate project implementation for each project and that there shall be a project implementation committee (PIC) consisting of not less than five (5) persons, one of whom shall be a representative of the Member of Parliament, and the other four (4) appointed by the ADC and the respective ward councillor(s). For all education related projects School Management Committees shall automatically serve as PICS. The Project Implementation Committee shall be responsible for planning and execution of the project.

An inspection of payment vouchers and contract files revealed that K13,813,625.62 was spent on CDF projects which did not have Project Implementation Committees (PIC) involvement as required by the guidelines.

**(f) Failure To Deposit Revenue: K2, 901,730.00**

Treasury Instructions (2004), Section 5.13.1 (a),(b) states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objectives are met that Revenue is properly assessed and collected and all public money is correctly banked and held in a secure environment.

An inspection of market fee collection and deposit slips revealed that between December, 2018 and June, 2019, fees collected amounting to K2,901,730.00 were not deposited in the Council's account.

## **LUCHENZA MUNICIPAL COUNCIL**

38. An audit inspection of the financial and other information for Luchenza Municipal Council for the year ended 30th June, 2019 was completed on 1st April, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure To Collect Debts Due From Clients: K7,295,144.01**

Treasury Instructions (2004), Section 5.6.2 states that the Controlling Officer of a Ministry or Department must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for identification, collection, safeguarding, recording and reconciliation of information in respect of revenue.

A review of debtors' records revealed that the Council failed to collect outstanding debts amounting to K7,295,144.01 in form of property rates and sundries from clients. This might have affected the Councils operations as revenue collected is used for the Council's operations.

**(b) Misallocation Of Funds: K4,556,966.33**

Public Finance Management Act of 2003, Section 25(1) states that the Secretary to the Treasury may, with the approval of the Minister at the request of a Controlling Officer, direct that an amount appropriated for a specified output to be delivered by a Ministry be transferred to another output to be delivered by that Ministry.

Contrary to this instruction, an inspection of payment vouchers revealed that funds amounting to K4,556,966.33 were charged to wrong sub items without prior approval from the Secretary to the Treasury making it difficult for the inspecting auditors to ascertain the importance of the expenditure.

**(c) LDF Transactions Not Processed Through Integrated Financial Management Information System (IFMIS)**

Treasury Instructions (2004), Section 5.9 (b) states that all payments, receipts and other accounting transaction shall be entered and processed into the Integrated Financial Management Information System (IFMIS) approved by Secretary to the Treasury.

An inspection of LDF transactions revealed that the office was not using IFMIS and instead was using a manual template in the processing of payment vouchers and other transactions.

## **MACHINGA DISTRICT COUNCIL**

39. An audit of Machinga District Council for the year ended 30th June, 2019 was completed on 1st April, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Goods Procured Without Approval Of The Internal Procurement And Disposal Committee: K2,547,811.70**

Public Procurement and Disposal of Assets Act (2017), Section 26 states that among other things requires all procuring entities to procure goods and services through the scrutiny and approval of the Internal Procurement and Disposal Committee (IPDC).

However, an inspection of payment vouchers for the period under review revealed that goods amounting to K2,547,811.70 were procured without the approval of the Internal Procurement and Disposal Committee as there were no internal procurement and disposal committee minutes to substantiate that the procurements under review passed through IPDC.

**(b) Payments Made For Non-Existent CDF Projects: K13,092,500.00**

Treasury Instructions (2004), Section 5.19.1 provides that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that those services were rendered.

Physical inspection of CDF projects for the period between July 2018 and June 2019 disclosed that the Council made payments amounting to K13,092,500.00 for works that were not executed.

**(c) Non-Maintenance Of Fixed Assets Register**

Treasury Instructions (2004), Section 5.9 (b), as read together with Section 5.13.1(d) states, among other things, that Controlling Officers should ensure that all transactions are recorded in a primary Government record or ledger, either within the records held by a Ministry with the approval of the Secretary to the Treasury and summarized in the ledgers held by the Ministry of Finance, or in a record maintained by the Ministry of Finance; and that adequate internal controls exist within the entity such that revenue, expenditure, assets and liabilities are properly recorded and accounted for.

In addition, Government Circular Ref. No. CS/S/001 dated 2nd March, 2010 from the Chief Secretary to the Government on Government Physical Assets Register, among other things stipulates that all Controlling Officers shall maintain an asset register for all fixed assets purchased using public resources in both electronic and hard copies. The assets register shall conform to the format provided by the Secretary to the Treasury for all classes of fixed assets.

An inspection of records and physical inspection of assets revealed that there was no completed fixed asset register for Machinga District Council in the financial year ended 30th June, 2019.

## **MANGOCHI DISTRICT COUNCIL**

40. An audit of the Mangochi District Council for the year ended 30th June, 2019 was completed on 19th March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Payment Vouchers Without Supporting Documents: K25,512,491.81**

Treasury Instructions (2004), Section 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 inspection of the financial records for the financial year ended 30th June, 2019 disclosed that payment vouchers amounting to K25,512,491.81 did not have supporting documents.

**(b) Suspicious Payment Transactions-K75,942,897.92**

Public Finance Management Act (2003), Section 10 (1) (i) states that each Controlling Officers is responsible for ensuring that in relation to their Ministry, all necessary precautions are taken to safeguard public resources.

An inspection of expenditure records for the period under review disclosed suspicious payments amounting to K75,942,897.92 made to various suppliers of goods and services. The audit team viewed the payments as suspicious because all of them were not allocated to any cost centre code, expense items and their expense item codes. Further enquiries revealed that some of the payments were cancelled in the Integrated Financial Management System (IFMIS) and payment vouchers for almost all of the transactions could not be traced making it difficult for the audit team to identify the nature of goods and services paid for. However, an inspection of other recurrent transactions, (ORT) bank statements showed that all cheques for the payment transactions in question were cleared. Furthermore, it was noted that two or more payments with similar amounts were made to the same supplier or service provider within a short period of time.

**(c) Advance Payment To Contractors Without Advance Payment Guarantee: K34,606,381.76**

Procurement Regulations (2004), Section 152 (3) states that unless otherwise stipulated in the procurement contract, an advance payment shall not be made unless and until the bidder furnishes an advance payment guarantee covering the amount of the advance payment.

An inspection of payment vouchers, contract agreements and contractors' advance payment requests for construction of perimeter fence and drilling of twenty-two (22) boreholes contracts disclosed that advance payments amounting to K34,606,381.76 were paid without advance payment guarantees.

**(d) Procurement Of Goods From Company Owned By IPDC Member: K7,991,267.40.**

Public Procurement & Disposal of Assets Act (2017), Section 35 states that a procuring and disposing entity shall not enter into a

procurement or disposal contract with its employee, or any close relative of any employee.

Contrary to the above requirement, an inspection of Internal Procurement and Disposal Committee (IPDC) minutes, list of council employees and suppliers list revealed that procurements of various goods worth K7,991,267.40 were made from Virgo Enterprise, a company owned by Mphatso Sokosa, an IPDC member and an employee of Icelandic International Development Agency (ICEIDA). It should be noted that ICEIDA funds several sectoral development projects in Mangochi district under Mangochi Basic Services Project (MBSP) managed by the Council. Further inquiries revealed that the employee in question did not declare his interest relating to ownership of the company to the Council and that he claimed not to be a member of IPDC but attends IPDC meetings as an advisor on ICEIDA projects. However, documentation substantiating his assertion was not made available to the audit team as at the time of audit.

**(e) Contract Price Adjustment Without Seeking ‘No Objection’ From PPDA: K48,984,955.05**

Procurement Regulations (2004), Section 153 (3) stipulates that an increase in quantities which exceeds fifteen per cent (15%) of the contract sum either requires a new procurement proceeding or justification, if appropriate, as a single-source procurement in accordance with section 37 of the Public Procurement and Disposal of Asset Act (2017). In this regard, whenever there is need for adjustments, the Internal Procurement and Disposal Committee (IPDC) is supposed to meet and discuss and thereafter request for “No Objection” from Public Procurement and Disposal Authority (PPDA) before adjusting any contract sum which is above 15%.

Contrary to the above-mentioned regulation, an inspection of contract agreements, IPDC minutes, work progress certificates and payment vouchers for Mangochi Basic Services Project (MBSP) funded by the Icelandic International Development Agency (ICEIDA) revealed that the contract prices for eight (8) contracts were adjusted upwards above 15% but there was no documentary evidence showing that the Council sought a “No Objection” from the PPDA as required.

Firstly, it was noted that the council awarded two (2) works contracts involving construction of three (3) classroom blocks and an administration block at Koche and St. Charles Luwanga primary schools to Selemunthu Building Contractors at a contract sum of K78,131,913.30 each for Koche and St. Lwanga schools respectively. It was however established that total payments to the contractor exceeded the contract sum by MK14,314,685.12 and K18,031,572.39 for Koche and Lwanga respectively representing 18% and 23% in that order.

Secondly, Ochibwe Building Contractors was awarded two (2) works contracts for construction of two staff houses at Mangochi District Hospital under Lot 1A and Lot 1B. The contract sums of the projects under Lot A and Lot B were K24,028,464.60 each. However, an inspection of payment documentation revealed that the contract price increased by K8,294,745.29 and MK8,343,952.25 for Lot 1A and Lot 1B respectively which is equivalent to 35% and 35% in that order. Consequently, the total increase of payments over the contract sums for the eight (8) contracts under review amounted to K48,984,955.05.

**(f) Over-Payment On Nkuli Bridge CDF Construction Project: K1,230,000.00**

Public Finance Management Act (2003), Section 10 (1) (f) requires all Controlling Officers to ensure that 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.

In January, 2019, the Council awarded Tifera Construction a contract to construct Nkuli Bridge in Mangochi North East constituency at a total contract sum of K4,870,000.

However, an inspection of payment vouchers to Tifera Construction Company in respect to construction of the bridge in question revealed that funds totaling K6,100,000.00 were spent on the bridge which exceeded the contract sum by K1,230,000.00 hence the over-payment. No documentation was made available to ascertain additional works or contract price adjustment as at the time of audit.

**(g) Failure To Involve The Community In Project Identification**

CDF Guidelines Revised June (2014), Section 5 require a Member of Parliament (MP) to at least once per year organize a meeting with chiefs, Councillors, and Area (Urban) Development Committees (ADCs/UDCs) within the constituency to identify and prioritise projects that meet the immediate socio-economic needs of the people in the constituency that can be funded under the CDF—including ongoing projects. Subject to approved budget allocation for the constituency, the MP shall cause projects identified and agreed with the ADC/Urban Development Committee to be appraised, cost estimated and then submitted for funding at District Commissioner's/Chief Executive's office.

A scrutiny of 25 projects implemented under CDF development window in seven constituencies of Mangochi showed that only twelve (12) out of the twenty-five (25) projects had project proposals. This indicates that in the thirteen (13) other projects implemented, the community had no hand in project identification and needs analysis of the community.

**(h) Work In Progress Certificates Not Presented For Audit: K309,420,698.02**

Public Audit Act (2003), Section 7 (1) (a) 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 inspection of construction projects (payment vouchers) for the year under review for Mangochi Basic Services Project (MBSP) funded by Icelandic International Development Agency (ICEIDA) revealed that work in progress certificates for various projects amounting to K309,420,698.02 were not presented for audit.

**(i) Over-Payment On Construction Projects: K16,020,078.44**

Public Finance Management Act (2003), Section 10 (1) (f) requires all Controlling Officers to ensure that 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.

Mangochi District Council carried out several construction projects in the 2018/19 financial year under the ICEIDA funded MBSP. A clause in the construction contract agreement draws a payment schedule depicting the construction stage at which payment is supposed to be made. When each stage is accomplished, a certificate is issued to mark the completion of the stage which then goes through the payment due process. In the works contract agreements for ICEIDA projects, 5% of the amount due is retained to be paid after the project and from the balance, 1% is deducted as NCIC levy. The final balance is what is paid to the contractor subject to deduction of necessary taxes such as withholding tax.

A recalculation of the payments on several construction projects undertaken by the Council funded by ICEIDA revealed that there was an over-payment of K16,020,078.44 The anomaly came in due to the use of 'due amount' of the stage completed before removal of retention amount, to base on the calculation of NCIC levy. This as a result, left a wrong net figure for payment to the contractor.

