



MALAWI GOVERNMENT

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

For The Years Ended 30th June, 2013

National Audit Office  
P.O Box 30045  
Lilongwe 3

Printed by THE GOVERNMENT PRINTER, Lilongwe, Malawi

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

For The Years Ended 30th June, 2013

## NATIONAL AUDIT OFFICE

**VISION** : “To be an autonomous Supreme Audit Institution that effectively contributes to public accountability, transparency and good governance.”

**MISSION** : “To promote accountability, transparent administration and good governance in the public sector through the provision of quality audit services which assure the Nation that public resources are economically, efficiently and effectively applied.”

**CORE VALUES** : Professionalism integrity  
Integrity  
Objectivity  
Independence  
Confidentiality  
Continuous Professional Development  
Open Communication

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

10th October, 2016

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

Dear Sir,

Pursuant to the provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Public Audit Act Cap 37:01 I have the honour to submit my report on the results of the audit of the Accounts of the Government of the Republic of Malawi for the year ended 31st June 2013 for tabling in the National Assembly.

Yours faithfully,



Stephenson D. L. Kamphasa  
Auditor General

# TABLE OF CONTENTS

## PART I

<b>Content</b>	<b>Paragraphs</b>
INTRODUCTION	
Audit of Public Accounts .. .. .	1-6
Submission of Financial Statements .. .. .	7
Controlling Officer's Responsibility .. .. .	8
Scope of Audit .. .. .	9
Audit Methodology .. .. .	10
Responding to Audits Reports .. .. .	11
Reporting Procedures .. .. .	12
Audit Opinion on the Accounts .. .. .	13

## PART II

### OVERALL BUDGET PERFORMANCE 2012/2013

Budget Out Turn- Revenue .. .. .	14
Budget Out Turn- Expenditure .. .. .	15
Consolidated Revenue Account .. .. .	16
Consolidated Development Account .. .. .	17
Consolidated Account .. .. .	18

## PART III

### MINISTRIES, DEPARTMENTS AND OTHER PUBLIC ENTITIES

The Judiciary .. .. .	20
National Assembly .. .. .	21
Office of the President and Cabinet .. .. .	22
Nutrition, HIV and AIDS .. .. .	23
National Defence .. .. .	24
Lands and Housing .. .. .	25-27
Local Government and Rural Development .. .. .	28
Agriculture, Irrigation & Water Development .. .. .	29-31
Office of the Vice President .. .. .	32
Education, Science and Technology .. .. .	33-34
Foreign Affairs and International Cooperation .. .. .	35-37
Finance, Economic Planning & Development .. .. .	38
Accountant General .. .. .	39-41
Health .. .. .	42-43
Gender and Child Development .. .. .	44
Home Affairs and Internal Security .. .. .	45-51

PART III

MINISTRIES, DEPARTMENTS AND OTHER PUBLIC ENTITIES (continued)

Ministry of Justice and Constitutional Affairs	..	..	..	..	..	52-53
Labour and Manpower Development	..	..	..	..	..	54
Malawi Human Rights Commission	..	..	..	..	..	55
Natural Resources, Energy and Mining	..	..	..	..	..	56-58
Environmental Affairs and Climate Change Management	..	..	..	..	..	59
Law Commission	..	..	..	..	..	60
Malawi Electoral Commission	..	..	..	..	..	61

PART IV

RECOMMENDATIONS AND ACKNOWLEDGEMENT

Recommendations	..	..	..	..	..	62
Acknowledgement	..	..	..	..	..	63

## EXECUTIVE SUMMARY

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

The audits have not been limited to the accounts for the year ended 30th June, 2013, but have wherever necessary been accounted into subsequent year.

The Government budgetary operation registered expansion in both revenue and expenditure during the year under review. Total revenue collected increased by K305.8 billion to K549.4 billion which compares favourably with K243.6 billion realized in 2011/2012 financial year. Total expenditure increased by K137.9 billion from K238.9 billion in 2011/2012 to K376.8 billion. Domestic revenue remained relatively buoyant and continue to maintain an upward trend. This was mainly premised on the improved tax collection and administration by the Malawi Revenue Authority.

The Revenue Account registered K549.4 billion in revenue while the recurrent expenditure K376.8 billion, resulting into surplus of K172 billion. Development Account increased by K2.1 billion to K35.3 billion when compared to K33.2 billion for 2011/12 financial year. Total expenditure charged to the Development Account was K50.1 billion which increased by K2.9 billion when compared to K47.2 billion for 2011/12 financial year. Government in this fiscal year continued to get donor support.

The fiscal year of 2012/13 is considered as a year of remarkable achievements in terms of financial preparation and reporting because for the first time Controlling Officers prepared financial statements using the approved and acceptable format introduced in the ministries and departments. For the first time the financial statements of the votes, for the financial year ended 30th June, 2013 were submitted to me and were audited separately. My audit opinions on these financial statements were qualified based on the various material matters that affected their true and fair view except for the Ministry of Foreign Affairs and International Cooperation where I have issued a disclaimer of opinion due to limitation of scope because a good number of foreign missions were not audited which account 90% of the Ministry's budget due to limited allocated funds in National Audit Office budget.

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

Despite Government efforts to improve public financial management was faced with some challenges due to Integrated Financial Management Information

Systems which could not produce the necessary information that could agree with bank statements as a result there was a difference of MK122.2 billion.

## PART I

### INTRODUCTION

#### AUDIT OF PUBLIC ACCOUNTS

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi to audit and report on the public accounts of the Government of Malawi and to exercise such other powers in relation to the public accounts and accounts of the other public authorities and bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principal duties of my office.
2. Section 184 (2) requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance and at the same time Section 15 of the Public Audit Act requires me to report to the President and the National Assembly. Although the provision of Section 15 of the Public Audit Act is deemed to be inconsistent with the Constitution in a way it gives me as an opportunity to submit a copy of my report direct to the Speaker of National Assembly whilst respecting the Constitution as a supreme law by reporting through the Minister Responsible for Finance. Consultations with the Ministry of Justice and Constitutional Affairs and the Law Commission have been initiated to have the deemed inconsistency cleared. During the 2010/11 financial year, an Institutional Review of National Audit Office was undertaken by the Department of Public Service Management in the Office of the President and Cabinet. The review report which was approved by the Government has included a recommendation that I should be reporting directly to the National Assembly.
3. The Public Audit Act provides, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required in terms of Section 6 (4) (d) to determine whether the procedures and systems of internal control of each ministry, department, agency and public authority or body do ensure that;—
  - (a) Revenue is properly assessed and collected;
  - (b) Expenditure is validly and correctly authorised;
  - (c) Revenue, expenses, assets and liabilities are properly recorded and accounted for;
  - (d) Resources are employed and managed in an economic, effective and efficient manner;
  - (e) There has been no waste or extravagance;
  - (h) Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
  - (i) Relevant government policies and legislation are being complied with;

- (j) All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
  - (k) The accounts and records have been properly kept.
4. Section 6 (2) of the Act requires me to undertake an audit programme to review and approve the audited accounts of statutory bodies and conduct audits of any statutory body that has not had its financial statements audited by a firm of auditors, this includes where I do not approve the audited financial statements.
  5. Section 6 (3) of the Act requires me to audit and examine transactions, books and accounts and other financial records associated with any project, programme, and any other activity receiving funding in whole or in part from money or public resources which in my opinion justifies further investigations.
  6. In fulfilling my duties, powers and responsibilities lawfully conferred on me under Section 7 (1), I am required and any person authorized by me to;
    - (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit; and to any place where they are kept;
    - (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money or operations subject to audit and examination by me;
    - (c) Give notice in writing, requiring any person having possession or control on any documents, books and accounts subject to audit and examination by my office to deliver all or any of them at a time and place and to such a person specified in the notice;
    - (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
    - (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

## **SUBMISSION OF FINANCIAL STATEMENTS**

7. Section 83 (1) of the Public Finance Management Act requires the Secretary to the Treasury to prepare, sign and transmit to me the Consolidated Statements of Accounts within a period of four (4) months, but not later than 31st October after the closure of each financial year. The form and content of the financial statements are as follows:—
  - (a) A consolidated Operating Statement showing revenue and expenditure and the surplus or deficit for the reporting period;

- (b) A statement of Financial Position showing the assets, liabilities and net financial position as at statement of financial position's date of the reporting period;
- (c) A Statement of Cash Flows showing the receipts and cash payments during the reporting period, and cash balance as at statement of financial position's date of the reporting period;
- (d) A Statement of Cash Balance showing breakdown of the balance held by type of holding;
- (e) A Statement of Statutory Expenditure showing details of domestic debt servicing, external debt servicing, statutory remuneration and other material items of expenditure;
- (f) A Statement of Investment showing the nature or type of investment and current and non-current investments;
- (g) A Statement of Borrowings showing total debt and the breakdown of current and non-current debts; and for each showing the opening and closing balances for the reporting period and the nature of the movement during the period, the impact of exchange rate movements, average interest rate, and loan balances available for breakdown;
- (h) A Statement of Ex-Gratia Payments approved under the provisions of an Act, budgets, actual performance and variations between actual and budget;
- (i) A Statement showing for each account in the Trust Fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period; and
- (j) A Statements of Accounting Policies setting out the significant accounting policies on which the financial statements are prepared; and other information specified by the Secretary to the Treasury in Treasury Instructions as required to provide more detailed information or explanations.

