



**REPORT OF THE AUDITOR GENERAL**

**ON THE**

**ACCOUNTS OF THE CITY, TOWN AND**

**DISTRICT COUNCILS**

**For The Years Ended 30<sup>th</sup> June, 2006, 2007 and 2008**

## NATIONAL AUDIT OFFICE

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

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

31<sup>st</sup> October, 2010.

The Honourable Minister of Finance,  
Ministry of Finance,  
P.O. Box 30049,  
Lilongwe 3,  
Malawi.

Dear Sir,

Pursuant to the provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Public Audit Act, I have the honour to submit my report on the results of the audit of the Accounts of City, Town and District Councils for the years ended 30<sup>th</sup> June, 2006, 2007 and 2008 for tabling in the National Assembly.

Yours faithfully,

R. A. Kampanje  
**AUDITOR GENERAL**

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## **EXECUTIVE SUMMARY**

In accordance with Section 6 of the Public Audit Act and Section 54(1) of the Local Government Act, I have, on behalf of the National Assembly, examined and enquired into and audited the accounts of City, Town and District Councils.

### **Scope of Audits**

The audit of the Councils' financial statements which were subcontracted to private audit firms examined the accounts of all Councils in Malawi for three financial years ended 30<sup>th</sup> June, 2006, 2007 and 2008. The audits were performed in accordance with International Standards in Auditing (ISAs). The audits were intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audits were conducted in accordance with generally accepted auditing standards, practices and methods, they do not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

The Public Audit Act empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Substantive tests were made on selected areas of Councils' accounts in order to form an opinion as to whether or not Councils funds are expended economically, and in conformity with the wishes of the National Assembly. The audits have not been limited to the accounts for the years ended 30<sup>th</sup> June, 2006, 2007, and 2008, but have where necessary extended into the subsequent years.

### **Audit Methodology**

The core objective of the external audit function is to ensure accountability of public funds. To discharge this responsibility my approach to audit involves the following:-

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

### **Main Findings**

The following main observations were noted during the audit:-

- Irregular updating of books of accounts due to lack of qualified personnel
- Lack of coordination among accounts personnel in different sectors at district level.

- Ineffective internal control systems leading to unaccountability of funds.
- CDF funds were not accounted for.
- CDF funds were used for unrelated activities
- Flouting of procurement regulations in both Local Councils and CDF funds.
- Direct involvement of Members of Parliament in the purchase and delivery of project materials for CDF funds.
- Although Government introduced Integrated Financial Management Information System (IFMIS) in the endeavor to improve financial management and expenditure control, It has not yet been rolled out to Councils in full such that most Councils were still using manual systems in processing financial transactions. This has continued to pose a big challenge in as far as processing financial transactions was concerned. It is hoped that once the IFMIS is rolled out including full implementation of the Public Finance Management Act, Public Audit Act and Public Procurement Act, City and District Councils will experience improved public expenditure management and control.

## **Achievements**

Despite the shortcoming noted above the following achievements were noted:-

- Some Councils were able to prepare financial statements in time.
- Although some CDF some funds were used for unintended purposes, infrastructure development was evident in most of the constituencies.

## **RECOMENDATIONS**

### **a) General**

- There is urgent need to strengthen accounts sections in the Councils by either recruiting more qualified staff or training the existing officers.
- There is need to develop an effective system of accounting and internal control to institute measures to ensure that the system is operating effectively.
- There is need to improve procurement procedures and systems in all Councils and the Office of the Director of Public Procurement should be requested to assist in training of personnel in procurement procedures in the Councils.

### **b) Constituency Development Funds**

Constituency Development Fund should still be maintained. However, there is need to strengthen management of the CDF and in this regard, the following measures are recommended for immediate implementation by all Councils.

- District Commissioners/Chief Executives of the Councils and other key stakeholders should be adequately sensitized on the use of CDF;
- Management in the Councils should strengthen the systems of internal control and supervision;

- All payments should be properly approved, countersigned and supported by relevant documentation;
- Separate books for projects in each constituency should be maintained, and at the end of each financial year, closing balances should be carried forward to the following year; and
- Constituency Development Fund should only be used for intended projects and under no circumstances should funds be used for unrelated activities;

## **ACKNOWLEDGEMENT**

I wish to place on record my profound gratitude and appreciation to the private audit firms and staff in my office who carried out their duties diligently thereby enabling the production of this report.

I also wish to express my profound gratitude and appreciation to DFID for the financial support for the audits

I also wish to acknowledge the assistance and cooperation rendered by the Ministry of Finance, the Accountant General, the National Local Government Committee, District Commissioners, Chief Executives and their staff during the period under review. The cooperation enabled me to obtain information and documentation for the audit.



## ACRONYMS

DC	:District Commissioner
DFID	:Department for International Development (UK)
DDF	:District Development Fund
GRF	:General Resource Fund
PAA	:Public Audit Act
PFMA	:Public Finance Management Act
PPA	:Public Procurement Act
GTZ	:Germany Technical Cooperation
GAAP	:Generally Accepted Accounting Principles
IPSAS	:International Public Sector Accounting Standards
ISAS	:International Auditing Standards
IPC	:Internal procurement Committee
LGA	:Local Government Act 1998
PPE	:Property, Plant and Equipment
IFMIS	:Integrated Financial Management Information System
CDF	:Constituency Development Fund
MASAF	:Malawi Social Action Fund
MGDS	:Malawi Growth and Development Strategy
NLGFC	:National Local Government Finance Committee
SCDP	:Secondary Centre Development Programme
UNICEF	:United National Children Education Fund
NAC	:National Aids Commission

## **SOME IMPORTANT DEFINITIONS**

### **The 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 devolved other recurrent transactions functions. Currently there are fourteen (14) devolved sectors which are Irrigation, Immigration, Health, Agriculture, Education, Trade, Rural Housing, Water, Gender and Community Services, Environment, Forestry, Fisheries, Labour, and the National Registration Bureau.

### **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.

### **Infrastructure Development Fund**

Infrastructure Development Fund is a fund which was established in 2007/2008 financial year in the City Councils of Blantyre, Lilongwe Mzuzu and Zomba and is aimed at improving the road net work and other related infrastructure projects of the City Councils.

## **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.

## **PART I**

### **BACKGROUND AND GENERAL INFORMATION**

#### **Audit of Public Accounts**

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi to audit and report on the public accounts of the Government of Malawi including Councils and to exercise such other powers in relation to the public accounts and accounts of other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principle duties of my office.
2. Section 184 (2) requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the Public Audit Act requires me to report to the National Assembly through the President and the Speaker, the provision is inconsistent with the Constitution, and since the Constitution is the supreme law, this provision is deemed to be invalid to the extent of the inconsistency. Consultations with the Law Commission have been initiated to have the inconsistency cleared.
3. The Public Audit Act provides, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required under Section 6 (4) (d) to determine whether the procedures and systems of internal control of each ministry, department, agency and public authority or body do ensure that:-
  - Revenue is properly assessed and collected;
  - Expenditure is validly and correctly authorized;
  - Revenue, expenses, assets and liabilities are properly recorded and accounted for;
  - Financial and operating information is reliable;
  - Assets are safeguarded against loss or destruction;
  - Resources are employed and managed in an economic, effective and efficient manner;
  - There has been no waste or extravagance
  - Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
  - Relevant government policies and legislation are being complied with;
  - All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
  - The accounts and records have been properly kept.
4. Section 6 (2) of the Act requires me to undertake an audit programme to review and approve the audited accounts of statutory bodies and conduct audits of any statutory body that has not had its financial statements audited by a firm of private auditors, and where I do not approve the audited financial statements.

5. Section 6 (3) of the Act requires 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.
6. In fulfilling these duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of the Act, I am required and any person authorized by him 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**

7. Section 53 (1) of the Local Government Act requires all the Councils to keep proper books of accounts and other records in relation thereto and to balance their accounts for each year and produce statements of final accounts within six months from the end of each financial year. The Councils are required to submit the final accounts to the Local Government Finance Committee which is required to forward a copy to the me.

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

8. In terms of Local Government Act 1998 as read with Section 10 of the Public Finance Management Act, it is the Controlling Officer's responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. The 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 Act, Public Audit Act, Financial Management and Accounting Procedures for District Councils, District Development Fund Management Manual and other relevant Acts of Parliament.
9. In preparing the financial statements the Councils have the following responsibilities: -
  - (a) Maintenance of proper accounting records;
  - (b) Selection of suitable accounting policies and applying them consistently;

- (c) Making judgments and estimates that are reasonable and prudent;
- (d) Compliance with applicable standards when preparing financial statements subject to any material departures being disclosed and explained in the financial statements
- (e) Preparation of financial statements on a going concern basis unless it is inappropriate to presume that the Council will continue in business.

10. 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**

- 11. The audit of Councils' accounts was performed in accordance with International Standards on Auditing (ISAs). 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 generally accepted auditing standards, practices and methods, it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.
- 12. The Public Audit Act empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Substantive tests were made on selected areas of 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. The audits which were undertaken between October, 2009 and May 2010, have not been limited to the accounts for the years ended 30<sup>th</sup> June, 2006, 2007, and 2008, but have where necessary extended into the subsequent years.

### **Audit Methodology**

- 13. The core objective of the external audit function is to ensure accountability of public funds. 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**

14. Section 14 (1) of the Public Audit Act 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.  
The audits of the Councils were subcontracted to private audit firms who conducted the audits of financial statements on my behalf.

### **Audit Opinions**

15. As the audit covered a period of three years at most, a total of ninety three (93) audit opinions on financial statements from thirty nine (39) Councils were expressed. Fifteen (15) adverse opinions were expressed on financial statements of nine (9) Councils due to disagreements on accounting principles used on the preparation financial Statements, while seventy (70) Disclaimers of opinion were issued on financial statements of twenty six (26) Councils due to lack of documentation to substantiate figures in the financial statements. Eight(8) qualified opinions were expressed on financial statements of four (4) Councils. This clearly shows that almost all councils are facing serious challenges in as a far as preparation of financial statements is concerned.

## **PART II**

### **STRUCTURE AND OVERALL PERFORMANCE**

#### **Financial Management And Administration Policies**

16. The Local Authorities Financial Management is governed by Local Authorities Accounting and Financial Management Procedures Manual. However the following prevailing legal instruments provide the overarching framework:-
- The Constitution of the Malawi Government;
  - The Public Finance Management Act (PFMA), 2003;
  - The Public Audit Act (PAA), 2003;
  - The Public Procurement Act (PPA), 2003;
  - The Local Government Act (LGA), 1998;
  - The Corrupt Practices Act (CPA), 1998;
  - By-laws of the Local Authority;

## **Devolved Sectors And How They Fit Into The Local Authority Structures**

17. As at 1<sup>st</sup> July 2008, the following Ministries were devolved to the District Councils:- Health, Education, Agriculture, Trade, Rural Housing, Water, Gender and Community Services, Environment and Forestry.

The major sectors of Health, Education and Agriculture have their own Other Recurrent Transactions bank accounts opened at the Local Authority level. These bank accounts are managed by the respective Sector Heads. The District Commissioner and the Director of Finance of the Local Authority are signatories to these bank accounts. The resources for the other smaller sectors are pooled into the District Commissioners' Secretariat ORT bank account.

### **Sector Coordination**

18. The Local Authority normally holds management meetings every month where sector heads are invited to present their work plans and progress reports. Financial reports and other district wide issues are discussed during these meetings. In addition to the monthly management meetings the accounting section is expected to hold meetings fortnightly for all the accounting personnel across all sectors. However due to the fragmentation of the accounting offices, implementation of this structure has proved to be a challenge.

In order to improve Sector coordination the following key issues are recommended;

- The harmonization of the accounts officers of all the devolved sectors to be operating under one building so as to enhance coordination of the sectors.
- The Introduction of IFMIS where all the accounting transactions are processed in one data center and limiting number of officers to authorize payments in the IFMIS.
- Streamlining the number of bank accounts to remain with only a few

### **Budgeting process**

19. The Budgeting guidelines used in Local Authorities were developed by Ministry of Finance. These are further elaborated by National Local Government Finance Committee to include locally generated revenue, development partners grants to Local Authorities and sectoral guidance for the planning period. Local Authorities use Activity Based Budgeting just like the Central Government. The activities for every functional area of the Local Authority are then aligned to the Malawi Growth and Development Strategic goals, after which the activities are costed and used in the budget. The Budgeting process undergoes several stages which include the following:-

### **Budget planning**

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

### **Budget Formulation**

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

### **Budget Preparation**

22. Budget preparation generally involves assigning costs to the selected activities while at the same time making sure that all the budget guidelines which stipulate the fiscal policies to be considered for that particular fiscal year and ceilings are being followed and adhered to. Once completed, the budget is submitted to the National Local Government Finance Committee (NLGFC) for technical review. The NLGFC in consultation with the Ministry of Finance and other line ministries of the devolved sectors discuss the draft budgets together with representatives of the Local Authority. The final consolidated budget is approved by the NLGFC and submitted to Parliament by Minister of Local Government for noting. However the component of the Local Authorities budgets covering central transfers are submitted to Ministry of Finance

### **Accounting and financial reporting for local authorities**

23. 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 by the Minister of Local Government and Rural Development;
  - 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.
  - To make application to the Minister for supplementary funds where necessary

### **The Procurement Procedures**

24. The Local Authority procurement processes follow the procurement procedures as laid down in the Public Procurement Act. 2003. The Local Authorities have the Internal Procurement Committee which oversees all the procurement processes at the Council. There are also specific sector Internal Procurement Committees for major sectors such as Health, Education and Agriculture which operate from the threshold given by the main IPC. The decisions made by these sectoral IPCs are expected to be submitted to the main IPC for approval or ratification.