## **MCHINJI DISTRICT COUNCIL**

41. An audit of the Mchinji District Council for the year ended 30th June, 2019 was completed in March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure to Maintain Fixed (Non-Current) Assets Register**

Treasury Instructions (2004), Section 5.13.1(d) requires each Ministry and Department to have adequate internal controls to ensure that

revenue, expenditure, assets and liabilities are properly recorded and accounted for. In addition, Section 16.7 of the Local Authorities Accounting and Financial Management Procedures Manual requires the Council to maintain a Fixed Asset Register to record details of all non-current assets owned by the Council.

Mchinji District Council did not maintain a fixed asset register as required by the Treasury Instruction.

**(b) Failure to Prepare Procurement and Disposal Plans**

Public Procurement and Disposal of Public Assets Act (2016), Section 39 (1) states that procuring and disposing entities shall plan procurement and disposal activities with a view to achieving maximum value from both public expenditures and disposal proceedings including other objectives set forth in this Act.

A review of procurement records for the Council and its devolved sectors disclosed that the Council did not prepare a Procurement Plan to guide its procurement activities. In the absence of the Procurement Plan value for money and the entity's objectives could not be effectively achieved.

**(c) Failure to Prepare and Maintain Monthly Fuel Expenditure Returns**

Government Circular Ref. N0. CS/S/001 dated 2nd March, 2010 on Measures on the Management of Government Fleet (13-14) from the Chief Secretary to the Government states that controlling officers shall be obliged to submit Monthly Motor Vehicle Returns to the Chief Secretary to the Government with copies to the Auditor General and the Accountant General.

An inspection of payments and other related records revealed that the Council did not prepare and maintain monthly fuel expenditure returns for fuel amounting to K29,379,826.00. It was therefore, difficult for the audit team to ascertain as to whether the disposal and consumption of fuel were according to PVHES chart and other relevant guidelines for the Government vehicles.

**(d) Printing of General Receipt Books (GRs) at Private Printers Without Approval**

Circular Reference Number T9119 issued by Accountant General on 20th July, 2011 requires that procurement of commonly used stores items to be procured from Central Government Stores (CGS). In the event that CGS is out of stock, management should seek authority to procure from elsewhere the needed items after recommendations from CGS. Additionally, Circular Ref. No. T1115 issued by Accountant General on 20th February 2015 states that effective 1st March 2015,

new General Receipt (GR) with enhanced security features will be introduced due to practice of parallel printing of counterfeit Government GRs by some unscrupulous individuals with an intention to defraud government. All Government revenue collecting agencies are advised to collect the new GRs at Regional Treasury Cashiers Offices in their respective regions.

An inspection of payment vouchers revealed that Mchinji District Council procured its general receipt books from Wonder Commercial Printers and Stationary Suppliers without authority. Management should provide reasons as to why it did not seek authority before engaging private supplier.

**(e) Misallocations of Expenditure: K55,372,067.68**

Treasury Instructions (2004), Section 4.14.1 of states that Specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act (2003) authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. 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 to vire or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

An inspection of payment vouchers and itemized statement by cost centre established that expenditure amounting to K55,372,067.68 were charged to wrong budget line items. There was no evidence to indicate that approval to transfer funds within the sub items was sought from the Secretary to the Treasury and that no measures were taken to correct the situation.

**(f) Payment Vouchers Without Adequate Supporting Documents: K215,783,373.92**

Treasury Instruction (2004), Section 5.9 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. In addition, the Local Authorities Accounting and Financial Management Procedures Manual (2009), Section 5.5.2 stipulates that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

Contrary to the above requirement, payment vouchers amounting to K215,783,373.92 were presented to auditors without attaching relevant supporting documents. In the absence of such documents, it was difficult to ascertain whether the expenditure made was a correct charge to public funds.

**(g) Payments Processed Outside IFMIS: K146,603,915.71**

Treasury Instruction (2004), Section 5.10 stipulates that all payments, receipts and other accounting transactions must be entered and processed into a financial management information system approved by the Secretary to the Treasury.

During the audit execution, it was observed that payments amounting to K146,603,915.71 did not have a corresponding entry in the system cashbook.

**(h) Failure To Remit Withholding Tax And PAYE: K12,545,536.39**

Taxation Act (2000), Section 6(1) stipulate that a person who under regulation 3(1) has deducted from a payment to any other person an amount representing withholding tax shall remit such amount to the Commissioner within 14 days from the end of the month in which such deduction was made. In addition, Taxation Act of 2000, Section 10(1) requires that every employer shall pay to the Commissioner the amount of any income tax deducted under rule 3(1) within 14 days of the end of the month in which it was deducted.

An inspection of the financial statements revealed that Withholding Tax amounting to K795,898.39 and Pay As You Earn (PAYE) amounting to K11,749,638.00 totalling K12, 545,536.39 was not remitted to MRA.

**(i) Procurements Without IPDC Approval: K65, 039,276.81**

Public Procurement and Disposal of Public Assets Act (2017), Section 29.2 (c) and (d) states that the functions of the Procurement and Disposal Units shall include facilitating Internal Procurement and Disposal Committee meetings; keeping records of all procurement and disposal activities carried out by the procuring and disposing entity;

An inspection of procurement records revealed that procurements worth K65,039,276.81 were done without IPDC approval as there were no minutes to confirm its meeting.

**(j) Payment Vouchers Not Presented For Audit: K377,006,768.09**

Treasury Instructions (2004), Section 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 inspection of the itemized statement by cost centre revealed that payment vouchers amounting to K377,006,768.09 were not produced for audit. The audit team was therefore not able to ascertain the authenticity and propriety of the payments made.

**(k) Unpaid Deceased Estate For Late Veronica Chikalamo: K301,550.84**

Public Finance Management Act (2003), Section 10(e) states that each controlling officer is responsible for ensuring that there is no over expenditure or over commitment of funds in relation to his or her Ministry. Additionally, Treasury Instructions (2004), Section 4.13.2.2 states that unless otherwise indicated in the notes in the approved estimates, every Controlling Officer shall ensure that expenditure is in accordance with budgetary provisions, and that there is no over-expenditure. In addition to this, Malawi Government is operating on cash basis.

An inspection of payment vouchers relating to deceased estate, bank statements, receipted vouchers and other related records revealed that deceased estate for late Veronica Chikalamo amounting to K301,550.84 issued on 8th January 2009, on cheque number 063944 was returned on 6th February 2009. This is supported by a letter dated 21st September 2016 Ref. No: F/02/22/127 to the Administrator General signed by Richard Hara (District Commissioner for Mchinji) requesting for a replacement cheque. At the time of the audit, no evidence was provided as to whether deceased monies were given to the rightful beneficiaries.

**(l) Subsistence and Lunch Allowances Not Accounted For: K166,923,475.00**

The Accountant General Desk Instructions (2007), Number 7.5.1(i) states that the cashier shall ensure that all claimants have signed against their names and amounts before cash is paid and 7.5.1(iii) states that receipted payment vouchers, shall be returned after ten days from the last date of payment. If the vouchers are not returned within ten days, effort by the officer in-charge to follow up the vouchers shall be made. Any monies unpaid shall be brought on charge

An inspection of payment vouchers revealed that payments for subsistence and lunch allowances amounting to K166,923,475.00 were not fully accounted for as there was no proof of receipt by beneficiaries and also that the balances were brought on charge.

**(m) Revenue From Sale Of Council Land Not Accounted For: K30,588,170.00**

Treasury Instructions (2004), Section 5.6.4 states that Revenue Collectors may collect and account for revenue and other public moneys falling within their control in accordance with instructions issued by the designated Receiver of Revenue.

An inspection of records on the disposal of plots of land for the Council at Mwami Boarder disclosed that sales proceeds amounting to K30,588,170.00 were not accounted for. In addition, there were no reports on how the plots were sold as at the time of the audit. It was further noted that deposit slips and bank statements were not provided for review.

**(n) Revenue Not Banked: K370,000.00.**

Public Finance Management Act (2003), Section 10 (1) (d) states that each controlling officer is responsible for ensuring that all necessary precautions are taken to safeguard the collection and custody of public money. Additionally, Local Authority accounting and Financial Management Procedures Manual (2009) 2.1.2 (c) requires that all monies collected from any source should be banked intact into the Local Authority's bank account(s).

An inspection of revenue collected from plot application fees revealed that some GRs were not supported with bank deposit slips amounting to K370,000.00. There was no explanation as to how cash not banked was utilized by the council.

**(o) Under Collection Of Revenue From Plot Sales At Mwami Boarder: K194,211,830.00**

Public Finance Management Act (2003), Section 10 .1 (d) states that each controlling officer is responsible for ensuring that all necessary precautions are taken to safeguard the collection and custody of public money. Additionally, Treasury Instruction (2004), Section 5.9.a states that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filled in such a way that they are easily and readily accessible and can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

An inspection of revenue records revealed that the council did not maintain complete revenue records that reconciles with the money collected through general receipts and deposits. The Council failed to produce bank statements to establish whether the money collected on general receipts amounting to K194,211,830.00 was deposited.

**(p) Failure To Bring Money On Charge: K6,869,219.00**

The Accountant General Desk Instructions (2007), Number 7.5.1(iii) states that receipted payment vouchers, shall be returned after ten days from the last date of payment. If the vouchers are not returned within ten days, effort by the officer in-charge to follow up the vouchers shall be made. Any monies unpaid shall be brought on charge.

An inspection of payment vouchers and database of beneficiaries for Social Cash Transfers revealed that a cumulative unclaimed money totaling K6,869,219.00 were not brought on charge by those who were entrusted to cash and pay the beneficiaries.

**(q) Failure To Produce Activity Reports: K13,781,538.40**

Government Circular Reference Number 15/15/7 dated 18th December, 2015 from the Chief Secretary To Government states that in line with travel policy, each officer who is paid subsistence allowance must submit a report to the controlling officer indicating among other aspects, where he/she travelled to, the purpose of the trip, the institutions/person consulted and benefits of the trip to the Ministry/ Department or Agency.

An inspection of payment vouchers revealed that subsistence allowances amounting to K13,781,538.40 were paid but were not substantiated by activity reports. As such, it was not certain whether the expenditure was a proper charge to public funds.

**(r) Cash Payments To Staff On Goods And Services Instead of Supplier: K255,313,606.50**

Treasury Instructions (2004), Section 5.19.3 states that wherever possible all payments must be made by cheque or direct debit to a bank account. However, payments of K1,000 or less may be made in cash from the standing imprest depending on prevailing circumstances.

An inspection of payment vouchers and other related documents revealed that the Council made payments amounting of K255,313,606.50 in the name of staff instead of the suppliers' bank account numbers.

## **MULANJE DISTRICT COUNCIL**

42. An audit inspection of the financial and other information for Mulanje District Council for the year ended 30th June, 2019 was completed in March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Issued Market Fee Books Not Produced For Audit Inspection: K49,859,600.00**

Public Audit Act of 2003, Section 7 (1) (b) states that for the purposes of fulfilling the functions and duties lawfully conferred Auditor General 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.

A comparison between IFMIS records and ledgers used in recording and issuing of market fee books indicated that market fee books amounting to K49,859,600.00 were not produced for audit. This follows the difference between total market fee revenue of K85,747,600.00 as per IFMIS records, against issued market fee books amounting to K33,615,000.00. It was therefore difficult to ascertain the accountability of the aforesaid issued market fee books.

**(b) Documents Not Produced For Audit Inspection: K132,819,775.91**

Public Audit Act of 2003, Section 7 (1) (b) states that for the purposes of fulfilling the functions and duties lawfully conferred Auditor General 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.

An inspection of documents at the council revealed that general receipts, deposit slips, fuel log books and payment vouchers amounting to K132,819,775.91 were not presented for audit inspection. This tendency made it difficult for inspecting auditors to ascertain whether the payments were genuine or not.

