

REPORT OF THE AUDITOR GENERAL

ON THE

ACCOUNTS OF THE CITY, MUNICIPAL
AND DISTRICT COUNCILS

FOR THE YEAR ENDED
31ST MARCH, 2022

NATIONAL AUDIT OFFICE
SUPREME AUDIT INSTITUTION OF MALAWI



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National Assembly
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Through: The Honourable Minister
Ministry of Finance, Economic Affairs
P.O. Box 30049
Lilongwe 3
Malawi

Dear Madam,

Pursuant to the provisions of Section 184 (2) of the Constitution of the Republic of Malawi (1994) and the Section 15 of the Public Audit Act (2003), I have the honour to submit my report on the results of the Financial and Compliance audit of the City, Municipal, and District Councils for the year ended 31st March, 2022 for tabling in the National Assembly.

Yours faithfully,

A stylized, handwritten signature in black ink, consisting of a large, looped 'T' and 'B'.

THOMAS K. B. MAKIWA
Acting Auditor General

TABLE OF CONTENTS	PAGES
LIST OF FIGURES	vi
LIST OF TABLES	vii
EXECUTIVE SUMMARY	viii
PART I	1
BACKGROUND AND GENERAL INFORMATION	1
Compliance Audit of Council	1
Audit of Public Accounts	1
Compilation and Submission of Financial Statements	2
Controlling Officer's Responsibility	2
Scope of Audit	3
Audit Methodology	3
Audit Reports	4
PART II	7
STRUCTURE AND OVERALL PERFORMANCE	7
Financial Management and Administration Policies	7
Budgeting process	8
Budget planning	8
Budget Formulation	8
Budget Preparation	9
Accounting and financial reporting for local authorities	9
Analysis of Findings	10
Local Councils' Central Government Transfers Performance For 2021/2022	16
PART III	18
AUDIT RESULTS OF THE COUNCILS	18
General audit observations	18
Expenditure Management Irregularities	18
Preparation of Financial Statements	18
Receivables, Payables And Records Management	19

SPECIFIC AUDIT FINDINGS	..	..	..	..	20
BALAKA DISTRICT COUNCIL	..	..	..	..	20
BLANTYRE CITY COUNCIL	..	..	..	..	22
CHIKWAWA DISTRICT COUNCIL	..	..	..	..	23
CHIRADZULU DISTRICT COUNCIL..	..	..	..	..	25
CHITIPA DISTRICT COUNCIL	..	..	..	..	28
KARONGA DISTRICT COUNCIL	..	..	..	..	29
KASUNGU DISTRICT COUNCIL	..	..	..	..	29
LIKOMA DISTRICT COUNCIL	..	..	..	..	31
LUCHENZA MUNICIPAL COUNCIL	..	..	..	..	32
M'MBELWA DISTRICT COUNCIL	..	..	..	..	34
MACHINGA DISTRICT COUNCIL	..	..	..	..	35
MANGOCHI MUNICIPAL COUNCIL..	..	..	..	..	37
MCHINJI DISTRICT COUNCIL	..	..	..	..	39
MWANZA DISTRICT COUNCIL	..	..	..	..	42
MZUZU CITY COUNCIL	..	..	..	..	42
NENO DISTRICT COUNCIL..	..	..	..	..	44
NKHATA BAY DISTRICT COUNCIL	..	..	..	..	45
NKHOTAKOTA	..	..	..	..	46
NSANJE DISTRICT COUNCIL	..	..	..	..	47
NTCHEU DISTRICT COUNCIL	..	..	..	..	47
PHALOMBE DISTRICT COUNCIL	..	..	..	..	48
RUMPHI DISTRICT COUNCIL	..	..	..	..	50
SALIMA DISTRICT COUNCIL	..	..	..	..	50
THYOLO DISTRICT COUNCIL	..	..	..	..	51
ZOMBA DISTRICT COUNCIL	..	..	..	..	51
PART IV	..	..	..	..	53
CONCLUSIONS AND RECOMMENDATION	..	..	..	..	53
CONCLUSION	..	..	..	..	53
RECOMMENDATIONS	..	..	..	..	55
GLOSSARY	..	..	..	..	57

Unqualified Opinion	..	..	..	..	..	57
Adverse Opinion	..	..	..	..	..	57
Qualified Opinion	..	..	..	..	..	57
Disclaimer of Opinion	..	..	..	..	..	57
Emphasis of Matter Paragraph		..	..	..	..	57
Modified Audit Opinions	..	..	..	..	..	57

LIST OF FIGURES	..	..	..	..	..	(vi)
Figure 1: Budgeting process for the Councils	..	..	..	..	..	8
Figure 2: Budget preparation for Councils	..	..	..	..	..	9
Figure 3: Expenditure Management Irregularities			..	..	..	11
Figure 4: Financial Statement Irregularities	..	..	..	..	..	12
Figure 5: Procurement Management Irregularities			..	..	..	13
Figure 6: Project Management Irregularities	..	..	..	..	..	14
Figure 7: Records Management Irregularities	..	..	..	..	..	15
Figure 8: Revenue Management Irregularities	..	..	..	..	..	16

LIST OF TABLES	(vii)
Table 1: Three-Year Comparative Analysis of the Audit Opinions ..	5
Table 2: Central Government Transfers Performance for 2022 FY ..	17
Table 3: Non-Valuation of Council Assets	30

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 other financial information of City, Municipal and District Councils for the year ended 31st March, 2022.

Scope of Audits

I have conducted Financial and Compliance audits on thirty-five (35) Councils in Malawi for financial year ended 31st March, 2022. The audits were performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audits were intended to provide overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions as well as compliance with all applicable laws and regulations. Although the audits were conducted in accordance with ISSAIs, they do not guarantee absolute accuracy of the detection of non-compliance with laws and regulations, financial irregularities and fraud.

However, 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. Similarly, substantive tests were made on selected areas of the Councils' other financial information in order to find out whether 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;
- 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

It is clear from the findings below that some controlling officers contravened the following laws:-

- (1) Section 14 (1) (d) of the PFMA of 2022 by not maintaining all accounts and records relating to the functions and operations of their institutions;
- (2) Section 14 (1) (h) of the PFMA of 2022 by making uneconomical, inefficient and ineffective expenditures resulting into waste of public funds;
- (3) Section 14 (1) (p) of the PFMA of 2022 by failing to have an effective internal control system in their institutions resulting into recurrent financial and procurement mismanagement;
- (4) Section 15 (1) (a) of the PFMA of 2022 by not complying with Public Procurement and Disposal of Public Assets Act of 2017 as evidenced in some procurement irregularities;
- (5) Section 7(1) (a) of the Public Audit Act of 2003 by not providing to the Auditor General requested information for audit purpose

Further, these findings have been classified into six (6) categories summarized as follows:

a. Expenditure Management irregularities

- Expenditure not properly evidenced
- Expenditures made without following procedures
- Misallocation of Funds (funds spent on different functions other than which parliament approved)
- Payments made to uncompleted and substandard projects
- Unjustified Over-payments
- Failure to remit PAYE taxes to MRA
- Failure to process transactions through IFMIS
- Improper management of deceased estates

b. Financial Statement irregularities

- Non-valuation of the Council's non-current assets
- Long outstanding payables
- Failure to make provisions for trade payables
- Property, Plant & Equipment – absence of title deeds
- Financial statement transactions without supporting schedules/notes
- Failure to provide evidence on figures presented in the financial statements, e.g., payables.

c. Procurement Management Irregularities

- Procurement of goods and services without IPDC approval
- Failure to enter into framework agreements
- Procurements made without following proper procurement procedures
- Procurement of goods from unregistered suppliers
- Unplanned procurements

d. Project Management Irregularities

- Delays in implementing/completing projects
- Payments made on projects with evidence of poor workmanship
- Payments to contractors without certification by Area Development Committees
- Failure to appraise District Development Fund projects
- Projects under Governance to Enable Delivery not completed on time
- Borehole Fund Projects not included in District Development Plan
- Implementation of projects outside annual investment plan

e. Records Management Irregularities

- Payment vouchers not presented for audit
- Payment vouchers without supporting documents
- Quarterly reports not produced by the Area Development Committee to the Council
- Contracts not presented for audit inspection
- Procurement documents not presented for audit

f. Revenue Management Irregularities

- Lack of segregation of duties on collection of licenses and permits and revenue
- Revenue not accounted for
- Revenue collected without corresponding deposit slips
- Under collection of locally generated revenue
- Under banking of revenue

In my view, it is high time Government conducts a review exercise on the root causes of these recurrent financial mismanagement and also come up with strong remedial actions. I have also observed that most of the issues highlighted as queries in this report are a clear violation of the existing legal instruments on procurement, audit, financial management etc.

General recommendations

- (1) Since some of the issues are a violation of Laws of Malawi, offences and penalties enshrined in the legal instruments should be enforced;
- (2) As a quick win to item 1 above, administrative arrangements on disciplinary front should be enforced as a matter of urgency;
- (3) The issue of poor workmanship and project mismanagement should be looked at by Director of Buildings so that guidance and monitoring is enforced;
- (4) Valuation of assets is still a problem, NLGFC should continue taking this matter as a project for implementation in all Councils;
- (5) The Councils should speed up the process of getting title deeds for all their assets and include them in the books and financial statements;
- (6) Deceased estate funds are still a subject for fiduciary risk, NLGFC should develop effective mechanisms around this;
- (7) All deceased estate funds due for payment must be disbursed within one month after receiving this report;
- (8) Quality of financial statements is still a challenge, NLGFC should do a critical capacity analysis and come up with short, medium to long term solutions to this;
- (9) The problem of poor record keeping has persisted for long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action, ;
- (10) All situations of documents not submitted for audit should be fully investigated to determine if the non-production was deliberate to conceal fraudulent transactions;
- (11) 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;
- (12) All funds which have not been accounted for should be accounted for within a month of receiving this report and the responsible officers dealt with in accordance with the existing regulations;

- (13) Investigation should be instituted for all payments which were made for non-existent and incomplete construction projects;
- (14) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly; and remit the PAYE within one month after receiving this report;
- (15) All procurement flaws should be investigated and Councils should recruit qualified procurement officers;
- (16) All project management flaws especially on CDF projects must be investigated;
- (17) All irregular expenditures should be probed further and responsible officers dealt with in accordance with relevant laws and regulations;
- (18) The Controlling Officers must monitor all their monthly expenditures and ensure that all payment vouchers are fully supported and that they are intact;
- (19) 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
- (20) The Councils need to strictly adhere to the Local Authority Accounting and Finance Management Procedures Manual on all aspects of record keeping and financial reporting.

ACKNOWLEDGEMENT

I wish to place on record my profound gratitude and appreciation to staff in my office including everyone who took part in the audit.

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

Special thanks and appreciation should go to the World Bank through the Governance to Enable Service Delivery (GESD) Project for providing the finances for the audit of the twenty-eight (28) District Councils.

PART I

BACKGROUND AND GENERAL INFORMATION

Compliance Audit of Council

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 at least once a year 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. 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;
3. 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.
4. 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

- 5. 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 (6) months from the end of each financial year. Subsection (2) of the same requires Councils to submit the final accounts to the National Local Government Finance Committee which shall forward a copy to me.

Controlling Officer's Responsibility

- 6. In terms of LGA (1994) as read together with Section 107 (1) of the Public Finance Management Act, 2022, 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.
- 7. In preparing the financial statements, Controlling Officers have the following responsibilities: -
 - (a) Maintain proper accounting records;
 - (b) Select suitable accounting policies and apply them consistently;
 - (c) Make judgments and estimates that are reasonable and prudent;
 - (d) Comply with applicable standards when preparing financial statements subject to any material departures being disclosed and explained in the financial statements;
 - (e) Prepare financial statements on a going concern basis (sustainability of service) unless it is inappropriate to presume that the Council will continue in business.
- 8. 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

9. In compliance with Section 13 of the PAA which requires me to use Generally Accepted Auditing Practices, 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 31st March, 2022.
10. 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

11. 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

12. 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.

Table 1 below provides a three-year comparative analysis of the audit opinions which were issued to the different councils.