## **CONTROLLING OFFICERS' RESPONSIBILITY**

8. In terms of Section 10 of the Public Finance Management Act, it is the Controlling Officers' responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. Responsibilities of management also include ensuring that:—
  - (a) Public funds are only used to the extent, and for the purpose intended by the National Assembly;
  - (b) All necessary precautions are taken to safeguard the collection and custody of public money;

- (c) All necessary precautions are taken to safeguard public resources;
- (d) All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;
- (e) There is no over-expenditure of over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment; and
- (f) The collection of public moneys is according to approved plans and the estimates.

The controlling officers prepared financial statements of their ministries for the 2012/2013 financial year and submitted them for audit before they were consolidated by the Accountant General.

## **SCOPE OF AUDIT**

9. In line with Section 13 of the Public Audit Act (Cap.37.01) which requires me to use Generally Accepted Auditing Standards, the audit of public accounts is performed in accordance with International Standards of Supreme Audit Institutions (ISSAIs). The audit is intended to provide an overall assurance of the general accuracy and propriety of Government's financial and accounting transactions. Although the audit is conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.

The Public Audit Act Cap37:01 empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Substantive tests were made on selected areas of various ministries and departments which form part of public accounts in order to form an opinion as to whether or not public money is expended economically, and in conformity with the wishes of the National Assembly. The audits have not been limited to the accounts for the year ended 30th June, 2013, but have where necessary extended into the subsequent year.

## **AUDIT METHODOLOGY**

10. The core objective of the external audit function is to ensure accountability of public funds. To discharge this responsibility my approach to audit involves the following:—
- (a) Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
  - (b) Evaluation and testing of the accounting and internal control systems;
  - (c) Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and

- (d) Reporting the audit findings based on the audit procedures performed and evidence gathered.

## **RESPONDING TO AUDIT REPORTS**

- 11. Section 14 (1) of the Public Audit Act requires a Controlling Officer, Head of an agency, statutory body or other affected person in respect of any matters that may relate to an audit, to respond to the Auditor General within fourteen (14) days of receiving the report.

Despite some progress in responding to audit queries, and reports, a significant number of Controlling Officers are unable to respond as required by the Public Audit Act. The value of audit recommendations and prompt and timely feedback from management cannot be overemphasized.

On many occasions Controlling Officers have been reminded of their responsibilities for the control and management of public funds entrusted to their care and their ultimate accountability to the National Assembly.

## **REPORTING PROCEDURE**

- 12. In the course of preparing this report, each Controlling Officer was sent an appropriate draft paragraph for his/her comments and confirmation of the correctness of the facts presented. Where comments were received in good time and happened to be materially satisfactory, the affected draft paragraphs were amended accordingly or dropped altogether. In cases where it was not possible for Controlling Officers to provide comments in the time available, the draft paragraphs formed part of this report without amendment.

This report is therefore submitted in accordance with the requirements of Section 184 (2) of the Constitution of the Republic of Malawi and in terms of Section 15 of the Public Audit Act.

## **AUDIT OPINION ON THE ACCOUNTS**

- 13. I am required to express an opinion on the public accounts based on my audit. My audit opinion on the public accounts for the financial year ended 30th June, 2013 is qualified based on the following material matters that affected its true and fair view:—
  - (a) There was significant failure and lack of application of the existing systems of internal controls in IFMS–Central Payment System and Ministries, Departments and Agencies (MDAs). These lapses in control system resulted in loss of public funds totalling MK6.1 billion and unsupported expenditure amounting to MK3.9 billion.
  - (b) The cash book for the Malawi Government Control Account No. 1 maintained by the Accountant General in the IFIMS could not reconcile with the bank statement at the Reserve Bank of Malawi. There was a difference of MK122.2 billion which is being investigated to establish if any loss of public funds occurred.

- (c) Various MDAs continued to overlook observance of well established procurement systems and procedures resulting in accumulation of arrears totalling MK6.5 billion as at 30th June, 2013.

The audit opinion is presented separately in Volume 1 of the Consolidated Annual Appropriation Accounts for the year ended 30th June, 2013.

## PART II

### OVERALL BUDGET PERFORMANCE 2012/2013

#### BUDGET OUTTURN-REVENUE

14. Total revenue collected during the period ended 30th June, 2013 was K549.4 billion which reflected an increase of K305.8 billion over the 2011/12 amount of K243.6 billion. The main sources of revenue were Tax Revenue K268.9 billion, Budget Support (BOP) K74.9 billion, Programme Grants K73.5, Dedicated Grant K63.5 billion, Project Grants K34.7, Non-Tax Revenue K29.9 billion and Councils Locally Generated Revenue K3.8 billion.

The revenue collection for 2012/13 was more than the revised amount of K371.2 billion by K178.2 billion. The over-collection was attributed to tax revenue which registered an over-collection of K51.8 billion. The trend of revenue collection for the past four years is tabulated as follows:

<u>Year</u> <u>K'000</u>	<u>Provision</u> <u>K'000</u>	<u>Actual Collection</u> <u>K'000</u>	<u>Over/(under)</u> <u>collection</u>
2009/2010	240,919,510	231,942,516	(8,976,994)
2010/2011	299,833,113	255,391,815	(44,441,298)
2011/2012	245,070,578	243,587,354	(1,483,224)
2012/2013	371,167,000	549,368,797	178,201,797

#### BUDGET OUT TURN-EXPENDITURE

15. During the year under review, total expenditure charged to the Consolidated Fund was K341.5 billion representing an increase in expenditure of K102.6 billion when compared to the total expenditure of K238.9 billion for 2011/2012. The overall picture of the voted expenditure was a net saving of K36.5 billion which compared favorably to an over-expenditure of K8.4 billion for 2011/2012.

#### CONSOLIDATED REVENUE ACCOUNT

16. The consolidated revenue account had improved in performance during the year under review since the account had a cumulative surplus of K46.75 billion as at 30 June, 2013, which is an improvement from a cumulative deficit of K125.87 billion as at 30 June, 2012 and was arrived at as follows:

## The Consolidated Revenue Account as at 30th June, 2013

Description	K'000
Deficit balance brought forward as at 1st July, 2012	(125,867,675)
Add: Revenue for the financial year to 30th June 2013	549,368,797
<b>Net cumulative revenue after brought forward deficit above</b>	<b>423,501,122</b>
Less : Expenditure for the year to 30th June 2013	(341,485,074)
: Transfer to Development Part II for the year to 30th June 2013	(35,266,000)
<b>Cumulative Surplus carried forward as at 30th June, 2013</b>	<b>46,750,048</b>

The planned recurrent deficit before grants for the year under review was K6.8 billion but the cumulative cashbook balance was MK46.7. The actual Revenue Account out-turn as at 30th June, 2013 was a surplus of K172.6 billion.

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

### Recurrent budget performance for the past four years

<u>Years</u> <u>Amount in</u>	<u>2009/2010</u> <u>K'000</u>	<u>2010/2011</u> <u>K'000</u>	<u>2011/2012</u> <u>K'000</u>	<u>2012/2013</u> <u>K'000</u>
Actual Revenue	231,942.516	255,391.815	243,587,354	549,368,797
Less : Actual Expenditure	(196,552,786)	(218,384.444)	(238,866,153)	(341,485,074)
: Transfer to Dev. Pt II	-	(24,382.029)	(33,207,931)	(35,266,000)
<b>Surplus/(Deficit)</b>	<b>35,389.730</b>	<b>12,625.343</b>	<b>(28,486,730)</b>	<b>172,617,723</b>

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

## CONSOLIDATED DEVELOPMENT ACCOUNT

17. The total expenditure charged to Development Account for the year ended 30th June, 2013 amounted to K50.2 billion reflecting an increase of K3 billion over the previous year's expenditure of K47.2 billion.