**(c) Payments Vouchers Without Adequate Supporting Documents: K82,340,023.44**

Treasury Instructions (2004), Section 5.16.1 and Local Authorities Accounting and Financial Management Procedures Manual (2009), Section 5.5.2 require that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

A review of payment vouchers revealed that some payment vouchers totaling K82,340,023.44 were submitted for audit review without supporting receipts. In the absence of the receipts, it was difficult to ascertain the occurrence and accuracy of the payments.

**(d) Failure To Maintain Fixed Assets Register**

Treasury Instructions (2004), Section 5.13.1(g) requires every Controlling Officer to ensure that internal controls exist within each Ministry and Department to ensure that all assets are recorded and safeguarded against loss, destruction or unauthorized use.

An inspection of documents from the council showed that only the Head Quarters had prepared asset register. However, it omitted other sectors like Health, Agriculture, Education and Forestry among the available institution within the council. It was therefore difficult to establish the location and condition of assets under the council.

**(e) Misallocations Of Funds: K5,016,278.20**

Treasury Instructions (2004), Section 4.14.1 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 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 inspection of payment vouchers disclosed that funds amounting to K5,016,278.20 meant for other activities were used on unrelated activities without any approval from the Secretary to the Treasury.

**(f) Market Agents Working Without Formal Contracts**

Employment Act (2000), Section 25(2) (a, b, c) states that a contract of employment shall be in any of the following forms; a contract for an unspecified period of time; a contract for a specified period of time and a contract for a specific task.

A review of Terms of Reference (ToRs) for some temporary workers disclosed that all market agents employed by the council were working without formal contracts. It was therefore difficult to ascertain the actual emoluments and the benefits these employees are entitled to.

**(g) Personal File Not Produced For Audit**

Local Government Act (1998), Section 24(3) states that the Assembly shall have power to appoint and employ such persons as are necessary for the proper discharge by the Assembly of its functions.

A review of personal files revealed that personal file belonging to Mercy Nayuma working as a Disease Control Surveillance Officer under Mulanje District Hospital could not be traced by human resource officials. It was further observed that the file number was not available in the file index book. The Officer is physically available and on the payroll.

**(h) CDF Projects Not Signed For By Area Development Committee (ADC) On The Project Identification Forms: K21,150,818.50**

CDF Guidelines Revised June (2014), Paragraph 3 requires that an application form shall be complete for each preferred project and a relevant appraisal will be conducted by the council for each new project the member of Parliament should organize a meeting with chiefs, councilors and Area Development Committees within the constituency to identify and prioritize projects that meet the immediate socioeconomic needs of the people in the constituency that can be funded under the CDF including ongoing projects.

However, an inspection of the CDF Project Identification forms revealed that projects amounting to K21,150,818.50 were done without completing constituency development fund project identification forms by Area Development Committee.

**(i) CDF Project Without Contract Agreement Forms: K11,211,990.00**

CDF Guidelines Revised June (2014), Paragraph 16.1 requires that all contractors shall sign a contract which will describe the work to be done, standards (design, drawings and similar specifications) and stages at which payments will be made and where agreed 10% retention fee plan.

However, an inspection of the financial records revealed that projects amounting to K11,211,990.00 were done without Contract Agreement Forms.

**(j) CDF Projects Payments Made Without Attachment Of Certificate Of Level Of Completion: K10,315, 376.50**

CDF Guidelines Revised June (2014), Paragraph 16.4 requires that the ADC shall have the primary role of supervising projects certifying stages of completion for payment of contractors. The exception being where the DPW (or DE) shall have determined that he would need to inspect works at particular stages.

However, an inspection of the CDF payment vouchers revealed that payments for projects amounting to K10,315,376.50 were done without attaching certificate of level of Completion.

**(k) Non-Monitoring Of CDF Projects: K1,309,450.00**

CDF Guidelines Revised June (2014), Paragraph 9 stipulates that the District Commissioner shall compile reports of any such monitoring visits highlighting key observations made advice provided and any corrective action taken and shall provide them to the Member of Parliament.

To the contrary, the council did not prepare CDF monitoring programs for project payments amounting to K1,309,450.00 as evidenced by the status of Mukhalala Under- Five Clinic which had been indicated “Unknown” on the list of CDF projects reports.

**(l) Uncompleted CDF Projects Indicated As Completed In The Council Records: K11,675,405.00**

CDF Guidelines Revised June (2014), Paragraph 16 (4) states that final payment shall only be paid after issue of a certificate of completion. The contract shall determine who sign the certificate of completion will depend on complexity of the project.

Inspection of CDF project reports that some of the projects were completed but a physical verification to the projects’ site revealed that the said projects were not completed. A final payment for all projects was made and these payments amounted to K11,675,405.00.

**(m) Compensation Made To A Person Not On Compensation Assessment Report And People Receiving Less Than What Was Assessed: K1,060,000.00**

Treasury instructions number 5.16.1 of 2004 states that every Controlling Officer must ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment.

An inspection of payment vouchers, compensation assessment reports in respect of compensations made for Msikawanjala market in GVH Chinomba and Senior Chief Chikumbu disclosed that compensation amounting to K1,060,000.00 was made to Josephy Lipache but he was not on the assessment report and this resulted into some beneficiaries receiving less than what was on the assessment report. The total underpayment to those on the assessment report was K1,060,000.00.

## **MWANZA DISTRICT COUNCIL**

43. An audit inspection of the financial and other information for Mwanza District Council for the years ended 30th June, 2019 was completed on 2nd April, 2020. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

**(a) Bank Reconciliation Not Conducted On Other Recurrent Transactions (ORT) And Operations Account: K453,650,511.00**

Treasury Instructions (2004), Section 5.6.2 requires the Controlling Officer of a Ministry or Department to manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for identification, collection, safeguarding, recording and reconciliation of information in respect of revenue.

An enquiry into the system of revenue management together with an inspection of general receipt books, bank deposit slips, revenue returns and a review of Other Recurrent Transaction Account Payment vouchers and cash book disclosed that during the period under review, the Council did not conduct a reconciliation of funds received amounting to K453,650,511.00. These funds comprised revenue amounting to K10,490,760.00 recorded as received and deposited to its operations account number 13100000685191 maintained at FDH Mwanza Branch and Other Recurrent Account funds amounting to K443,159,751.00 managed through account number 9100002667603 maintained at Standard bank. The cash balances could not be aligned with the bank balances making it difficult for the inspecting auditors to ascertain reliability of the revenue records.

**(b) Training and Subsistence Allowance Payments Not Supported with Activity Reports: K12,105,390.00**

Government Circular Reference Number CS/15/15/7 dated 18th December, 2015 from the Chief Secretary to the Government states that in line with travel policy, each officer who is paid subsistence allowance must submit a report to the Controlling Officer indicating among other aspects, where he/she travelled to, the purpose of the trip, the institutions/individual consulted and benefits of the trip, to the Ministry / Department.

Contrary to the above requirement, the audit team through an inspection of payment vouchers and authority to leave duty station forms observed that the Council paid training and subsistence allowances amounting K12,105,390.00 for various activities without supporting them with relevant activity reports to substantiate how the funds were spent.

**(c) Payments Processed Outside IFMIS: K20,484,940.70**

Treasury Instructions (2004), Section 5.9 (b) stipulates that all payments, receipts and other accounting transaction shall be entered and processed into the Integrated Financial Management Information System (IFMIS) approved by Secretary to the Treasury to enhance transparency and accountability of public funds

However, a review of payments vouchers and cheque pads pertaining to the Operations Account, revealed that the Council processed payments amounting K20,484,940.70 outside the IFMIS.

**(d) Payment Vouchers Not Presented for Audit: K62,327,855.44**

Public Audit Act of 2003, Section 7 (1) (b) states that for the purposes of fulfilling the functions and duties lawfully conferred Auditor General 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.

A review of expenditure cash books, cheque counter folios together with enquiries conducted during the audit disclosed that the Council did not present for audit review, payment vouchers amounting to K62,327,855.44 in respect of various activities.

**(e) Under Utilization Of Constituency Development Fund (CDF) Not Substantiated: - K40,202,119.67**

CDF Guidelines Revised June (2014), Paragraph 5 requires Members of Parliament, Councillors and Area Development Committees to familiarize themselves with key priorities included in the District Development Plan. They shall also be required to include on-going project not completed during the financial year just ended.

Paragraph number 11 of the CDF of guidelines requires priority projects to be costed and budgeted. Projects are to be executed within the budget.

Paragraph number 18 of the CDF guidelines requires CDF as voted funds to be reported by local Council on monthly returns.

A review of payment vouchers and transactions captured in IFMIS disclosed that during the period under review, the Council did not substantiate the under-utilization of CDF funds of K40,202,119.67 out of the K50,000,000.00 total CDF the Council received, such that reliability of reporting could not be established.

**(f) Payment Relating To CDF Not Supported With Project Application And Appraisal Forms: K2,237,215.05 (MUONA BRIDGE).**

CDF Guidelines Revised June (2014), Paragraph 3 requires a project application form to be completed for each preferred project and a relevant appraisal to be conducted by the Council for each new project.

An inspection of payment vouchers relating CDF revealed that K2,237,215.05 was paid to African Alliance through payment voucher number RQ18-1900914 and cheque number 017119 dated 30th November, 2018 in respect of construction work conducted at Muona bridge without supporting it with project application and appraisal forms, as such adherence to Government and sectoral standards could not be ascertained.

**(g) Overstatement Of Reported Bank Balances In The Financial Statements: K106,830,738.95**

Local Government Act, 1998, Section 53 (10) states that the Assembly shall keep proper books of accounts and other records in relation thereto and shall balance its accounts for that year and produce statements of final accounts within six months from the end of each financial year.

A confirmation of year end balances with banks which maintained Council's bank accounts during the year under review, disclosed an overstatement of bank balances as reported in the financial statements, making it difficult to confirm reliability of the reported balances.

**(h) Payables Not Disclosed In The Financial Statements – Water Bills: K38,417,884.85**

Paragraph number 2.1.7 of the Local Authority Accounting and Financial Management Procedure Manual (2009) require that Local Authority may accrue creditors only to the level of the provision in the annual or supplementary estimates of the Local Authority. Therefore, creditors will be recognized in the books of accounts as soon as goods have been received and services provided. The Local Authorities shall ensure that creditors are paid within the agreed period of the service acquired.

A review of supplier statements and invoices for utilities for the year under review, disclosed that the Council, through the Health sector, accumulated water bills amounting to K38,417,884.85 which were not disclosed, thereby understating the payables balances in the financial statements.

**(i) Revaluation Of Property, Plant And Equipment Plant, Not Conducted.**

Paragraph number 16.5 of the Local Authority Accounting and Financial Management Procedure Manual (2009) number states that Councils shall ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years by a qualified valuer with the difference between the revalued amount and the previous net book value of the asset being transferred to the Revaluation Reserve Account.

A review of financial statements for the preceding year and years before against the financial statement for the year under review, disclosed that, the Council did not revalue its Property, Plant and Equipment Plant making it difficult to ascertain if the assets values

shown in the fixed asset register reflected the state of affairs as at 30th June, 2019.

**(j) Review Of Useful Life Of Plant, Property And Equipment Not Conducted**

Local Authority Accounting and Financial Management Procedure Manual (2009), Section 2.1.1 requires that the useful life of fixed assets to be reviewed by qualified valuers after expiry of the depreciation periods as stipulated above. Subsequent depreciation calculations shall be based on the revised useful economic life.

A review of Financial statements for the preceding years together with financial statements for the year under review, disclosed that the Council did not conduct a review of the useful life of its Property, Plant and Equipment presented in the financial statements making it difficult for the inspecting auditors to ascertain the validity of the values of Property, Plant and Equipment in the financial statements.

**NENO DISTRICT COUNCIL**

44. An audit of the Accounts of Neno District Council for the year ended 30th June, 2019 was completed on 1st April, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Revenue Not Accounted For: K4,254,180.00**

Treasury Instructions (2004), Section 5.13.1(a) states that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act, and is recognized as including all the controls and procedures adopted to ensure that within Government, and within each entity in Government, the following control objective is met that-(d) revenue, expenditure, assets and liabilities are properly recorded and accounted for.