Table 1: Three Year Comparative Analysis Of The Audit Opinion

ITEM	LOCAL AUTHORITY	AUDIT OPINION		
		2019/2020 FY	2020/2021 FY	2021/2022 FY
1	Balaka District Council	Qualified	Qualified	Qualified
2	Blantyre City Council	Unqualified	Unqualified	Unqualified
3	Blantyre District Council	Adverse	Qualified	Qualified
4	Chikwawa District Council	Qualified	Qualified	Qualified
5	Chiradzulu District Council	Qualified	Qualified	Qualified
6	Chitipa District Council	Qualified	Unqualified	Unqualified
7	Dedza District Council	Qualified	Qualified	Qualified
8	Dowa District Council	Qualified	Unqualified	Qualified
9	Karonga District Council	Qualified	Qualified	Qualified
10	Kasungu Municipal Council	Qualified	Adverse	
11	Kasungu District Council	Qualified	Qualified	Qualified
12	Likoma District Council	Qualified	Qualified	Qualified
13	Lilongwe City Council	Qualified	Unqualified	
14	Lilongwe District Council	Qualified	Qualified	Unqualified
15	Luchenza Municipal Council	Adverse	Adverse	Adverse
16	Machinga District Council	Qualified	Qualified	Qualified
17	Mangochi District Council	Qualified	Qualified	Qualified
18	Mangochi Municipal Council	Unqualified	Adverse	Qualified
19	Mchinji District Council	Adverse	Qualified	Qualified
20	M'mbelwa District Council	Qualified	Qualified	Qualified
21	Mulanje District Council	Qualified	Qualified	Qualified
22	Mwanza District Council	Qualified	Qualified	Qualified
23	Mzuzu City Council	Qualified	Qualified	
24	Neno District Council	Qualified	Adverse	Qualified
25	NkhataBay District Council	Qualified	Qualified	Qualified
26	Nkhota kota District Council	Adverse	Unqualified	Unqualified
27	Nsanje District Council	Qualified	Qualified	Unqualified
28	Ntcheu District Council	Qualified	Qualified	Unqualified
29	Ntchisi District Council	Qualified	Qualified	Qualified
30	Phalombe District Council	Qualified	Unqualified	Unqualified
31	Rumphi District Council	Qualified	Qualified	Unqualified
32	Salima District council	Qualified	Qualified	Qualified
33	Thyolo District Council	Adverse	Qualified	Unqualified
34	Zomba City Council	Qualified	Qualified	
35	Zomba District Council	Qualified	Qualified	Qualified

For the year ended 31st March, 2022, I issued nine (9) unqualified opinions on the following Councils; Blantyre City, Chitipa District, Lilongwe District, Phalombe District, Nkhosakota District, Nsanje District, Ntcheu District, Thyolo District and Rumphi District.

I also issued twenty-one (21) qualified (Except for) opinions on the following Councils; Balaka District, Blantyre District Chikwawa District, Chiradzulu District, Dedza District, Karonga District, Dowa District, Kasungu District, Likoma District, Machinga District, Mangochi District, Mangochi Municipal, Mchinji District, M'mbelwa District, Mulanje District, Mwanza District, Neno District, NkhataBay District, Ntchisi District, Salima District and Zomba District.

I also issued one (1) adverse opinion on Luchenza Municipal Council.

PART II

STRUCTURE AND OVERALL PERFORMANCE

Financial Management and Administration Policies

13. 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), 2022;
 - The Public Audit Act (PAA), 2003;
 - The Public Audit (Amendment) Act, 2018
 - The Public Procurement and Disposal of Public Assets Act (PPDPA), 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

14. The Budgeting guidelines used in the Local Authorities were developed by the Ministry of Finance and Economic Affairs. 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:

BUDGETING PROCESS FOR THE COUNCILS

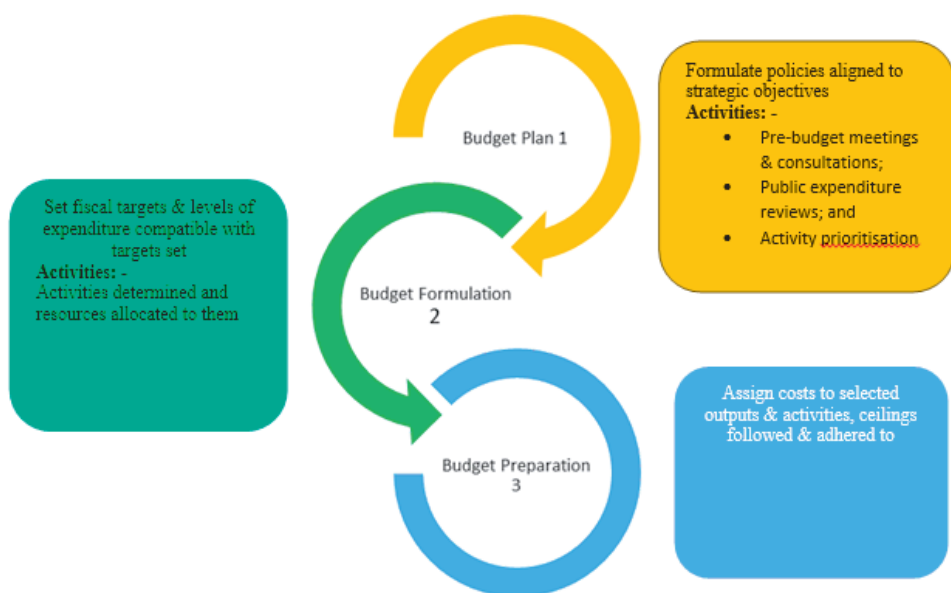


Figure 1 Budgeting process for the Councils: Once Completed, the budget is submitted to the National Local Government Finance Committee(NLGFC) for technical review. Final consolidated budget is approved by the NLGFC and submitted to Parliament by the Minister of Local Government for noting. However the component of the Local Authorities budgets covering central transfers are submitted to Ministry of Finance .

15. 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.

16. 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.

17. 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.

18. Budget Preparation

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

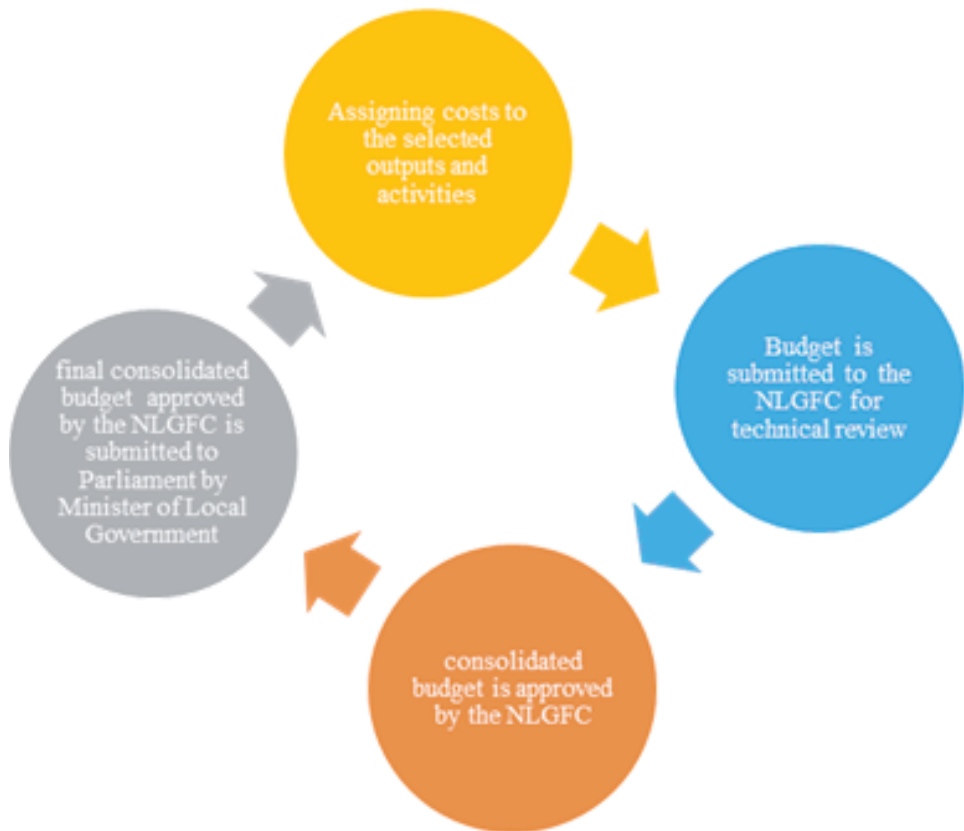


Figure 2: Budget preparation for Councils

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

19. 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

- 20.** The findings from the Financial and Compliance audit of the Local Authorities for the year ended 31st March, 2022, have been classified into eight (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 eight (6) Categories are as follows:

- i. Expenditure Management irregularities;
- ii. Financial Statement irregularities;
- iii. Procurement Management irregularities;
- iv. Project Management irregularities;
- v. Records Management irregularities; and
- vi. Revenue Management irregularities

(a) Expenditure management

This occupies the largest chunk of the findings.

Bar Chart of Expenditure Management related Irregularities

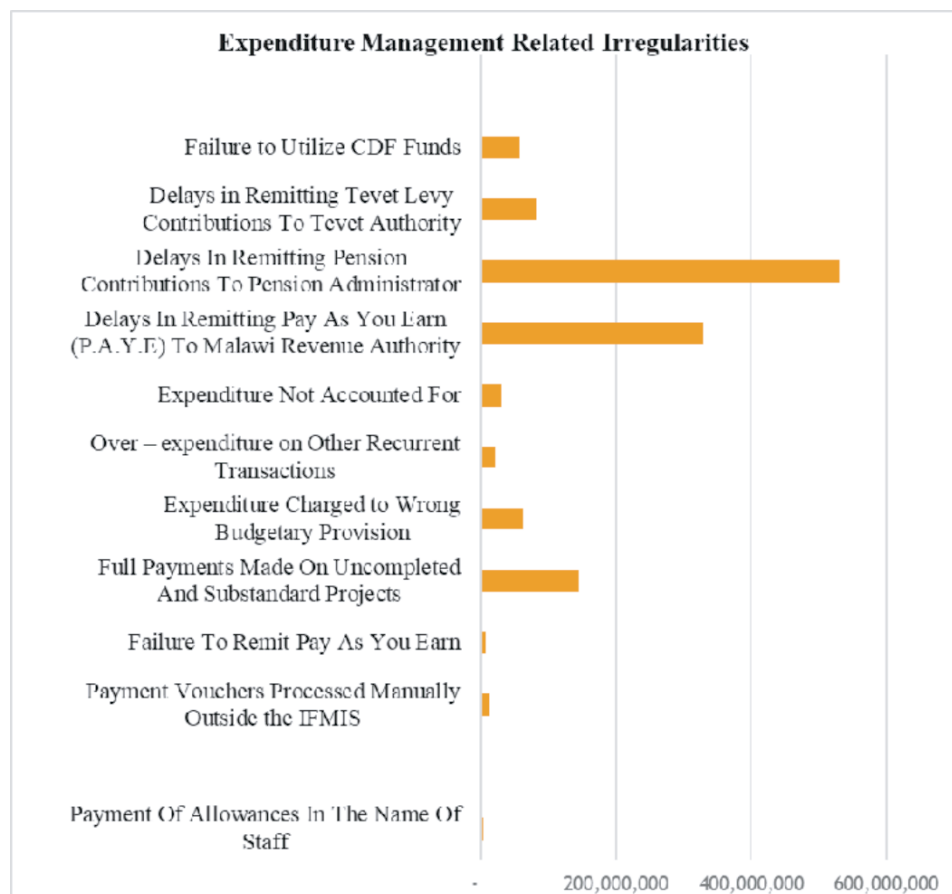


Figure 3: Expenditure Management related Irregularities

(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. Bar Chart of Financial Statements Irregularities