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

<u>Years</u> <u>Amount in</u>	<u>2009/2010</u> <u>K'000</u>	<u>2010/2011</u> <u>K'000</u>	<u>2011/2012</u> <u>K'000</u>	<u>2012/2013</u> <u>K'000</u>
Revised Estimates	71,761.356	73,999.998	70,174,568	97,823,505
Actual Expenditure	45,578.133	41,593.475	47,226.985	50,158,248
Net difference	<u>26,183.22</u>	<u>32,406.523</u>	<u>22,947,583</u>	<u>47,665,257</u>

Vote 272–Accountant General, recorded an over-expenditure of K0.3 billion while thirty-one (31) votes recorded under expenditures of K47.9 billion. The largest unspent balances of K12.6 billion, K11.9 billion and K8.7 billion were

recorded against Vote 272–Local Development Fund, Vote 190–Ministry of Agriculture and Vote 320–Ministry of Gender, respectively.

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

The overall state of affairs of the Development Fund as at 30th June, 2013 was a cumulative surplus of K36 billion, registering an increase of K24.4 billion from K11.6 billion recorded at the end of the 2011/2012 financial year as follows:

**An overall details of state of affairs of the Development Fund as at 30th June, 2013**

<u>Description</u>	<u>K'000</u>
Receipts during the year	73,879,765
<i>Less: Payments</i>	(50,158,248)
<b>Surplus for the year</b>	<b>23,721,517</b>
<i>Add: Opening balance</i>	<u>12,292,892</u>
Cumulative Surplus as at 30th June, 2013	<u>36,014,409</u>

**CONSOLIDATED FUND**

**Financing of the Deficit**

18. The Budget Statement for 2012/2013 financial year envisaged a deficit of K13.49 billion on the Revenue Account while the Development Budget was expected to break-even at K77.17 billion.

During the year under review, the Recurrent Revenue Account collected K549.4 billion while the Recurrent Expenditure was K341.5 billion and K35.3 billion was transferred to Development Account Part II resulting into a surplus of K172.6 billion.

The Development Account realized K73.9 billion; registering an increase of MK27.3 billion when compared to MK46.6 billion of 2011/2012 financial year. Expenditure for the year was MK50.2 billion resulting into a surplus of K23.7 billion.

Although the overall budget performance for the year under review had a surplus of MK196.3 billion, the cash book for the Malawi Government Control Account No. 1 maintained by the Accountant General in the IFMIS could not reconcile with the bank statement at the Reserve Bank of Malawi. There was a difference of MK122.2 billion which is being investigated to establish if any loss of public funds occurred. With this, it can be concluded that the overall surplus is MK74.1 billion.

**The combined net cumulative position of both Recurrent and Development Accounts for the past four years.**

<u>Year</u>	<u>Combined (Deficit)/Surplus K'000</u>
2009/10	(72,239,001)
2010/11	(72,059,913)
2011/12	(114,218,316)
2012/13	82,764,457

It is envisaged that strict compliance with the provisions of the Public Finance and Management Act and Public Procurement Act will further improve public financial management and control in Ministries, Departments and Government Agencies.

**Preparation of Financial Statements by Ministries and Departments**

19. The Controlling officers started preparing financial statements for their ministries and departments from 2012/2013 financial year when an acceptable format for presenting the financial statements was approved and introduced in the ministries and departments.

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

The financial statements of the thirty-one votes, listed on page 9, for the financial year ended 30th June, 2013 were submitted to me and audited and these represent fifty-five percent of the total votes, sixty seven percent of total voted expenditure and fifty-seven percent of the total budget expenditure. My audit opinions on these financial statements were qualified based on the various material matters that affected their true and fair view except for Ministry of Foreign Affairs and International Cooperation where I have issued a disclaimer of opinion due to limitation scope.

**VOTE MDA**

70	The Judiciary
80	National Assembly
90	Office of the President and Cabinet
94	Nutrition, HIV and AIDS
100	National Defence
111	National Statistics Office
120	Local Government and Rural Development

130	Lands and Housing
190	Agriculture, Irrigation & Water Development
240	Office of the Vice President
250	Education, Science and Technology
260	Foreign Affairs and International Cooperation
270	Finance, Economic Planning & Development
271	Accountant General
310	Health
320	Gender and Child Development
330	Information and Civic Education
340	Home Affairs and Internal Security
342	Prisons
343	Immigration
352	Registrar General
354	Legal Aid
360	Tourism, Culture and Wildlife
370	Labour and Manpower Development
371	Geological Survey
400	Transport and Public Works
430	Malawi Human Rights Commission
470	Natural Resources
472	Energy and Mines
480	Environment and Climate Change Management
560	Law Commission

**The National Audit Office categorises the findings into;**

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

<b>VOTE</b>	<b>MDA</b>
111	National Statistics Office
330	Information and Civic Education
342	Prisons
371	Geological Survey
400	Transport and Public Works

## PART III

### MINISTRIES, DEPARTMENTS AND AGENCIES

#### THE JUDICIARY

20. An audit of financial statements of the Judiciary for the financial year ended 30th June, 2013 was completed in July, 2016. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report, dated September 2016. The report highlighted the following observations:

**(a) Misallocations of Funds:– MK16,391,589.40**

Treasury Instructions 4.14.1 require that an approval for virement should be sought before funds are spent for a different purpose and that proper documentation should support the expenditure.

An examination of the payment vouchers for the period from July, 2012 to June, 2013 revealed that payments amounting to MK16,391,589.40 were charged to wrong budget lines without evidence of approval from Treasury. Below are the details;

<u>COST CENTRE</u>	<u>AMOUNT MISALLOCATED(MK)</u>
High Court Blantyre	6,021,108.31
Commercial Court Blantyre	5,751,605.77
Chief Resident Magistrate South	193,200.00
Chief Resident Magistrate Central	2,260,415.56
Chief Resident Magistrate North	2,165,259.76
	<u>16,391,589.40</u>

**(b) Payment of Fuel Allowances Not Accounted For:– MK7,182,709.69**

A review of payment vouchers at Blantyre High Court for the year ending 30th June 2013 disclosed that MK7,182,709.69 was paid as fuel allowances to the officers for official duties but no records in fuel ledgers and motor vehicle log books were reflected.

**(c) Bulk Purchase of Fuel Not Accounted For:– MK85,612,269.04**

A review of payment vouchers at Blantyre High Court for the year ending 30th June 2013 disclosed that the office purchased bulk fuel worth MK85,612,269.04 for office use and distribution to the judges according to their entitlements but there was no record to show how fuel was distributed.

**(d) Purchases Not Recorded in Stores Ledger:– MK20,729,087.98**

Instruction 11.7 among other things requires that all stores to be recorded in the stores ledger for accountability purposes.

An examination of payment vouchers and stores ledger disclosed that the department bought goods worth MK20,729,087.98 without recording them in the ledger, hence their accountability could not be ascertained. Below are the details;

<u>Cost Centre</u>	<u>Amount(MK)</u>
High Court Blantyre	17,979,725.23
Chief Resident Magistrate South	2,749,362.75
	<u>20,729,087.98</u>

**(e) Non-Maintenance of Fuel Ledgers:– MK28,916,168.20**

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

Contrary to the requirement an examination of payment vouchers and fuel registers revealed that from July 2012 to June 2013, the office did not maintain a fuel register for the purpose of recording fuel purchases, resulting into fuel amounting to MK28,916,168.20 being issued out without records. Below are the details.

<u>Cost Centre</u>	<u>Amount (MK)</u>
Commercial Court Blantyre	15,376,572.16
Lilongwe High Court	6,618,081.70
Chief Resident Magistrate Central	2,656,077.00
Chief Resident Magistrate North	4,265,437.34
	<u>28,916,168.20</u>

**(f) Unsubstantiated Fuel Refund:– MK1,590,627.00**

Treasury instruction 5.13.1(J) states adequate internal controls must exist within each Ministry and Department to meet the following control objectives that relevant Government policies and legislation are being complied to ensure that there is effective and efficient management of the financial resources of Government. Again, that all assets are safeguarded against loss or destruction, and unauthorized use and that there is no waste or extravagance.

An examination of payment vouchers disclosed that the Chief Resident Magistrate-South refunded fuel to individuals worth MK1,590,627.00 without indicating the purpose for which the fuel was bought for, there were no request of authority to leave duty station forms to support fuel use in cases of work outside duty station.