An inspection of general receipt books against deposit slips for the period under review disclosed that revenue amounting to K2,261,180.00 was collected from various services that the Council offers but was not accounted for. Further examination of market receipt books revealed that revenue from markets amounting to K1,993,000.00 was not accounted for as well. Therefore, revenue not banked totalled to K4,254,180.00.

**(b) Market Fee Books And General Receipt Book Not Presented For Audit Inspection- K12,620,000.00**

Public Audit Act of 2003, Section 7 (1) (b) states that for the purposes of fulfilling the functions and duties lawfully conferred Auditor General on the Auditor General, the Auditor General and every person

authorized by him 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 above instruction, an inspection of the security document register revealed that some market fee books amounting to K12,620,000.00 which were used during the period of audit were not produced for audit inspection. General Receipt Books whose values could not be ascertained were also not produced for audit inspection.

**(c) Payments Not Processed Through The IFMIS: K51,421,356.97**

Treasury Instructions (2004), Section 5.9 (b) stipulates that all payments, receipts and other accounting transaction shall be entered and processed into the Integrated Financial Management Information System (IFMIS) approved by Secretary to the Treasury to enhance transparency and accountability of public funds.

However, it was noted during the audit that the Council processed payments totalling to K51,421,536.97 outside the IFMIS which is contrary to the instruction mentioned above.

**(d) Payments Without Adequate Supporting Documents: K29,521,199.00**

Treasury Instructions (2004), Section 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.

Inspection of payment vouchers revealed that payments amounting to K21,464,484 for ORT and K8,056,715.00 for DDF respectively had no adequate supporting documents totalling K29,521,199.00.

**(e) Payment Vouchers Not Presented For Audit Inspection: K104,029,890.81**

Public Audit Act of 2003, Section 7 (1) (b) states that for the purposes of fulfilling the functions and duties lawfully conferred Auditor General on the Auditor General, the Auditor General and every person authorized by him 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.

An inspection of the General Ledger and payment vouchers disclosed that payment vouchers amounting to K104,029,890.81 were not presented for audit inspection.

**(f) Misallocation Of Funds: K50,680,598.07**

Public Finance Management Act of 2003, Section 25(1) states that the Secretary to the Treasury may, with the approval of the Minister at the request of a Controlling Officer, direct that an amount appropriated for a specified output to be delivered by a Ministry be transferred to another output to be delivered by that Ministry.

Contrary to the Treasury Instruction above, an inspection of payment vouchers, votes ledgers, and cashbooks revealed that expenses for some items amounting to K50,680,548.07 were charged to wrong sub items.

**(g) Procurement Of Goods Without Approval Of Internal Procurement And Disposal Committee: K51,605,609.79**

Public Procurement & Disposal of Assets Act (2017), Section 26 (2) (a-g) outlines the functions of the Internal Procurement and Disposal Committee in all procuring and disposing entities as; ascertaining the availability of funds to pay for each procurement; approving the methods of procurement and disposal to be used in each case; approving the procurement and disposal plans for the procuring and disposing entity; appointing the chairperson for the bid opening from amongst its membership; appointing ad-hoc evaluation team for the examination, evaluation and comparison of bids; reviewing and approving bid evaluation reports and reviewing and approving any contract amendments.

An inspection of payment vouchers and Internal Procurement and Disposal of Assets Committee' minutes revealed that during the period under review, the Council procured some goods and services amounting to K51,605,609.79 without the Committees' approval, which is contrary to the requirement.

**(h) Personal MERDEF Loan Repayments From Locally Generated Revenue: K707,254.00**

Employment loans are recovered from salaries in minimal deductions as per loans agreement form. Other loans other than from employment cannot be recovered from salary unless there is formal communication. MERDEF loans are disbursed independently from local government personnel and has its own specified recovery terms.

It was however observed that monthly repayments, amounting to K101,036.00 were made from the locally generated revenue, prescribed as repayments for MERDEF loan for an accounts officer of the Council. These were made for a period of seven months from July, 2018 to February, 2019 which totalled to K707,254.00.

**(i) Payments Without Certificate Of Completion: K20,344,350.63**

Local Authority Accounting and Financial Management Procedure Manual (2009), Section 5.5.3 (d) (v) requires payments for contracts to be effected only when a level of completion certificate has been issued by personnel with technical expertise on that contract.

It was however, noted that the Council paid a sum of K20,344,350.63 to different contractors without completion certificates. This made it difficult for the inspecting auditors to ascertain whether these projects were indeed completed.

**(j) Failure To Compile Supervision Reports For Monitoring Projects: K5,620,024.24**

CDF Guidelines Revised June (2014), Paragraph 9 states that when monitoring and evaluation of the projects, the District Commissioner shall compile reports of any such monitoring visits highlighting key observations made, advice provided and any corrective action taken and shall provide them to the Member of Parliament.

An assessment of the Constituency Development Fund payment vouchers disclosed that although supervision for projects was claimed to have been conducted, management did not produce any supervision report for audit review. As such it was difficult for the inspecting auditors to confirm if the supervision was conducted. Total amount used was K3,228,474.24 and K2,391,550.00 for CDF and DDF respectively amounting to K5,620,350.24.

## **NKHATABAY DISTRICT COUNCIL**

45. An audit of Nkhata Bay District Council for the year ended 30th June, 2018 was completed on 24th March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Under-collection of revenue: K55,884,351.00**

Final Desk Instructions CCAS (2007), Section 15.3 (iii) requires that revenue collections shall be allocated in the accounts strictly in accordance with the classification in the annual estimates. Section 15.5.2 also states that all departments responsible for collecting revenue shall prescribe suitable Register or Forms to record the amount due for collection and the amounts collected.

A comparison of revised estimates and actual collections of revenue revealed that the Council under collected the revenue on income from markets establishments, commercial undertakings, fees and service charges, and licenses and permits by K55,884,351.00.

**(b) Project Not Implemented At Kaulasisi Bridge: K550,850.00**

CDF Guidelines Revised June (2014), Paragraph 9 states that a Member of Parliament shall have primary responsibility for ensuring that projects in the constituency are being implemented as planned, and the District Commissioner shall monitor project implementation and provide technical advice at regular intervals and shall do so within the normal Council projects monitoring programme.

An inspection of payment vouchers and other related documents reveal that expenditure amounting to K550,850.00 was incurred for Kaulasisi bridge. A site visits by audit team to Kaulasisi Bridge revealed that the bridge was not constructed.

**(c) Financial Statement Transactions Without Supporting Schedules/Notes: K116,148,995.42**

Public Finance Management Act (2003), Section 83 (3) states that if the Auditor General is not able to report in terms required by subsection (2), he shall state the reasons, and if the Auditor General is of the opinion that he did not obtain all necessary information and explanations, he shall give particulars of the shortcomings.

A review of financial records revealed that payables amounting to K116,058,479.42 and receivables amounting to K90,516.00 which were reported in Statement of Financial Position had no supporting schedules.

## **NKHOTAKOTA DISTRICT COUNCIL**

46. An audit of Nkhotakota District Council for the year ended 30th June, 2019 was completed on 12th March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) CDF Payments Not Supported By Works Completion Certificates: K16,081,798.00**

Constituency Development Fund (CDF) Guidelines of 2014 Paragraph 16(3) and (4) requires the Director of Public Works to certify all CDF funded projects as complete and prepare a work completion certificate before payment is effected to the contractor.

However, an inspection of payment vouchers and other related documents revealed that the Council made payments amounting to K16,081,798.00 during the 2018/19 financial year to several contractors under Constituency Development Fund but were not supported by works completion certificates prepared by the Director of Public Works.

**(b) CDF Projects Initiated By Members Of Parliament Instead Of The Community: - K23,916,269.00**

CDF Guidelines of 2014, Paragraph 10 (1) stipulates that communities, school management committees, associations and any other committees shall be responsible for the initiation of projects with the involvement of the Member of Parliament.

The verification exercise of CDF projects disclosed that the projects worth K23,916,269.00 were initiated and implemented by Members of Parliament alone without involving the committees. An interview with Area Development Committee members revealed that they did not have any information about the projects. In addition, due to lack of ownership and seriousness, the projects had flaws in their implementation.

**(c) Unplanned Procurements: K18,935,876.06**

Public Procurement and Disposal of Public Assets Act 2017, Section 39 requires procuring entities to plan procurement with a view to achieving maximum value for public expenditures and in accordance with the applicable budgetary procedures, and in the case of the project the procurement is also supposed to be in line with the approved work plans and budgets.

A review of the procurement plans at the Council revealed that the Council made procurements amounting to K18,935,876.06 that were not planned contrary to the requirement above.

**(d) Non-Deduction Of Contributory Pension Scheme**

Government (Treasury) circular Ref PFS/01/01 dated 8th September 2017 stipulated that all employees below the age of 35 years and those just joining the service regardless of age should be deducted pension. The deductions are to be remitted to the Accountant General by the 14th day of the following month.

A sample review of the staff returns and payroll that were provided to the audit team revealed that Nkhota-kota District Council was not complying with the circular. There was non-deduction of the contributory pension scheme on the sample of employees that was reviewed.

**(e) Failure To Comply To The Mandatory Retirement Age For Civil Servants: K773,316.00**

Circular Ref. No. HRMD/P&G/01/112 dated 19th September 2017 states that the mandatory retirement age for employees is 60 years. For employees on extension of service beyond the mandatory retirement age, authority should be provided according to circular letter ref. No. HRM/P&G/01 dated 21st October 2013.

A sample review of the staff returns and pay roll revealed that some employees were above the mandatory retirement age but still in service. No authority was provided for the extension of service. The total gross salary for the extended period amounted to K773,316.00.

**(f) Absence Of Title Deeds for Property, Plant & Equipment –: K313,769,918**

Public Finance Management Act of 2003, Section 10(1) (c) provides that each Controlling Officer is responsible for ensuring that, in relation to his Ministry-all accounts and records relating to the functions and operations of the Ministry are properly maintained.

An inspection of the financial statements revealed that the Council has land and buildings worth K313,769,918. However, the Council failed to present Title Deeds for land and buildings for audit. In the absence of the Title Deeds, it is not possible to conclude on whether land and buildings are owned by the Council.

**(g) Failure To Bill Council Customers: K8,316,350.00**

According to Accountant General Desk Instruction 15.5.3. Revenues which are assessed at fixed rates for example rents and school fees, shall be recorded in separate registers designated for this purpose with the approval of the Accountant General. Invoices (or demand notices) shall be issued to all customers and cash collections shall be recorded against the relevant entry in the debtors' register.

A review of general receipts disclosed that the Council did not raise invoices to its customers as such it was difficult for the auditors to ascertain the basis of receipts amounting to K8,316,350.00 received from customers.

**(h) Receipts Not Presented For Audit Review: K12,715,660.00**

According to Treasury Instructions (2004), Section 5.9 (a) requires every Controlling Officer shall ensure that - (a) proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

An examination of the cash book revealed that receipts amounting to K12,715,660.00 were not presented for audit review.

**(i) Under Collection Of Revenue: K26,406,989.00.**

According to Accountant Generals Desk Instructions 15.2(v). It is the responsibility of the Revenue Collectors to collect revenue falling within their jurisdiction and account for it to the Treasury Cashier or

their ministry's holding account. Revenue Collectors shall ensure that revenue collected does not fall below their budget provisions.

An inspection of estimated figures for the year 2018/19 against the actual figures collected, revealed that revenue for the year under review was under collected by K26,406,989.00. The estimated revenue for the period under review was K100,000,000.00, actual collections were K73,593,011.00.

**(j) Using Outdated Rates For Revenue Collection**

Local Government Act of 1998, Section 65(1) provides that the Council shall continuously or from time to time and in any event not less than once in every five years, cause to be made and entered into a valuation roll for the local government area a valuation of all assessable property within such area.

An inspection of general receipts for property rates, market fees and trade licenses revealed that the Council was still using rates fixed over 15 years ago. Market fees were still at K100 while other Councils like Ntchisi were charging K200. Similarly, retailer's trade license was still at K12,500.00 while Councils like Kasungu were charging K80,000.00.

**(k) Failure To Prepare A Statement Of Cashflow**

Local Authorities Accounting and Financial Management Procedures Manual of 2009, Section 24.6. stipulates, among other things, that the components of the Local Authority final accounts will include the Balance Sheet, Income & Expenditure Statement and Cash Flow Statement.