Bar Chart of Financial Statement Irregularities

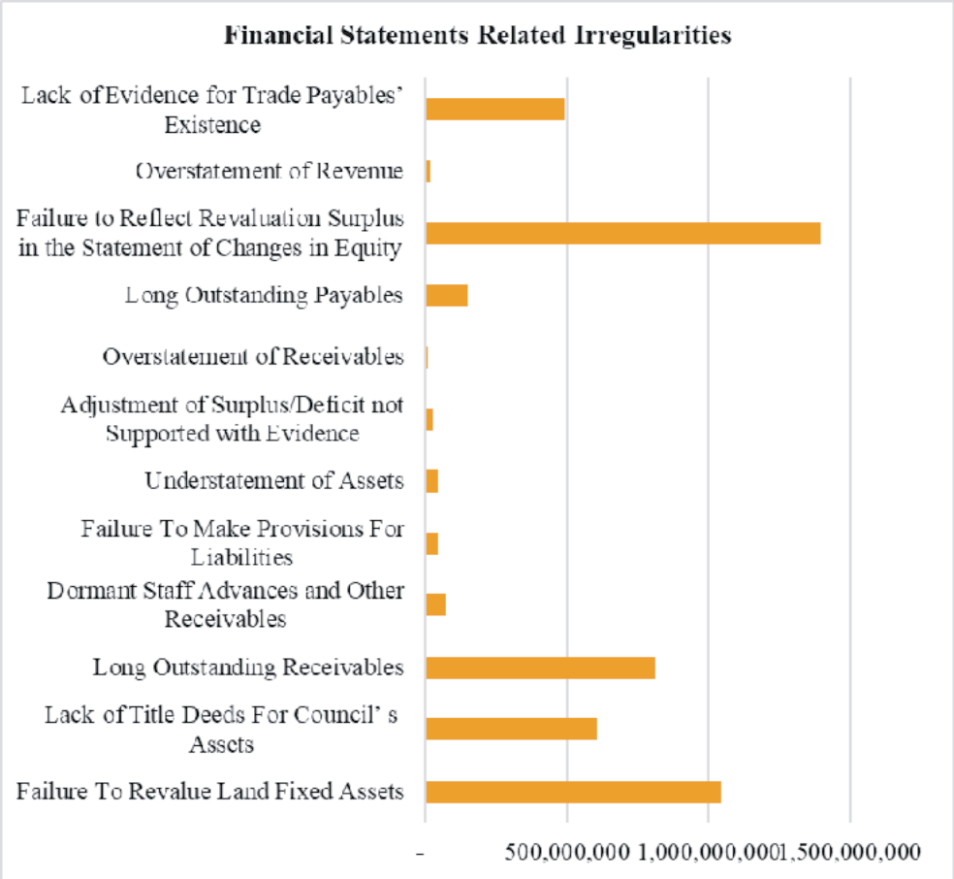


Figure 4: Financial Statement Irregularities

(c) Procurement Irregularities

The findings in this category relate to the shortcomings of the Councils in complying with best procurement practices.

Bar Chart on Procurement Irregularities

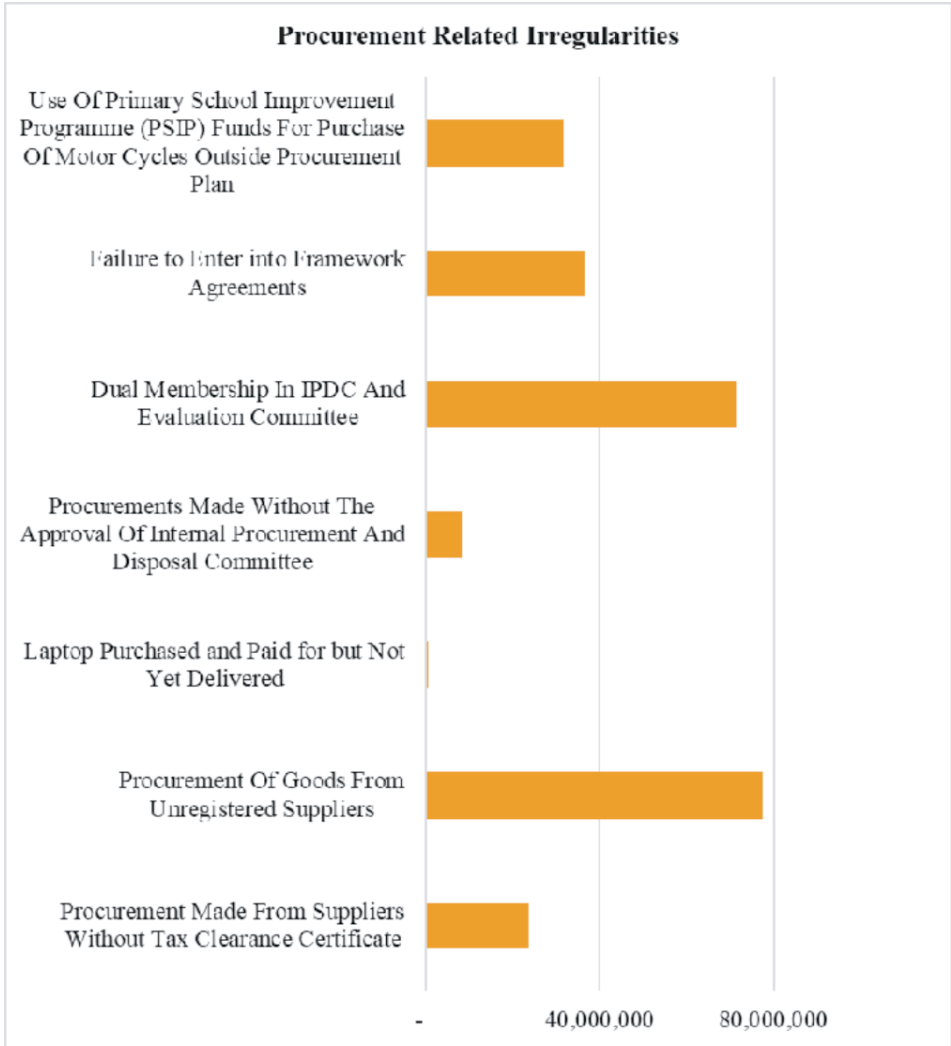


Figure 5: Procurement Management Irregularities

(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

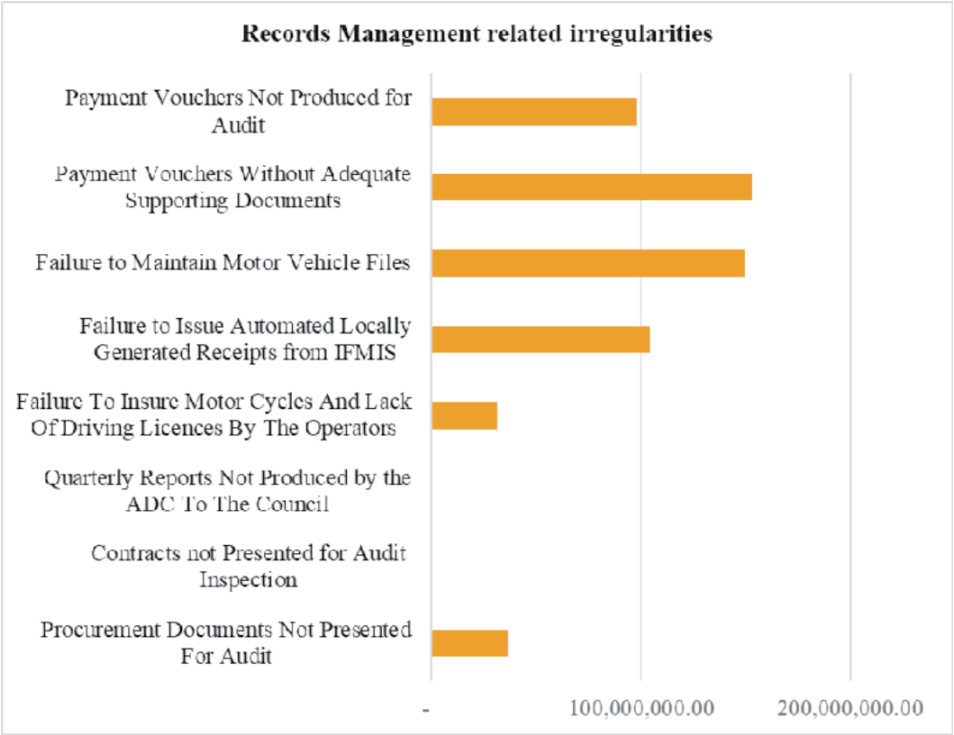


Figures 6: Project Management Irregularities

(e) Records Management Irregularities

The findings in this category relate to the shortcomings of the Councils in keeping and maintaining financial and other records.

Bar Chart on Records Management Irregularities



Figures 7: 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

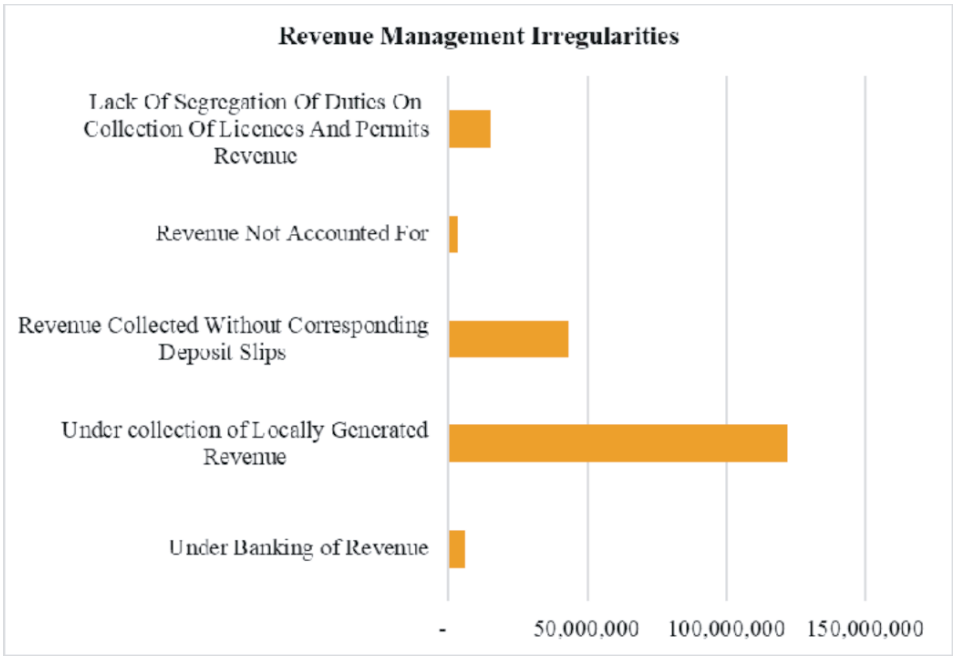


Figure 8: Revenue Management Irregularities

Local Councils’ Central Government Transfers Performance For 2021/2022

21. The 2021/2022 Central Government Transfers for Local Councils had a total of approved budget of K69.5 billion which was revised to K69.6 billion. Actual Outturn was K48.4 billion. This translates to 93.8 percent actual outturn over revised budget. Table 2 below has the details.