## **General observations**

25. The following general observation were noted
- Due to fragmentation of the accounting offices, implementation of coordination has proved difficult among various sectors
  - Each sector was preparing its accounts in isolation and in most cases expenditure returns and cash controls for each sector were submitted to the Treasury and Accountant General respectively by the sectors themselves,
  - Most Sector Heads were by passing the District Commissioners when making payments, as result the DC was not really controlling the resources of the sectors,
  - The Parent Ministries could sometimes send internal auditors to the sector without informing the District Commissioner;
  - The amount of resources allocated to some of the devolved sectors by the parent ministry especially Forestry, Water and Gender is very little for meaningful implementation of activities. This demoralized these sectors from fully participating in service delivery;
  - The Parent Ministries have at times been issuing contradictory instructions to the devolved sectors without consulting the Local Authority Controlling Officers. This has in several cases undermined and frustrated the authority of the Local Authority in budget formulation and implementation.

## **PART III**

### **AUDIT RESULTS OF THE COUNCILS**

#### **GENERAL AUDIT OBSERVATIONS**

26. An audit inspection of the financial and stores records of the thirty nine (39) Local Councils was completed in May 2010. The Councils which were audited are Blantyre, Lilongwe City and District, Chikhwawa, Chiradzulu, Neno, Nsanje, Ntchisi, Phalombe, Salima District and Town, Thyolo, Luchenza, Mulanje, Zomba District and City, Machinga, Mangochi District and Town, Balaka District and Town, Ntcheu, Dedza District and Town, Nkhotakota, Mchinji, Nkhatabay, Rumphu, Chitipa, Karonga District and Town, Mzuzu City, M'mbelwa, Dowa, Kasungu District and Town, Mwanza, Lilongwe District and City, Likoma, Liwonde Town.

The audit disclosed the following internal control weaknesses which cut across all the Councils:-

#### **Preparation of Financial Statements**

27. In accordance with the Local Government Act 1998, Councils are supposed to prepare financial statements within six (6) months from the end of each financial year. The audit of the Councils revealed that most of them were preparing the financial statements very late in certain cases one to two years after the closure of the financial year.

### **Accounting Records**

28. Local Government Act of 1998 stipulates that all Councils shall 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 failed to maintain all the necessary books of accounts and records due to low levels of skilled accounting personnel.

### **Banking**

29. Local Government Act of 1998 empowers Councils to open and maintain bank accounts with registered bankers so long as the banking records are updated regularly. The audit revealed that most Councils did not operate separate bank accounts for other recurrent accounts and Constituency Development Fund. Consequently books of account for both CDF and ORT were not regularly reconciled with bank balances.

### **Fixed Assets Register**

30. Financial Management and Accounting Procedures Manual for Councils require each Council to open and maintain a fixed asset register regularly which should contain all assets' details. The audit review disclosed that most councils did not maintain fixed assets registers to account for assets as required by the Local Authorities Accounting and Financial Management Procedures Manual
31. Apart from the observations above, the following observations were also noted:
- i. A lot of payments were made without supporting documentation attached to payment vouchers
  - ii. A lot of payment vouchers were not presented for audit examination as they were reported missing.
  - iii. Most of the cash collected by the Councils was not accounted for.
  - iv. Most of the Councils did not fully comply with procurement procedures as stipulated in the Public Procurement Act, regulations and desk instructions.
  - v. Insurance of the fixed assets and depreciation of the fixed assets was a big challenge for almost all the Councils.
  - vi. Poor management of receivables and payables by most Councils.
  - vii. Failure by some Councils to remit withholding tax deducted to the Malawi Revenue Authority.
  - viii. Spending revenue at source by some councils.

## **SPECIFIC AUDIT FINDINGS**

### **CITY COUNCILS**

#### **MZUZU CITY COUNCIL**

32. An audit of financial statements for Mzuzu City Council for the financial years ended 30<sup>th</sup> June, 2007 and 2008 was completed in May, 2010. The audit disclosed some weaknesses in financial control as highlighted in the following paragraphs:-

**a) Failure To Include Revenue Collected In The Financial Statements: K450,000.00**

An examination of the 2007 / 2008 Financial Statements disclosed that the Council did not include revenue collected amounting to K450, 000.00 in the financial statements for the year ended 31th June 2008. The revenue omitted was collected from Miss Grace Mkandawire and was in respect of a standing contract dated 26<sup>th</sup> May 2008.

**b) Failure To Provide Documentary Evidence On Overdrawn Deposits And General Debtors For K7, 815,336.00 And K2, 499,803.00 Respectively.**

An examination of the 2007 / 2008 Financial Statements disclosed that Mzuzu City Council could not provide sufficient and appropriate evidence to support the completeness, existence, valuation and rights and obligations on the overdrawn Deposits and General Debtors amounting to K7,815,336.00 and K2,499,803.00 respectively.

**c) Failure to Produce Records to Support Figures In Financial Statement : K4,197,438.12**

An examination of bank reconciliation statements for Deceased Estates Account Number 0030402839011 disclosed that the Council could not provide sufficient and appropriate information to support sums of K280, 233.69 and K509, 290.97 in respect of payments which were appearing on bank reconciliation statement. It was further observed that the Council also could not provide payment details for a sum of K 4,197,438.12 appearing on Bank Statement for bank account number 0141550019300 as shown below:-

<u>Date</u>	<u>Amount (MK)</u>
31/07/2007	131,737.40
10/08/2007	577,050.10
31/08/2007	567,050.18
7/9/2007	525,923.25
30/09/2007	16,189.50
30/09/2007	37,632.00
31/10/2007	734,258.89
31/10/2007	11,358.70
5/11/2007	75,000.00
6/11/2007	141,638.24
13/11/2007	230,693.30
13/11/2007	364,000.00
13/11/2007	373,589.09
31/05/2008	307,801.50
8/6/2008	103,515.97
	<b>4,197,438.12</b>

## LILONGWE CITY COUNCIL

33. An audit inspection of financial and stores records of Lilongwe City Council for the financial year ending 30<sup>th</sup> June, 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Revenue In Respect Of Market Fees Receipts Not Accounted For: K30,805,636.00**

Treasury Instructions require that cash collected should be banked promptly and intact. A test check of receipts issued out and signed for by market supervisors during 2005/6 and 2007/8 financial years against income revealed that a sum of K30,805,636.00 was not recorded in the accounting books and could therefore not be accounted for.

Below are the details:-

<u>PERIOD</u>	<u>BOOKS X</u> <u>TICKETS</u>	<u>PRICE/TICKET</u>	<u>EXPECTED</u> <u>INCOME</u>	<u>INCOME</u> <u>RECORDED</u>	<u>DIFFERENCE</u>
		MK	MK	MK	MK
2005/6	5,960 x 100	25.00	14,900,000.00	7,427,608.00	7,472,391.00
2006/7	5,970 x 100	25.00	14,925,000.00	1,180,548.00	13,744,451.00
2007/8	8,370 x 100	25.00	20,925,000.00	1,336,205.00	19,588,794.00
	<b>Total</b>				<b><u>30,805,636.00</u></b>

**b) Business Licence Fees Not Accounted For: K10,844,330.00**

An examination of business licenses register revealed that revenue in respect of occupational licenses totaling **K10,844,330.00** collected between July 2005 and June 2008 could not be accounted for.

Below are the details:-

<i>FINANCIAL YEAR</i>	<i>AMOUNT (K)</i>
2005/6	3,720,348.00
2006/7	3,915,822.00
2007/8	3,208,160.00
<b>Total</b>	<b>10,844,330.00.</b>

**c) Payment Vouchers Not Produced For Audit Examination: K813,550,015.00**

An examination of payment vouchers revealed that some payment vouchers totaling K813,550,015.00 were not produced for audit. It was therefore not possible to ascertain the propriety of the expenditure in absence of payment vouchers.

Details are as shown below:

<i>FINANCIAL YEAR</i>	<i>AMOUNT (K)</i>
2005/6	215,323,508.00
2006/7	346,007,182.00
2007/8	252,229,325.00
<b>Total</b>	<b>813,550,015.00.</b>

**d) Allowances Not Signed For: K133,885.00**

Treasury Instructions stipulate that payments made should be signed for by recipients. An examination of payments in respect of allowances paid to members of staff revealed that some payees did not sign against their names. A total of K133,885.00 paid in the name of four officers for staff between July, 2005 and February, 2006 was not signed for. There was no evidence to show that the cash was properly disposed of by the cashier.

**e) Expenditure In Excess of Budget:**

Public Finance Management Act requires Controlling officers to closely monitor the expenditure of their entities to ensure that it is within the budget allocation.

An examination of expenditure levels of the Council's activity line items against budget lines disclosed that some expenditure line items exceeded budget limits substantially over a period of three years as detailed below:-

<u>PERIOD</u>	<u>No OF ITEMS</u>	<u>TOTAL BUDGET</u> K	<u>ACTUAL EXPENDITURE</u> K	<u>OVER- EXPENDITURE</u> K
2005/6	7	106,742,000.00	182,994,545.00	76,252,545.00
2006/7	7	220,585,000.00	392,076,305.00	171,490,305.00
2007/8	4	261,744,000.00	442,320,775.00	180,576,775.00

**f) Outstanding Accounts Receivables: K25,675,559.00**

A verification of account receivables records disclosed that the Council did not maintain individual sundry and staff receivables accounts. Enquiries from management revealed that the listing was not available and that some of receivables were carried forward from the previous years. As at June, 2008 the financial statement reflected a sum of K25,675,559.00 as sundry receivables without listing. It was therefore difficult to appreciate how the receivables would be recovered in absence of any listing.

**g) Cash Not Accounted For: K5,300,215.08**

Treasury Instructions require that all persons entrusted with revenue or custody of public funds should account for all monies under their charge.

An examination of revenue collection receipts revealed that a sum of K5,300,215.08 out of K6,971,509.60 was not banked. Management failed to provide satisfactory explanation on how the cash was accounted for.

Below are the details:-

<u>PERIOD</u>	<u>No OF BOOKS</u>	<u>TOTAL COLLECTED</u> K	<u>TOTAL BANKED</u> K	<u>SHORTFALL</u> K
2005/6	5	1,027,306.68	361,935.00	665,371.68
2006/7	5	4,294,865.02	1,279,359.53	3,015,505.49
2007/8	6	1,649,337.91	30,000.00	1,619,337.91
	<b>Total</b>	<b><u>6,971,509.60</u></b>	<b><u>1,671,294.53</u></b>	<b><u>5,300,215.08</u></b>

## **ZOMBA CITY COUNCIL**

34. An audit inspection of the financial and stores records of Zomba City Council was completed in May,2010. The audit review disclosed weaknesses in financial control as follows:

**a) Payment Vouchers Without Supporting Documents- K2,186,154.00**

Treasury instruction requires all payment vouchers to be supported by relevant documentation.

An examination of payment transactions for the period August 2007 to June 2008 disclosed that payment vouchers amounting to K19, 891,522.00 had no supporting documents. It was further observed that payment vouchers amounting to K1,594,632.00 in respect of procurement of goods from Versyani & Sons in July 2007 had no valid supporting documents. It was therefore difficult for the inspecting auditors to ascertain the validity and completeness of the expenditure in absence of supporting documentation.

**b) Awarding Of Multiple Contracts To a Single Contractor- K2,215,732.00**

Councils are required to strictly follow proper procurement procedures as stipulated in the Public Procurement Act.

An examination of procurement records revealed that procurement of services including awarding of contracts did not follow proper procurement procedures. It was observed that four (4) contracts with a total value of K2,215,732.00 out of five(5) contracts worth K3,000,000.00 were awarded to a single contractor in the name of Mr B.B Awali, contrary to the Act.

## **TOWN COUNCILS**

### **KARONGA TOWN COUNCIL**

35. An audit inspection of the financial statements for the three years ended 30<sup>th</sup> June, 2006, 2007 and 2008 for Karonga Town Council was completed in May 2010. The audit review disclosed weaknesses in financial control as follows:

**a) Payment Vouchers Without Supporting Documents: K 949,951.51**

Treasury Instructions stipulate that all vouchers must be complete in themselves with all relevant supporting documents attached to afford independent checks.