**(g) Fuel Not Accounted for Through Log Books:– MK2,355,627.00**

It is a requirement of Treasury Instructions and a government standing procedure that motor vehicle service and all fuel drawn for official use

should be recorded in the log book for transparency and accountability. The log book helps to indicate when the vehicle is due for service and when it was last serviced.

Contrary to the requirement an examination of payment vouchers and fuel registers revealed that from July 2012 to June 2013, the Chief Resident Magistrate-South did not maintain a log book for the purpose of recording motor vehicle service and fuel usage resulting into fuel amounting to MK2,355,627.00 being issued without proper accountability.

**(h) Unsubstantiated Refunds:– MK8,992,866.06**

Treasury instruction 5.13.1(J) states adequate internal controls must exist within each Ministry and Department to meet the following control objectives that relevant government policies and legislation are being complied, there is effective and efficient management of the financial resources of government, all assets are safeguarded against loss or destruction, and unauthorized use and there is no waste or extravagance.

Contrary to the requirements an examination of payment vouchers disclosed that the High Court-Lilongwe and Chief Resident Magistrate-Central, refunded money borrowed from court expenses account amounting to MK8,992,866.06 without proper evidence to warrant refunds.

The audit team failed to verify the reason for refund because the initial expenditures were not supported by any evidence like payment vouchers and receipts to support that the money were indeed spent on those items for which the court were making refunds. Below are the details;

<u>Cost Centre</u>	<u>Amount(MK)</u>
High Court Lilongwe	3,301,568.26
Chief Resident Magistrate Central	<u>5,691,297.80</u>
	<b><u>8,992,866.06</u></b>

**(i) Mismanagement of Building Materials-Mbulumbuzi Court–MK6,045,286.36**

Treasury instruction 5.13.1(J) states adequate internal controls must exist within each Ministry and Department.

Contrary to the above requirements examination of payment vouchers reviewed disclosed that the High Court purchased building Material worth MK6,045,286.36 for the Mbulumbuzi project which the officers responsible failed to account for.

## NATIONAL ASSEMBLY

21. An audit of the financial statements of the National Assembly for the financial year ended 30th June, 2013 was completed in April, 2016. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated October, 2016. The report highlighted the following observations:

**(a) Procurement Files Not Presented for Audit**

Section 27 (1) of the Public Procurement Act states that a procuring entity shall maintain a record and preserve documentation of the procurement proceedings, including originals of bids received.

An examination of payment vouchers revealed that the National Assembly paid a total of K54,671,170.00 to Sun Bird Capital Hotel for catering services at Parliament. However, there was no procurement file to show that the supplier was competitively and transparently identified in accordance with procurement procedures and the Contract Agreement between the National Assembly and Capital Hotel was not availed to the audit team for review. This made it impossible to ascertain the terms and conditions under which services were supposed to be rendered. Below are details of payments to Sun Bird Capital Hotel.

<u>DATE</u>	<u>VR NO</u>	<u>CHQ NO</u>	<u>AMOUNT</u>
13/04/2012	5824	931134	6,691,630.00
20/01/2012	5097	863135	4,924,000.00
15/03/2012	5629	918671	8,400,150.00
15/02/2012	5377	881425	5,044,420.00
02/02/2012	5216	870427	8,000,000.00
15/07/2011	3454	814404	8,566,550.00
02/02/2012	5216	870427	8,000,000.00
15/02/2012	5377	881425	5,044,420.00
<b>Total</b>			<b><u>54,671,170.00</u></b>

**(b) Misallocation of Funds– K91,857,027.52**

Treasury Instruction 4.14.1 states that specific approval is required before any allocations can be vired or transferred between outputs.

Contrary to the above provision, National Assembly made expenditures totaling K91,857,027.52 which were charged to wrong budget lines without seeking Treasury approval.

**(c) Payment Vouchers Without Supporting Documents– K13,783,376.00**

Treasury Instruction 5.9 states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting

documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of the Ministry of Finance and National Audit office.

An examination of financial records disclosed that payment vouchers amounting to K13,783,376.00 had no supporting documents. In the absence of supporting documents, it was difficult to establish the validity of the expenditure.

**(d) Fuel Not Recorded in The Fuel Register– K3,628,840.00**

Treasury Instruction number 5.9(b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger. It is imperative that fuel purchased should be recorded in a fuel register before being issued to subsequent users for accountability and transparency.

It was, however, observed that a sample of fuel worth K3,628,840.00 purchased during the period under review was not recorded in the fuel register. It was therefore difficult to ascertain how the fuel was used since pump receipts were also not properly filed for inspection. Details are given below:

<u>DATE</u>	<u>PAYEE</u>	<u>VR NO</u>	<u>CHEQUE NO</u>	<u>AMOUNT</u>
19-Aug-12	Total Malawi Limited	7425	988261	240,000.00
31-Aug-12	Puma Energy Malawi Ltd	7575	996426	600,000.00
31-Oct-12	Puma Energy Malawi Ltd	8326	13901	600,000.00
13-Jul-12	Total Malawi Limited	6905	973355	450,000.00
24-Jul-12	Total Malawi Limited	7114	889642	250,000.00
24-Jul-12	Total Malawi Limited	7108	889641	450,000.00
14-Jan-13	Total Malawi Limited	8907	43264	200,000.00
17-Jul-12	Total Malawi Limited	6934	973959	66,840.00
24-Aug-12	Total Malawi Limited	7554	993056	360,000.00
20-Aug-12	Total Malawi Limited	7472	988262	412,000.00
<b>TOTAL</b>				<b><u>3,628,840.00</u></b>

**(e) Matters from Internal Auditor’s Report**

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

**(i) Irregular Payment of Allowance to Hon E A Kayembe, MP**

The Internal Audit report for the period ending 30th June 2013, noted that Hon Abele Kayembe was paid K136,480.00 in respect of T and T, subsistence and sitting allowances in relation to Legal Affairs Committee meeting which was held from 29th January-2nd February 2012. However, the name of the Hon member does not appear on the list of invitees. Below are details of the payment.

<u>BENEFICIARY</u>	<u>PV NO</u>	<u>CHEQUE NO</u>	<u>AMOUNT</u>
Hon Abele Kayembe	O8OPVO005145	868752	136,480.00

**(ii) Payment of Double Allowance to Hon P. S. Chalera, MP**

The same Internal Audit report for the period ending 30th June 2013, noted that a sum of K172,840.00 was erroneously paid twice to Hon Stanley P Chalera for T and T, subsistence and sitting allowances in respect of International Relations Committee meeting which was held from 25th September–1st October 2011. The name of the honorable member appeared twice on the list of beneficiaries.

<u>BENEFICIARY</u>	<u>PV NO</u>	<u>CHEQUE NO</u>	<u>AMOUNT</u>
Hon Stanley P Chalera	O8OPVO004229	849485	172,840.00
Hon Stanley P Chalera	O8OPVO004229	849485	172,840.00

**OFFICE OF THE PRESIDENT AND CABINET**

22. An audit of the financial statements of the Ministry of Office of The President and Cabinet for the financial year ended 30th June, 2013 was completed in April 2016. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated October; 2016. The report highlighted the following observations:

**(a) Payment Vouchers Without Supporting Documents:– K24,530,205.57**

Treasury Instructions No 5.15.1 states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

An examination of payment vouchers revealed that payment vouchers for the Office of the President and Cabinet, National Registration Bureau, Poverty and Disaster Management Affairs and the office of the Former President amounting to K23,419,835.07 were processed and passed for payment without the relevant supporting documents. As a result, it was not possible for the inspecting auditors to ascertain whether the payments were proper charges to public funds. A summary of the payments are as follows:

<u>Cost Centre</u>	<u>Amount (MK)</u>
Headquarters	7,199,231.01
National Registration Bureau	5,754,920.00
Poverty and Disaster Management	7,492,500.00
Former Presidency	2,973,184.06
<b>Total</b>	<b>23,419,835.57</b>

**(a) Stores Items Not Accounted For:– K1,907,800.00**

Treasury Instructions No 11.6.1.3 stipulates that where consumable stores are received in bulk for subsequent issue in small lots, transactions shall be entered in a Consumable Stores Ledger.

A review of payment vouchers for consumable stores showed that stores items worth K1,907,800.00 procured between December, 2012 and January, 2013 by the Office of the President and Cabinet Headquarters were not recorded in the stores ledger. In the absence of entries in the stores ledgers the inspecting auditors could not ascertain how the stores items were accounted for.