Table 2: Local Councils Central Government Transfers Performance in “K” for 2022 FY

Council	Vote	Approved Budget	Revised Budget	Actual Outturn	Variance	Actual as % of Budget
Blantyre City	601	9,599,733,295	9,599,733,295	1,949,733,000	7,650,000,295	20%
Lilongwe City	602	8,404,739,910	8,404,739,910	2,475,309,116	5,929,430,794	29%
Mzuzu City	603	4,459,424,319	4,459,424,319	955,279,969	3,504,144,350	21%
Zomba City	604	4,378,904,890	4,378,904,890	378,904,890	4,000,000,000	9%
Kasungu Municipal	806	47,751,527	47,751,527	45,751,527	2,000,000	96%
Luchenza Municipal	807	44,491,710	44,491,710	44,470,907	20,803	100%
Mangochi Town Council	807	47,477,942	47,477,942	47,477,939	3	100%
Balaka District	901	1,188,581,449	1,188,581,449	1,188,581,449	-	100%
Blantyre District	902	1,614,414,163	1,614,414,163	1,619,454,721	-5,040,558	100%
Chikwawa District	903	9,264,993	9,264,993	9,264,672	321	100%
Chiradzulu District Council	904	1,116,254,898	1,116,254,898	1,117,677,195	-1,422,297	100%
Chitipa District	905	1,123,001,288	1,123,001,288	1,114,675,308	8,325,980	99%
Dedza District	906	1,766,141,645	1,766,141,645	1,768,637,093	-2,495,448	100%
Dowa District	907	1,591,342,827	1,591,342,827	1,591,342,827	-	100%
Karonga District	908	1,355,654,792	1,355,654,792	1,355,656,788	-1,996	100%
Kasungu District	909	3,878,502,477	3,878,502,477	3,889,257,608	-10,755,131	100%
Likoma District	910	376,101,724	376,101,724	376,101,724	-	100%
Lilongwe District	911	3,878,502,477	3,878,502,477	3,889,257,608	-10,755,131	100%
Machinga District	912	1,495,395,446	1,495,395,446	1,485,137,942	10,257,504	99%
Mangochi District	913	2,166,397,956	2,166,397,956	2,173,916,458	-7,518,502	100%
Mchinji District	914	1,423,915,441	1,423,915,441	1,423,915,441	-	100%
M'mbelwa District	915	2,617,419,000	2,617,419,000	2,441,022,000	176,397,000	93%
Mulanje District	916	1,666,965,234	1,666,965,234	1,666,965,234	-	100%
Mwanza District	917	796,648,319	816,648,319	997,596,587	-180,948,268	122%
Neno District	918	816,652,093	816,652,093	732,578,369	84,073,724	90%
NkhataBay District	919	1,465,540,226	1,465,540,226	1,465,540,228	-2	100%
Nkhota kota District	920	1,274,593,655	1,274,593,655	1,330,351,102	-55,757,447	104%
Nsanje District	921	1,154,528,605	1,154,528,605	1,154,528,605	-	100%
Ntcheu District	922	1,617,660,771	1,617,660,771	1,616,604,578	1,056,193	100%
Ntchisi District Council	923	1,050,718,553	1,050,718,553	1,050,718,551	2	100%
Phalombe District Council	924	1,153,811,386	1,153,811,386	1,153,811,388	-2	100%
Rumphu District Council	925	1,075,387,075	1,075,387,075	1,075,387,075	-	100%
Salima District council	926	1,502,381,736	1,604,589,339	1,497,807,694	106,781,645	93%
Thyolo District Council	927	1,595,379,956	1,595,379,956	1,595,379,956	106,781,645	100%
Zomba District Council	928	1,747,702,800	1,747,702,800	1,747,702,201	106,781,645	100%
Total		69,501,384,578	69,623,592,181	48,425,797,749	106,781,645	93.80%

PART III

AUDIT RESULTS OF THE COUNCILS

General Audit Observations

22. Audit of financial statements of the Local Councils for the year ended 31st March, 2022 was completed in November, 2022. Between December, 2022 and February 2023, I engaged the Controlling Officers (District Commissioners and Chief Executive Officers) to provide responses to the observations raised in their respective management letters. The findings included in this report relate to the observations that were not satisfactorily responded to in the management letter within 14 days as required by Section 14 of the PAA. Therefore, 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

23. The audit has revealed that most Councils failed to manage expenditure in accordance with provisions in the Public Finance Management Act, 2022 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: 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.

24. 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.

Receivables, Payables And Records Management

- 25.** 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 and payables. Most debts and payables remain uncollected and settled respectively by the Councils.

- 26.** 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

- 27.** An audit of Balaka District Council for the year ended 31st March, 2022 was completed in November, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Overdue Receivables: K37,430,411.61

Local Authorities Accounting and Financial Management Manual Regulation (2020), Section 5.4 (i) requires the District Council to ensure that all revenues and income due, are collected and properly accounted for in accordance with the laid down statutes, rules, regulations, and procedures.

An inspection of the financial statements and receivables schedules revealed that trade and staff receivables amounting to K37,430,411.61 in respect of council rates, fees from the sale of plots and staff advances were still outstanding. The staff loans and advances had been dormant for a period of over one (1) year. Revenue from commercial undertakings and rates have been outstanding for over six (6) months.

(b) Payments For Motor Vehicle Maintenance Without Re-Inspection Reports:K15,544,453.15

Circular 1/2000 issued by Office of President and Cabinet (OPC) dated 1st June, 2000 states that maintenance of motor vehicles at private garages should be backed by Plant and Vehicle Hire Engineering Services (PVHES) inspection report.

An inspection of payment vouchers and supporting documents disclosed that payments for motor vehicle maintenance amounting to K15,544,453.15 had no PVHES re-inspection reports. As such, the validity of the expenditure, as to whether the services were duly performed, could not be ascertained.

(c) Procurement Made From Suppliers Without Tax Clearance Certificate: K23,456,300.00

Taxation Act (2019), Section 85A (l) stipulates that a tax clearance certificate shall be issued by the Commissioner only where conditions as may be prescribed by the Commissioner are satisfied.

The conditions are that:

- (a) the applicant is a registered taxpayer, except where the applicant is not subject to, or is exempt from, income tax;

- (b) the income tax returns of the applicant that are due have been submitted to the Commissioner;
- (c) the applicant has no outstanding income tax.

Further, Public Procurement and Disposal of Assets Act No. 27 of 2017, Section 52 (b) requires that the Procuring entity should be trading with suppliers which are tax compliant.

An inspection of payment vouchers and its supporting documents revealed that the Council paid suppliers of goods and services a total of K23,456,300.00 without tax clearance certificates.

(d) Failure To Insure Motorcycles And Lack Of Driving Licences By The Operators: K31,590,293.13

Malawi Public Service Regulations (2015), Section 316 states that every official vehicle shall be licensed and comprehensively insured and maintained in accordance with prevailing domestic laws.

An inspection of payment vouchers and motorcycle files from the Education Sector indicated that seven (7) motorcycles costing K31,590,293.13, were not insured. In addition, interviews with the Primary Education Advisors (PEAs) at the seven (7) Teachers Development Centres (TDCs) indicated that six (6) users of the motorcycles did not have driving licenses.

(e) Use Of Primary School Improvement Programme (PSIP) Funds For Purchase Of Motorcycles Outside Procurement Plan: K 31,590,293.13

Public Procurement and Disposal of Public Assets Act No. 27 of 2017, Section 39 (1) read together with PSIP Financial management guideline (2011), Section 3.5 state 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.

An inspection of the procurement plan, payment vouchers and PSIP plans for Balaka District Education Services indicated that the Sector procured motorcycles costing K31,590,293.13 which were not planned for.

(f) Implementation Of Projects Outside Annual Investment Plan: K62,005,186.95

Guidelines for Constituency Development Fund (Revised 2014), Paragraph 3 state that projects selected to be implemented under constituency development fund should be in line with priorities with the District/Urban development plan/Annual Investment Plan.

An inspection of payment vouchers and Annual Investment Plan for Balaka District revealed that the Council implemented projects worth K62,005,186.95 which were not in the Annual Investment plan.

(g) Deceased Estate Funds Paid Without Witnesses' Consent: K12,771,215.42

Local Authorities Accounting and Financial Management Procedures Manual (2020), Section 15.3.3 states that rightful beneficiaries shall be identified by the Administration Department who shall issue an authority to pay as approved by the Director of Administration (DOA). The approval would be made when the guardian of the minor applies for the withdrawal of funds through a letter which is usually authorized by the Director of Administration.

An inspection of deceased estate files indicated that Balaka District Council disbursed K12,771,215.42 for the payment to various beneficiaries without the proof of witnesses as per the requirements.

(h) Lack Of Title Deeds For Council's Assets: K605,690,000.00

Treasury Instructions (2004), Section 5.13.1 requires that all government assets are properly safeguarded against loss, theft and destruction and that the Controlling Officer adopts a set of Internal Controls to ensure that the afore mentioned risks are minimized.

An inspection of the Council's Fixed Asset Register and Fixed Assets' files revealed that the Council did not have title deeds for the Council's various land and buildings valued at K605,690,000.00

(i) Rivirivi Primary School Laying In A Dilapidated State

Public Finance Management Act (2022) Section 14 (1) (j) states that a controlling officer shall, with respect to the controlling officer's institution, ensure that all necessary precautions are taken to safeguard public resources.

The verification exercise carried out at Rivirivi Primary School in Kankao zone disclosed that most buildings at the school both classrooms and toilets were in a dilapidated state. Out of ten (10) toilet blocks, six (6) were unsafe and were in unusable state. Corridors and classroom floors were completely damaged. There were also big cracks on the walls in all the classrooms.

BLANTYRE DISTRICT COUNCIL

- 28.** An audit of Blantyre District Council for the year ended 31st March, 2022 was completed in October, 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

**(a) Procurement Of Services From Unregistered Suppliers:
K13,809,600.00**

Public Procurement and Disposal of Assets (2017), section 52(a) requires that in order to be a awarded a procurement contract, a bidder shall be registered depending upon the nature of the contract with Registrar of Companies, or with the National Construction Industry Council of Malawi or such other entity as may be prescribed by regulations.

An inspection of payment vouchers disclosed that the council awarded contract to several Contractors for projects under CDF totalling K13,809,600.00. Inspection of payment vouchers revealed that the contracts were awarded to contractors who were not registered with National Construction Industry Council (NCIC) and PPDA.

CHIKWAWA DISTRICT COUNCIL

- 29.** An audit of Chikwawa District Council for the year ended 31st March, 2022 was completed in November, 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Lack of Title Deeds For Council's Assets

Treasury Instructions (2004), Section 5.13.1 requires that all government assets are properly safeguarded against loss, theft and destruction and that the Controlling Officer adopts a set of Internal Controls to ensure that the afore mentioned risks are minimized.

An inspection of the Council's fixed asset register; and fixed assets' files, revealed that the Council did not have title deeds for the Council's property, plant and equipment.

(b) Improper Management Of Receivables

Local Authority and Finance Management Manual (2020), paragraph 1.2.3 (debtors) and point (a) states that, all sums of money owing to the Local Authority from rates, trade activities and services rendered shall be recognized as debts of the Local Authority. Such debts shall be properly recorded in the books of accounts as Receivables upon raising of an invoice or a bill.

An inspection of invoices, general receipts and receivables schedule revealed that the Council does not maintain a debtor's ledger hence does not know how much it is owed. In addition, no provisions for bad debt are made.

(c) Revenue Not Accounted For: K3,080,000.00

Treasury Instructions (2004), Section 5.13.1 (a) states that adequate internal controls must exist within each Ministry and Department and includes all the controls and procedures adopted to ensure that within Government, and within each entity in Government the following control objectives are met; revenue is properly assessed and collected.

An inspection of security documents register revealed that market fee books with the value of K3,080,000.00 and general receipt books with an unknown value were issued out but were never returned by the revenue collectors. This made it difficult to ascertain how this money was used.

(d) Procurement Of Goods From Unregistered Suppliers: K63,699,271.12

Public Procurement and Disposal of Public Assets Act number 27 of 2017, Section 52 (a) requires that in order to be a awarded a procurement contract, a bidder shall be registered depending upon the nature of the contract with Registrar of Companies, or with the National Construction Industry Council of Malawi or such other entity as may be prescribed by regulations.

An inspection of payment vouchers disclosed that procurement of rations for the hospital totaling K63,699,271.12 was made from suppliers who were not registered and do not have business names, such that the payments were made in their personal names.

(e) Payments to Contractors Without Certification By ADC: K22,613,318.20

CDF Guidelines (2014), Section 16 sub sections (1) and (4) state that all contractors shall sign a contract with Local Assembly which will describe the work to be done, standards (designs, drawings and similar specifications) and stages at which payments will be made, and where an agreed 10% retention fee plan. 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

An inspection of payment vouchers disclosed that the Council made payments worth K22,613,318.20 to contractors without certification by the Area Development Committee.

(f) Quarterly Reports Not Produced By The ADC To The Council

CDF guidelines (2014), Section 9 stipulates among other things that the Area Development Committees should also keep a record of all CDF projects being implemented in the area and report to the MP and the Council on quarterly basis.

An inspection of CDF records and project files revealed that Area Development Committees did not report to the Council in writing on a quarterly basis in respect to projects implemented in their areas.

(g) Poor Workmanship On Chapomoka Double Span Bridge: K20,352,886.23

Constituency Development Fund Guidelines (2014), Section 16.5 states that the DPW shall inspect projects in each constituency quarterly and issue a report to the DC. The report shall detail status of projects, quality of workmanship, capacity of ADC and PMC in implementing and monitoring projects. Where the DC as Controlling Officer feels that CDF money is not being spent in accordance with regulations, he reserves the right to seek remedies in consultation with the NLGFC.