The review of the financial statements showed that the Council did not include a Cashflow Statement in presentations.

**(l) Failure To Service The Development Fund For Local Authority (DFLA) Loan: K70,634,781.00**

Treasury Instruction of 2004 in section 2.5.5 requires management to ensure that there is no over-expenditure or over-commitment of funds to eliminate the occurrence of arrears.

The audit inspection team observed that the Council had been accumulating a (DFLA) loan amount totaling K70,634,781.00 without repayments, thereby overcommitting Government. The DFLA loan interest figure has been growing over the years.

**(m) Failure To Capitalise Acquisition Of Capital Assets: K10,883,568.00**

Local Authority Accounting and Financial Procedures Manual of 2009, Section 2.3.14 states that expenditure on the acquisition of a

tangible asset, or expenditure which adds to, and not merely maintains, the value of an existing asset, shall be capitalized and be classified as a fixed asset, provided that the fixed asset yields benefits to the LA and the services it provides for a period of more than one year.

It was observed that in 2015/2016 and in 2016/2017 financial years, the District Council did not capitalise expenditure totaling K10,883,568.00 falling within the sub-item of 4115 for acquisition of capital assets meant for purchase of plant, furniture and office equipment.

**(n) Failure To Journalise A Prior Year Adjustment: K161,513,874.00.**

Local Authority Accounting and Financial Management Procedure Manual of 2009, Section 12.1 stipulates that journal transfer vouchers (JTV) are used for transferring a debit or a credit entry from one vote/head of account to another, which becomes necessary in order to:—

- Correct misallocations or errors revealed as a result of reconciliation with Accountant General tabulations;
- Clear amounts initially booked to below-the-line accounts or suspense accounts, which have to be transferred to relevant Votes/head of account;
- Apportion debits (or credits) between different Departments or between cost centres on the basis of an approved authority to vire funds; and
- Reverse wrong credits or debits.

It was noted, however that in the year ended 30th June 2019 an amount of K161,513,874.00 was raised in the capital funds without a corresponding journal. Meaning that there was no information to explain the adjustment.

## **NSANJE DISTRICT COUNCIL**

47. An audit of Nsanje District Council for the year ended 30th June, 2019 was completed on 17th January, 2020. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Borehole Funds Not Accounted For: K23,889,384.00**

Treasury Instruction of 2004, Section 5.13.1(f) states that adequate internal controls must exist within each Ministry and Department. Public Finance Management Act of 2003, Section 10 recognise internal control as including all the controls and procedures adopted to ensure that within government, and within each entity in government,

such that all assets are safeguarded against loss or destruction, and unauthorized use.

An inspection of financial statements and records from IFMIS revealed that the Council received a sum of K60,000,000.00 from Borehole Fund. Management claimed to have spent the whole amount for drilling sixteen (16) boreholes in the district.

However, an inspection of payment vouchers, procurement records and reports from water department responsible for certifying the boreholes drilled disclosed that out of K60,000,000.00 received, the Council used only K36,110,616.00 for drilling and construction of 16 boreholes leaving a balance of K23,889,384.00 which could not be accounted for.

**(b) Overpayment To Penniel Construction Contractor: K10,896,000.00**

Public Procurement and Disposal of Assets Act (2017), Section 51 (1) and (2) require contract agreement terms to be adhered to always by both the procuring entity and supplier and that depending on the complexity of the procurement, a contract manager has to be identified so as to ensure that parties abide by the terms of the contract and proper authority has to be sought whenever amendments to the contract are made.

An inspection of payment vouchers, invoices and contract agreement forms revealed that the Council entered into a contract agreement with Penniel Construction to drill five boreholes at a contract price of K18,000,000.00. It was however noted that the contractor was paid a sum of K28,896,000.00 resulting into an over payment of K10,896,000.00. Management failed to justify the overpayment.

**(c) Payment Without Completion Certificate: K7,214,616.00**

Accountant General's Department Desk Instructions of 2007, number 6.6 (vi) on contract payments states that a certificate from duly authorized officer that the work done, or services rendered have been checked should be available and that the contractor is entitled to the payment in terms of the contract. Such certificate from the building supervisor should show the name of the contractor; amount of the contract; and certificate number.

Contrary to the above, an inspection of payment vouchers disclosed that on 18th December, 2018, a payment amounting to K7,214,616.00 was made to Auqatech Masters through cheque number 004432 without evidence certifying completion of works as per the contract specifications.

**(d) Payments Without Payment Vouchers Raised: K2,063,300.00**

Treasury Instructions of 2004, Section 5.9 (a) require every Controlling Officer to ensure that proper accounting records are maintained to support all financial and related transactions and that full supporting documents are retained and filed in such a way that they are easily and readily accessible and can be produced immediately upon the request of Ministry of Finance and National Audit Office staff.

Local Authority Accounting and Financial Management Procedure Manual of 2009, Section 5.5.3 states that a payment voucher is the authority to process the drawing of public funds. Payment vouchers are the basis for entry of transactions in accounts and shall be carefully prepared. The Local Council must abide by the use general payment voucher format as shown in appendix 5.4 and that all payment vouchers should be sequentially numbered and filled by month and cheque number.

An inspection of cheque dispatch register and loose minutes disclosed that cheque payments amounting to K2,063,300.00 were made from accounts without any evidence to show that payment vouchers raised.

**(e) Payments Made for Non-Existing CDF Project: K10,413,108.00**

Treasury Instructions of 2004, Section 5.13.2 state that every Controlling Officer shall ensure that processes and procedures are in place, and necessary steps are taken, which will meet the stated internal control objectives. This is achieved by compliance with the sections of part 5 of these instructions. The responsibility, however, rests with each Controlling Officer to be sure that adequate procedures exist to properly protect all public money. Subsistence allowance is paid to officers who travel outside their duty station.

CDF Guidelines of 2014, Section 16 (1) and (4) state that all contractors shall sign a contract with the Local Council which will describe the work to be done, standards (designs, drawings and similar specifications) and stages at which payments will be made, and where there is an agreed 10% retention fee, the final payment shall only be paid after issue of certificate of completion. The contract shall determine who will sign the certificate of completion, depending on complexity of the project.

Contrary to the above objective, a physical inspection of construction of Fatima Police Unit for the period under review disclosed that the Council paid K10,413,108.00 to Tithandizane Building Contractors but the audit team did not find any structure purported to have been constructed using the above amount. An interview with the Ward Councilor Ms. Rose Makiyi revealed that the contractor received the

funds but the construction was stopped as the Traditional Authority of the area wanted to hold discussions with the Council to extend the structure as they felt the size was small as compared with the population of Nsanje North Constituency, especially Fatima side which does not have a single Police Unit.

**(f) Uncompleted Works For Construction Of Mcherenje Class Block: K11,880,000.00**

Treasury Instructions of 2004, Section 5.13.2 states that every Controlling Officer shall ensure that processes and procedures are in place, and necessary steps are taken, which will meet the stated internal control objectives. This is achieved by compliance with the sections of part 5 of these instructions. The responsibility, however, rests with each Controlling Officer to be sure that adequate procedures exist to properly protect all public money.

A physical inspection of the site for construction of Mcherenje class blocks in Nsanje East Bank disclosed that Tithandizane Building Contractors received an amount of K11,880,000.00 in 2018/2019 financial year to finalize the construction but nothing has been done since then. Furthermore, the contractor purchased all materials relating to the building and just dumped them in another classroom.

**(g) General Receipts (Grs) Not Produced For Audit Inspection: K2,619,750.00**

Public Audit Act of 2003, Section 7(1) (a) provides that for the purpose fulfilling the functions and duties lawfully conferred on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable times 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 above requirement an inspection of deposit slips which had details of general receipts endorsed on them disclosed that some receipts were missing from the general receipts books on which revenue amounting to K2,619,750.00 was collected and deposited therefore the audit team could not verify the missing receipts.

**(h) Non-Current Assets Not Revalued: K138,578,955.00**

Local Authority Accounting and Financial Management Procedure Manual (2009), Section 16.5 states that, to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The difference

between the revalued amount and the previous net book value of the asset shall be transferred to the Revaluation Reserve account.

A review of financial records revealed that the Council's non-current assets were not revalued. Therefore, a figure of K138,578,955.00 does not represent the actual carrying value of the assets.

## **NTCHEU DISTRICT COUNCIL**

48. An audit inspection of the financial and other information for Ntcheu District Council for the year ended 30th June 2019 was completed on 12th March, 2020. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

**(a) Lack of Audit Trail on Revenue Management: K1,227,724,499.00**

Local Authority Accounting and Financial Management Procedures Manual (2009) Section 2.1.3 (b) requires revenue collected to be remitted to the cashier and deposited intact and Section 5.2.1 requires that all revenue collected shall be acknowledged by the cashier through an issuance of an official general receipt.

A review of the revenue management system disclosed that the Council banks its revenue, especially which is collected by the Council's Cashier, without indicating general receipts numbers on the deposit slips. As a result, it was difficult to trace the source of the banked revenue amounting to K1,227,724,499.00. Furthermore, the Council did not classify the revenue when banking. The audit team also noted that the council uses revenue at source. It was difficult to quantify the revenue used at source.

**(b) Operating Without a District Development Plan**

Local Government Act (1998), Section 6 (1) (c) mandates All local authorities to formulate District Development Plans (DDP) which assist communities and development partners in the district in project identification and implementation of programmes and projects.

During the audit, it was noted that Ntcheu District Council operated without a District Development Plan. The last District Development Plan which the council had expired in 2013. This made it difficult to analyse and assess if the Council implemented its development programs and activities effectively.

**(c) Failure to Establish an Internal Audit Department**

Local Government Act of (1998), Section 54 (4) requires the Council to establish and maintain an Internal Audit Department, as a tool for management to enhance the internal control systems.

An inspection of the staff establishment warrant disclosed that the Council did not have an Internal Audit department. This contravenes the section mentioned above.

**(d) Failure by Management to Implement a Performance Management System**

Circular Ref. No. HRM/GOP/19 dated 12th June, 2008 directed all Principal Secretaries and Heads of Department to implement the Performance Management System in their respective Ministries as well as departments starting with Headquarters while rolling out orientation workshops to the Regional/Division offices (where applicable). According to the Circular, implementation was to be done in phases; starting from 1st July, 2008 to 30th June, 2009, the system had to be implemented at headquarter. From 1st July, 2009 to 30th June, 2010, implementation of the system had to be extended to Division/Regional offices, while rolling out orientation workshops to the District offices, whereas from 1st July, 2010 to 30th June, 2011, implementation had to be extended to district offices (where applicable).

Contrary to this requirement, it was noted that during the year under review, management of Ntcheu District Council had not yet started implementing the Performance Management System as directed by the Secretary for Human Resource Management and Development.

**(e) Failure to Maintain a Fixed Assets Register**

A circular from the Chief Secretary to the Government dated 2nd March, 2010 titled ‘Government Physical Assets Register’, requires the maintenance of an asset register which should among other things indicate the monetary values of the assets and their condition. It is also a requirement as per Local Authority Accounting and Financial Management Procedures Manual (2009) Section 2.1.1, which require each Local Authority to prepare and maintain a Fixed Assets Register, which includes all the fixed assets owned by the Local Authority.

The audit inspection disclosed that the Council did not maintain a fixed asset register. However, the Council had a list of assets which did not show condition of the assets and their monetary values, which is against the requirement mentioned above.

**(f) Documents not Provided for Audit Examination – K12,681,295.68**

Public Audit Act (2003), Section 7 (1) states that for the purpose of fulfilling the functions lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him 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 requirement mentioned above, the audit team was not provided with some documentations which were requested for audit review.

**(g) Payment Vouchers Without Adequate Supporting Documents: K25,196,322.11**

Local Authorities Accounting and Financial Management Procedures Manual (2009), Section 8.3.3 (e) requires that in every payment cycle all the supporting documents should be firmly attached to the payment voucher to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instructions (2004), 5.9(a) states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An inspection of payment vouchers disclosed that the Council processed and passed for payment, vouchers amounting to K25,196,322.11, which had no adequate supporting documents attached. In the absence of the supporting documents it was difficult to ascertain whether the payments made were a proper charge to public funds.