**(b) Failure to Provide Proper Accounting Records for Audit Inspection:– K46,662,070.91**

A review of accounting records for cost centers under the Office of the President and Cabinet showed that stores ledgers and fuel registers in which stores items worth K23,145,771.42 and fuel worth K23,516,299.49 procured by various cost centers during the period under review were not presented for audit review. Consequently, the audit team could not ascertain how the stores items and fuel bought were accounted for. Details are as follows:

<u>Cost center</u>	<u>Description</u>	<u>Amount (MK)</u>
National Registration Bureau	Stores Items	8,398,887.50
Disaster Management Affairs	Stores Items	14,746,883.92
<b>Sub-total</b>		<b><u>23,145,771.42</u></b>
OPC Headquarters	Fuel	4,157,160.00
National Registration Bureau	Fuel	4,905,710.49
Disaster Management Affairs	Fuel	14,453,429.00
<b>Sub-total</b>		<b><u>23,516,299.49</u></b>
<b>Total</b>		<b><u>46,662,070.91</u></b>

**(c) Misallocation of Expenditure:– K132,160,574.08**

An examination of payment vouchers for the period under review revealed that various cost centres under the Office of the President and Cabinet charged expenditure totalling K132,160,574.08 to unrelated items without seeking approval for virement of funds from the Secretary to the Treasury. This entails that some planned activities were not implemented. Details are as follows:

<u>Cost Centre</u>	<u>Amount(K)</u>
E-Government	5,634,526.76
Headquarters	70,928,102.47
Headquarters-Green Belt Initiative(GBI)	4,901,544.00
National Registration Bureau(NRB)	14,816,922.13
Poverty and Disaster Management	21,542,057.35
Former Presidency	11,715,875.45
Central Internal Audit	2,621,545.92
<b>Total</b>	<b><u>132,160,574.08</u></b>

**(d) Fuel Purchased But Not Accounted For (Green Belt Initiative):– K1,376,250.00**

Treasury Instructions No 11.6.1.3 stipulates that where consumable stores are received in bulk for subsequent issue in small lots, transactions shall be entered in a Consumable Stores Ledger.

A review of payment vouchers revealed that fuel worth K1,376,250.00 procured by the Office of the President and Cabinet for the Green Belt Initiative programme between September, 2012 and May, 2013 was not recorded in the fuel register and no log books were available to ascertain usage of fuel in various vehicles. Consequently, the accountability of the fuel could not be ascertained.

## **DEPARTMENT OF NUTRITION, HIV AND AIDS**

23. An audit of the financial statements of the Ministry of Department of Nutrition, HIV and AIDS for the financial year ended 30th June, 2013 was completed in March 2016. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated June, 2016. The report highlighted the following observations;

**(a) Stores Items Purchased But Not Recorded In Stores Ledgers:– K2,589,000.00**

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

An examination of payment vouchers, delivery notes, invoices and stores ledgers disclosed that stores items valued at K2,589,000.00 purchased from different suppliers were not recorded in the stores ledgers and there were no delivery notes to evidence delivery. As a result, it was difficult for the audit team to confirm whether the stores items purchased were delivered and properly utilized by the Department.

**(b) Fuel Not Accounted For:– K30,887,416.00**

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

An examination of the fuel records revealed that fuel amounting to K30,887,416.00 was not recorded in fuel register making it difficult for the inspecting auditors to ascertain how the fuel was accounted for.

**(c) Payments Charged to Wrong Account Codes:– K132,077,105.06**

Treasury Instruction 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified

strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another as represented by codes in the Integrated Financial Management Information System.

An examination of payment vouchers, cashbook, vote's ledgers and expenditure statement by cost center revealed that expenses for some items amounting to K132,077,105.06 were charged to wrong account codes.

- (d) Failure to Produce Payment Vouchers for Audit:– K19,629,736.00**  
Public Audit Act Section 7 (1) (a) of 2003 empowers the Auditor General or any other officer delegated by him to have unlimited access to all documents and books of accounts, among other things, that are subject to audit for his examination.

A review of the expenditure statement by cost centre alongside the payment vouchers revealed that payment vouchers amounting to K19,629,736.00 were not produced for audit.

- (e) Payments Made Without Supporting Documents:– K7,348,908.00**  
Treasury Instruction 5.16.1 requires every Controlling Officer to ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment. In addition, Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and that full supporting documents are retained and filed for easy accessibility upon request by Ministry of Finance or National Audit Office staff.

A review of the financial records disclosed that payment vouchers amounting to K7,348,908.00 which were processed and passed for payment during the year under review had no supporting documents such as authority to leave duty station forms. In absence of the supporting documents it was difficult to ascertain whether the payments were proper charges to public funds.

## **MINISTRY OF NATIONAL DEFENCE**

24. An audit of the financial statements of the Ministry of National Defence for the financial year ended 30th June, 2013 was completed in September, 2015. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated 7th April; 2016. The report highlighted the following observations:

- (a) Misallocation of Expenditure:– MK19,491,362.00**  
Treasury Instruction 4.14 (1) stipulates that specific approval is required before any allocations can be vired or transferred between outputs. If

the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he/she may submit an application to the Secretary to Treasury for virement or transfer of funds between a programme/item within the same Vote. The application should be in writing and should be signed by the Controlling Officer. If the Secretary to the Treasury is satisfied with the application for virement, he shall issue a numbered virement Warrant.

An examination of payment records in respect of Other Recurrent Transactions (ORT) established that expenditure amounting to MK19,491,362.00 incurred between July, 2012 and June, 2013 was charged to incorrect expenditure line items. Most of the wrongly charged expenditure line items were in respect of external travel allowances. There was no evidence to indicate that measures were taken to correct the situation.

**(b) Payments for ORT Activities Made from The Development Account Without Treasury Approval:– MK2,443,581.00**

Government financial rules and regulations require that once public funds have been allocated and approved by Parliament for a specific vote, the Controlling Officer of that vote is not allowed to divert or transfer the funds to other programmes and activities without Treasury approval.

An examination of payment vouchers revealed that in May, 2013, Development Account funds amounting to MK2,443,581.00 were used to fund ORT activities, such as buying stationery, hiring motor vehicles and paying for motor vehicle insurance without approval of the Secretary to the Treasury. There was no indication that the money was paid back to Development Account.

**(c) Procurement Without the Involvement of Office of The Director of Public Procurement (ODPP).:– MK14,644,429.00**

The Director of Public Procurement through Circular reference number ODPP/01/22 of 21st July, 2009 advised Controlling Officers of all procuring entities to limit their procurements to a maximum value of MK3,000,000.00 when procuring goods and services without the involvement of Office of the Director of Public Procurement (ODPP). It is a requirement that where procurements exceed the threshold value of MK3,000,000.00, approval should be sought from the Office of the Director of Public Procurement.

An examination of payment vouchers and the stores records disclosed that in May, 2013, the Ministry procured 10 drums of algae floc for Mvera Support Battalion from Hardware Shopping Centre worth MK17,644,429.00, exceeding the established threshold limit of MK3,000,000.00 by MK14,644,429.00 without the approval of the Office of the Director of Public Procurement.

## MINISTRY OF LANDS AND HOUSING

25. An audit of financial transactions of the Ministry of Lands and Housing for the financial year ended 30th June, 2013 was completed in February 2015. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my audit dated 15th June 2016. The report highlighted the following observations:

### Ministry Headquarters

- (a) **Payments Made Without Supporting Documents:—MK4,461,833.06**  
Treasury Instructions 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

Contrary to the above instruction, payments amounting to MK4,461,833.06 processed between July, 2012 and June, 2013 had no supporting documents. In the absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge to public funds.

- (b) **Misallocation of Expenditure:— MK33,572,222.33**  
Section 6.3 (b) of Desk Instructions (2007) of Government Finance Control Accounting Procedures under Credit Ceiling Authority System (CCAS), stipulates that expenditure must be charged to appropriate vote program or sub item and made on intended purposes in accordance with approved budget estimates. The instruction further states that no expenditure for that purpose may be charged to any other allocation without Treasury approval.

An examination of payment vouchers disclosed that expenditure amounting to MK33,572,222.33 which was incurred by the Department of Buildings between July 2012 and June 2013 was charged to items other than the items for which the funds were appropriated.

- (c) **Stores Items Not Recorded in the Ledger:— MK1,841,691.00**  
Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently managed.