An inspection of Double span bridge revealed that the bridge that was constructed at an amount of K20,352,886.23 was washed away by rains due to poor workmanship.

(h) Direct Employees Not On Pension Scheme

The Pensions Act (2011), Section 9 (1) states that every employer shall make provision for every person of the under his employment to be a member of the National Pension Scheme.

Enquiries from direct employees and inspection of council's payroll, disclosed that the Council was not deducting and paying pension for its direct employees.

CHIRADZULU DISTRICT COUNCIL

30. An audit of Chiradzulu District Council for the year ended 31st March, 2022 was completed in November, 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Failure To Revalue Land And Buildings For Three (3) Financial Years: K641,133,501.00

IPSAS 17, Section 44 states that after recognition as an asset, an item of property, plant, and equipment whose fair value can be measured

reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Inspection of Property, Plant and Equipment records disclosed that the entity failed to revalue its Land and buildings for the past three financial years as is required under IPSAS 17. As such, the value included in the accounts amounting to K642,133,501.00 was not the true financial position of the Council.

(b) Failure To Remit Pay As You Earn: K7,591,463.39

Malawi Taxation Act (2000), (Chapter 41:01) 84D states that every person not otherwise covered by Section 84C, except the person whose taxable income substantially comprises income from which P.A.Y.E. tax has been deducted, shall, at the time of submitting a return of income under section 84, pay income tax calculated on the total taxable income as computed and disclosed in the return being submitted.

An inspection of financial statements and payables schedule revealed that the Council deducted Pay As You Earn (PAYE) from its direct employees amounting to K7,591,463.39 dating back from 1st July 2019 but had remitted to MRA as at the time of audit.

(c) Failure To Complete Kambalame Bridge In Time: K9,150,750.00

Guidelines for the Constituency Development Fund (Revised 2014), Paragraph 10 states that the District Commissioner and the Member of Parliament shall collaboratively draw up a projects monitoring program which shall ensure that each projects is visited at least twice during its implementation period. The District Commissioner or Chief Executive shall compile reports of any such monitoring visits highlighting key observation made, advice provided, and any corrective action taken and shall provide them to the Member of Parliament.

Contrary to the requirements, during physical verification of Constituency Development Fund projects, it was revealed that the Council failed to complete Kambalame bridge for Chiradzulu East Constituency in time. The project commenced in October, 2021 with contract sum of K14,502,500.00 and a contract period of 3 months. After a year, the project was still incomplete having spent K9,150,750.00 and a balance of K5,351,750.00 to be paid to the contractor.

(d) Substandard Rehabilitation Of Malavi Classroom Block: K7,906,651.50

Guidelines for the Constituency Development Fund (Revised 2014), Paragraph 10 states that the District Commissioner and the Member of Parliament shall collaboratively draw up a projects monitoring program which shall ensure that each projects is visited at least twice during its implementation period. The District Commissioner or Chief Executive shall compile reports of any such monitoring visits highlighting key observation made, advice provided and any correction action taken and shall provide them to the Member of Parliament.

Contrary to the requirements, during the physical verification of Constituency Development Fund projects, it was revealed that the CDF amounting to K7,906,651.50 was used for rehabilitation of Malavi classroom block but the rehabilitation work was substandard. Plastering and floor was of poor quality and the door was also smaller than the required standard size to close the classroom properly.

(e) Abandoned And Poor Quality Masauli ADMARC Warehouse: K7,407,000.00

Guidelines for the Constituency Development Fund (Revised 2014), Paragraph 6 states that the Council shall appraise all new projects submitted by the member of Parliament. The District Commissioner/Chief Executive shall assign the Director of Public Works and other relevant sector staff to ensure that all new infrastructure projects are appraised so that they adhere to acceptable government and sector standards.

Contrary to the requirement, the Council had a contract agreement with Joe Civil Engineering to build Masauli ADMARC Warehouse with a contract agreement amounting to K8,230,000.00. The contract was awarded on 24th November, 2021 with a contract period of 120 days and only first certificate of completion was completed and signed by the responsible officer.

During the physical verification of District Development Fund projects, it was observed that the Council spent K7,407,000.00 out of K8,230,000.00 leaving the balance K823,000.00 for Masauli ADMARC Warehouse but the project is of poor quality and was abandoned hence the Government has lost a lot of money on a project which cannot be used for the intended purposes.

CHITIPA DISTRICT COUNCIL

31. An audit inspection of the financial and other information for Chitipa District Council for the year ended 31st March, 2022 was completed in October, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations;

(a) Dormant Staff Advances and Other Receivables: K4,661,453.00

Treasury Instructions (2004), Section 5.5.4 Advances Register states that all Pay Officers arranging payment of advances must ensure that each advance is recorded in a register. Furthermore, Treasury Instructions (2004), Section 5.5.2.1 states that recoveries of advances made to officers whose salaries are paid through the automated payment system will appear as deductions on the payroll. Again, on receivables, Treasury Instructions (2004), Section 5.6.13.1 states that, Government goods and services must not be supplied or provided on credit unless specifically authorized by The Secretary to the Treasury.

An inspection of financial statements for the financial years ended 30th June, 2020, 30th June, 2021 and 31st March 2022 revealed that the Council was owed K4,541,453.00, K4,661,453.00 and K4,661,453.00 respectively by some members of staff in respect of staff advances and other receivables. These loans have been outstanding for over three (3) years due to the failure by the Council to enforce repayments from its employees while at the same time, failed to keep and maintain Advances Register for the period mentioned.

(b) CDF Bursaries Not Liquidated: K2,006,000.00

Guidelines for Constituency Development Fund June 2014, Section 1 Background Paragraph 3 states that being part of the voted expenditure in the National Budget, the CDF is therefore subject to Public Funds Management Laws and Procedures. Treasury Instructions (2004), Section 5.26.1 requires that a person making the payments shall file properly and all paid documents duly stamped PAID together with an acknowledgement receipt from the beneficiary. It further directs that all signed receipted payment vouchers should be returned to the cash office for the record and audit purposes within ten (10) days after the closure of the activity.

An inspection of payment vouchers revealed that the Council did not provide receipted vouchers amounting to K2,006,000.00 made between October, 2021 and December, 2021, for student bursary disbursement.

KARONGA DISTRICT COUNCIL

32. An audit inspection of the financial and other information for Karonga District Council for the year ended 31st March, 2022 was completed in October, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Under Banking of Revenue: K6,176,728.47

The Local Authorities Accounting and Financial Management (2020), Section 4.1.2.2 requires that all monies collected from any source should be deposited intact into the Local Authority's bank account.

An inspection of general receipts against bank deposit slips revealed that contrary to the above-quoted requirement, the Council collected a total of K191,471,124.04 and banked K185,284,395.57 leaving a balance of K6,176,728.47 not banked. The Council failed to account for the balance.

(b) Over – Expenditure On Other Recurrent Transactions: K22,541,495.00

Local Authority Accounting and Financial Management Manual (2020), Section 1.4.1 states that the District Commissioner shall ensure that there is no over-expenditure or over-commitment of funds and shall ensure that a review is undertaken each month to confirm that there is no such over-expenditure or over-commitment.

An inspection of Other Recurrent Transactions (ORT), funding allocations and actual expenditure revealed that some sectors and Council Headquarters overspent their ORT budgets by K22,541,495.00.

KASUNGU DISTRICT COUNCIL

33. An audit inspection of the financial and other information for Kasungu District Council for the year ended 31st March, 2022 was completed in November, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

(a) Failure To Revalue Assets: K406,091,538.00

Local Authority Accounting and Financial Management Procedures Manual (2020), Section 2.1.1 states that; to ensure that fixed assets are reflected at their fair values in the balance sheet, Local Authorities shall periodically revalue their assets.

An inspection of fixed asset register disclosed that all Council assets currently with a net book value of K406,091,538.00 have never been revalued since they were acquired hence the value of assets shown in

the financial statements do not give the true reflection of the value. Table 3 below has details:

Table 3: Non-Valuation of Council Assets: K406,091,538.00

Asset	Amount (K)
Land & Improvements	282,086,104
Plant & Equipment	3,782,656
Motor vehicles	101,324,079
Furniture & Fittings	1,462,487
Office Furniture& Equipment (ICT EQUIP.)	17,436,212
Total	406,091,538.00

(b) Failure To Make Provisions On Liabilities: K46,421,864.00

Local Authority Accounting and Financial Management Manual (2020), Section 2.3.12 states that proper provisions are required for any liabilities or losses which are likely to be incurred, or certain to be incurred, but uncertain as to the amounts or the dates on which they will arise.

An inspection of financial statements disclosed that the Council had liabilities worth K46,421,864.00. However, the Council failed to make a provision on liabilities despite the requirement of regulations.

(c) Payment Vouchers Without Adequate Supporting Documents: K24,885,360.39

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.

A review of records revealed that payment vouchers amounting to K24,885,360.39 were produced without adequate supporting documents. Therefore, the validity of the expenditure in question could not be ascertained.

(d) Under Collection Of Revenue: K42,643,205.00

Local Authorities Accounting and Financial Management Manual (2020), Section 1.2.11 (a) states that Local Authorities shall prepare annual estimates for revenues and expenditure not later than ninety

(90) days before the commencement of the financial year next ensuing.

An inspection of the budget against actual revenue collected in the general ledger disclosed that the Council under collected revenue by K42,643,205.00 during the year under review.

LIKOMA DISTRICT COUNCIL

- 34.** An audit inspection of the financial and other information for Likoma District Council for the year ended 31st March, 2022 was completed in October, 2022. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:-

(a) Failure To Achieve Planned Outputs

Likoma District Development Plan 2017-22 is a five-year medium-term development plan which sets out to harness the Likoma District opportunities and resources into positive economic and health outcomes for its citizens.

Chapter three discusses the investment projects and programmes that the Council intends to implement in the medium term, the anticipated stakeholders, beneficiaries, project location, implementation period, lead agencies as well as funding requirements and envisaged sources of the required funding.

Chapter four builds on Chapter three by providing information on the performance of previous Council investment programs, and then proceeds in Chapter V to project annual investment costs of the identified development initiatives.

An assessment of the status report provided by Likoma District Council revealed that the Council failed to implement planned developments and projects as planned. 14 % of the development issues were completed while 35% were in progress and 51% were not done which could result into poor service delivery.

(b) High Vacancy Rate

MPSR (1991), Section 1:101 on filling of vacancies states that where a vacancy occurs or it is known that a vacancy will occur in any post within the Civil Service, the Responsible Officer, unless authority to fill the vacancy has been delegated to him by the appropriate Commission, shall report the fact to the appropriate Commission, in accordance with the regulations of that Commission.

An inspection of the establishment warrant and the staff return revealed that the Council had a high vacancy rate, especially in key

positions. Total established posts were 471, filled posts 187 and vacant posts were 318 representing a 66% vacancy rate. Some of the key positions not filled include those of the Director of Finance, Director of Public Works, and Accountant.

(c) Failure To Utilize CDF Funds: K22,182,292.81

Guidelines for Constituency Development Fund (CDF) (Revised 2014), Paragraph 10, roles and responsibilities require Members of Parliament to familiarize themselves with the key priorities of the district included in the district development plan. The guidelines further require that CDF projects should solve immediate short term social-economic problems identified by the citizens and the elected representatives.

An inspection of payment vouchers and cashbooks disclosed that the Council underspent the CDF funds by K22,182,292.81. They received funding of K40,000,000 but spent only K17,817,707 representing under utilization rate of 81%. Though the unspent funds were paid back to Government, the citizenry of Likoma were denied of the same project development.

LUCHENZA MUNICIPAL COUNCIL

- 35.** An audit inspection of the financial and other information for Luchenza Municipal Council for the year ended 31st March, 2022 was completed in December 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:-

(a) Failure To Fill Key Vacant Positions

MPSR (1991), Section 1:101 on filling of vacancies states that where a vacancy occurs or it is known that a vacancy will occur in any post within the Civil Service, the Responsible Officer, unless authority to fill the vacancy has been delegated to him by the appropriate Commission, shall report the fact to the appropriate Commission, in accordance with the regulations of that Commission.