**(h) Over and Under Utilisation of CMSEP Funds**

Community Managed Social-Economic Project (CMSEP) provided funding to Ntcheu District Council for CMSEP Projects which was distributed to Seven constituencies which are in the district equally for local communities to use for implementation of projects of their own choice. Each Constituency received K19,665,000.00.

A review of constituency ledgers which were used to control expenditure for the project disclosed that some constituencies overspent while others under spent. Table 4 below has the summary on how the funds were utilised.

**Table 2: Over and Under Utilisation of CMSEP Funds**

<b>No.</b>	<b>Constituency</b>	<b>Allocation</b>	<b>Expenditure</b>	<b>Balance</b>	<b>Utilisation</b>
		<b>(K)</b>	<b>(K)</b>		<b>%</b>
1	Ntcheu West	19,665,000.00	21,552,500.00	(1,887,500.00)	110
2	Ntcheu central	19,665,000.00	17,770,400.00	1,894,600.00	90
3	Ntcheu North East	19,665,000.00	19,812,548.55	(147,548.55)	101
4	Bwanje South	19,665,000.00	17,795,000.00	1,870,000.00	90
5	Bwanje North	19,665,000.00	18,453,804.93	1,211,195.07	94
6	Ntcheu North	19,665,000.00	19,964,000.00	(299,000.00)	102
7	Ntcheu South	19,665,000.00	17,740,297.23	1,924,702.77	90

**(i) Substandard works at Kame Bridge**

CDF Guidelines Revised June (2014), Paragraph 10 states that the District Commissioner/Chief Executive shall assign the Director of Public Works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they adhere to acceptable government and sectoral standards

Physical inspections of Kame bridge disclosed that the bridge was built but it was substandard. The bridge had a collapsed wing wall, broken chassis boards and a deteriorated bridge approach, which need to be improved. Payments for the bridge during the year under review were K7,574,982.00.

**(j) Uncompleted works for a contract which was fully paid for**

CDF Guidelines Revised June (2014), Paragraph 9 states that the Member of Parliament shall have primary responsibility for ensuring that projects in the Constituency are being implemented as planned.

Physical verifications of Bamba Health Centre disclosed that the project is almost complete but there are some works which the contractor did not do despite that a full payment was made. The contractor received K17,953,150.93. The remaining works include electrical works (tubing, installation of Sockets and bulb holders) and fixing of glasses which maintenance was partly done.

**(k) Uncompleted Work at Nenekeza**

CDF Guidelines Revised June (2014), Paragraph 9 states that the Member of Parliament shall have primary responsibility for ensuring that projects in the Constituency are being implemented as planned

Physical verifications of Nenekeza school block project disclosed that the structure was poorly constructed and works were not complete. It was observed that beam filling, Floor, drainage system, Plastering and Painting were not done. Below is table 8 showing payments amounting to K603,344.00 which were made during the year under review.

**(l) Substandard Structure at Gongolo: K2,763,567.70**

CDF Guidelines Revised June (2014), Paragraph 10 states that the District Commissioner/Chief Executive shall assign the Director of Public Works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they adhere to acceptable government and sectoral standards.

Physical verifications of Gongolo School block project disclosed that the project structure was poorly constructed and it has taken a long period of time before its completion. Inspecting auditors observed that

beam filling, floor, drainage systems, supporting pillars, painting, plastering, pointing outside the building, black board were not done. Windows, doors frames and doors were also not fixed. Payments amounting to K2,763,567.70 made during the year under a review.

**(m) Use of cashbook bank balances instead of reconciled bank balances in the statement of financial position: K18,088,739.00**

Local Authorities Accounting and Financial Management Procedures Manual (2009), Section 5.7.1 (a – d) provides the functions of bank reconciliation statements which include: to analyze the difference between the cash book and the bank statement balances; to detect and correct errors made by the bank or cash office; to detect possible fraudulent withdrawals from the bank and to recognize or identify appropriate expenditures or receipts made directly by the bank.

However, instead of deriving the benefits of bank reconciliation statements by using reconciled balances, Ntcheu District Council used cashbooks balances instead to come up with the Cash and Bank balances figure totaling K18,088,739.00 which was presented in the statement of financial position. Accordingly, the audit team failed to determine if the presented figure was fairly stated because it was not a reconciled figure.

**(n) Failure to provide notes for DFLA loan and GRF in the FS**

IPSAS 1 stipulates how financial statements for public entities should be presented and paragraph 122 (b) states that, among other things, notes to the financial statements of an entity should provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

An inspection of notes to the financial statements against the financial statements for the year under audit revealed that Ntcheu District Council did not provide notes for DFLA Loan totaling K8,234,408.00 and GRF amounting to K137,954,835.00 presented in the statement of financial position and statement of comprehensive income respectively. Consequently, the audit team failed to determine if items presented in the financial statements were fairly stated.

**(o) Notes To The Accounts Figures Different From The Figures Shown In The Financial Statements: K814,939,557.53**

IPSAS 1 stipulates how financial statements for public entities should be presented and paragraph 122 (b) states that, among other things, notes to the financial statements of an entity should provide additional information which is not presented on the face of the financial statements but that is necessary for a fair presentation.

An inspection of the financial statements against notes to the financial statements showed that some notes figures were different from the

figures presented in the financial statements. This resulted in accumulated variance of K814,939,557.53

## **NTCHISI DISTRICT COUNCIL**

49. An audit inspection of the financial and other information for Ntchisi District Council for the year ended 30th June 2019 was completed on 25th March, 2020. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations;

**(a) Misallocation of Funds: K30,519,716.00**

Treasury Instructions (2004), Section 4.14.1 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 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 inspection of payment vouchers and itemized expenditure statement revealed that payments amounting to K30,519,716.00 were charged to irrelevant sub items. However, there was no authority from the Secretary to the Treasury for such.

**(b) Non-Maintenance of a Non-Current Assets Register**

Local Authorities Accounting and Financial Management Procedures Manual (2009), Chapter 16.7 provides for the council to maintain a non-current assets register to record details of all non-current assets owned by the council.

It was noted that the Council did not maintain a non-current assets register. In the absence of the register, it was difficult to ascertain the completeness and accuracy of the non-current assets.

**(c) Revenue Not Banked: K3,830,150.00**

Treasury Instructions (2004), Section 5.6.2 states that the Controlling Officer must manage revenue efficiently and effectively by developing and implementing appropriate processes that provide for identification, collection, safeguarding, recording and reconciliation of information in respect of revenue.

An inspection of general receipt books for operations bank account revealed that revenue from registration fees, market fees and other sales amounting to K3,830,150.00 was not banked in the operations bank account.

**(d) Payments Made Outside The IFMIS: K304,651,387.14**

Treasury Instructions (2004), Section 5.16 require all payments, receipts and other accounting transactions to be entered and processed

into the integrated financial management information system approved by the Secretary to the Treasury.

An inspection of payment vouchers for Local Development Fund, District Development Fund and Social cash transfer revealed that transactions were generated outside the integrated financial management information system (IFMIS).

**(e) Activity Reports Not Presented For Audit: K23,721,410.80**

Government Circular letter reference number CS/15/15/7 from the Chief Secretary to Government dated 18th December, 2015 states that in line with travel policy, each officer who is paid subsistence allowance must submit a report to the Controlling Officer indicating among other aspects, where he/she travelled to, the purpose of the trip, the institutions/individual consulted and benefits of the trip to the Ministry/Department.

An inspection of payment vouchers disclosed that subsistence allowances amounting to K23,721, 410.80 were not substantiated by activity reports. As a result, the propriety of the expenditure could not be ascertained. Payment without being supported by appropriate documentation. In the absence of the supporting documents, the audit team could not ascertain the validity of the expenditure incurred.

**(f) Payments Without Adequate Supporting Documents: K9,616,070.65**

Treasury Instructions (2004), Section 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 National Audit Office.

An inspection of payment vouchers revealed that payment vouchers amounting to K9,616,070.65 were processed for payment without adequate supporting documents.

**(g) Payment Vouchers Not Presented for Audit Inspection: K9,382,930.76**

Public Audit Act (2003), Section 7 (1) (a) stipulates that the Auditor General and every person authorized by him shall have full access at all reasonable times to all documents, books and accounts, relating thereto and subject to audit, and to any place where they are kept.

An examination of payment vouchers revealed that payment vouchers with their supporting documents amounting to K9,382,930.76 were not presented for inspection. This made it difficult for auditors to verify the propriety of the expenditure.

## **SALIMA DISTRICT COUNCIL**

50. An audit of Salima District Council for the year ended 30th June, 2019 was completed on 9th March, 2020. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Failure To Maintain Assets Register And Inventory Sheets**

Local Authority Accounting and Financial Management Procedures Manual of 2009 paragraph 16.7 states that, Local Authorities shall maintain a fixed asset register that will record details of all fixed assets owned by the Local Authority. The Fixed Asset register shall provide particulars of the different fixed assets of the Local Authority across all sectors.

Inspection of financial records and observations in offices disclosed that the Council had some assets and inventories which were neither recorded in the assets register nor on inventory sheets.

**(b) Lack Of Involvement Of The Relevant Committees In Implementing CDF Projects**

Constituency Development Fund Guidelines of 2014, state that a Member of Parliament is supposed to work with Development Committees in implementing projects and that for each project there should be a Project Implementation Committee consisting of not less than 5 people. One has to be the MP Representative chosen by the Area Development Committee and respective Ward Councillors. For education projects it is stipulated that the School Management Committee will save as Project Implementation Committee.

The Project Implementation Committee is mandated by the guidelines to implement and keep records and report to the relevant committee and the Member of Parliament.

A physical verification to some of the project sites and enquiry with Development Committee Members revealed that these committees are side-lined in implementation of the projects. Most of the visited projects lacked the Project Implementation Committees. Where the Project Implementation Committee was available the relevant stakeholders were not getting reports from the Project Implementation Committees.

**(c) Failure To Submit Motor Vehicle Returns**

Government circulars (OPC) Ref No CS/S/002 dated 2th March,2010 and CS/S/001 dated 23rd March 2018 states that with effect from 1st April 2018, Controlling Officers shall be obliged to submit quarterly motor vehicle returns to the chief secretary to the Government with copies to the Accountant General and the Auditor General. Before such submissions are made internal auditors shall examine the

authenticity and accuracy of vehicle log books and the quarterly motor vehicle returns.

Inspection of relevant documents and enquiry from management showed that management failed to submit quarterly motor vehicle returns reports to the Chief Secretary and no explanation was given for the non-compliance.

**(d) Failure To Issue Completion Certificates: K16,549,966.78**

Local Authorities Accounting and Financial Management Procedure Manual of 2009 Section 5.1.3 requires that the Director for Public Works issues a Completion Certificate when making the final payment upon completion of a particular project.

An inspection of records for projects that took place during the period under review revealed that there were projects whose final payments amounting to K16,549,966.78 were made without issuing a Completion Certificate.

**(e) Failure To Produce Planned Outputs For Audit Inspection**

The guidance issued by the public sector board of IFAC notes that the primary function of governments and most public sector entities is to provide services to constituents. Consequently, their financial results need to be assessed in the context of the achievement of service delivery objectives. Reporting non-financial as well as financial information about service delivery activities, achievements and/or outcomes during the reporting period is necessary for a ministry to discharge its obligation to be accountable.

Audit of performance information is concerned with the audit of reported performance information against predetermined objectives, and it requires that if a public sector organization is not performing well then its funding may be cut and its management may be replaced and in extreme situations the organization may even be shut down.

However, the Council did not furnish the audit team with annual plans of what it planned to achieve during the year under review. It was, therefore, difficult for the audit team to verify the achievement of service delivery plans.

**(f) Revenue Not Banked: K6,817,172.00**

Local Authorities Accounting and Financial Management Procedures Manual of 2009, Paragraph 2.1.3 requires that all revenues collected be remitted to the cashier and deposited intact. Where revenue collected is deposited directly to the bank by collectors, relevant receipt numbers must be endorsed on the deposit slips and immediately reconciled with the cashier.