An examination of payment transactions disclosed that payment vouchers amounting to K949,951.51 for the financial years 2005/06, 2006/07 and 2007/08 were passed for payment without supporting documents. As a result, the validity of the expenditures could not be ascertained.

**b) Allowances and Gratuities Not Signed For: K 141,293.53**

An examination of payment transactions for the financial years under review disclosed that sums of K49,980.00 and K 94,313.53 for allowances and for gratuities respectively

were paid out to officers without obtaining their signatures contrary to the requirements of the Treasury Instructions. It was therefore difficult for the inspecting auditors to satisfy themselves as to whether the funds were paid to rightful recipients.

**c) Accounts Payables Figure Not Supported by Documentation: K 10,134,949.00**

An examination of accounts payables for the financial years ended 30<sup>th</sup> June, 2006, 2007 and 2008 disclosed that some balances totaling K 10,134,949.00 in respect of Accounts Payables had no supporting documentation. It was therefore difficult for the inspecting auditors to verify the validity of the amounts. Most of the balances were carried forward from previous years.

The breakdown of the amount is shown below:-

Financial Year	Amount K
2005/06	2,813,328
2006/07	3,946,562
2007/08	3,375,059

**LUCHENZA TOWN COUNCIL**

36. An audit inspection of the financial and stores records of Luchenza Town Council for the period 1st July 2005 to 30<sup>th</sup> June 2008 was completed in May, 2010. The audit disclosed weaknesses in control which resulted in the following irregularities.

**a) Revenue Spent at Source Before Banking: MK 4,134,691.00**

An examination of revenue records for the period July 2005 and June 2008 disclosed that the Council did not bank all revenue collected, instead, some revenue totaling K4,134,691.00 was spent at source contrary to the requirements of Public Finance Management Act. The amounts of revenue spent at source are detailed below:

	2008 MK	2007 MK	2006 MK	Total MK
Amount collected	10,723, 195	8,482,843	8,764,921	27,970,959
Amount banked	<u>8,641,945</u>	<u>7,335,732</u>	<u>7,858,591</u>	<u>23,836,268</u>
Money used at source	<u>2,081,250</u>	<u>1,147,111</u>	<u>906,330</u>	<u>4,134,691</u>

**b) Failure To Bank Cash Collected: K426,593.00**

A further examination of cash collections revealed that in certain cases, cash collected was not banked intact. It was observed that a sum of MK426,593.00 was not banked and could also not be accounted for.

Below are details of unbanked cash collections.

Date	Receipt No	Cash collected MK	Cash banked MK	Under-banking MK
27.10.07	37673-37676	66,286.00		66,286.00
30.10.07	37677-37681	102,444.00		102,444.00
12.11.07	37912-37933	31,225.00	22,195.00	9,030.00
14.11.07	37946-37949	248,833.00		<u>248,833.00</u>
				<b>426,593.00</b>

**c) Property Rates Receivables not Updated and Reconciled with Billing System**

It was observed that since 2005, there was no movement on the balance of property rates receivables. The figure for property rates receivables had remained at K360, 959.00 since July 2005, although the Council assessed revenue amounting to K3, 226,529 in 2008 and K2, 296,348 in 2007 from property rates. Consequently the figure of receivables as reflected in the financial statements could not be reconciled with the assessed revenue such that property rates receivables and income were materially understated.

**d) Sundry Receivables Without Supporting Documents**

An examination of sundry receivables listing amounting K267, 006.00 revealed that individual balances which were listed had no supporting details. It was further established that the balances on the listing were brought forward from 2004/2005 financial year and were not updated.

**e) Individual Accounts Payable Balances Without Supporting Invoices: K647,818.93**

An examination of account payable listings revealed that most individual account payable balance amounting to K647,818.93 was not supported by invoices as at 30<sup>th</sup> June 2008. It was therefore difficult to ascertain the validity and completeness of the Council's liabilities.

Below are the details:

<u>Creditor</u>	<u>Balance</u> <u>MK</u>
LGDP	251, 360.93
Latif Hardware	212, 100.00
Amison Hardware	82,350.00
Khamisa Carpet	45,000.00
Limbe Hardware	<u>57,008.00</u>
	<b>647,818.93</b>

**f) Long Outstanding Salary Arrears : MK1,051,361.00**

An examination of payroll records disclosed that the Council had a liability of K1, 051,361.00 in respect of salary arrears for its employees. The amount had been outstanding for a period of over three years. There is a risk that the Council may face a possible lawsuit from the concerned employees which may result in payment of substantial amount of money as damages.

**g) Unrecorded Revenue From Property Rates : K7, 926,577.00**

An examination of revenue records in respect of property rates disclosed that the Council did not record revenue amounting to K 7,926,577.00 in the accounting books between July 2005 and June 2008. Consequently the income collected during the period was understated.

Below are the details:



	2008 MK	2007 MK	2006 MK
Total per billing system	4, 798,889	4, 284,162	4, 484,333
Total per accounts	<u>3, 226,529</u>	<u>2, 296,248</u>	<u>118,030</u>
Unrecorded revenue	1, 572,529	1, 987,914	4, 366,303

**h) Funds Not Used For The Intended Purpose : K3,866,289.00**

An examination of the Council's financial records revealed that funds received from Central Government (Treasury) to cater for other recurrent transactions (ORT) were used for payment of salaries and wages. There was no evidence to show that an approval was sought from the Treasury to use the funds for payment of salaries.

Below is the breakdown of the amount

<i>Year</i>	<i>Amount( MK)</i>
2005/06	1, 018,647.00
2006/07	1, 790,228.00
2007/08	<u>1, 057,414.00</u>
	<b>3, 866,289.00</b>

**MANGOCHI TOWN COUNCIL**

37. An audit of the financial statements of Mangochi Town Council for the three years ending 30<sup>th</sup> June, 2006, 2007 and 2008 was completed in May, 2010. The audit review disclosed weaknesses in financial control as highlighted below:-

**a) Over-Expenditure: K 10,275,569.00**

A review of income and expenditure records for the financial years 2005/06, 2006/07 and 2007/08 disclosed an over-expenditure of **K 10,275,569.00** on some sub-items. There is a risk that inadequate control over expenditure may affect the implementation of other planned activities.

**b) Failure to Follow Procurement Procedures**

An examination of procurement records disclosed that the Council purchased various items worth K788,196.95 without following procurement guidelines. It was noted that the suppliers were not selected through the Internal Procurement Committee (IPC) as required in the Public Procurement Act.

**c) Purchases Made Without Quotations: K 1,782,842.85**

The Public Procurement Act requires that at least three competitive quotations should be obtained from the suppliers of goods and services before procurements are made in order to obtain maximum value for money.

An examination of procurement records disclosed that the Council procured goods and services amounting to K 1,782,842.85 without obtaining three quotations as required by the Act.

**d) Irregular Payment of Compensation: K 136,000.00**

The Labour Act, provides, among other things that compensations shall be paid to an employee who gets injured while on duty.

It was however noted that Mangochi Town Council paid a sum of K136,000.00 in respect of compensation amounting to Mr. Mulera who was neither an employee nor a victim at the Council.

**e) Differences in Amounts Between Payment Vouchers and Paid Cheques: K149,782.42**

A comparison of details on payment vouchers against paid cheques for the financial year 2007/08 revealed that amounts withdrawn on some cheques were more than those approved on the related payment vouchers. The total amount overpaid was **K 149,728.42**

**f) Missing Payment Vouchers: K 895,933.73**

Government financial regulations call for proper filing and custody of financial records related supporting documents to be firmly attached to payment vouchers.

An examination of financial ledgers revealed that some payment vouchers amounting to K 895,933.73 were not produced for audit review. Consequently it was difficult for the inspecting auditors to ascertain the propriety of expenditure in absence of the payment vouchers.

**g) Payment Vouchers Without Supporting Documentation: K 1,702,616.77**

Treasury Instructions require supporting documents to be firmly attached to payment vouchers to support the payments made.

An examination of payment vouchers for the financial years 2005/06, 2006/07 and 2007/08 disclosed some payment vouchers amounting to K1,702,616.77 that were passed for payment without any attachments to support the payments.

**h) Payments Made To Staff On Behalf Of Suppliers: K 1,638,712.11**

Treasury Instructions require that payments for suppliers of goods and services procured should be made direct to the suppliers.

It was however noted that payments to suppliers amounting to K 1,638,712.11 during 2006/07 financial year were made through employees of the Council. There was no evidence of any authority from the suppliers allowing the staff to collect the money on their behalf. Consequently the inspecting auditors were unable to satisfy themselves whether the money were indeed paid to the suppliers.

**i) Fuel Not Accounted For: K 261,639.45**

An examination of fuel records disclosed that between July 2006 and June 2008, the Council purchased fuel worth K 261,639.45 which was neither

recorded in the fuel register nor motor vehicles log books. Besides, there were no receipts from filling stations to support the disposal of the fuel. It was therefore difficult to establish whether the fuel was used for the intended purpose.

**j) Failure To Effect Deductions On Staff Loans: K 385,197.71**

An examination of financial records disclosed that there was an opening balance of K 385,197.71 in respect of loans granted to members of staff during 2005/06 financial year. It was however observed that the same figure of K 385,197.71 was recorded as closing balance at the closure of the financial year indicating that no deductions were effected. Further examination revealed that the amount was in respect of employees who had either resigned or posted away.

**k) MASAF Project Funds not Accounted For : K7,821,020.00**

An examination of financial records for 2005/06 financial year disclosed that the Council received funds amounting to K 10,721,020.00 from MASAF. The audit review only verified expenditure records amounting to K2,900, 00.00 leaving a balance of K 7,821,020.00 which could not be accounted for.

**l) MASAF Project Funds Used For Unintended Purpose: K 395,566.33**

The audit review established that the Council transferred a sum of K 395,566.33 from MASAF Project Account to the Operating Account without donor consent. The funds were used for activities, which were not included in the project document.

**m) Failure to Produce Documents For Audit Review: K 3,638,946.87**

The Public Audit Act empowers the Auditor General or every person delegated by him to have access at all times to all documents for audit purposes.

An examination of financial transactions disclosed that some payment vouchers for GTZ project amounting to K 3,638,946.87 were not available for audit examination. It was therefore difficult to ascertain how the project funds were used in absence of any documentation to substantiate the expenditure.

**n) Funds For Sanitation Programme Not Accounted For : K 252,908.34**

The audit review established that in April 2005, the Council received funds amounting to K513,072.34 from the Environmental Affairs Department for the Sanitation Programme. Out of the amount, a sum of K 491,510.00 was set aside for environmental activities while K 21,562.34 was meant for development projects. Out of the total amount spent, a sum of K 252,908.34 had no supporting expenditure documents. In the absence of expenditure records, it was not possible to establish how the funds were used.

**KASUNGU TOWN COUNCIL**

38. An audit inspection of financial and stores records of Kasungu Town Council for the financial years ending 30<sup>th</sup> June 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:

**a) Cash not accounted for: K2,609,883.00**

Treasury Instructions require all persons that are entrusted with the custody of revenue or other public funds to properly account for all monies entrusted to them.

An examination of general receipts against bank deposit slips revealed that cash collected between April and June 2007 amounting to K2,609,883.00 could not be accounted for as there were no records to show that the revenue was banked.

**DEDZA TOWN COUNCIL**

39. An audit inspection of financial and stores records of Dedza Town Council for the financial years ending 30<sup>th</sup> June, 2006, 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Revenue Not Banked But Spent at Source: K6, 441,500.00**

Treasury Instructions require that cash collected should be banked promptly and intact. In addition Financial Management and Accounting Procedure Number 4.5.2 for District Councils requires that all payments should be made by cheques except for petty cash payments.

An examination of general receipts for the period July 2005 to June 2008 revealed that cash totaling K6,441,500.00 was not banked, instead it was used at source.

**LIWONDE TOWN COUNCIL**

40. An audit inspection of financial and stores records of Liwonde Town Council for the financial years ending 30<sup>th</sup> June 2006, 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payments Made Without Supporting Documents: K327,640.00**

Treasury Instructions require that all payment vouchers must be supported by original documents such as invoices and cash sales and these must be firmly attached to the vouchers.

An examination of payment vouchers for Health Sector revealed that a total of K327,640.00 was paid on seven vouchers without supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

**DISTRICT COUNCILS**

**CHITIPA DISTRICT COUNCIL**

41. An audit of financial statements of Chitipa District Council for the financial periods ended 30<sup>th</sup> June, 2007 and 2008 was completed in May, 2010. The audit disclosed some weaknesses in financial control as shown below.

**a) Funds Used For Other Purposes: K301,085.00**

Treasury Instructions stipulate that expenditure should always be charged to appropriate vote or account. Accounting guidelines for the Constituency Development Fund and District Development Funds (CDF and DDF) respectively require that only related expenditure should be charged against the funds.