An inspection of staff returns and schedule of established posts disclosed that there were vacancies in several key positions such as Director of Planning and Development, Director of Finance, Director of Administration, Director of Public Works, Chief Accountant, Senior Systems Analyst/Programmer, Chief Administrative Officer and Senior Internal Auditor. Vacancies existing in the key positions and in the crucial directorates may affect Councils operations and performance as a result service delivery or planned goals might not be attained. This is one of the reasons for the Council to have adverse opinions for the past three (3) consecutive years

(b) Long Outstanding Debts: K30,681,699.05

Local Authority Accounting and Financial Management Procedures Manual (2009) Section 1.3.5 explains Roles of the Director of Finance. The Director of Finance, (DOF) at the Local Authority performs the daily management function of the public funds. The DOF is answerable to the DC/CE and oversees the work of all finance officers across all sectors and departments of the Local Authority. In overseeing the work of all finance officers of the Local Authority, the DOF shall prepare an annual work plan which shall be submitted to the DC/CE with a copy to the NLGFC by 30th July (covering the whole financial year). The work plan shall be reviewed monthly by the DOF and his team. The specific duties and responsibilities of the DOF include that on subsection (g) of ensuring the timely collection of debts and payment of Local Authority obligations.

An inspection of the debtors list for the Council disclosed that debtors were taking more time to settle property rates invoices that the Council bills every six months. It was revealed that some debts amounting to K30,681,699.05 remained unpaid for more than three years (1,095 days). In addition, it was also observed that the Council did not have a policy on debt collection.

(c) Payment Of Allowances In The Name Of Staff: K5,225,030.00

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' bank accounts which means that the cash payment system was abolished.

An inspection of payment vouchers disclosed that management paid cash to various officers in respect of allowances in the name of staff amounting to K5,225,030.00.

(d) Basis For Adverse Opinion

The following findings formed the basis for adverse opinion issued to Luchenza Municipal Council:-

- In the calculation of depreciation for Land and Building, the Council calculated depreciation basing on the gross amount of both land and building without excluding the value for land which is not acceptable by IPSAS 17. In addition to the depreciation calculated on Land and Building, there is also depreciation calculated on scrap values of some motor vehicles which are grounded and wait for disposal. Therefore, the amount of K36,086,250.00 and K6,201,458.70 charged on Land and Building and Motor vehicles respectively were not properly

calculated. The effect of these wrongly calculated depreciation resulted in understatement of assets and overstatement of expenses;

- The adjusted amount of Accumulated surplus/Deficit of K25,048,404 which was presented in the face of the Statement of Financial Position has no proper supporting documents as to how the adjusting figure of K65,667,294 was arrived at as the bank reconciliations which the Council is explaining on Note 12 were not presented for audit review;
- The amount calculated on Current Receivables (Property Rates Taxes) of K33,043,552 was wrongly calculated as the opening balance of K24,863,494 has been treated as the current year's gross amount whilst the gross amount of K33,043,552 has been treated as the Net amount. There is a provision of K8,180,057 which was supposed to reduce the amount of receivables, but this has increased the amount of receivables;
- The Cash Flow Statement "Cash and Cash Equivalents at the end of the period figure" for 2021 does not agree with the Statement of Financial Position;
- The revaluation surplus of K1,394,920,579 presented in the Property, Plant and Equipment Summary has not been reflected in the Statement of changes in Equity;
- The Council included a loan from DFLA amounting to K15,643,152 as revenue. This wrongly treated loan resulted in overstatement of revenue; and
- The Net Assets/Equity Section in the Statement of Financial Position for 2022 does not agree with the figures in the Statement of Financial Position.

M'MBELWA DISTRICT COUNCIL

- 36.** An audit of M'mbelwa District Council for the year ended 31st March, 2022 was completed in October 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Misallocated Payments: K10,840,980.00

Local Authority Finance Management manual section 11.4.2.iv requires that miss postings and misallocations be corrected and that if the Vote allocation is correct but Programme/Sub programme, Item /Sub-item is wrong, then the voucher shall be entered in the Vote Book under the correct allocation and a Journal Transfer Voucher raised to correct the misallocation.

An inspection of payment vouchers under Other Recurrent Transactions revealed misallocations amounting to K10,840,980.00 which were funds meant for other activities and were used on unrelated activities without any approval from the Secretary to the Treasury.

(b) Payments Made Without Contract Agreement: K7,151,097.00

The Public Procurement and Disposal of Assets Act No. 27 of 2017, Section 49(l) states that Subject to a no objection be issued in pursuance of this Act or subsidiary legislation thereunder, 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.

An inspection of payment vouchers for procurements indicated that payments amounting to K7,151,097.00 were made to suppliers without contract agreement.

MACHINGA DISTRICT COUNCIL

- 37.** An audit of Machinga District Council for the year ended 31st March, 2022 was completed in November 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations;

(a) Under Collection Of Locally Generated Revenue: K79,638,641.70

Treasury Instructions (2004), Section 2.6.1 (g) requires that Controlling Officers to ensure that the collection of public moneys is according to approved plans and the Estimates.

An inspection of revenue budgets, general receipts and cashbooks for local revenue revealed that Machinga District Council collected revenue amounting to K112,199,987.30 against the budgeted amount of K191,838,629.00 resulting into under collection of K79,638,641.70.

(b) Failure To Issue Automated Locally Generated Receipts From IFMIS: K104,388,831.30

Revised Local Authority Accounting and Finance Management Manual (2020), Section 4.1.5 requires that separate revenue and expenditure cash books shall be maintained by Local Authorities, and that Local Authorities must maintain an automated combined revenue and expenditure cash book at the end of the month, automated copies of the combined revenue and expenditure cash book must be printed, properly filed and used as a basis for preparing bank reconciliation statements.

An inspection of General Receipts (GRs) revealed that Machinga District Council issued manual GRs instead of system generated receipts, (Integrated Financial Management System [IFMIS]), to business operators in the course of collecting Locally Generated Revenue totaling K104,388,831.30.

(c) Expenditure Charged To Wrong Budgetary Provisions: K35,276,272.41

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 are no over-expenditure; AND Treasury Instruction (2004), Section 4.13.2.3 stipulates that if a demand arise during the financial year, for a new type of expenditure, which although not included in the description in the Estimates, can be charged to an existing programmed, the Controlling Officer shall seek Treasury Authority to incur that expenditure; and every such expenditure should be made within the approved budget and shall not be treated as extra budgetary expenditure.

An inspection of payment vouchers and the expenditure statement by cost center revealed that expenditure transactions amounting to K35,276,272.41 were processed and charged to unrelated budgetary provisions.

(d) Laptop Purchased And Paid For But Not Yet Delivered: K750,000.00

Treasury Instructions (2004), Section 5.19.1 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 and IPDC minutes revealed that the Council paid Copy Tech Business Solution Center on payment voucher bearing cheque No. 036966 dated 29 October, 2021 for three (3) HP laptop computers. Only two laptops were delivered. The other laptop worth K750,000.00 was yet to be delivered a year after payment was made.

(e) Fixed Assets Not Valued And Included In The Financial Statements

Revised Local Authority Accounting and Finance Management Manual (2020), Section 2.1.1 states that each Local Authority shall prepare and maintain a Fixed Assets Register which includes all the fixed assets owned by the Local Authority and that all fixed assets should be reflected in the balance sheet.

An inspection of the Financial Statements, Fixed Assets Register (FAR) and a physical verification of assets revealed that the Council did not include in its FAR and the Statement of Financial Position, fixed assets from its main sectors. The audit revealed that the Council's main sectors namely Agriculture, Health and Education had motor cycles, land and buildings, other EPA assets, Health Centers, TDCs and Primary Schools which were completely omitted in its FAR.

(f) Non-Performance Of Appraisals For Projects

Constituency Development Fund (CDF) guidelines (2014), Section 6 on project appraisal states that the Council shall appraise all new projects submitted by the members of parliament. The District Commissioner 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.

An inspection of payment vouchers, cash book, CDF and Borehole project files disclosed that Machinga District Council through its public works directorate, did not carry out appraisals for CDF projects and new boreholes amounting to K91,692,802.82 and K50,638,413.73 respectively.

MANGOCHI DISTRICT COUNCIL

38. An audit of the Mangochi District Council for the year ended 31st March, 2022 was completed in November 2022. The audit disclosed weaknesses in the financial and other internal controls as highlighted in the following observations:

a. Lack Of Segregation Of Duties On Collection Of Licences And Permits Revenue: K15,245,000.00

Treasury Instructions (2004), Section 5.23.2 states that activities relating to authorization of payments and recording of those payments may not be performed by one person.

An inspection of business licenses, invoices, general receipts and deposit slips for the period between July 2021 and March 2022 revealed lack of segregation of duties on collection of licenses and permits revenue amounting to K15,245,000.00 as cycle of transactions were performed by one officer. It was noted that one person could issue the business licenses' invoices, issue the business licenses, issue general receipts and thereafter deposit the collected revenue.

**(b) Payment Vouchers Without Supporting Documents:
K25,808,205.38**

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 payment vouchers revealed that payments amounting to K25,808,205.38 did not have supporting documents such as invoices and LPOs. Consequently, it was difficult to ascertain the propriety of expenditure.

**(c) Procurement Documents Not Presented For Audit:
K36,577,719.90**

Treasury Instructions (2004), Section 5.9 (a), state that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An inspection of payment vouchers and contract files revealed that the Council engaged Infrastructure Development Limited to renovate Mangochi District Council offices in a procurement reference number MHDC/DDF/2021/03. The Council paid the contractor a total of K36,577,719.90, however, procurement documents such as bid documents submitted by competitors, Bills of Quantities, NCIC certificates and Tax Clearances were not presented for audit.

**(d) Dual Membership In IPDC And Evaluation Committee:
K71,515,239.03**

Public Procurement and Disposal of Assets Act No 27 of 2017, Section 28 states that the Internal Procurement and Disposal Committee shall appoint an ad-hoc evaluation team whenever there is a procurement or disposal proceeding, the evaluation team shall comprise the head or representative of the procurement and disposal unit who shall be the secretary; member from the user or disposing department; and three non-Internal Procurement and Disposal Committee members who have technical knowledge of the procurement or disposal bids to be evaluated.

An inspection of procurement vouchers, bid documents and evaluation reports revealed that a member of the Internal Procurement and Disposal Committee by the name of Mr D. Kulapani also served

in the evaluation team vetting two construction contracts valued at an aggregate value of K71,515,239.03. Dual membership may compromise the ability of the member to objectively scrutinize the evaluation reports as this is tantamount to self-review.

(e) Full Payments Made On Uncompleted And Substandard Projects: K143,923,002.37

Treasury Instructions (2004), Section 5.16.1 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 and physical verification of construction projects revealed that payments amounting to K143,923,002.37 were made in full for substandard and incomplete works for the following projects;

i. Nkope Teacher Development Centre (TDC): K34,917,626.24

Unfinished project, no electricity, only tubing was done, no wires, no switches, no shelves at the store room.

ii. Staff House at Lungwena (CDSS): K28,620,300.00

No ceiling despite assurances by the contractor that it would be fixed, poor workmanship, contractor never handed over the project.

iii. Piyasi Concrete Bridge: K22,449,525.00

Unfinished, substandard, poor workmanship, contractor abandoned the project.

iv. Chipeleka Primary school block: K20,388,369.00

The school block was never completed.

v. Nankhwali Market Shed: K37,547,182.13

Substandard work performed but paid in full, very big cracks visible around the building and its toilet.

MCHINJI DISTRICT COUNCIL

- 39.** An audit of the Mchinji District Council for the year ended 31st March, 2022 was completed in November, 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Revenue Collection Using Private Suppliers, Not Serially Numbered General Receipts

Accountant General Desk Instruction (2007), Section 15.3 (v) states that receipt books shall be kept in safe custody and their receipt and issue controlled through a separate serially numbered Register of Receipt Books. Loss of receipt books shall be reported immediately as per Treasury Instructions.

An inspection of the General Receipt Books used for collection of revenue revealed that receipt books were from private suppliers rather than Government print, with general receipt book No.33901-34000 having duplicates from 33995 to 34000 and General receipt numbers were not in sequence.

(b) Misallocations Of Expenditure To Other Budget Lines: K16,798,189.00

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 for virement 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.