Contrary to this requirement, it was noted that some stores items purchased between July, 2012 and June, 2013 worth MK1,841,691.00 were not recorded in the stores ledger. It was therefore difficult to ascertain how the items were accounted for.

- (d) **Fuel Not Accounted For:— MK2,430,000.00**  
Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should

ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently managed.

An examination of payment vouchers revealed that fuel valued at MK2,430,000.00 purchased between July, 2012 and June,2013 was not recorded in fuel register. Consequently, accountability of the fuel could not be ascertained.

### **Regional Lands (Centre)**

26. An audit of financial transactions of the Regional Lands (Centre) for the financial year ended 30th June, 2013 was completed in February 2015. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my audit report dated 23rd June 2015. The reports highlighted the following observations:

**(a) Uncollected Ground Rent:– MK9,352,562.90**

An examination of customer accounts and general receipts in respect of cash paid to settle the rent disclosed that between July, 2012 and June, 2013 the office did not collect ground rents amounting to K9,352,562.90. There was no evidence to indicate that measures had been taken to strengthen the system of debt collection.

**(b) Funds Misallocated to Other Activities:– K9,616,071.00**

Public Finance Management Act, section 25 (1) of 2003 states that specific approval is required before any allocation of funds is transferred from one expenditure item to another. The Act also states that upon the request of a Controlling Officer, the Secretary to Treasury, with the approval of the Minister is authorised to direct the transfer of funds between the provisions assigned to expenditure items.

An examination of expenditure records disclosed that funds totaling MK9,616,071.00 were misallocated to unrelated budget items. For example, funds meant for internal training were used to settle travel costs. There was no evidence to indicate that authority to vire funds to the respective budget lines was sought from the Secretary to Treasury.

### **Department of Survey**

27. An audit of financial transactions of the Department of Survey for the financial year ended 30th June, 2013 was completed in February 2015. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my audit report 4th June 2015. The report highlighted the following observations:

**Misallocation of Voted Funds:– MK16,028,253.13**

In terms of section 25 (1) of the Public Finance Management Act, a controlling officer may not transfer funds between approved budget lines without the approval of the Secretary to Treasury.

An examination of payment vouchers for the period under review, disclosed that expenditure totaling MK16,028,253.13 made between October 2012 and August 2013 was transferred to budget lines other than those for which the funds were appropriated without Treasury approval.

## **MINISTRY OF LOCAL GOVERNMENT AND RURAL DEVELOPMENT**

28. An audit of the financial statements of the Ministry of Local Government and Rural Development for the financial year ended 30th June, 2013 was completed in September, 2015. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated 20th April, 2016. The report highlighted the following observations:

**(a) Payment Vouchers Without Supporting Documents:—  
MK29,739,805.06**

Treasury Instruction among other things requires that every payment voucher in respect of expenditures shall be in a form approved by the Secretary to the Treasury. The payment voucher shall be supported by the relevant documents in respect to that particular payment.

Contrary to the requirement of the above Treasury Instruction, between 2nd July, 2012 and 24th April, 2013, management processed and passed for payment, payment vouchers totaling K29,739,805.06 without supporting documents. Consequently, the validity of the expenditure could not be ascertained.

**(b) Payment of Subsistence Allowances Without Received Vouchers:—  
MK20,457,000.00**

Government Standing Regulations stipulate that acquitted received vouchers should be returned to the originating office within ten days after completion of an activity and that any unclaimed funds must be brought on charge and banked intact. They further state that all allowances paid on behalf of other officers should be fully accounted for by letting the beneficiary sign for the payment and that the received vouchers should be properly filed.

An examination of payment vouchers revealed that between 2nd July, 2012 and 21st March, 2013, subsistence allowances totaling K20,457,000.00 were paid without being supported by received vouchers. Therefore, the propriety of the payments could not be ascertained.

**(c) Stores Items Not Recorded in The Stores Ledger:—  
MK17,745,266.00**

Treasury Instruction 5.9 (b), as read together with Treasury Instruction 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that

transactions are properly recorded and that the resources are efficiently managed.

An examination of payment vouchers along with delivery notes disclosed that between 22nd August, 2012 and 29th May, 2013, stores items valued at MK17,745,266.00 were purchased but not recorded in the stores ledger. It was therefore, difficult for the auditors to ascertain their accountability.

**(d) Delay in Development Account (Part II) Projects Implementation Attracted Extra Costs:- MK47,070,966.17**

It is a government requirement that contracts are awarded according to the Public Procurement Act and that the contract agreement is respected by both parties within the specified period of time.

An examination of payment vouchers, contract agreements and other records disclosed that Zin Builders and Construction Company was awarded a contract of MK72,118,839.87 to construct Nambuma Market between 15th December, 2008 and 24th July, 2009 (8 months). However, due to delays in implementing the project, the contract sum was revised from MK72,118,839.87 to MK119,189,806.04 resulting in an increased cost of MK47,070,966.17. Furthermore, the revision of the contract sum was done by management of Local Government in collaboration with the Ministry of Transport and Public Works without seeking authority from Office of the Director of Public Procurement (ODPP).

**(e) Payments of Other Recurrent Transactions (ORT) Activities Using Funds from The Development Account (Part II):- MK38,045,277.48**

Government financial regulations require that once public funds have been allocated and approved by Parliament for a specific vote, the Controlling Officer of that vote is not allowed to divert or transfer funds for other programmes and activities without Treasury approval.

An examination of payment vouchers and other related transactions revealed that, between July, 2012 and April, 2013, payments for Other Recurrent Transactions (ORT) activities amounting to MK38,045,277.48 were made using funds from the Development Account (part 11) without authority from the Secretary to the Treasury, and the funds were never refunded to the Account.

**(f) Fuel not Recorded in the Fuel Register:- MK29,387,050.00**

Government financial regulations require, among other things, that purchases and issues of fuel be recorded in fuel register prior to being used.

An examination of fuel records disclosed that fuel which was purchased between 4th July, 2012 and 26th July, 2013 valued at MK29,387,050.00 was not recorded in the fuel registers and the monthly fuel expenditure

returns were not maintained to assist in control of fuel usage. Consequently, it could not be ascertained how the fuel was accounted for.

**(g) Payment Vouchers Not Presented for Audit– MK21,162,906.73**

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

Contrary to requirement of the Public Audit Act, payment vouchers which were processed between July, 2012 and June, 2013 amounting to MK21,162,906.73 were not presented to the auditors for examination. Consequently, the propriety of the expenditure could not be ascertained.

**(h) Misallocation of Funds– MK56,854,423.94**

Treasury Instructions (Finance) 2013 Section 2.5.4 provides that expenditure should strictly be in accordance with budget estimates. They further state that funds should be spent for the intended purposes.

Contrary to the requirement of the above Treasury Instructions, Other Recurrent Transactions (ORT) payments made between July, 2012 and June, 2013 amounting to MK56,854,423.94 were charged to wrong budget line items. There was no evidence to show that Treasury authority was obtained to vire funds between the sub-items.

## **MINISTRY OF AGRICULTURE IRRIGATION AND WATER DEVELOPMENT**

### **Ministry of Agriculture (Headquarters)**

29. An audit of financial statements of the Ministry of Agriculture, Irrigation and Water Development for the financial year ended 30th June, 2013 was completed in July, 2015. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report dated 4th November, 2015. The report highlighted the following observations:

**(a) Misallocation of Expenditure:– MK100,512,386.40**

Treasury Instruction 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates.

During the financial year under review, a total of K48,505,938.46 was charged to wrong expenditure lines at the Ministry Headquarters alone. It was also discovered that K52,006,447.93 disclosed in the financial statements as total payments for ‘Grants to International Organizations’ was actually a collection of misallocated transactions relating to other expenditure lines such as allowances, utility bills, internet, etc.

**(b) Stores not Recorded in Stores Ledger:– MK2,358,027.52**

Treasury Instruction number 5.9(b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger.

An examination of payment vouchers revealed that stores worth K2,358,027.52 purchased between August 2012 and March 2013 were not recorded in stores ledger. It was therefore, difficult for the audit team to ascertain their accountability.

**(c) Re-direction of 1,470 Bags of Subsidy Fertilizer to Unknown Activity– MK11,613,000**

An examination of Fertilizer and Input Subsidy Program records revealed that 1,470 bags of fertilizer worth K11,613,000 (at K7,900 per bag) brought forward from 2009 season at Msedi ADMARC were, between November 2012 and August 2013, redirected by the ministry to an unknown activity. The whereabouts of the fertilizer could not be established as no records were available to show where the bags were transferred to and the purpose thereof.