An inspection of general receipts for the period under review revealed that the Council had some revenue collected which was not banked at all. Further to this, receipt numbers were not endorsed on many deposit slips. Such unbanked revenue amounted to K6,817,172.00.

**(g) Failure To Prepare Reconciliation Statements For Deposits And Payables**

Treasury Instruction of 2004, Sections 5.5.8 and 5.6.16 require Ministries and Departments including District Councils to prepare reconciliations of payables such as advances and of revenues.

An inspection of records, however, revealed that the council did not prepare reconciliations for payables and receipts as disclosed in its financial statements as at the 30th of June, 2019.

**(h) Failure To Revalue Non-Current Assets**

Local Authority Accounting and Management Procedures Manual of 2009, Paragraph 10.1 defines non-current assets as capital items owned by the council both tangible and intangible which have a usable life of more than one year.

Salima District Council has in its possession a number of fixed assets including buildings. The council however has never revalued its fixed assets so that they reflect the correct carrying values. The auditors could not confirm whether the amount presented in the financial statements for Plant Property and Equipment as at 30th June 2019.

## **THYOLO DISTRICT COUNCIL**

51. An audit inspection of the financial and other information for Thyolo District Council for the year ended 30th June 2019, was completed on 15th November, 2019. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Outstanding Rentals For Shops At Thyolo Boma: K3,365,000.00**

Public Finance Management Act of 2003, Section 10(1) (j) states that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, any tax, duty, fee, levy or other charge imposed by legislation for which the Ministry is responsible is collected promptly and to the fullest extent. Further, the Local Government Act of 1998 Section 44 (1) empowers Local Authorities to collect locally generated revenues in order to discharge their statutory mandate.

An inspection of revenue records in respect of properties situated at Thyolo Boma, disclosed that the Council did not collect rentals amounting to K3,365,000.00 from the shop owners as at 30th June, 2019.

**(b) Shops Occupied Without Tenancy Agreements: K4,140,000.00**

Treasury Instructions (2004), Section 5.13.1 (f), (g) and (k) states that adequate internal controls must exist within each Ministry and Department such that all assets are safeguarded against loss or destruction and unauthorized use; resources are employed and managed in an effective, economic and efficient manner and that overall, there is effective and efficient management of the financial resources of Government, respectively

An inspection of records for properties owned by the Council in relation to revenue collection revealed that the Council leased its shops to business people without signing a tenancy agreement with them. As at the time of audit, K4,140,000.00 worth of rentals receivables from the occupants had no tenancy agreements with the Council. The absence of the tenancy contract agreement with the occupants left a loophole which may hinder the Council from enforcing collection of the revenue since some tenants take long to pay their rentals.

**(c) Failure To Remit Pay As You Earn To Malawi Revenue Authority: K12,098,247.00**

Taxation Act of 2000, Section 10(1) requires that every employer shall pay to the Commissioner the amount of any income deducted under rule 3 (1) within fourteen days of the end of the month in which it was deducted.

Contrary to the taxation requirement, an inspection of the remittances and salary deduction analysis disclosed that the Council did not remit to the Malawi Revenue Authority, Pay As You Earn (P.A.Y.E) amounting to K12,098,247.00 which was deducted from the Councils' employees for the year 2018/19.

**(d) Cash Drawn On Behalf Of Beneficiaries Not Accounted For: K3,049,500.00**

Local Assembly Financial Procedures Manual of 2009, Section 8.6.1 requires that all cash payments to individuals must be supported by receipted vouchers with signatures or thumbprints of the recipients as proof of payment and that any unclaimed money shall be brought on charge

Contrary to the above requirement, an inspection of receipted payment vouchers which were paid in the name of an officer for staff who had worked on different activities disclosed that cash amounting to K3,049,500.00 out of K4, 039,500.00 cashed could not be accounted for as it was not supported by signatures of the recipients.

**(e) Payments For Untraced Materials: K1,513,000.00**

Treasury Instructions of 2004, Section 5.19.1 states that payment for goods and services received shall be affected upon verification and confirmation that goods were received or that services were rendered.

An inspection of payment vouchers, invoices, delivery notes and stores ledgers disclosed that payments amounting to K1,513,000.00 were made for DDF materials for Goliati E.C.D. There was however, no delivery record to suggest that the materials were received or delivered by the supplier. The payment was made to Trade Point Building Hardware on 17th October, 2018 through cheque number 8579.

**(f) Payment Of Subsistence Allowance To Officers Working Within Duty Stations: K2,325,000.00**

Treasury Instructions of 2004, Section 5.16 requires that 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, the Malawi Public Service Regulations (MPSR), Section 118 (1) as read together with other Government Circulars, clearly stipulate that a civil servant who is authorized by his/her responsible officer to travel on an official duty within Malawi may be paid subsistence allowance for every night that he/she spends away from his/her duty station.

An inspection of payment vouchers and request for authority to leave duty station forms revealed that K2,325,000.00 was paid in form of subsistence allowances to officers who worked around Thyolo Boma. There was no proper justification for the payment of subsistence allowances. In the absence of a defined authority to pay subsistence allowance within Thyolo, the propriety of the expenditure could not be ascertained.

**(g) Payments Vouchers Without Adequate Supporting Documents: K13,764,540.99**

Treasury Instruction of 2004, Section 5.9 (a) states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further those full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff. In addition, the Local Authorities Accounting and Financial Management Procedures Manual Section 5.5.3 (2) requires that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

An inspection of cashbooks and relevant documents disclosed that payment vouchers totalling K13,764,540.99 were submitted for audit review without supporting documents. In the absence of the

supporting documents, it was difficult for the inspecting auditors to ascertain whether the payments were a proper charge against public funds.

**(h) Constituency Development Fund- Disallowed Expenditures: K2,958,250.00**

Guidelines for Constituency Development Fund of 2014, Section 4 states that disallowed expenditure shall include payment of bursaries and letter with reference No. NLGFC/TODA/12/27 from National Local Government Finance Committee allows payment of bursaries only to students withdrawn from other bursaries and not exceeding 1,000,000.00 on condition that the committee which is responsible for the Constituency Development Fund (CDF) in the concerned constituency should certify the names of the pupils involved.

An Inspection of payment vouchers for CDF revealed that the Council paid bursaries to the tune of K2,958,250.00 to support needy students contrary to the above quoted authority. It was noted that the payments were not supported with documents to satisfy that the students were from bursaries that were withdrawn. A further inspection showed that the payments were in excess of K1,000,000.00 and without CDF committee certification. The expenditures were in respect of Thyolo Thava Constituency.

**(i) Irregular Payment On Purchase Of Land: -K400,000.00**

Public Procurement and Disposal of Public Assets Act of 2017, Section 49 (l) states that subject to a no objection being issued in pursuance of this Act or subsidiary legislation there under, and to Section 47 in notice of acceptance of the bid, shall be given to the successful bidder and the procuring and disposing entity shall prepare and sign the contract with such bidder prior to its institution.

Contrary to the above requirement, an inspection of payment vouchers revealed that the Council purchased a piece of land from an individual at an unknown cost for a CDF project. It was stated that the land was for the purpose of constructing Maonga Secondary School. On 5th February, 2019 the Council paid K400,000.00 to Rodney Steven through cheque number 029187 for the purchase of the land but there was no sale agreement or any document to support the purchase of the land. However, the supporting documents attached to the payment voucher indicated that the payment was for grass cutting at Maonga Secondary School.

**(j) Implementation Of Projects Without Project Implementation Committee: K33,884,462.80**

Guidelines for Constituency Development Fund of 2014, Section 8 highlights that the Project Implementation Committee (PIC) shall be

responsible for planning and execution of the projects. For each project there shall be a project Implementation Committee (PIC) consisting of not less than 5 persons one of whom shall be a representative of the MP and the other four appointed by the ADC and the representative Ward Councillor.

An inspection of payment vouchers and CDF projects application forms for various projects for the period under review disclosed that some projects were being implemented without the involvement of Project Implementation Committee. The audit team noted that Project Implementation Committees did not sign nor attach any report for the CDF projects application forms amounting to K33,884,462.80. This symbolised their absence in the implementation of the projects.

**(k) Procurement Of Materials For Unspecified Projects: K24,330,663.49**

Guidelines for Constituency Development Fund of 2014, Section 10 (2) states that the Member of Parliament should at least once per year organise a meeting with Chiefs, Councillors and ADCs/Urban Development Committees within the Constituency to identify and prioritise projects that meet the immediate social economical needs of the people in the Constituency that can be funded under CDF including on-going projects.

An inspection of payment vouchers against completed plan for the projects revealed that procurement of materials was done without specifying as to which projects the materials would be delivered. Materials amounting to K24,330,663.49 were purchased in the year under review but their destinations could not be specified. Further inquiry from the Director of Planning revealed that projects materials were procured in bulks for various projects of the Constituency without identification of projects to which the materials will be delivered to. Hence the auditing team could not ascertain as to where the materials were delivered.

**(l) Improper Maintenance Of Fixed Asset Register**

Treasury Instruction of 2004, Section 5.32.1 states that all Controlling Officers shall maintain assets registers for all fixed assets bought using public resources in both electronic and hard copies. The assets registers shall conform to the format provided by Secretary to the Treasury for all classes of fixed assets. In addition, Public Finance Management Act of 2003, Section 78 (1) and (2) states that a statutory body or a subsidiary shall keep proper accounts and records of its transactions and financial position and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

An inspection of fixed asset register revealed that there was inadequate information such as date of acquisition, cost of the assets and serial numbers of the assets. As this information makes part of the financial statements, the asset value may be manipulated. The assets for other sectors were also not recorded.

**(m) Weak Internal Audit Function**

Local Assembly Financial Procedures Manual of 2009, Section 2.1.15 states that local Councils shall establish and maintain an Internal Audit Department, as a tool for management to enhance the internal control systems.

A review of the Internal Audit Department disclosed that the department was weak since it was heavily understaffed. The department had only one internal auditor. The National Audit Team were unable to review the work of an Internal Auditor as there was no internal audit report for the year under review.

**(n) Failure To Constitute An Audit Committee**

Local Assembly Financial Procedures Manual of 2009, Section 26.3.2 states that the District Commissioners/Chief Executives shall put in place a Management Audit Committee which shall coordinate the compilation of responses to the issues raised by the Auditors in their management letter. The Director of Finance shall coordinate the activities of the management audit committee. The draft responses shall be presented to and discussed by management before resolving to submit the responses to the Auditor General. The report containing the responses shall be signed for by the DC/CE.

Contrary to the regulation above, it was observed that the Council did not have an Audit Committee. This was evident from the lack of progress in the response to audit matters. Management failed to attend to audit issues raised in the Auditor General's Report for the year ending June 2012 to the date of audit review. An enquiry with the management revealed that no committee was in place to guide in responding to audit matters as well as to control and guide the internal audit.

**(o) Deceased Estates' Bank Reconciliations Using Stale Cheques: K92,496,529.64**

Local Assembly Financial Procedures Manual of 2009, Section 10.2.1 states that the list of outstanding cheques shall be checked and ticked against the following month's bank statement. Cheques that have become stale after a period of six months from the date of issue shall be brought on charge by preparing a general receipt.

An inspection of bank reconciliations for deceased estates account revealed that the Council had stale cheques amounting to

K92,496,529.64 dating back to the year 2012 which were still appearing on the reconciliation statements and were being used to balance the deceased estate accounts.

**(p) Financial Statement Balances Without Supporting Schedules/Notes: K425,418,154.01**

Public Finance Management Act of 2003, Section 83 (3) states that if the Auditor General is not able to report in as required by subsection (2), he shall state the reasons, and if he is of the opinion that he did not obtain all necessary information and explanations, he shall give particulars of the shortcomings

A review of financial records revealed that schedules supporting the payables figure of K425,418,154.01 in the Financial Statements were not presented for inspection.

**(q) Failure To Value The Assets Of The Council: K133,000,542.00**

Local Authority Accounting and Financial Management Procedure Manual of 2009, Section 16.5 states that, Local Authorities shall periodically revalue their assets to ensure that fixed assets are reflected at their fair values in the statement of financial position. All categories of fixed assets shall be revalued at five-year intervals with the exception of computers which shall be revalued after two years. The difference between the revalued amount and the previous net book value of the asset shall be transferred to the revaluation reserve account.