An examination of payment vouchers in respect of the Constituency Development and District Development Funds disclosed that Chitipa District Council used K301, 085.00 from the CDF and DDF on activities not related to the funds. Details are shown below:-

<u>Date</u>	<u>Payee</u>	<u>Description</u>	<u>Cheque</u>	<u>Amount</u>	<u>Remarks</u>
18/10/2007	Musonda	Payment for door frame for Assembly Bar	1563	6,000.00	Funds Diverted from Chitipa North Constituency
24/10/2007	Hardware Supplies	Payment for Toilet Cistern for Assembly Chalet	1573	8,300.00	Funds Diverted from DDF
20/10/2007	S.K.Chikusa	Payment for Building Materials for Assembly Chalet	1571	73,724.00	Funds Diverted from DDF
22/07/2007	Mathews Phiri	Payment for Furnishing Materials for Assembly Chalet	1650	33,000.00	Funds Diverted from Chitipa North Constotucny
24/10/2007	T.Ngwira Mercy	Payment for Building Materials for Assembly Chalet	1574	108,311.00	Funds Diverted from Chitipa Central Constituency.
29/10/2007	Mwanja (Mrs)	Payment for Blankets for Assembly Rest House	1584	53,000.00	Funds Diverted from Chitipa Central Constituency.
1/4/2008	Farmers World Ltd	Cost of Roofing materials for Assembly Pit latrine	1697	18,750.00	Funds Diverted from Chitipa Central Constituency.
				<b>301,085.00</b>	

**b) Over Expenditure on Non-core Budget Items and Under utilisation of Core Budget Items Health Sector**

An examination of payment transactions disclosed that the Health Sector incurred over expenditure on non-core budget items as detailed below:-

<b>Under Utilisation</b>					
	Medical Supplies and Expenses				-
2007 / 2008		47,265,977.00	31,503,277.00	15,762,700.00	32
	2007 / 2007	29,792,032.00	10,871,038.00	18,920,994.00	59

**c) Payment Vouchers Passed Without Authorization: K 3,615,207.00**

Treasury Instructions require that Payment Vouchers must be authorised before they are passed for payment. An examination of Payment Vouchers for the period ended June 30, 2007 disclosed that Payment Vouchers amounting to K3,615,207.00 were processed for payment without being authorised, contrary to the Treasury Instructions.

Details are shown below:-

<u>Cheque/ Vr</u>	<u>Date</u>	<u>Payee</u>	<u>Details</u>	<u>Amount</u>	
909	10/5/2007	BP - Malawi	Fuel - Internal Travel	1,300,000.00	
0982 / 215	13/06/2007	BP - Malawi	Fuel - Internal Travel	1,500,000.00	
0985 / 226	19/06/2007	NRWB	Water - Public Utilities	134,360.00	
0991 / 7.232	19/06/2007	R.Kalagho	Subsistence Allowance - Internal Travel	149,650.00	
0991 / 7.233	19/06/2007	R.Kalagho	Subsistence Allowance - Internal Travel	98,170.00	
0991 / 234	19/06/2007	R.Kalagho	Subsistence Allowance - Internal Travel	128,535.00	
1004 / 7.242	19/06/2007	Y.Chiumia	allowance Internal travel	214,492.00	
1009 / 7.245	19/06/2007	Y.Chiumia	Motor Vehicle Maintenance - Subsistence allowance Internal travel	90,000.00	
				<b>3,615,207.00</b>	

## KARONGA DISTRICT COUNCIL

42. An audit of financial statements of Karonga District Council for the financial years ending 30<sup>th</sup> June, 2006, 2007, and 2008 was completed in May 2010. The audit disclosed some weaknesses in financial control as shown below.

### a) Payment Vouchers Without Supporting Documents : K 15,163,302.63

Financial Management and Accounting Procedures Manual require that payment vouchers should be supported by original documents before passing them for payments. The breakdown of the amount is as follows:-

<u>Financial Year</u>	<u>Amount (K)</u>
2005/06	7,664,110.08
2006/07	5,844,686.52
2007/08	1,654,506.03
	<b>15,163,302.63</b>

### b) Accounts Payables Not Supported by Documentation: K5,963,975.00

An examination of accounts payables for the financial years ending 30<sup>th</sup> June, 2006, 2007, and 2008 disclosed that the balances which were reflected in the financial statements did not have supporting documentation. Consequently, it was difficult for the inspecting auditors to verify the validity of the amounts. Most of the balances were brought forward from the previous years. The breakdown of the amount is as follows:

<u>Financial Year</u>	<u>Amount (K)</u>
2005 /06	229,157.00

2006 /07	440,143.00
2007 /08	<u>5,294,675.00</u>
	<b>5,963,975.00</b>

## **LIKOMA DISTRICT COUNCIL**

43. An audit of the financial statements for the three years ending 30<sup>th</sup> June, 2006, 2007 and 2008 for Likoma District Council was completed in May, 2010. The audit review disclosed the following irregularities:

### **a) Account Balances Not Included In The Financial Statements.**

An examination of financial records disclosed that books of accounts were not maintained up to date and that the underlying records supporting the account balances were not properly kept. This resulted in some figures not being included in the financial statements.

Below are figures which were omitted in the financial statements:-

<b>DETAILS</b>	<b>2005/06 MK</b>	<b>2006/07 MK</b>	<b>2007/08 MK</b>
General Resource Grant	1,926,997	2,004,077	2,700,311
Sector Funds	18,424,327	-	-
<b>Social cash transfer</b>			
UNCEF		2,213,800	
NAC			4,297,995
HIV AIDS FUNDS			
NAC			3,064,074
CDF			2,000,000

### **b) Payments made without supporting documents: K 10,010,241.65**

Treasury Instructions require that a payment voucher must be fully supported by an original invoice or dully acquitted documents.

An examination of financial records for the period between July, 2005 and June, 2008 disclosed that, payments totaling MK 10,010,241.65 were passed for payment without supporting documents. In some cases it was observed that allowances were not signed for by the recipients. In the absence of the supporting documents it was difficult to ascertain whether the expenditures constituted proper charge to public funds.

The breakdown of the amount not supported is as follows:-

<b>YEAR</b>	<b>TOTAL (MK)</b>
2006	1,694,008.80
2007	988,650.52
2008	<u>7,327,582.33</u>
	<b>10,010,241.65</b>

### **c) Fixed Assets Register Not Maintained : K 12,283,950.00**

It was observed that a fixed register for the Council was not adequately maintained as required by the Local Authorities Accounting and Financial Management Procedures Manual. As at 30<sup>th</sup> June, 2008 the Council had property, plant and equipment with carrying total values of K12,283,950.00. Included in this figure was the value of a rest house which was let out to a third party but was not recorded in the Council's books of accounts. In the absence of an updated fixed assets register it was difficult to trace all the Council's assets.

**d) Inadequate Control Over Staff Receivables: K 104,250.00**

An examination of account receivable records disclosed that account balances for both staff and other receivables did not show any movement for several years an indication that recoveries were not being done. An amount of K104,250.00 for both staff and sundry receivables was still unrecovered as at 30<sup>th</sup> June, 2008. It was also observed that some members of staff appearing on the debtors list had left the Council and it was unlikely that the amounts would be recovered from them.

**e) Accounts Payables Not Supported by Documentation: K435,207.00**

An examination of accounts payable records disclosed that accounts payable balances totaling K435,207.00 reflected in the financial statements as at 30<sup>th</sup> June, 2008 had no supporting documentation. Consequently, it was difficult for the inspecting auditors to verify the validity of the amounts. Most of the figures were brought forward from the previous years and had been static for four years without any movement.

**f) Payment Vouchers Not Authorized or Countersigned : K 474,938.21**

Paragraph 4.6.5 of the Financial Management and Accounting Procedures for District Councils require that payment vouchers must be dully signed and authorized before payment is made.

It was observed that payment vouchers amounting to MK 474,938.21 raised between June, 2006 and July, 2008 were passed for payment without the signatures of authorizing and countersigning officers as required by the financial regulations. In the circumstances, the propriety of the expenditures could not be ascertained.

## **MANGOCHI DISTRICT COUNCIL**

44. An audit of financial statements for Mangochi District Council for the financial years ending 30<sup>th</sup> June, 2006, 2007, and 2008 was completed in May, 2010. The audit disclosed some weaknesses in financial control as shown below:

**a) Payment Vouchers not Produced For Audit: K1,039,191.60**

The Public Audit Act empowers the Auditor General to have access to all books and records relating to accounts of all public offices for examination.

An examination of payment transactions disclosed that some payment vouchers amounting to K1, 039,191.60 were not produced for audit inspection.



Below are the details:

<u>Cheque</u>	<u>Payee</u>	<u>Amount</u>
2432	-	48,000.00
2588	J.R.Kamwaza	404,760.00
2590	E.Gonani	241,024.10
2606	Government Printer	56,987.50
2625	Malawi Telecommunications Limited	49,059.00
2630	Electronic Communication	110,000.00
2850	J.R.Kamwaza	129,361.00
	<b>Total</b>	<b>1,039,191.60</b>

**b) Allowances Not Signed For : K2,705,620.00**

Treasury Instructions require that cash payments must be signed for by the recipients. An examination of subsistence allowances and leave grant payments disclosed that receipted vouchers for subsistence allowances and leave grants amounting to K2,705,620.00 were not signed by the recipients. For details, see shown below:

<u>Cheque NO</u>	<u>Payee</u>	<u>Amount</u>
112	A.W.Valiera	180,200.00
139	C.J.Wasili	406,300.00
150	C.J.Wasili	346,800.00
190	J.Chikhwaya	326,400.00
209	J.Chikhwaya	72,220.00
212	J.Chikhwaya	375,700.00
221	J.Chikhwaya	287,700.00
640	A.W.Valiera	630,700.00
2027	D.Abdullah	79,600.00
	<b>Total</b>	<b>2,705,620.00</b>

**c) Payment Vouchers Without Supporting Documents : K1,418,314.00**

Treasury Instructions require, among other things that all vouchers must be complete in themselves with all relevant supporting documents attached to afford independent checks.

It was observed that payment vouchers amounting to K1,418,314.00 were passed for payment without attaching supporting documents to substantiate the expenditure.

Below are the details:

<u>Cheque Number</u>	<u>Payee</u>	<u>Amount</u>	
<b>Central Office (ORT)</b>			
	Other Recurrent Cost (ORT) Transfer to District Development Fund		
934		100,000.00	
1134	Lake Road Filling Station	35,740.00	
	Other Recurrent Cost (ORT) Transfer to District Development Fund		
1176		100,000.00	
1178	Carpet and Household Centre	92,000.00	
1179	Electronic Communications Systems	75,000.00	
929	M.S.Matenje (Petty Cash)	5,000.00	
938	Mulli Alli (Petty Cash)	5,000.00	
2531	Government Print	51,700.00	
2795	J.R.Kamwaza	19,050.00	
2783	Lake Road Filling Station	24,120.00	
2824	Lake Road Filling Station	30,000.00	
	<b>Total</b>	<b>537,610.00</b>	
<b>Education Sector</b>			
640	A.W.Valiera	630,700.00	
2756	I.M.Kalawa	150,000.00	
503	J.Chikhwaya	100,000.00	
	<b>Total</b>	<b>880,700.00</b>	
	<b>Grand Total</b>	<b>1,418,310.00</b>	

**d) Irregular Sourcing of Quotations: K 2,459,152.13**

The Public Procurement Act requires government procurement agencies to source at least three (3) competitive quotations before purchases are made to obtain maximum value for money.

An examination of payment vouchers disclosed that the Mangochi District Council Health Sector used to obtain quotations from one suppliers for repairs of motor vehicles. As a result a sum of K 2,459,152.13 in respect of motor vehicle repairs was paid to Mr R T Saiti. There was no evidence to show that there was only one motor vehicle dealer in the district.

Details are shown below:-

<u>ChequeNumber</u>	<u>Payee</u>	<u>Amount</u>	
895	R.T.Saiti	228,274.00	
914	R.T.Saiti	480,266.23	
924	R.T.Saiti	263,772.00	
940	R.T.Saiti	156,303.00	
943	R.T.Saiti	265,661.26	
980	R.T.Saiti	263,072.03	
999	R.T.Saiti	801,803.61	
		<b>2,459,152.13</b>	

## **MBELWA DISTRICT COUNCIL**

45. An audit of financial and stores records of Mbelwa District Council for the year 2006/2007 and 2007/2008 was completed in May, 2010. The audit disclosed some weaknesses in financial control, as highlighted below:-

**a) Payment Vouchers Not Presented For Audit Inspection K13,397,106.87**

The Public Audit Act of 2003 requires the production of records for audit inspection by the auditees.

The Council did not produce payment vouchers amounting to K13, 397, 106.87 raised between July, 2006 and June 2007 for audit inspection. Consequently the propriety of the expenditure could not be ascertained

**b) Purchases Not Supported By Adequate Quotations : K10,079,538.00**

An examination of payment vouchers in respect of purchases made during 2006/07 and 2007/08 financial years disclosed that some purchases valued at K10,079,538.86 were made either without quotation or using a single quotation contrary to the requirements of Public Procurement Act.