**(d) Failure to Substantiate Payments of Subsistence Allowances:– MK2,507,500.00**

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

An examination of payment vouchers revealed that payment of allowances amounting to MK2,507,500.00 made between September 2012 and May 2013 were not supported with authority to leave duty station forms. It was therefore difficult for the audit team to ascertain the propriety of these payments.

**(e) Overpayment to Export Trading:– MK654,233.51**

An examination of payment vouchers revealed that Export Trading was overpaid by K654,233.51. Export Trading was awarded a contract for the supply of 10,000MTS of Urea for subsidy program for the 2011/2012 season and the total cost of this contract was MK1,308,088,101.45. The payments made amounted to K1,308,742,334.96 resulting into an overpayment of K654,233.51, and there was no evidence to show that the amount had been recovered from the contractor.

**Farm Input Subsidy Programme (FISP):**

30. An audit of Farm Input Subsidy Programme (FISP): Maize, Fertilizer Component was completed in October, 2012. The audit review disclosed some weaknesses in the financial controls and accountability of fertilizer

moved from the depot/warehouse to selling points which were communicated to the Controlling Officers in my report issued in March, 2013. The report highlighted the following observations:

**(a) Maize, Fertilizer Component**

**(i) Fertilizer not Delivered: 167 tonnes:– MK22,567,145.55**

Review of records from the Logistics Unit showed that fertilizer valued at MK22,567,145.55 which was authorised for delivery to particular selling points was not delivered to the intended selling points as no related documentation was available to substantiate the delivery.

Details are as follows:—

<u>Truck No.</u>	<u>Waybill</u>	<u>Transporter</u>	<u>Tonnage</u>	<u>Fertilizer</u>	<u>Value (MK)</u>	<u>Market</u>
MC 3952	6378	Salpha	15	NPK	2,065,533.60	Goliati
MHG 2313	4180	Mulli	12	Urea	1,562,084.08	Goliati
AAP 228	5116	Mulli	30	NPK	4,131,067.20	Thondwe
BP 3501	5238	Yafuka	15	NPK	2,065,533.60	Thondwe
MJ 9141	5829	KC Freight	15	NPK	2,065,533.56	Thondwe
DZ 3342	5800	Salpha	20	NPK	2,754,044.80	Thondwe
BP 24	8409	Simama	15	NPK	2,065,533.56	Thondwe
NE 1967	4155	Salpha	15	Urea	1,952,605.05	Thondwe
MHG 3781	6825	Simama	15	Urea	1,952,605.05	Waruma
DZ 3303	6983	Simama	15	Urea	1,952,605.05	Waruma
<b>Total</b>			<b>167</b>		<b>22,567,145.55</b>	

**(ii) Unavailability of Documents to Support Withdrawn Fertilizer.**

A review of Farm Inputs Subsidy Programme records at ADMARC Regional Office (North) revealed that some fertilizer stocks were withdrawn from various selling points of its markets. It was noted that 48,550 kgs and 339,137 kgs of NPK and Urea, respectively were withdrawn during the programme implementation period from various selling points without supporting documents to show movement of the stocks and the alternative markets to which the stocks were delivered.

Details of the stocks withdrawn are as follows:—

<u>District</u>	<u>NPK</u>		<u>UREA</u>	
	<u>Receipt (Kgs)</u>	<u>Withdrawn (Kgs)</u>	<u>Receipts (Kgs)</u>	<u>Withdrawn (Kgs)</u>
Mzimba	2,612,450	6,600	2,692,150	99,964
Mzimba/Rumphi	864,300	8,350	940,100	44,950
Rumphi	940,950	4,350	956,650	107,523
Nkhatabay	870,200	Nil	981,050	13,100
Karonga	1,019,700	4,150	1,047,950	28,000
Chitipa	1,084,600	25,100	1,070,950	45,600
<b>Total</b>	<b>7,392,200</b>	<b>48,550</b>	<b>7,688,850</b>	<b>339,137</b>

**(iii) Mismatch of Bags Delivered and Coupons Redeemed**

An examination of documents relating to fertilizer which was delivered to some ADMARC markets against redeemed coupons disclosed that the number of NPK coupons redeemed could not agree with bags delivered at the selling points as details below:—

<u>NPK bags Delivered</u>	<u>Coupons Redeemed</u>	<u>Different Delivered</u>	<u>Urea bags Redeemed</u>	<u>Coupons</u>	<u>Difference</u>	<u>Market</u>
600	391	209	1,200	899	301	Mulanje
5,814	5,803	11	7,940	7,951	(11)	Goliati
3,580	4,560	(980)	4,860	5,100	(240)	Waruma
1,569	1,489	80	1,850	1,770	80	Mkanda

In instances where the number of coupons redeemed were less than the number of bags delivered, the inspecting auditors could not ascertain how the remaining bags fertilizer were accounted for and in situations where the coupons redeemed were more than the number of bags delivered at a particular market, it was difficult to establish the source of extra bags sold under the programme.

**(b) Transport Component**

**(i) Transport Costs Paid for Fertilizer Not Delivered:—  
MK462,312.00**

An examination of data from Chirimba depot disclosed that some trucks which were authorized to deliver fertilizer at particular selling points never reached the intended destinations. This was evidenced by non-existence of documents relating to the delivery of the fertilizer at the intended destinations. It was however observed during the audit that the Logistics Unit had certified and made payments to the transporters.

Below are the details of places where the fertilizer was not delivered;

<u>Truck No.</u>	<u>Way bill</u>	<u>Transporter</u>	<u>Amount Paid</u>		<u>Market</u>
			<u>(MK)</u>	<u>Tonnage</u>	
MC 3952	6378	Salpha	48,750	15	Goliati
MHG 2313	4180	Mulli	39,000	12	Goliati
AAP 228	5116	Mulli	97,500	30	Thondwe
BP 3501	5238	Yafuka	48,750	15	Thondwe
MJ 9141	5829	KC Freight	48,750	15	Thondwe
DZ 3342	5800	Salpha	65,000	20	Thondwe
BP 24	8409	Simama	34,612	15	Thondwe
NE 1967	4155	Salpha	39,975	15	Thondwe
MHG 3781	6825	Simama	39,975	15	Waruma
DZ 3303	6983	Simama	Not certified	15	Waruma
<b>Total</b>			<b>462,312</b>		

**(ii) Excess payment to Songani Traders:– MK101,712.50**

An examination of payment vouchers showed that Songani Traders of Thyolo District was overpaid by MK101,712.50 on invoice number 4 dated 20th November, 2011. The overpayment arose from wrong calculations of the amounts payable to the transporter on the following routes points.

Details are as follows:—

<b>Offloading Different Point</b>	<b>MT</b>	<b>KMs</b>	<b>Rate</b>	<b>Amount to Claim (MK)</b>	<b>Amount Paid (MK)</b>	<b>(MK)</b>
Lalakani	15	36	32,5	17,550.00	45,000.00	27,450.00
Makwasa	15	70	32.5	34,125.00	45,000.00	10,875.00
Price	15	61	32.5	26,737.50	45,000.00	15,262.50
Goliati	15	62	32.5	30,225.00	45,000.00	14,775.00
Bvumbwe	20	41	32.5	26,650.00	60,000.00	33,350.00
<b>Total</b>				<b>138,287.50</b>	<b>244,00.00</b>	<b>101,712.50</b>

**Karonga Agricultural Development Division**

31. An audit inspection of the financial and other records of Karonga Agriculture Development Division was completed on 2 August 2013. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 6 November 2013. The report highlighted the following observations:

**(a) Payment of Subsistence Allowance Within Duty Station:– K1,210,000.00**

Government regulations on subsistence allowances require that officers should be paid allowances when one spend a night outside his or her duty station.

An inspection of payment vouchers disclosed that between July 2012 and February 2013, officers were paid subsistence allowances amounting to MK1,210,000.00 while working within duty station.

**(b) Fuel Not Recorded in Fuel Register:– K1,063,420.00**

Treasury Instructions state that where consumable stores are received in bulk for subsequent issue, the transactions must be recorded in the consumable stores ledger.

An examination of fuel purchases and fuel registers revealed that fuel amounting to K1,063,420.00 purchased between July 2012 and May 2013 was not recorded in the fuel register. As a result, it was difficult to verify accountability of the fuel.

**OFFICE OF THE VICE PRESIDENT**

32. An audit of the financial statements of the Office of the Vice President for the financial year ended 30th June, 2013 was completed in March, 2016. The

audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated June; 2016. The report highlighted the following observations

**(a) Misallocations of Expenditure:– K108,068,800.77**

Treasury Instruction number 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be allocated strictly in accordance with estimates.