An enquiry with the management and inspection of the financial statements revealed that the Council did not revalue assets worth K133,000,542.00 contrary to the above provision.

**PART IV**  
**CONCLUSIONS AND RECOMMENDATION**

**CONCLUSION**

52. There are a number of challenges in the Local Councils that will need urgent attention if the decentralization process is to continue achieving its intended purpose. The major challenge is laxity of staff and Management. Monthly monitoring of staff by Management is therefore a must.

The following observations were noted during the audit:—

**i. Expenditure Management**

- Unjustifiable and unaccounted for subsistence allowances
- Unaccounted for Funds
- Expenditures made without following procedures (Irregular expenditure)
- Misallocation of Funds (funds spent on different functions other than that which parliament approved)
- Payments for non-existent and incomplete CDF Projects
- Unjustified Over-payments
- Failure to remit PAYE taxes to MRA
- Failure to process transactions through IFMIS
- Failure to service Loans
- Failure to pay money due to a deceased estate

**ii. Financial Statement related issues**

- Failure to capitalise acquisition of Capital Assets
- Notes to the Accounts figures Different from those presented in the Financial Statements
- Non-valuation Of The Council's Non-Current Assets
- Payables Not Disclosed In The Financial Statements – Water Bills
- Liabilities Not Disclosed In The Financial Statements (Locum Arrears)
- Failure to journalise a prior year adjustment
- Property, Plant & Equipment – Absence of Title Deeds
- Failure To Depreciate Plant, Property And Equipment
- Financial Statement Transactions without supporting schedules/notes

- Failure To Provide Evidence On Figures Presented In The Financial Statements
- Figures Brought Forward For Three Consecutive Accounting Periods Without Evidence
- Overstatement Of Assets In The Financial Statements

**iii. Procurement Irregularities**

- Procurement Of Goods And Services Without IPDC Approval
- Mis-Procurement of Second Hand and Non-Runner Vehicle
- Failure To Source Three Quotations
- Procurement of goods from a company owned by IPDC Member
- Single Sourcing Of Quotations
- Contract price adjustment without seeking "No Objection" from PPDA
- Lack Of Renewal Of Security Services Contract
- Procurement Of Goods And Services From Unregistered Suppliers
- Unplanned procurements

**iv. Project Management Irregularities**

- CDF Projects Not Signed For By Area Development Committee (Adc) On The Project Identification Forms
- CDF Project Without Contract Agreement Forms
- CDF Projects Payments Made Without Attachment Of Certificate Of Level Of Completion
- Non-Monitoring Of CDF Projects
- Uncompleted CDF Projects Indicated As Completed In The Council Records
- Advance payment to Contractors without advance payment guarantee
- Under-Utilization Of Constituency Development Fund (CDF)
- Failure To Compile Supervision Report For Monitoring Projects
- Payment Relating to CDF not Supported with Project Appraisal Forms
- Project not implemented at Kaulasisi Bridge
- Implementation Of Projects Not On Plans
- CDF Project Expenditures Without Project Implementation
- CDF Projects initiated by Members of Parliament instead of the community

- Uncompleted Works For Construction Of Mcherenje Class Block
  - Implementation Of Projects Without Project Implementation Committee
  - Procurement Of Materials For Unspecified Projects
- v. Receivables and Records Management Flaws
- Failure To Collect Debts Due From Clients
  - Failure to bill Council customers
  - Work in progress Certificates not Presented for audit
  - Payment Vouchers Not Presented For Audit
  - Payment Vouchers Without Supporting Documents
  - Trade Payables not supported by Invoices
  - General Receipts (Grs)Not Produced For Audit Inspection
- vi. Revenue Management Flaws
- Failure To Deposit Revenue/Revenue not banked
  - Issued Market Fee Books Not Produced For Audit Inspection
  - Bank Reconciliation Not Conducted on ORT and Operations Account
  - Revenue not accounted for
  - Failure to collect rental fees
  - Under-collection of revenue
  - Market fee books not returned to the Council
  - Market fee books and General receipt books not presented for Audit Inspection
  - Under Collection of revenue
  - Revenue not banked
  - Outstanding Rentals For Shops At Thyolo Boma
  - Shops Occupied Without Tenancy Agreements

It is my view that Government should immediately do a review initiative to establish the cause of these problems.

## **RECOMMENDATION**

53. In the course of my audit of the financial statements of Local Councils, each District Commissioner and Chief Executive was sent appropriate management letter with recommendations; regrettably, few have submitted their responses within the required period required under Section 14 of the Public Audit Act.

Note that the recommendations in this report go beyond those already made in the individual Management Letters. It is my plea therefore that each Controlling Officer, the NLGFC as well as Ministry of Local Government should critically look at these recommendations and act accordingly.

These recommendations include:—

- (1) The Councils should speed up the process of getting title deeds for all their assets and thereafter including them in the books and financial statements
- (2) The NLGFC should be strict in ensuring that the Directors of Finance and accounting staff are maintaining proper books of account and adhering to the IPSAS accrual stages 2 and three as the case may be for each Council.
- (3) There is need to improve on the presentation of Financial Statements, especially on the notes to include comparative figures for the previous period.
- (4) The Councils need to strictly adhere to the Finance, Accounting and Procedures Manual on all aspects of record keeping and financial reporting.
- (5) Disciplinary procedures should be established for officers who deliberately violate accounting reporting procedures.
- (6) Each payment of Subsistence Allowance which is irregular should be investigated
- (7) All funds which have not been accounted for should be accounted for and the responsible officers dealt with in accordance with MPSR
- (8) All irregular expenditures should be probed further and responsible officers dealt with in accordance with MPSR
- (9) All those responsible for misallocation of funds without following the due process should face disciplinary action.
- (10) Investigation should be instituted for all payments which were made for non-existent and incomplete CDF projects.
- (11) All unjustified overpayments need to be investigated
- (12) Councils that failed to process some transactions through IFMIS should be probed as to why this was not done and appropriate action taken.
- (13) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly
- (14) Money which is due to a deceased estate and has not been paid, must be paid immediately.
- (15) The Council that failed to service loan should come up with a plan on how the loan can be serviced quickly to avoid penalties.

- (16) The Controlling Officers need to ensure henceforth that Fuel registers and logbooks are regularly checked and monitored and that each Motor Vehicle has a Maintenance File which is regularly updated and reviewed by Management.
- (17) All procurement flaws should be investigated.
- (18) Controlling Officers must ensure strict adherence to procurement laws and regulations
- (19) All project management flaws especially on CDF projects must be investigated.
- (20) The Controlling Officers must ensure strict adherence to CDF and other Funds guidelines and need to demand monthly reports on the same, taking disciplinary action against any officer in violation and reporting to law enforcement agencies for any member of parliament in violation.
- (21) The song of poor record keeping has been sang for far too long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action.
- (22) The Controlling Officers must on a monthly basis monitor all expenditure to ensure that all payment vouchers have supporting documents intact and that all payment vouchers for that particular month are intact.
- (23) The Controlling Officers must within a month of receiving this report, come up with a plan on how they will collect outstanding debts from their clients, and how they will deal with clients that they did not bill
- (24) All revenues not banked should be banked within seven days of receiving this report
- (25) All revenues not Accounted for must be accounted for within a month of receiving this report.
- (26) All revenue related documents not produced for audit inspection must be produced within 14 days of receiving this report.
- (27) All officers who did not account for revenue under their care must face disciplinary action.
- (28) The Controlling Officer(s) must come up with a way of collecting outstanding rentals for shops and that there are Tenancy agreements for all shops occupied.
- (29) The Controlling Officers need to ensure henceforth that Stores registers are on a monthly basis checked and monitored and reviewed by Management.

September, 2020

LILONGWE

## GLOSSARY

### **Unqualified Opinion**

An unqualified opinion is expressed when the auditor concludes that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (ISSAI 1700.16).

### **Adverse Opinion**

Adverse Opinion is expressed when the effects of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements; and (ISSAI 1705.8)

### **Qualified Opinion**

Qualified Opinion is expressed when the auditor having obtained sufficient appropriate audit evidence concludes that there is material misstatement in the financial statements or if the auditor cannot obtain adequate evidence on aspects of the audit. Qualified opinion is issued when the misstatement or limitation of scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. It is expressed as being ‘except for’ the effects of the matter to which the qualification relates. (ISSAI 1705.7)

### **Disclaimer of Opinion**

Disclaimer of Opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements. A disclaimer of opinion may also be issued considering the potential cumulative effect of uncertainties even when all audit evidence is received. (ISSAI 1705.9; 10) (ISSAI 1705 P10)

### **Emphasis of Matter Paragraph**

Emphasis of Matter paragraph refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements. (ISSAI 1706.5)

### **Modified Audit Opinions**

The auditor appropriately modifies the opinion in the Auditor’s report when the auditor:

- Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

- Is unable to obtain sufficient appropriate audit evidence. (ISSAI 1700.4;6;17) (ISSAI 1705.6)
- Determines that the auditee did not comply with responsibilities prescribed by the financial reporting framework to:
- Achieve fair presentation of financial information when it is a fair presentation framework;
- Fulfil all requirements of the financial reporting framework when it is a compliance framework. (ISSAI 1700.18;19)
- Any additional audit requirements, such as non-compliance with legislation or internal control weakness which has a material or pervasive effect on the financial statements as it is not adequately disclosed or accounted for. (ISSAI 1705 P4; P5; P6)

### **Other Matter Paragraph**

Other Matter paragraph includes findings relating to matters relevant to the users of the report as under the Emphasis of Matters paragraph but not presented or disclosed in the financial statements. The auditor includes this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the report (ISSAI 1706.5; 8; P5)

Other matter paragraphs normally include control weaknesses, non-compliance with laws and regulations as applicable.

### **Pervasive**

Pervasive is a term used to describe the effects on the financial statements of misstatements or possible effects if any that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasiveness of the finding will determine the kind of modified audit opinion which will be issued.

Pervasive effects on the financial statements are those that, in the auditor's judgment:

- Are not confined to specific elements, accounts or items of the financial statements;
- Represent or could represent a substantial proportion of the financial statements; or
- Fundamental to users' understanding of the financial statements. (ISSAI 1705.5)

The auditor selects the most appropriate modified opinion from the 3 options described below:

#### **National Local Government Finance Committee**

The National Local Government Finance Committee (NLGFC) is a body established under the provisions of Section 149 of the Constitution and regulates

the Local Authority accounting and financial management system. Among others, the roles of the NLGFC include the following:

- (a) Providing policy guidelines regarding the Local Authority accounting and financial management system;
- (b) receive all estimates of revenue and all projected budgets of all local government authorities;
- (c) make recommendations relating to the distribution of funds allocated to local government authorities, and vary the amount payable from time to time and area to area according to, and with sole consideration of, economic, geographic and demographic variables;
- (d) Ensuring that Council budgets are prepared in accordance with policy guidelines and set procedures and that development programmes are in line with national priorities;
- (e) prepare a consolidated budget for all local government authorities and estimates after consultation with the Treasury, which shall be presented to the National Assembly by the Minister responsible for Local Government before the commencement of each financial year;
- (f) Providing technical support and supervision in the preparation of Local Authority final accounts;
- (g) Facilitating the external audit of Local Authority final accounts by the Auditor General;
- (h) Following up on audit queries arising from the audit of Local Authorities and imposing surcharges on officers responsible for financial mismanagement:

### **Constituency Development Fund**

Constituency Development Fund (CDF) is a fund which was established in 2006/2007 financial year to cater for immediate to short term projects as initiated by Members of Parliament.

### **General Resource Fund**

The General Resource Fund (GRF) represents unconditional grant by Central Government to the Local Authorities in line with Decentralization Policy.

### **Sector Funds**

Sector funds represent conditional grants from Central Government to the Local Authorities in support of the devolved (Other Recurrent Transactions) functions.

### **Sources of Revenue**

The major sources of locally generated revenue for the Local Authorities include property rates, market fees, collections from commercial undertakings, user fees and charges and business permits.