**c) Payment Vouchers Without Supporting Documents: K 37,815,343.65**

Local Councils Government Financial Management Procedure Manual require all payments to be substantiated by genuine supporting documents.

An examination of payment vouchers revealed that between July 2006 and June 2008 payment vouchers amounting to K37,815,343.65 were passed for payment without supporting documents. It was therefore difficult for the inspecting auditors to ascertain the validity of payments made.

The breakdown of the amount is as follows:-

<b>FINANCIAL YEAR</b>	<b>AMOUNT MK</b>
2006/2007	20,155,454.41
2007/2008	<u>17,659,884.24</u>
<b>Total</b>	<b><u>37,815,343.65</u></b>

## **MULANJE DISTRICT COUNCIL**

46. An audit inspection of the financial and stores records of Mulanje District Council for the period 2006, 2007 and 2008 was completed in May ,2010. The audit disclosed the following weakness.

**a) Short Term Investments Without Supporting Documents –MK116,671.00**

An examination of documents relating to short term investments revealed that short-term investment amounting to MK116, 671.00 shown in the Council's financial statements for financial years ending 30<sup>th</sup> June 2006, 2007 and 2008 were not supported by documents.

It was observed that the amount had been static since 2000/2001 financial year. Consequently, it was difficult to ascertain the validity, existence and valuation of the short-term investments in the financial statements.

**b) Sundry Receivables and Overdrawn Deposits Without Supporting Documents: MK86,983.00**

It was noted that sundry account receivables and overdrawn deposits amounting to MK47, 814.00 and MK39, 169.00 respectively, as reflected in the Council's financial statements were not supported by relevant documentation. Further examination revealed that these balances were brought forward from 2000/01 financial year. In absence of supporting documents, the validity and accuracy of sundry account balances and the overdrawn deposits could not be ascertained.

**c) Long outstanding staff loans/advances-MK74,984**

A review of the staff loans/advances listing revealed that staff loans balances amounting to K74,984.00 has been outstanding since 2005. There is a risk that the advances may not be recovered due to lapse of time.

Below are the details:

<u>Staff</u>	<u>Amount</u> <u>MK</u>
Twabi	45, 817.00
Kaipya	19, 000.00
Kuyesa	10, 167.00
	<b>74, 984.00</b>

**d) Failure to Include Bank Accounts Balances In The Financial Statements**

It was observed some bank accounts balances held at National Bank of Malawi were not included in the financial statements resulting in the understated of bank balances in the financial statements.

Below are the details

<i>Account number</i>	<i>2008</i> <i>Amount(MK)</i>	<i>2007</i> <i>Amount(MK)</i>	<i>2006</i> <i>Amount(MK)</i>
0141575011700	3,461,833.00	2,641,588.00	846,783.00
0141175036800	-	32,206.00	129,098.00
0141175651700	28,700.00	53,900.00	76,700.00
0141575501301	1,297,878.00	599,696.00	82,956.00
0141117559400	-	146,079.00	-

**e) Overdrawn Savings Without Supporting Documents : MK 586, 284.00**

An examination of financial transaction disclosed that overdrawn savings bank account balance of MK586, 284.00 reflected in the financial statements had no supporting documents. It was therefore difficult to ascertain the validity of the overdrawn bank balance.

**f) Unrecorded Third Party Funds : MK 7,327,726.00**

An examination of documents pertaining to third party funds disclosed that between July 2005 and June 2008, deceased estate funds amounting to MK7,327,726.00 were not recorded in the Council's books of accounts resulting in the understatement of liabilities figure in the financial Statements.

Below is the breakdown of the amount:

Financial Year	Amount (MK)
2005/06	1, 642,767.00
2006/07	3, 865,039.00
2007/08	<u>1, 819, 920.00</u>
	<b><u>7, 327,726.00</u></b>

**g) Payments Without Supporting Documents**

A test check of payment transactions from Sectors disclosed that some payment vouchers were not supported by invoices or cash receipts. It was therefore difficult for the inspecting auditors to ascertain the propriety of the expenditure in absence of supporting documents.

For details see below:

Sector	Payee	Cheque No.	Date	Amount (MK)
Agriculture	Total(MW)Ltd	453	13.12.2006	226,000.00
	Total(MW)Ltd	432	16.11.2006	226,000.00
	BP(MW)Ltd	395	11.10.2006	114,000.00
Health	Total(MW)Ltd	447	20.01.2006	490,000.00
	Total(MW)Ltd	568	21.03.2006	560,000.00
DC Secretariat	V Katunga	100	23.01.2006	252,616.00
	V Katunga	1300	30.07.2007	660,319.28
	G Dauka	1505	13.02.2007	132,579.50
	Malamulo Publishing House	1591	10.06.2008	78,290.28

**h) Payment Vouchers Not Produced for Audit Review**

Payment vouchers relating to payments listed below were not made available for audit review. Consequently, the propriety of the expenditure could not be ascertained.

Sector	Payee	Cheque No.	Date	Amount (MK)
Education	Total (MW)Ltd	0781	17.04.2008	108,000.00
	Ken Steel Engineering	0782	24.04.2008	55,000.00
DC Secretariat	V.Katunga	2280	12.02.2008	100,000.00
	Total (MW)Ltd	2472	17.06.2008	260,000.00
	G. Dauka	1306	16.08.2007	798,896.06

**i) Single Sourcing of Quotations**

The Public Procurement Act among other things requires that at least three competitive quotations must be sourced from the suppliers of goods and services so as to obtain

maximum value for money before procurement of goods and services is effected. It was however observed that contrary to the provisions of the above Act, the Council was procuring some goods and services without obtaining at least three quotations as detailed below:-

Sector	Payee	Cheque. No.	Date	Amount (MK)
Health	UNICHEM	1334	08.01.2007	694,280.00
	Phiri General Dealers	1554	13.03.2007	159,800.00
	A&B General Dealers	854	30.06.2006	178,300.00
Agriculture	Standard Holding Co.	2062	13.03.2008	12,925.00
	Top Range Motors	105	29.11.2005	75,052.40
DC Secretariat	Steel and Spares Suppliers	180	26.04.2006	126,312.50
	Summyz Motor Centre	246	26.06.2006	74,000.00

## NKHATABAY DISTRICT COUNCIL

47. An audit of financial statements of Nkhata-Bay District Council for the financial years ending 30<sup>th</sup> June, 2007 and 2008 was completed in May, 2010. The audit disclosed some weaknesses in financial control as shown below.

### a) Differences Between Balances In The Financial Statements and Trial Balance: K9, 314,609.00

Local Authorities Accounting and Financial Procedures Management Procedures Manual require transactions to be posted into individual ledger accounts from which a trial balances should be produced.

An examination of the general ledger disclosed differences between the trial balance and financial statements figures totaling K9,314,609.00 as analysed below:

<u>Details</u>	<u>Trial Balance</u>	<u>Financial Statement</u>	<u>Difference</u>
	MK	MK	MK
Non-current assets	-	7,873,812	7,873,712
Payables	<u>236,212</u>	<u>1,677,009</u>	<u>1,440,797</u>
	<u>236,212</u>	<u>9,550,821</u>	<u>9,314,609</u>

### b) Failure to Remit Tax Collected To Malawi Revenue Authority : K2,025,366.79

Taxation Act Cap 41.01 requires all institutions that collect taxes to remit the taxes to the Malawi Revenue Authority within fourteen days of collection.

An examination of payrolls and payment vouchers revealed that Nkhatabay District Council collected taxes in respect of Pay As You Earn and Withholding Taxes between July 2006 and June 2008 amounting to K1, 484,686.81 but were not remitted to the Malawi Revenue Authority. Consequently the unremitted taxes attracted a penalty of K540, 679.98.

The Council also did not disclose this tax liability in the Financial Statements for the two financial years ending 30<sup>th</sup> June 2007 and 2008. This therefore means that the liabilities figure was understated.

**c) Payment Vouchers Not Countersigned : K15,468,804.00**

Treasury Instructions stipulates among other things that payment vouchers must be countersigned by senior officers before effecting payment to enhance internal controls.

An examination of payment transactions for the year ended 30<sup>th</sup> June, 2007 disclosed that payments vouchers amounting to K15,468,804.00 were passed for payment without being countersigned by the senior officers.

Details are as follows:-

PV NO	DATE	PAYEE	AMOUNT
2144	9/2/2007	Regional Medical Stores	2,347,390.00
2309	9/3/2007	BP Malawi	1,287,000.00
2324	9/3/2007	Steel Hardware	354,480.00
2618	3/5/2007	Regional Medical Stores	2,938,982.00
2629	3/5/2007	Regional Medical Stores	1,712,031.00
2736	1/6/2007	Steel Hardware	607,550.00
2771	28/06/2007	D.G. Automobile	615,739.00
2804	30/06/2007	Regional Medical Stores	4,318,632.00
<b>Total</b>			<b>15,468,804.00</b>

**RUMPHI DISTRICT COUNCIL**

48. An audit inspection of the financial and stores records of Rumph District Council for 2006/07 and 2007/08 financial years was completed in May, 2010. The audit revealed weaknesses in financial control as follows.

**a) Revenue Spent at Source**

The Financial Management and Procedures for Councils require that all payments should be made by cheques except for petty cash payments. Further, Treasury Instructions require that revenue collected should be banked intact.

It was however, observed during the audit that some revenue amounting to K 28,300.00 collected by the Council between October, 2007 and January, 2008 was not banked, instead it was used at source.

**b) Payment Vouchers Not Produced For Examination**

The Public Audit Act empowers the Auditor General to have access to all books of accounts and records relating to accounts of all public offices for examination.

An examination of payment vouchers for the year ended 30<sup>th</sup> June, 2008 disclosed that payment vouchers amounting to K8,898,653.98 were not presented for audit review. Consequently, the propriety of the expenditure could not be ascertained.

For details see below

DATE	PV. No.	PAYEE	AMOUNT (MK)
20/07/07	003	Bio Clinic Partners	267,500.00
21/10/07	297	Medical Stores	381,916.95
21/11/07	430	Rab Enterprises	188,000.00
21/02/08	786	Regional Medical Stores	988,664.25
10/06/08	1214	Regional Medical Stores	3,524,155.41
24/10/07	241	Nu-united Agencies	250,018.00
02/01/08	590	C T Trading	246,844.00
02/01/08	591	C T Trading	329,170.37
30/06/08	1255	H F I Electronics	379,000.00
04/06/08	1157	L. A. Enterprises	253,240.00
23/10/08	320	Sted and Hardware	258,500.00
19/12/07	526	Mawelera Enterprise	1,200,000.00
04/06/08	144	NU- United Agencies	<u>631,645.00</u>
			<b>8,898,653.98</b>

#### THYOLO DISTRICT COUNCIL

49. An audit inspection of the financial records of Thyolo District Council for the financial years ending 30<sup>th</sup> June 2006/07 and 2007/08 was completed in May, 2010. The audit disclosed weaknesses in financial controls as follows.

**a) Failure to Account for Petty Cash Balances: K 2,960,330.00**

An examination of financial statements for the financial years ending 30<sup>th</sup> June 2007 and 2008 showed petty cash balances of K3,068,163 and K2,960,330 respectively. However these balances were not physically available and there were no records to show how the cash was utilized.

**b) Payment Vouchers Without Supporting Documents: K20,438,321.00**

Local Councils Financial Management Procedures as read with Treasury Instructions require payment vouchers to have supporting documents in order to afford independent checks.

An examination of payment vouchers for the period July 2006 to June, 2008 disclosed that payments amounting to K8,638,496.00 and K11,799,825.00 respectively, for various sectors were processed and passed for payment without supporting documents. The validity of the payments could therefore not be ascertained in the absence of the supporting documents.

See the details below:-

<u>SECTOR</u>	<u>PERIOD</u>	<u>AMOUNT( MK)</u>
Health	2006/2007	5,367,336.00
Education	"	112,800.00



ORT Main Accounts	“	931,847.00
Operation Accounts	“	697,208.00
<b>Total</b>		<b><u>7,109,191.00</u></b>
Health	2007/2008	8,638,496.00
District Development Fund		3,029,866.00
Education Payment		131,463.00
Review (MPLS)		
<b>Total</b>		<b><u>11,799,825.00</u></b>

**c) Deceased Estates Payments Without Proof of Payment: K24,404,389.00**

Local Councils Financial Management Procedures require payees to sign for money received as proof of payment.

An examination of payment vouchers in respect of deceased estate funds disclosed that payments amounting to K24,404,389.00 made between July 2006 and June 2008 were made without payees signing for the money.