A review of payment vouchers for Mchinji District Council revealed that management of the secretariat and other devolved sectors misallocated funds amounting to K16,798,189.00 without obtaining prior approval from the Secretary to the Treasury.

(c) Failure To Maintain Cashbook For Deceased Estate Accounts

Local Authority Accounting & Financial Management Procedure Manual (2020), Section 4.3.8.4 among other things states that payments from the Deceased Estate funds account shall be recorded in the cash book.

Review of documents such as paper money register, third party money register, deposit slips and withdrawal slips revealed that the Council did not prepare a cashbook for the deceased estates account.

(d) Failure To Perform Bank Reconciliation For Deceased Estates Account

Local Authorities Accounting and Finance Management Procedures manual (2020), Section 4.3.8.5 stipulates that the Deceased Estate bank account shall be independently reconciled by the Treasury Cashier at the end of every month. A register of individual minor bank accounts shall be maintained by a Local Authority accounts officer and recorded balances shall be independently verified against available bank balances.

An inspection of cash book and bank statement for deceased estates account revealed that the Council did not perform bank reconciliation. Consequently, it was difficult to ascertain account balances.

(e) Poor Workmanship On Some CDF Projects

The audit verification of CDF projects from three Constituencies that were randomly selected in Mchinji Central, Mchinji East and Mchinji South West ranging from school blocks, teachers' houses, Health centres and road infrastructure revealed the poor workmanship in the following projects:

(i) Poor Workmanship Of CDF Projects At Mchinji Central Constituency: K7,316,743.85

A verification exercise revealed that construction of Chaferamthengo Under Five Clinic worth K1,980,322.05 had bent trances and roofing was done at one side. Further, the verification disclosed that dambo sand was used on the project instead of river sand which resulted into poor mixture of cement. At Kacheta Road, Box Culvert worth K3,946,903.00 had incomplete concrete slab and returning walls. On the other hand, renovation of teacher's house at Zulu School worth K1,389,518.30 established that the project used 32" instead of 28" gauge iron sheets for roofing teachers' houses resulting in substandard work.

(ii) Substandard Work Of CDF Projects At Mchinji South Constituency: K7,413,162.25

A visit to Mchinji South constituency disclosed that the contractor who was hired for the construction of Lusa bridge failed to construct retaining walls on the bridge while it's apartments were poorly constructed and plastered regardless of the Council procuring building materials worth K7,413,165.25.

(iii) Substandard Work Of CDF Projects At Mchinji East Constituency: K2,325,000.00

The team visited Kapita, Kabango and Kasongola schools, where building materials for teachers' houses amounting to K2,325,000.00 were procured. However, no cement was used and 32" gauge iron sheets were used for roofing instead of 28" gauge resulting into substandard buildings.

MWANZA DISTRICT COUNCIL

- 40.** An audit inspection of the financial and other information for Mwanza District Council for the year ended 31st March, 2022 was completed in November 2022. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

(a) Deceased Estate Dormant Accounts (Minor): K2, 443, 072.99

Treasury Instructions (2004), Section 6.3, Operation of trust accounts as read together with Section 42 of the PFM Act, states that all trust moneys shall be paid into the trust account and paid by any person for the purposes for the account was established.

An inspection of deceased estate account registers and accounts transactions disclosed that the Council had dormant minor accounts with account balances valued at K2, 443, 072.99.

(b) Substandard Works On The Rehabilitation Of The Council's Rest House: K15,761,984.35

Public Finance Management Act (2022) Section 14 (1) (j) states that a controlling officer shall, with respect to the controlling officer's institution, ensure that all expenditure is uncured with due regard to economy, efficiency and effectiveness and the avoidance of waste.

The Council spent K15,761,984.35 for the rehabilitation of the rest house in order to boost its revenues. However, physical inspection of the Council's rest house revealed that rehabilitation of the building was not well done as it had substandard doors and cracks in the drains.

MZUZU CITY COUNCIL

- 41.** An audit inspection of the financial and other information for Mzuzu City Council for the year ended 31st March, 2022 was completed in October 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Long Outstanding Receivables: K769,997,859 .00

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.

An inspection of receivables schedules and supporting documents revealed that the Council has long outstanding receivables amounting to K769,997,859.00 which have not been collected since 2014.

(b) Delay In Implementing Projects K5,837,802,640.35

Public Procurement and Disposal of Public Assets (2017), Section 39 (1) states that procuring entities shall 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 contract documents revealed that Mzuzu City Council procured works for upgrading of roads in the city worth K5,837,802,640.35 to be completed within eighteen (18) months, however after a period of thirt-nine (39) months the project was not yet completed.

(c) Payments Made On Poor Workmanship K12,241,264.33

The Public Finance Management Act (2022) Section 14 (1) (h) stipulates that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, Department or Agency, all expenditure is uncured with due regard to economy, efficiency and effectiveness and the avoidance of waste.

An inspection of Constituency Development Fund (CDF) payment vouchers and a physical verification of CDF projects revealed that the Council made payments worth K12,241,264.33 on substandard works.

(d) Delays In Remitting Pay As You Earn (P.A.Y.E) To MRA K329,485,534.00

The Taxation Act (41:01) requires, among other things, that withholding Tax be deducted at source when effecting payments to suppliers of goods and services who have no proof of a valid Withholding Tax Exemption Certificate. Sections 102(A) and 146 (6) of the Act require that the amounts of withholding tax deducted should be remitted to the Malawi Revenue Authority (MRA) within 14 days from the end of the month in which such deduction was made. In addition to that the Taxation Act requires that Pay As You Earn

(P.A.Y.E) tax be deducted at the time the emoluments are paid (weekly, fortnightly, or monthly) and remitted to MRA within 14 days of the end of the month in which the tax was deducted.

A review of the financial statements revealed that the Council failed to remit PAYE to MRA amounting to K8, 498,087.00 as at 31st March 2022.

(e) Delays In Remitting Tevet Levy Contributions To TEVETA: K83,104,795.00

Section 20 (1) and (2) of the TEVET Act (2020) creates a TEVET Payroll levy into which “every employer” must pay “the sum of money equal to one per centum of the basic payroll in respect of the previous year”. This levy forms part of the TEVET Fund that is supposed to finance programmes approved by the Board of the TEVET Authority as defined in the TEVET Act.

A review of the financial statements for Mzuzu City Council revealed that Tevet levy contributions for the year ended 31st March 2022 amounting to K83,104,795.00 were not remitted to the Authority contrary to the requirement.

(f) Delays In Remitting Pension Contributions To Pension Administrator K531,851,372.00

Pension Act 2011, Section 61 (1) and (2) states that if, under this act or the fund rules of the pension fund, an employer is under obligation to make employers contribution in respect of the member, the employer shall pay to the trustee, or as the trustee directs, the amount of those contributions no later than fourteen days after the end of the month in which the liability to make contribution. An employer who contravenes Section (1) above, shall be liable to administrative penalty as prescribed under the Financial Services Act, 2010.

An inspection of financial statements revealed that Mzuzu City Council had accumulated pension contributions amounting to K531,851,372.00 that were not remitted to the pension administrators.

NENO DISTRICT COUNCIL

- 42.** An audit inspection of the financial and other information for Neno District Council for the year ended 31st March, 2022 was completed in December, 2022. The audit disclosed a weakness in the financial and other internal controls as highlighted in the following observation:

(a) Poor Workmanship On Flooring of Mwangawokhotha School Block Project:

Guidelines for the Constituency Development Fund (Revised 2014), Paragraph 16.5 states that the Director of Public Works (DPW) shall inspect projects in each constituency quarterly and issue a report to the DC. The report shall detail status of projects, quality of workmanship, capacity of ADC and PMC in implementing and monitoring projects. Where the DC as Controlling Officer feels that CDF money is not being spent in accordance with regulations, he reserves the right to seek remedies in consultation with the NLGFC.

An inspection of Mwangawokhotha School block Project with regards to the rehabilitation of two classrooms revealed that there was poor quality work done on the floors. The floors had developed cracks before the school block was opened for use in January, 2022.

NKHATABAY DISTRICT COUNCIL

- 43.** An audit of Nkhata Bay District Council for the year ended 31st March, 2022 was completed in October 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Failure To Provide Supporting Documents For Payables: K484,416,950.57

Treasury Instructions (2004), Section 5.9 (a) states that 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 inspection of financial statements for the year ended 31st March, 2022 revealed that payables amounting to K484,416,950.57 were included in the financial statements without submitting supporting documents. This made it difficult to verify the amount claimed.

(b) Delays In Operationalizing CDF Structure: K6,006,270.00

Public Finance Management Act (2022), Section 14 (1) (h) stipulates that each Controlling Officer is responsible for ensuring that, in relation to his Ministry, Department or agency, all expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste.

Physical inspection of Chipunga dispensary revealed that the structure was completed in 2019-2020 financial year. However, at the time of audit, the structure was not put to use. In 2021-2022 financial year, the Council purchased plumbing and electrical materials worth K6,006,270.00 to aid the operationalization of the dispensary. However, most of the plumbing and electrical materials fitted were vandalised by the community because the structure was lying idle.

(c) Underutilization of CDF Bursary Funds: K13,229,310.00

Constituency Development Fund Guidelines (2020) allows members to use an amount not more than K3 million towards school fees for needy students in their respective constituencies.

An examination of CDF Funds indicates that Nkhata Bay District Council had a provision of K18,000,000.00 for education bursary funds of which K3,000,000.00 was located for each of the six (6) constituencies. However, management only used K4,770,690.00 in two (2) constituencies as the other constituencies did not make use of the remaining funds amounting to K13,229,310.00. It is unbelievable to appreciate if there are no students in the two (2) constituencies that require bursaries.

NKHOTAKOTA DISTRICT COUNCIL

- 44.** An audit of Nkhatakota District Council for the year ended 31st March, 2022 was completed in November 2022. The audit disclosed a weakness in the financial and other internal controls as highlighted in the following observations:

(a) Revenue Collected Without Corresponding Deposit Slips: K43,175,656.97

Local Authority Accounting and Financial Management Procedures Manual (2009), Section 5.2.1 states that all revenue collectors shall remit revenues collected to the central office cashier. The cashier shall issue an official receipt to the revenue collectors in respect of the cash or bank deposit slips (where revenue is banked directly by the revenue collectors) received. The cashier shall make arrangements for banking of the revenue received intact.

An inspection of the cashbook, bank statements and deposit slips revealed that revenue amounting to K43,175,656.97 did not have the corresponding deposit slips. Therefore, it was difficult to ascertain whether the revenue in question was deposited or not.

NSANJE DISTRICT COUNCIL

- 45.** An audit of Nsanje District Council for the year ended 31st March, 2022 was completed in November, 2022. The audit disclosed a weakness in the financial and other internal controls as highlighted in the following observation:

(a) Sub-Standard Construction Of A Teachers' House at Mlonda Full Primary School: K7,214,373.50

Constituency Development Fund guidelines (2020), Section 16.5 stipulates that the Director of Public Works shall inspect projects in each constituency quarterly and issue a report to the District Commissioner. The report shall detail status of a projects, quality of workmanship, capacity and Areal Development Committee and Project Management.

An inspection of Constituency Development Fund Payment vouchers and site visits revealed that the Council constructed a Substandard Teachers' house at Mlonda Full Primary School costing K7,214,373.50. There was poor workmanship in the way bricks were laid and finishing was done.

NTCHEU DISTRICT COUNCIL

- 46.** An audit inspection of the financial and other information for Ntcheu District Council for the year ended 31st March, 2022 was completed in November 2022. The audit disclosed some weaknesses in the financial and other internal controls and as highlighted in the following observations:

(a) Payment Vouchers Not Produced for Audit: K98,119,512.10

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 staff.

An inspection of the payment vouchers and cashbook revealed that payment vouchers amounting to K98,119,512.10 were not presented for audit inspection. It was therefore difficult to ascertain whether the payments were a proper charge to the public funds.

(b) Payment Vouchers Without Adequate Supporting Documents: K65,693,297.44

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 staff.

An inspection of payment vouchers revealed that payment vouchers amounting to K65,693,297.44 were submitted without supporting documents such as invoices, delivery notes and receipts. In the absence of such documents, it was difficult to ascertain whether the expenditure made was a correct charge to public funds.