The breakdown of the amount is as follows:-

<u>PERIOD</u>	<u>AMOUNT</u>
2006/2007	10,688,377
2007/2008	13,716,012

**d) Third Party Deposits Without Supporting Schedules**

An examination of the third party records for the year 2006/2007 and 2007/2008 disclosed that some third party deposits had no supporting schedules. In the absence of the deposit schedules the auditors could not ascertain the validity of the third party deposits figures presented for audit inspection. Total third party deposits for the two years are as follows:-

<u>YEAR</u>	<u>AMOUNT</u>
2006/2007	10,954,778
2007/2008	10,257,233

**e) Development Fund Figures Without Supporting Schedules**

An examination of records pertaining to the Development Fund for the year 2006/2007 and 2007/2008 disclosed that figures of 102,196,276.00 and 173,880,894.00 appearing in the financial statements for 2006/07 and 2007/08 respectively had no supporting schedules and documents. Consequently the auditors could not ascertain the validity of the figures in the financial statements.

**DOWA DISTRICT COUNCIL**

50. An audit inspection of financial and stores records of Dowa District Council for the financial years ending 30<sup>th</sup> June, 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payment Vouchers Without Supporting Documents: K37,353,013.81**

Treasury Instructions require that all payment vouchers must be supported by original documents such as invoices and cash sales and these must be firmly attached to the vouchers.

An examination of payment vouchers revealed that a total of K37,353.013.81 was paid during 2006/07 and 2007/08 financial years without supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

**b) Payments Made to Employees on Behalf of Suppliers and Not Accounted For: K 97,445.00**

An examination of payment vouchers revealed that management were paying employees for the supply of goods or services on behalf of suppliers. A total of K97,445.00 was paid to employees during 2006/07 and 2007/08 financial years but there was no evidence to show that the cash was delivered to the suppliers.

**MACHINGA DISTRICT COUNCIL**

51. An audit inspection of financial and stores records of Machinga District Council for the financial years ending 30<sup>th</sup> June 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payment Vouchers Without Supporting Documents: K32,262,566.94**

Treasury Instructions require that all payment vouchers must be supported by original documents such as invoices and cash sales which must be firmly attached to the vouchers.

An examination of payment vouchers for Health Sector revealed that a total of K32,262,566.94 was paid without supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

**NTCHEU DISTRICT COUNCIL**

52. An audit inspection of financial and stores records of Ntcheu District Council for the financial year ending 30<sup>th</sup> June 2006, 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payment Vouchers not Produced for Audit Review: K3,791,967.00**

An examination of payment transactions revealed that some payment vouchers amounting to K3,791,967.00 raised between July 2005 and June 2008 were not produced for audit. Consequently, the inspecting auditors were unable to ascertain the propriety of the expenditure in absence of the payment vouchers

## **BALAKA DISTRICT COUNCIL**

53. An audit inspection of financial and stores records of Balaka District Council for the financial years ending 30<sup>th</sup> June 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payment Vouchers Without Supporting Documents: K11,191,017.88**

Treasury Instructions require that all payment vouchers must be supported by original documents such as invoices and cash sales which must be firmly attached to the vouchers.

An examination of payment vouchers for Health Sector revealed that a total of K11,191,017.88 was paid without supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

**b) Allowances Not Signed For By Recipients: K 5,909,965.00**

Treasury Instructions stipulate that payments made should be signed for by recipients. An examination of the payment vouchers in respect of allowances revealed that some payees did not sign for the allowances received.

Details are shown below:

<i>PERIOD</i>	<i>SECTOR</i>	<i>AMOUNT (K)</i>
2006/07	Health	1,561,580.00
2007/08	Agriculture	395,400.00
2007/08	Health	3,842,325.00
<b>TOTAL</b>		<b>5,909,965.00</b>

**c) Rent Not Collected: K165,725.00**

The council has a property which is to let out to the general public. An examination of rent collection records revealed that out of K335,100.00 expected rental income only K167,700.00 was recorded to have been received leaving a balance of K165,725.00 uncollected. No explanation was given why the balance was not collected.

**d) Business Licence Fees Not Accounted For: K397,263.00**

An examination of business licence register revealed that a sum of K397,263.00 in respect of business licences was not accounted for. Management failed to provide satisfactory explanation on the fees not accounted for.

54. **DEDZA DISTRICT COUNCIL**

An audit inspection of financial and stores records of Dedza District Council for the financial years ending 30<sup>th</sup> June 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payment Vouchers Not Produced For Audit : K149,519,283.77**

An examination of payment vouchers revealed that some payment vouchers totaling K149,519,283.77 were not produced for audit.

It was therefore difficult to ascertain the propriety of the expenditure in absence of the vouchers and relevant supporting documents.

**b) Revenue Collected Not Accounted For :K4,523,352.89**

Treasury Instructions stipulate that revenue collected should be properly accounted for and banked intact.

An examination of banking records disclosed that revenue totaling K4,523,352.89 collected during the year ended 30<sup>th</sup> June 2007 was not banked. The amount was recorded in the cash book but did not appear on the bank statement.

**MCHINJI DISTRICT COUNCIL**

55. An audit inspection of financial and stores records of Mchinji District Council for the financial years ending 30<sup>th</sup> June 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payment Voucher Supporting Documents: K3,381,370.94**

Treasury Instructions require that all payment vouchers must be supported by original documents such as invoices and cash sales which must be firmly attached to the vouchers.

An examination of payment transactions revealed that payment vouchers amounting to K3,381,370.94 were passed for payment without supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

**b) Fuel Purchases Not Accounted For: K5,454,000.00**

An examination of payment vouchers in respect of fuel purchases for the period July 2006 and June 2008 revealed that fuel purchases valued at K5,454,000.00 were not supported with delivery notes and receipts. There were no documents to substantiate how the fuel was accounted for

Below are the details:

Sector	Number of Payments	Total
Agriculture	9	K1,954,000.00
Health	7	<u>K3,500,000.00</u>
<b>Total</b>		<b>K5,454,000.00</b>

## LILONGWE DISTRICT COUNCIL

56. An audit inspection of financial and stores records of Lilongwe District Council for the financial years ending 30<sup>th</sup> June 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

### a) Non Remittance of PAYE Tax To Malawi Revenue Authority : K440,719.00

Taxation Act requires all taxes collected to be remitted to Malawi Revenue Authority (MRA) within fourteen days of collection.

An examination of payroll records revealed that Pay As You Earn tax amounting to K440,719.00 deducted from salaries between July 2006 and June 2008 was not remitted to Malawi Revenue Authority as required. No satisfactory explanation was given for failure to remit the tax deducted from salaries.

### b) Local Revenue Collected From Market Fees Not Banked: K96,240.00

Treasury Instructions provide that all revenue collected should be banked intact and promptly.

An examination of general receipts and banking records revealed that out of K1,284,920.00 cash collected between July and October 2007 only K1,188,680.00 was banked leaving a balance of K96,240.00 which was not banked and could not be accounted for.

## NKHOTAKOTA DISTRICT COUNCIL

57. An audit inspection of financial and stores records of Nkhonakota District Council for the financial year ending 30<sup>th</sup> June 2006, 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

### a) Outstanding Accounts Receivables Not Listed : K414,588.19

A verification of accounts receivables records disclosed that the Council did not maintain individual sundry and staff receivables records. Enquiries from management revealed that the listing was not available and that some receivables were carried forward from the previous financial years. As at 30<sup>th</sup> June, 2008, the financial statement reflected a figure of K414,588.19 as sundry receivables but was not supported by any listing.

Below are the details:-

<u>DESCRIPTION</u>	<u>BALANCE AS AT</u> <u>31<sup>st</sup> JULY,2005</u>	<u>BALANCE AS AT</u> <u>30<sup>th</sup> JUNE,2008</u>
	<u>MK</u>	<u>MK</u>
Staff loans and advances	230,322.56	332,901.19
Sundry debtors	15,494.00	15,494.00
Overdrawn deposits (Third party funds)	66,193.45	<u>66,193.00</u>
<b>TOTAL</b>		<b><u>K414,588.19</u></b>

**b) Payment Vouchers Not Produced For Audit: K4,774,233.38**

An examination of payment transactions revealed that some payment vouchers amounting to K4,774,233.38 were not produced for audit. It was therefore difficult for the inspecting auditors to ascertain the propriety of the expenditure in the absence of payment vouchers.

**KASUNGU DISTRICT COUNCIL**

58. An audit inspection of financial and stores records of Kasungu District Council for the financial years ending 30<sup>th</sup> June, 2006, 2007 and 2008 was completed in May, 2010. The audit review disclosed the following weaknesses in financial control:-

**a) Payments Made Without Supporting Documents: K554,325.00**

Treasury Instructions require that all payment vouchers must be supported by original documents such as invoices and cash sales and these must be firmly attached to the vouchers.

An examination of payment vouchers revealed that a total of K554,325.00 was paid between July 2007 and May 2008 without supporting documents. Consequently, the propriety of the expenditure could not be ascertained.

**BLANTYRE DISTRICT COUNCIL**

59. An audit inspection of the financial and stores a record of Blantyre District Council was completed in May, 2010. The audit disclosed weaknesses in financial controls as follows:

**a) Payment Vouchers Without Supporting Documentation – K12,387,441.00**

Treasury Instructions require all payment vouchers to be supported by relevant documentation in order to afford independent checks.

An examination of the payments made during the period from July 2006 to June 2007 disclosed that payment vouchers amounting to K12,387,441.00 had insufficient or no supporting documents as detailed below:-

<b>SECTOR</b>	<b>AMOUNT(MK)</b>
Health Sector	3,347,073.00
Agriculture Sector	167,303.00
Education Sectors	86, 000.00
ORT Main Account	<u>8, 787,065.00</u>
	<b><u>12,387,441.00</u></b>

**b) Allowances Not Signed For – K8,059,563.00**

An examination of payment vouchers in respect of allowances disclosed that a sum of K8,059,563.00 was paid out as allowances without obtaining signatures from the recipients. Consequently it was difficult to ascertain whether the allowances were indeed paid to the rightful payees.

Below are the details:

Sector	Amount(MK)
Health	7,904,753.00
Agriculture	<u>154,810.00</u>
	<b><u>K8,059,563.00</u></b>

#### **CHIRADZULU DISTRICT COUNCIL**

60. An audit inspection of the financial and stores records of the Chiradzulu District Council was completed in May, 2010. The audit review disclosed the following irregularities:-

**a) Payment Vouchers Without Supporting Documents – K1,900,836.00**

Treasury Instructions require all payment vouchers to be supported by relevant documentation.

An examination of the payments made during 2006/2007 financial year disclosed that payment vouchers amounting to K1,900,836.00 had insufficient or no supporting documents at all.

**b) Donor Fund Expenses Without Supporting Documents – K8,641,288.00**

An examination of the payments in respect of donor funds for 2006/07 the financial year disclosed that payment vouchers amounting to K8,641,288.00 had insufficient or no supporting documents at all.

Below are the details:

Project	Amount (MK)
NAC	1,764,700.00
UNICEF	5,717,188.00
GTZ OXFAM & ASSEMBLY OWN CONTRIBUTIONS	<u>1,159,400.00</u>
	<b><u>8,641,288.00</u></b>

#### **CHIKHWAWA DISTRICT COUNCIL**

61. An audit inspection of the financial and stores records of the Chikhwawa District Council was completed in May, 2010. The audit review disclosed the following irregularities:-

**a) Payment Vouchers Not Produced For Examination- K45,266,598.61**

Treasury Instructions require all payment vouchers to be properly kept to afford independent checks.

An examination of expenditure records for the period July 2006 to June 2008 disclosed that payment vouchers amounting to K45,266,598.61 were missing and could therefore not be produced for audit review. It was therefore difficult for the inspecting auditors to ascertain the propriety of the expenditure in absence of the vouchers.

Breakdown of the amount is as follows:-

	MK
Year ended 2007	44,268,772.76
Year ended 2008	<u>997,825.85</u>
	<b>45,266,598.61</b>

#### **MWANZA DISTRICT COUNCIL**

62. An audit inspection of the financial records of Mwanza District was completed in May, 2010. The audit review disclosed weaknesses in financial controls as follows.

**a) Payment Vouchers Without Supporting Documents : K600,000.00**

Treasury instructions require that all payments must be supported with relevant documents such as invoices to substantiate the payment transactions.

An examination of payment transactions revealed that payment vouchers amounting to K600,000.00 were passed for payment between 24<sup>th</sup> September 2007 and 30<sup>th</sup> April 2008 without supporting documents. In the absence of the supporting documents, it was difficult for the inspecting auditors to ascertain whether the expenditure was a proper charge to public funds.

For details, see below:-

Date	Payee	Cheque	Amount (MK)
24.09.07	SRWB	049230	400,000.00
30.04.08	SRWB	049788	<u>200,000.00</u>
			<b><u>600,000.00</u></b>

#### **NENO DISTRICT COUNCIL**

63. An audit inspection of the financial and stores records of Neno District Council was completed in May, 2010. The audit review disclosed the following irregularities:-

**a) Payment Vouchers Without Supporting Documents: K363,907.00**

An examination of the payments made during the period October 2006 to April 2008 disclosed that payment vouchers amounting to K363,907.00 had insufficient or no supporting documents.

**b) Payment Vouchers Not Produced For Audit Examination: K948,880.00**

An examination of expenditure records for the period from October 2007 to June 2008 revealed that payment vouchers amounting to K948, 880.00 were not produced for audit review making it difficult for auditors to verify the propriety of the payment transactions.

#### **NSANJE DISTRICT COUNCIL**

64. An audit inspection of the financial and stores records of Nsanje District Council was completed in May, 2010. The audit review disclosed, the following irregularities:-



**a) Payment Vouchers Without Supporting Documents – K59,701,767.00**

Treasury Instructions require all payment vouchers to be supported by relevant documentation and properly kept to afford independent checks.

An examination of the payment vouchers made during the period from July 2006 to June 2008 disclosed that payment vouchers amounting to K59,701,767.00 had no supporting documents. Consequently the inspecting auditors were unable to ascertain the validity of the transactions in absence of the supporting documents.

Breakdown of the amount is as follows:-

	<b>MK</b>
DDF and Rural Livelihood	4,478,098.00
Main Account	1,872,580.00
Health ORT Account	52,569,559.00
General Resources Fund	<u>781,530.00</u>
	<b><u>59,701,767.00</u></b>

**b) Chiefs Payroll Not Produced For Examination –K5,000,000.00**

Treasury Instructions require that all accounting records must be properly maintained and kept for audit purposes.

An examination of payroll records disclosed that payrolls for chiefs salaries for financial years ending 30<sup>th</sup> June 2007 and 2008 amounting to **K2,800,000.00** and **K2,200,000.00** respectively were not produced for audit review making it difficult for the inspecting auditors to ascertain the propriety of the expenditure.

**PHALOMBE DISTRICT COUNCIL**

65. An audit inspection of financial and stores records of Phalombe District Council was completed in May, 2010. The audit review disclosed the following irregularities:-

**a) Payment Vouchers Not Produced For Examination: K6,638,007.00**

Treasury Instructions require that all security and accounting documents should be properly kept to afford independent checks.

An examination of expenditure records disclosed that payment vouchers amounting to K6,638,007.00 raised between April and June 2007 were not produced for audit examination. It was therefore difficult for the inspecting auditors to ascertain the validity of the payments in absence of the payment vouchers.

See details below.

<u>Sector</u>	<u>Amount (MK)</u>
Main Account ORT	2,878,944.00
Health Sector	<u>4,259,063.00</u>
	<b><u>6,638,007.00</u></b>

**b) NAC Cashbooks Not Produced For Audit Examination : K3,235,948.00**

An examination of accounting records disclosed that payments amounting to K3,235,948.00 in respect of National Aids Commission Project could not be verified because there was no cashbook. It was therefore difficult for the inspecting auditors to ascertain the validity of the expenditure in the absence of the cashbook.

**c) Missing General Receipt Book: K11,227,988.04**

Treasury Instructions stipulate that revenue collected should be accounted for through issuance of general receipts which should be properly kept for audit review.

An examination of revenue collection transactions and banking records disclosed that general receipt book on which revenue amounting to K11,227,988.04 was collected could not be produced for audit examination.

**d) Missing Trustee Account Passbook: K96,000.00**

An examination of deceased estate records disclosed that Trustee Account Passbook number 49 opened on 25<sup>th</sup> June 2008 with an amount of K96,000.00 in respect of Justice Baula was not produced for audit review as it was reported missing. It was therefore difficult for the inspecting auditors to verify if the amount in question was really available at the bank.

**SALIMA DISTRICT COUNCIL**

66. An audit inspection of the financial and stores records of Salima District Council was completed in May , 2010. The audit disclosed the following irregularities:-

**a) Failure to Attach Signed Copies of Receipted Payment Vouchers : K11,021,568**

Treasury Instructions stipulates that all receipted payments vouchers should be duly signed for by the payees to afford independent checks.

An examination of the receipted payment vouchers for the period from July 2006 to June 2007 disclosed that a sum of K11,021,568 paid as allowances to members of staff had no signatures of recipients. The inspecting auditors were therefore unable to verify whether the allowances were really paid to the officers concerned.

**b) Missing Payment Vouchers : K23,794,687.29**

Financial Management and Accounting Procedure Manual for Councils require all accounting records and documents to be properly kept in a safe lockable place till an audit is carried out.

An examination of accounting records including expenditure cashbook revealed that payment vouchers amounting to K23,794,687.29 for the period July 2006 to June 2008 were missing. It was therefore difficult for the inspecting auditors to ascertain the validity of the transactions.

## CONSTITUENCY DEVELOPMENT FUND

67. An examination of records in respect of Constituency Development Fund maintained by the Councils disclosed that the systems of internal checks and control were weak in almost all the Councils. It was observed that although Government provided guidelines to assist the Councils in the management and operation of the Fund, there was no evidence to show that management and staff, Members of Parliament and other stakeholders were sensitized on the guidelines. Consequently, most projects in the Councils were implemented without following proper procedures. In the event the following irregularities were noted:-

### a) Funds Not Accounted For

Six (6) Councils namely, Salima, Chiradzulu, Chikhwawa, Neno Ntcheu and Mzuzu did not provide documentation to substantiate how funds amounting to **K12, 157,979.52** were accounted for. In certain cases closing balances from the previous period were not carried forward to the following year as detailed below:

COUNCIL	AMOUNT(MK)	REMARKS
Salima District	9,108,129.17	Closing balances from previous years not carried forward
Chiradzulu District	940,948.05	Closing balances from previous years not carried forward
Chikhwawa District	841,481.66	Misappropriated
Neno District	907,215.69	Closing balances from previous years not carried forward
Ntcheu District	360,205.00	No supporting documents
Mzuzu City	<u>364,911.78</u>	No supporting documents
	<b>12,522,891.35</b>	

### b) Use Of Funds For Unrelated Activities

In ten (10) Councils, the audit review disclosed that a sum of **K26, 520,463.14** was utilized on transactions which were not related to Constituency Development Fund projects.

Details of the payments are as follows:

COUNCIL	AMOUNT(MK)	REMARKS
Mbelwa District	5,517,244.78	Used on ORT activities
Kasungu District	6,123,826.68	Used on ORT activities
Nkhotakota District	3,867,159.54	Used on ORT activities
Chitipa District	301,085.00	Used on ORT activities
Karonga District	2,631,466.72	Used on ORT activities
Rumphi District	4,870,807.62	Allowances, Advances & Fuel
Thyolo District	69,806.80	Used on OVOP Project
Mulanje District	1,515,565.00	Construction of Markets
Neno District	960,962.00	Transferred to and used on ORT
Mwanza District	<u>662,539.00</u>	Transferred to and used on ORT
<b>Total</b>	<b>26,520,463.14</b>	

### c) Failure To Account For Project Materials

In seven (7) Councils, project materials valued at **K8, 970,343.16** were not accounted for and the auditors could therefore not identify the projects that benefited from the materials.

Details are as follows:

<b>COUNCIL</b>	<b>AMOUNT (MK)</b>	<b>REMARKS</b>
Chiradzulu District	1,015,500.00	No records to show utilization
Nkhatabay District	782,445.16	Not delivered to the intended site
Rumphi District	753,970.00	Not delivered to the intended site
Mulanje District	246,870.00	Missed in the store room
Chikhwawa District	5,324,006.00	No records to show utilisation
Neno District	276,637.00	No records to show utilisation
Dedza District	<u>570,915.00</u>	No records to show utilisation
	<b>8,970,343.16</b>	

In Kasungu, Nkhotakota and Zomba Councils, building materials valued at **K786, 992.41** meant for CDF projects were diverted and used for the construction of a church and mosques, respectively as shown below:

<b>COUNCIL</b>	<b>AMOUNT (MK)</b>	<b>REMARKS</b>
Kasungu District	83,645.00	Iron Sheets for Roman Catholic Church
Nkhotakota District	261,888.41	Materials for construction of a mosque
Zomba City	<u>441,459.00</u>	Materials for Matiya Mosque
<b>Total</b>	<b>786,992.41</b>	

In Kasungu, Chiradzulu, Chikhwawa and Neno District Councils, materials worth **K 3,499,430.11** were bought for non existent projects as follows:

<b>COUNCIL</b>	<b>AMOUNT (MK)</b>	<b>REMARKS</b>
Kasungu District	215,159.75	Various construction materials
Chiradzulu District	2,191,735.36	Various construction materials
Chikhwawa District	257,065.00	Various construction materials
Neno District	<u>835,470.00</u>	Various construction materials
	<b>3,499,430.11</b>	

#### **d) Improper Charge to Constituency Development Fund**

In sixteen (16) Councils, a sum of **K20, 578,551.27** was used for payment of allowances to members of staff, purchase of fuel and other activities which were not related to CDF which is contrary to CDF guidelines.

Below are the details:-

<b>COUNCIL</b>	<b>AMOUNT (MK)</b>	<b>REMARKS</b>
Salima District	939,356.00	Air ticket and study costs
Mbelwa District	1,432,090.00	Allowances and fuel
Nkhotakota District	119,000.00	Allowances and transport fares
Chiradzulu District	583,378.25	Fuel and allowances to staff
Karonga District	772,777.00	Allowances and fuel
Mzuzu City	806,955.81	Sewing machines, broilers marsh, wages etc
Nkhata Bay District	727,680.00	Allowances, fuel and accomodation
Rumphi District	381,735.00	Allowances, fuel and funeral expenses
Thyolo District	933,265.00	Purchase of footballs and trophies
Mulanje District	2,134,575.00	Leave grants, allowances and bursaries
Chikhwawa District	307,674.44	Allowances and fuel
Neno District	2,563,880.00	Allowances and fuel
Mwanza District	955,340.00	Allowances and fuel

Dedza District	274,965.00	Allowances and fuel
Phalombe District	558,553.00	Allowances and fuel
Zomba District	5,675,308.33	Allowances, wages, fuel
Likoma District	1,104,344.00	Allowances and fuel and maintenance of boats
Nsanje District	307,674.44	Allowances and fuel
	<b>20,578,551.27</b>	

**e) Project Materials Not Recorded In The Stores Ledger**

In ten (10) Councils, purchases of project materials totaling **K94,912,522.41** were not recorded in the stores ledger. It was therefore difficult for the auditors to ascertain their accountability.

COUNCIL	AMOUNT	REMARKS
Chiradzulu District	23,586,906.61	Not recorded in the stores ledger
Chitipa District	3,042,090.00	Not recorded in the stores ledger
Likoma District	954,970.00	Not recorded in the stores ledger
Mzuzu City	1,018,606.00	Not recorded in the stores ledger
Mulanje District	17,347,995.60	Not recorded in the stores ledger
Neno District	2,760,305.00	Not recorded in the stores ledger
Mwanza District	3,018,959.20	Not recorded in the stores ledger
Blantyre City	4,042,421.00	Not recorded in the stores ledger
Dedza District	27,281,242.00	Not recorded in the stores ledger
Phalombe District	<u>11,859,027.00</u>	Not recorded in the stores ledger
Total	<b>94,912,522.41</b>	

**f) Purchases Without Obtaining At Least Three Quotations From Suppliers**

In fourteen (14) Councils, a sum of **K 71,799,438.87** was spent for the purchase of building materials and awarding of contracts without obtaining at least three quotations or following tender procedures as listed below:-

COUNCIL	AMOUNT (MK)	REMARKS
Salima District	1,868,581.00	No quotations
Mbelwa District	10,515,991.00	No quotations
Nkhotakota District	662,800.00	No quotations
Chiradzulu District	3,829,835.20	Only one quotation
Likoma District	1,104,344.00	No quotations
Rumphi District	9,867,558.00	No quotations
Thyolo District	2,796,474.27	Only one quotation
Mulanje District	6,818,227.00	No quotations
Neno District	6,790,976.00	No quotations
Blantyre District	4,231,712.50	No quotations
Blantyre City	830,705.00	No quotations
Dedza District	1,191,660.00	No quotations
Phalombe District	15,159,201.00	No quotations
Zomba City	4,111,105.00	No quotations
Zomba District	<u>2,020,268.90</u>	No quotations
Total	<b>71,799,438.87</b>	

**g) Projects Executed Without Identification Forms**

Chitipa and Salima District Councils implemented various projects at a total cost of **K27,158,601.53** without completing project identification forms as required by CDF Guidelines.

For details, see below:

COUNCIL	AMOUNT ( MK)	REMARKS
Salima District	15,502,198.53	Not supported by project identification Forms
Chitipa District	<u>11,656,403.00</u>	Not supported by project identification Forms
	<b>27,158,601.53</b>	

#### **h) Purchases Not Approved By The IPC**

In the six (6) Councils, building materials valued at **K106, 953,844.87** were purchased without the approval of the Internal Procurement Committees as required by Public Procurement Act.