(c) Failure To Provide Liquidations On Payment Processed: K19,476,813.00

Local Authority Accounting and Financial Management Manual (2020), Section 5.5.9.1 (a) 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 disclosed that the Council made transfers of funds to resource centers, TDC and for staff payments amounting to K19,476,813.00 in respect of various activities like boarding expenses and trainings. However, there were no receipted vouchers on payments made for various activities to show how funds were utilized. As such it was difficult to ascertain the occurrence of such activities.

(d) Payment Vouchers Processed Manually Outside The IFMIS: K14,348,061.77

Local Authority Accounting and Financial Management Manual (2020), Section 5.3 states that payment process shall be done in IFMIS following payment procedures which are outlined in the IFMIS manual and hence reference shall be made to the IFMIS guidance.

An inspection of payment vouchers revealed that the Council processed payments outside the Integrated Financial Management Information System (IFMIS) amounting to K14,348,061.77.

PHALOMBE DISTRICT COUNCIL

- 47.** An audit inspection of Phalombe District Council for the year ended 31st March, 2022 was completed in November, 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations;

(a) Failure To Maintain Motor Vehicle Files: K149,747,092.00

Treasury Instructions (2004), Section 5.13.1 (f) 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 that all assets are safeguarded against loss or destruction, and unauthorized use.

An inspection of motor vehicle records revealed that the council did not maintain motor vehicle files for its motor vehicles except for the Health Sector. It was therefore difficult to establish ownership, maintenance record and insurance of motor vehicles.

(b) Lack Of Evidence For Trade Payables' Existence K7,996,281.16

The Local Authority Accounting and Financial Management Regulatory Framework (2020), Section 18.2 states that Creditors shall be recognized in the accounting books at the time the Local Authority receives the invoice from the supplier.

An inspection of payables schedule for financial statements of the Council revealed that the Council did not provide invoices for payables reflected in the financial statements totaling K7,996,281.16. The payables were not even posted into the IFMIS. The reported payables appearing in the financial statements, may not be attributable to Phalombe District Council; could be fictitious.

(c) Failure To Maintain Deceased Estate Beneficiaries Files: K7,500,868.18

Local Authority Accounting and Finance Procedures Manual (2020) also states that; Rightful beneficiaries shall be identified by the Administration Department who shall issue an authority to pay as approved by the DOA. A payment voucher (GP 10) shall be prepared by the Treasury Cashier with the authority to pay from the Administration Department attached to the payment voucher. The payment voucher shall be processed in the normal way and shall be authorized by the DOF and countersigned by the DC. The payment voucher number shall be endorsed in the TPMR against the appropriate receipted deceased estate money.

An inspection of deceased estate records revealed that the council did not maintain individual files for deceased estate beneficiaries. Deceased estates funds amounting to K7,500,868.18 did not have individual files where records of beneficiaries were kept. It was therefore difficult to access beneficiary's records to establish whether payments were made to rightful beneficiaries,

RUMPHI DISTRICT COUNCIL

- 48.** An audit inspection of Rumph District Council for the year ended 31st March, 2022 was completed in October, 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations;

(a) Long Outstanding Payables: K87,218,171.00

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.

An inspection of debtors schedule revealed that the Council has long outstanding payables amounting to K87,218,171.00 dating from as far back as 2011, 2013 and 2016.

(b) Minors' Funds Not Accounted For: K8,350,672.76

Treasury Instructions (2004), Section 6.4 states that where a Ministry or Department is acting as an agent for the management of trust money, the Ministry or Department must manage and account for trust money separately from public money, and trust money must be banked into a separate bank account for each trust.

An inspection of minors accounts ledgers and bank statements for the year ended 31st March 2022, revealed that minors' funds amounting to K8,350,672.76 were not on the bank statement though appearing in the minors' ledger and there was no evidence that the funds were accessed by the beneficiaries. It was, therefore, difficult to ascertain the accountability of the funds in question.

SALIMA DISTRICT COUNCIL

- 49.** An audit inspection of the financial and other information for Salima District Council for the year ended 31st March 2022, was completed in November 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Payments Made Without Supporting Documents: K14,382,515.11

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 staff.

An inspection of payment vouchers disclosed that the Council made payments amounting to K14,382,515.11 in respect of various goods and services without supporting documents such as invoices and receipts in order to authenticate the payments. Consequently, it was difficult to ascertain the validity of the payments.

(b) Procurements Made Without The Approval Of Internal Procurement And Disposal Committee: K8,443,087.11

Public Procurement and Disposal of Assets Act No 27 of 2017, Section 26 (2) (b) states that the functions of the Internal Procurement and Disposal Committees shall include approving the methods of procurement and disposal to be used in each case.

An inspection of payment vouchers and IPDC minutes revealed that the Council procured goods, works and services worth K8,443,087.11 without obtaining approval of Internal Procurement and Disposal Committee.

THYOLO DISTRICT COUNCIL

- 50.** An audit inspection of the financial and other information for Thyolo District Council for the year ended 31st March 2022, was completed in December 2022. The audit disclosed a weakness in the financial and other internal controls as highlighted in the following observation:

(a) Lack of Title Deeds For Council's Assets

Treasury Instructions (2004), Section 5.13.1 requires that all government assets are properly safeguarded against loss, theft and destruction and that the Controlling Officer adopts a set of Internal Controls to ensure that the afore mentioned risks are minimized.

An inspection of the Council's fixed asset register; and fixed assets' files, revealed that the Council did not have title deeds for the Council's property plant and equipment.

ZOMBA DISTRICT COUNCIL

- 51.** An audit inspection of the financial and other information for Zomba District Council for the year ended 31st March, 2022, was completed in December, 2022. The audit disclosed some weaknesses in the financial and other internal controls as highlighted in the following observations:

(a) Long Outstanding Payables: K29,172,249.00

Local Authorities Accounting and Financial Management Manual (2020), Section 10.1 states that Local Authorities shall ensure that all payables' provisions are within the approved budget for the period.

An inspection of payables schedule revealed that the Council has long outstanding payables amounting to K29,172,249.00 which had not been paid as at 31 March, 2022.

(b) Failure To Appraise DDF Projects: K32,051,763.28

Development Budget Guidelines Paragraph 7 states requires the District Commissioner/Chief Executive to 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 government and sectoral needs.

An inspection of payment vouchers, memoranda and interviews with staff and management revealed that borehole projects worth K32,051,763.28 were not appraised as there were no project appraisal reports to show that the process was undertaken.

(c) Borehole Fund Projects Not Included In District Development Plan: K72,750,299.89

A Circular from Secretary for Local Government and Rural Development to all District Commissioners/Chief Executive Officers dated 17th November, 2017 of Ref. No. LG/3/1/12 stipulates that borehole fund has been designed to support implementation of new projects which have been prioritized in the District/Urban development plans.

An inspection of payment vouchers and contracts revealed that projects worth K72,750,299.89 implemented under borehole fund were not included in the District Development Plan.

(d) Contracts Not Presented For Audit Inspection

Treasury Instructions (2004), Section 5.9(a), state that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

An inspection of procurement records revealed that management failed to present contracts for the construction of Domasi Police Victim Support Unit for audit inspection. Therefore, the propriety, transparency and accountability of the construction could not be ascertained.

PART IV

CONCLUSIONS AND RECOMMENDATION

CONCLUSION

- (a) 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 by staff and Management to uphold sound financial management principles. Continuous monitoring of staff by Management is therefore a must.

The following observations were noted during the audit: -

i. Expenditure Management irregularities

- Expenditure not properly evidenced
- Expenditures made without following procedures (Irregular expenditure)
- Misallocation of Funds (funds spent on different functions other than that which parliament approved)
- Payments made to uncompleted and substandard projects
- Unjustified Over-payments
- Failure to remit PAYE taxes to MRA
- Failure to process transactions through IFMIS
- Improper management of deceased estates

ii. Financial Statement irregularities

- Non-valuation Of The Council's Non-Current Assets
- Long outstanding payables
- Failure to make provisions for trade payables
- Property, Plant & Equipment – Absence of Title Deeds
- Financial Statement Transactions without supporting schedules/notes
- Failure To Provide Evidence On Figures Presented In The Financial Statements, e.g., payables.

iii. Procurement Management Irregularities

- Procurement Of Goods And Services Without IPDC Approval
- Laptop purchased and paid for but not delivered

- Failure to enter into framework agreements
- Procurements made without following proper procurement procedures
- Procurement of goods from unregistered suppliers
- Procurements made from unregistered suppliers
- Unplanned procurements

iv. Project Management Irregularities

- Delays in implementing projects
- Payments made on poor workmanship
- Payments to contractors without certification by Area Development Committee
- Failure to appraise District Development Fund projects
- Projects under Governance to Enable Delivery not completed on time
- Borehole Fund Projects not included in District Development Plan
- Implementation of projects outside annual investment plan

v. Records Management Irregularities

- Payment vouchers not presented for audit
- Payment vouchers without supporting documents
- Quarterly reports not produced by the Area Development Committee to the Council
- Contracts not presented for audit inspection
- Procurement documents not presented for audit

vi. Revenue Management Irregularities

- Lack of segregation of duties on collection of licenses and permits and revenue
- Revenue not accounted for
- Revenue collected without corresponding deposit slips
- Under collection of locally generated revenue
- Under banking of revenue

It is my view that Government should immediately do a review initiative to establish the cause of these problems.

RECOMMENDATIONS

- (b) In the course of my audit of the financial statements of Local Councils, each District Commissioner and Chief Executive was sent an appropriate management letter with recommendations; and most of them submitted their responses to my office within the stipulated period required under Section 14 of the Public Audit Act which is a big improvement from the previous years. However, despite this positive development, we still have outstanding audit findings after my office reviewed the responses submitted by Controlling Officers as reported above.

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) Since some of the issues are a violation of Laws of Malawi, offences and penalties enshrined in the legal instruments should be enforced;
- (2) As a quick win to item 1 above, administrative arrangements on disciplinary front should be enforced as a matter of urgency;
- (3) The issue of poor workmanship and project mismanagement should be looked at by Director of Buildings so that guidance and monitoring is enforced;
- (4) Valuation of assets is still a problem, NLGFC should continue taking this matter as a project for implementation in all Councils;
- (5) The Councils should speed up the process of getting title deeds for all their assets and include them in the books and financial statements;
- (6) Deceased estate funds are still a subject for fiduciary risk, NLGFC should develop effective mechanisms around this;
- (7) All deceased estate funds due for payment must be disbursed within one month after receiving this report;
- (8) Quality of financial statements is still a challenge, NLGFC should do a critical capacity analysis and come up with short, medium to long term solutions to this;
- (9) The problem of poor record keeping has persisted for long. Any officer responsible for missing vouchers, failure to attach necessary supporting documents should face disciplinary action, ;
- (10) All situations of documents not submitted for audit should be fully investigated to determine if the non-production was deliberate to conceal fraudulent transactions;

- (11) 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;
- (12) All funds which have not been accounted for should be accounted for within a month of receiving this report and the responsible officers dealt with in accordance with the existing regulations;
- (13) Investigation should be instituted for all payments which were made for non-existent and incomplete construction projects;
- (14) Councils that failed to remit PAYE to MRA need to explain and justify this anomaly; and remit the PAYE within one month after receiving this report;
- (15) All procurement flaws should be investigated and Councils should recruit qualified procurement officers;
- (16) All project management flaws especially on CDF projects must be investigated;
- (17) All irregular expenditures should be probed further and responsible officers dealt with in accordance with relevant laws and regulations;
- (18) The Controlling Officers must monitor all their monthly expenditures and ensure that all payment vouchers are fully supported and that they are intact;
- (19) 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
- (20) The Councils need to strictly adhere to the Local Authority Accounting and Finance Management Procedures Manual on all aspects of record keeping and financial reporting.

May, 2023

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 are 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.

Key audit matters

These are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. These matters are addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the Auditor General does not provide a separate opinion on these matters.

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:

- Providing policy guidelines regarding the Local Authority accounting and financial management system;
- receive all estimates of revenue and all projected budgets of all local government authorities;
- 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;
- Ensuring that Council budgets are prepared in accordance with policy guidelines and set procedures and that development programmes are in line with national priorities;
- 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;
- Providing technical support and supervision in the preparation of Local Authority final accounts;
- Facilitating the external audit of Local Authority final accounts by the Auditor General;
- 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.