Details are shown below:

COUNCIL	AMOUNT (MK)	REMARKS
Salima District	13,162,838.53	IPC minutes not available
Mbelwa District	8,976,721.00	IPC minutes not available
Karonga District	13,868,704.21	IPC minutes not available
Nkhata Bay District	1,814,280.00	IPC minutes not available
Mulanje District	28,113,104.13	IPC minutes not available
Phalombe District	<u>41,018,197.00</u>	IPC minutes not available
<b>Total</b>	<b>106,953,844.87</b>	

#### **i) Projects Implemented Without Management Committees**

In two (2) Councils, a sum of **K6, 348,329.00** was spent on projects which were implemented without involving project implementation committees contrary to CDF Guidelines.

Details are as shown below:

COUNCIL	AMOUNT (MK)	REMARKS
Nkhotakota District	849,650.00	Various projects done without Mgt Committees
Blantyre City	<u>5,498,479.00</u>	Various projects done without Mgt Committees
	<b>6,348,129.00</b>	

#### **j) Direct Involvement Of Members Of Parliament In The Procurement And Delivery Of Project Materials**

In the three (3) Councils , Members of Parliament were directly involved in the authorization, purchase, supply and delivery of materials. In certain cases, projects were abandoned due to lack of handover formalities between Members of Parliament after elections although substantial amount of money had been spent on the projects. Funds amounting to **K11, 937,698.50** were spent on projects whose materials were purchased, supplied and delivered by Members of Parliament.

Details are as shown below:

COUNCIL	AMOUNT(MK)	REMARKS
Nkhata Bay District	1,104,206.00	In respect of materials purchased by MP

NkhataBay District	174,540.00	Payment for Supply of materials by MP
Mulanje District	6,499,072.00	Money spent on abandoned project
Dedza District	2,306,710.50	Payments authorized by MPs
Dedza District	<u>1,853,170.00</u>	Project Materials purchased by MPs
Total	<b>11,937,698.50</b>	

#### k) Payments To Members Of Staff On Behalf Of Suppliers Of Goods And Services

In the six (6) Councils, payments totaling **K7, 006,922.00** were made to members of staff on behalf of suppliers of goods and services instead of paying direct to suppliers. Consequently, it was difficult for the inspecting auditors to ascertain whether the money reached the intended suppliers.

Details are as shown below:

COUNCIL	AMOUNT (MK)	REMARKS
Mbelwa District	974,340.00	Payments to members of staff for suppliers
Chiradzulu District	1,141,805.00	Payments to members of staff for suppliers
Nkhata Bay District	926,400.00	Payments to members of staff for suppliers
Neno District	1,136,150.00	Payments to members of staff for suppliers
Ntcheu District	2,495,267.00	Payments to members of staff for suppliers
Phalombe District	<u>332,960.00</u>	Payments to members of staff for suppliers
Total	<b>7,006,922.00</b>	

#### l) Payments Made Without Supporting Documents

Payments totaling **K57, 915,223.34** were not substantiated by supporting documentation and it was therefore difficult to ascertain their propriety as detailed below:-

COUNCIL	AMOUNT (MK)	REMARKS
Karonga District	594,598.00	No supporting documents
Mbelwa District	4,438,049.00	No supporting documents
Likoma District	1,594,114.00	No supporting documents
Zomba City	2,929,489.89	No supporting documents
Zomba District	8,539,360.13	No supporting documents
Rumphi District	4,136,405.00	No supporting documents
Chikhwawa District	1,897,186.00	No supporting documents
Mzuzu City	1,081,328.00	No supporting documents
Neno District	1,113,732.04	No supporting documents
Blantyre District	22,537,945.70	No supporting documents
Blantyre City	2,504,276.71	No supporting documents
Dedza District	5,891,798.87	No supporting documents
Nkhata Bay District	<u>656,940.00</u>	No supporting documents
Total	<b>57,915,223.34</b>	

#### m) Failure To Record Expenditure In The Cash Book

In the four (4) Councils, a sum of **K14, 924,991.75** was spent without recording in the cash book as detailed below:

COUNCIL	AMOUNT MK)	REMARKS
Chikhwawa District	951,887.00	Payments not recorded in the expenditure cash book
Neno District	1,261,729.79	Payments not recorded in the expenditure cash book



Blantyre District	6,818,773.46	Payments not recorded in the expenditure cash book
Blantyre City	<u>5,892,601.00</u>	Payments not recorded in the expenditure cash book
	<b>14,924,991.75</b>	

#### n) Payment Vouchers Without Authorizing Signatures

In the nine (9) Councils, payment vouchers amounting to **K42, 689,393.22** were processed without the signatures of the authorizing officers as required by Treasury Instructions.

Details are shown below:

COUNCIL	AMOUNT (MK)	REMARKS
Mbelwa District	3,983,211.00	No authorising signatures
Nkhotakota	1,148,481.80	No authorising signatures
Karonga District	3,127,625.00	No authorising signatures
Mzuzu City	1,346,372.00	No authorising signatures
Chikhwawa District	2,866,161.75	No authorising signatures
Neno District	5,250,989.54	No authorising signatures
Mwanza District	248,500.00	No authorising signatures
Ntcheu District	22,724,134.00	No authorising signatures
Zomba District	<u>1,993,918.13</u>	No authorising signatures
	<b>42,689,393.22</b>	

#### o) Purchases From Non Prequalified Suppliers

Building materials for various projects valued at **K30,391,387.08** were obtained from suppliers who were not on the pre qualified list from the Office of the Director of Public Procurement.

Details are shown below:

COUNCIL	AMOUNT (MK)	REMARKS
Mbelwa District	9,816,615.26	Supplier not on prequalified list
Chitipa District	2,143,037.00	Supplier not on prequalified list
Nkhata Bay District	1,742,700.00	Supplier not on prequalified list
Rumphi District	4,219,083.00	Supplier not on prequalified list
Thyolo District	356,870.23	Supplier not on prequalified list
Mulanje District	7,341,791.30	Supplier not on prequalified list
Neno District	1,091,811.00	Supplier not on prequalified list
Blantyre City	<u>3,679,479.29</u>	Supplier not on prequalified list
<b>Total</b>	<b>30,391,387.08</b>	

#### p) Payments For Uncertified Work, Uncompleted Projects Or For Work Not Done

In the five (5) Councils, a total of **K15,026,830.86** was paid to contractors for uncertified work, uncompleted projects as well as for work which was not done at all. It was observed that sums of MK1, 288,266.00, MK8, 691,180.86 and MK5, 046,884.00 were paid for uncompleted, uncertified and for work not done respectively. As a result it was difficult to ascertain whether the payments were a proper charge to CDF. Below are the details:-

COUNCIL	AMOUNT(MK)	REMARKS
Neno District	470,000.00	Payment for uncertified work
Blantyre City	5,030,760.00	No work in progress certificate



Blantyre City	602,519.00	Work not done at Mthukwa Mulunguzi Road
Blantyre City	589,320.00	Payment for work not done at Hajira Bridge
Dedza District	1,191,660.00	No work in progress certificate
Dedza District	82,308.00	Payment for uncompleted work at Maonde I & II sch
Dedza District	691,478.00	Payment for uncompleted work at Makemde School
Dedza District	514,980.00	Payment for uncompleted work at Kampheta school
Zomba District	1,998,760.86	No work completed certificate
Ntcheu District	771,475.00	Work not done at Gongolo water project
Ntcheu District	360,000.00	Work not done at Bayani Irish Potato Project
Ntcheu District	507,800.00	Work not done at Nkonde & Liphava Bridges
Ntcheu District	1,632,670.00	Work not done at Galeta School
Ntcheu District	<u>583,100.00</u>	Work not done at Kampanje bridge
	<b>15,026,830.86</b>	

**q) Undelivered Project Materials**

In the six (6) Councils, project materials valued at **K7,890,825.75** were not delivered to the intended project sites although there was evidence that materials had been procured by the Councils.

Details are indicated below:

<b>COUNCIL</b>	<b>AMOUNT (MK)</b>	<b>REMARKS</b>
Kasungu District	1,201,379.25	Material not delivered to Project Sites
Karonga District	1,796,230.00	Material not delivered to Project Sites
Mulanje District	376,880.00	Material not delivered to Project Sites
Chikhwawa District	3,349,836.50	Material not delivered to Project Sites
Neno District	166,500.00	Material not delivered to Project Sites
Blantyre City	<u>1,000,000.00</u>	Material not delivered to Project Sites
<b>Total</b>	<b>7,890,825.75</b>	

**r) Documents not produced for audit examination**

Seven (7) Councils did not produce expenditure documents for a sum of **K26, 776,429.00** for audit examination.

Details are as follows:

<b>COUNCIL</b>	<b>AMOUNT (MK)</b>	<b>REMARKS</b>
Nkhotakota District	13,695,313.34	Documents not produced for audit review
Karonga District	1,445,206.78	Documents not produced for audit review
Mzuzu City	878,910.44	Documents not produced for audit review
Thyolo District	3,446,629.00	Documents not produced for audit review
Chikhwawa District	102,000.00	Documents not produced for audit review
Neno District	926,256.00	Documents not produced for audit review
Ntcheu District	6,282,114.00	Documents not produced for audit review
<b>Total</b>	<b>26,776,429.56</b>	

## **CERTIFICATION ON THE COUNCILS ACCOUNTS**

68. I am required to express an opinion on the Financial Statements of the Councils based on my audit. Based on the audit findings, my audit opinion on the overall financial statements for the financial years ending 30<sup>th</sup> June, 2006, 2007 and 2008 is qualified. Audit opinion for a specific Council is reflected separately in each audit report. Individual Council's reports were submitted to the Controlling Officers for appropriate action.

## **PART IV**

### **CONCLUSIONS AND RECOMMENDATIONS ON THE AUDIT CONCLUSION**

#### **Conclusions**

69. There are a number of challenges in the Local Councils that will need urgent attention if the decentralization process was to achieve its intended purpose. The major challenge is lack of qualified personnel to maintain accounting books and records and timely production of financial statements. Another deficiency that will need immediate attention is lack of strong systems of internal control in the councils.
70. Observations highlighted in respect of Constituency Development Fund disclosed that Constituency Development Funds were not properly managed due to laxity by management to adhere to the internal control systems and guidelines. Weaknesses in the internal controls led to the following irregularities:
- Funds not accounted for due to lack of supporting documents, misappropriations and or failure to carry forward closing balances to the following year;
  - Use of funds on unrelated activities contrary to guidelines;
  - Failure to disclose CDF projects which benefited from materials bought;
  - Failure to record purchases of project materials in the stores ledger;
  - Purchase of materials without following procurement procedures
  - Implementation of projects without completing identification forms and in some instances without involving Project Management Committees;
  - Failure to maintain separate ledgers for CDF projects;
  - Supply, purchase, authorization and delivery of CDF material by Members of Parliament contrary to CDF Guidelines;
  - Payments to members of staff on behalf of suppliers of goods and services and purchases from non prequalified suppliers;
  - Payments without supporting documents as well as failure to record expenditures made in the cash books;
  - Payments to contractors for uncertified, uncompleted and or for work not done; and
  - Materials not delivered to the project sites.
71. Notwithstanding the above mentioned irregularities, visits to project sites in most Constituencies disclosed that the Constituency Development Fund has substantially assisted in community development, particularly in education, health and transport sectors.

## RECOMMENDATIONS

72. In the course of my audit of the Accounts of the Government of the Councils, each District Commissioner and Chief Executive was sent appropriate management letter with recommendations; regrettably, few have submitted their responses within the stipulated period stipulated in the Public Audit Act. A summary of my recommendations included:-
- i. Procurement of goods and services should be executed within set processes and procedures as stipulated in the Public Procurement Act;
  - ii. Knowledge and skills of accounting personnel should be regularly upgraded through training including refresher courses and workshops in order to improve public sector financial management.
  - iii. A deliberate policy to employ and retain qualified accounting personnel should be put in place by the Department of Public Service Management and Ministry of Local Government and Rural Development in order to improve accounting services in the councils and their devolved sectors.
  - iv. Public Financial Management Reforms such as implementation of the Integrated IFMIS should be given serious attention by all Councils.
73. As regards to Constituency Development Fund, it is recommended that Constituency Development Fund should still be maintained. However, there is need to strengthen management of the CDF. In this regard, the following measures are recommended for immediate implementation by all Councils.
- District Commissioners/Chief Executives of the Councils and other key stakeholders should be adequately sensitized on the use of CDF;
  - Management in the Councils should ensure that the systems of internal control and supervision are strengthened.
  - Separate books for projects in each constituency should be maintained, and at the end of each financial year closing balances should be carried forward to the following year;
  - Constituency Development Fund should only be used for intended projects and under no circumstances should funds be used for unrelated activities;
  - All purchases should be made in line with procedures as set out in the Public Procurement Act.
  - Implementation of CDF projects should always be in line with CDF guidelines.
  - The roles of District Commissioners, Members of Parliament and the communities as laid down in the CDF guideline should be strictly adhered to.

31<sup>st</sup> October 2010  
LILONGWE.