An examination of expenditure records for 2012/2013 financial year revealed that the office made payments amounting to K108,068,800.77 which were charged to wrong expenditure codes. This entails that some planned activities were not implemented.

**(b) Overpayments Made to Individuals/Organisations:– K9,265,623.56**

An examination of payment vouchers showed that Dziko Building Contractor who carried out maintenance works at the Vice President's residence in Blantyre and four officers who travelled to Tanzania in December 2012 were overpaid by a total of K9,265,623.56. As at the time of audit there was no evidence that the amount was recovered from the contractor and officers concerned.

**(c) Fuel Not Accounted For:– K7,228,132.00**

An examination of fuel register revealed that fuel worth K7,228,132.00 purchased during the year under review was not recorded in fuel register. In the circumstance the audit team could not ascertain how the fuel purchased was accounted for.

**(d) Stores Items Not Accounted For:– K8,325,422.52**

Treasury Instruction number 5.9(b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger.

An examination of payment vouchers revealed that stores items worth K8,325,422.52 procured during the year under review were not recorded in stores ledger. In the absence of the entries in the stores ledgers, it was difficult for the audit team to ascertain how the stores items procured were accounted for.

**(e) Food and Rations Not Accounted For:– K1,772,981.60**

An examination of payment vouchers showed that food rations worth K1,772,981.60 purchased between October 2013 and May 2013 were not recorded in the appropriate stores ledgers. It was therefore difficult for the audit team to ascertain how the rations were accounted for.

**(f) Payments Made Without Supporting Documents:– K42,301,163.51**

Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure that proper accounting records are maintained to support all financial transactions and that full supporting documents are retained and filed

for easy accessibility upon request by Ministry of Finance or National Audit Office staff.

An examination of payment vouchers disclosed that payment vouchers amounting to K42,301,163.51 were processed and passed for payment during the year under review without the relevant supporting documents such as authority to leave duty station forms, and delivery notes. It was therefore difficult for the inspecting auditors to ascertain whether the payments were a proper charge to public funds.

## **MINISTRY OF EDUCATION SCIENCE AND TECHNOLOGY**

### **Ministry Headquarters**

33. An audit inspection of the financial and other records of Ministry of Education Science and Technology headquarters was completed on 22nd September 2015. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated March 2016. The report highlighted the following observations.

**(a) Misallocations of Expenditure to Other Budget Lines:– K60,904,976.36**

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

However, during our review of expenses, we observed that most of the expenditure had transactions that related to other expenditure lines. For instance, a purchase of stationery could be posted to motor vehicle running expenses, maintenance of motor vehicle posted to training. During the financial year under review, a total of K60,904,976.36 was charged to wrong expenditure lines

**(b) Purchased stores items not accounted for:– K29,420,780.48**

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

An examination of payment vouchers, invoices, delivery notes and stores ledgers disclosed that stores items worth K29,420,780.48 were not recorded in stores ledger during the year under review. It was therefore difficult for the audit team to ascertain whether goods purchased were received and properly utilized by the Ministry.

## **Karonga Teacher Training College**

34. An audit inspection of the financial and other records of Karonga Teacher Training College was completed on 5th December, 2014. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 13th April 2016. The report highlighted the following observations.

**(a) Misallocation of Funds:– MK9,526,320.00**

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

An examination of payment vouchers disclosed that in the months of May and June 2013, funds amounting to MK9,526,320.00 were spent on different lines of allocation as per budget estimates. It is likely, therefore, that activities in the affected allocations might not have been adequately implemented; resulting in failure to achieve intended objectives.

**(b) Fuel Not Recorded in the Fuel Register:– MK2,095,826.54**

Treasury Instruction number 5.9(b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger.

An examination of payment vouchers in respect of fuel purchases against fuel ledgers disclosed that fuel worthy MK2,095,826.54 purchased between December 2012 and June 2013 was not recorded in the fuel register. Consequently, the inspecting auditors were not able to ascertain the accountability of the fuel in question.

**(c) Purchase of Items from Unregistered Suppliers:– MK4,754,923.51**

The Public Procurement Regulations (Regulation 43) require Ministries and Departments to procure goods and services from suppliers registered with the Office of the Director of Public Procurement (ODPP).

An examination of payment vouchers for the period under review disclosed that between September 2012 and June 2013 the office procured goods and services worth MK4,754,923.51 from un-registered suppliers. This may lead to procuring substandard goods and services resulting in failure to achieve value for money.

**MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL COOPERATION**

35. An audit of the financial statements of the Ministry of Foreign Affairs for the financial year ended 30th June 2013 was completed in February 2015. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 20 April, 2016. The report highlighted the following observations:

**(a) Purchases of Stores Not Recorded in Stores Ledgers and Without Delivery Notes:– MK28,601,047.20**

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

An examination of payment vouchers, delivery notes, invoices and stores ledgers disclosed that stores items valued at MK28,601,047.20 which were purchased between July, 2012 and May, 2013 were not recorded in the stores ledgers and out of the amount a total of K17,062,047.20 had no delivery notes to evidence delivery. As a result, it was difficult to confirm whether goods purchased were delivered and properly utilized by the Ministry.

**(b) Irregular Engagement of Contractors:– MK1,980,352.10**

Sections 30 (1) and 35 (1) of the Public Procurement Act, inter alia, requires public procurement to be realized through open tendering subject to approved exceptions and that if a Request for Quotation (RFQ) is used at least three quotations should be obtained from suppliers. Section 22 (1) further states that procuring entities are responsible for the administration of procurement contracts into which they enter.

An examination of payment vouchers and procurement records revealed that some service providers were engaged by the Ministry and were paid a total of MK1,980,352.10 without any kind of tendering process, let alone without requesting for quotations. In addition, there were no contract agreements between the Ministry and the service providers.

**(c) Fuel Not Recorded in Fuel Register:– MK71,800,000.00**

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

An examination of the fuel records revealed that fuel amounting to MK71,800,000.00 which was purchased between July, 2012 and June, 2013 was not recorded in fuel register. Consequently, it was difficult to confirm whether fuel was properly accounted for.

**(d) Payments Charged to Wrong Account Codes:– K313,688,832.34**  
Treasury Instructions 4.14(1) require that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities otherwise Treasury approval must be sought to transfer funds from one expenditure line to another as represented by codes in the Integrated Financial Management Information System.

An examination of payment vouchers, cashbook, vote's ledgers and expenditure statement by cost center revealed that expenditure amounting to MK313,688,832.34 was charged to wrong account codes. There was no evidence to show that action was taken to correct the situation.

**Investigative Audit on the Malawi Government Properties Account– Nairobi, Kenya**

36. An investigative audit on the Malawi Government Properties Account: Nairobi Kenya was completed in March, 2014 and the audit disclosed some weaknesses in the financial controls and management of Malawi Government properties namely the Official Residence and the Chancery. The report highlighted the following observations:—

**(a) Appointment of Estate Manager and Lawyers:– Lloyd Masika Ltd And Messrs Kairu Mbuthia And Kiingati Advocates.**

The Malawi Government engaged Sharpley Barret and Company as the mission's lawyers when preparations to open the embassy in Nairobi Kenya started i.e. prior to 1991. However, a review of records and enquiries made at the ministry headquarters and at the embassy in Nairobi brought to light that for no apparent reason the Secretary for Foreign Affairs and International Cooperation appointed Lloyd Masika Ltd as the Property Managers, in November, 2005.

It was also observed that the Malawi Government through the Secretary for Foreign Affairs and International Cooperation terminated the contract with Lloyd Masika Ltd and engaged Messrs Kairu Mbuthia and Kiingati Advocates in May 2012 at a retainer fee of Ksh 170,000.00 equivalent to USD 2,023.81 per month when the retainer fee for Lloyd Masika Limited was only Ksh 75,000.00 (USD 892.86) per month. Since the contract with Messrs Kairu Mbuthia and Kiingati Advocates still subsisted as at the date of audit, the Malawi Government was still liable to pay retainer fees totaling Kshs 3,230,000.00 equivalent to USD 38,452.39.

It was further observed that procurement procedures were not followed in the engagement of Messrs Kairu Mbuthia and Kiingati Advocates as there was no evidence that the engagement was through a competitive process.

**(b) Transfer of Funds from Deposit Account to Other Recurrent Transactions Account Without Treasury Authority**

The Malawi Government Properties Account had a balance of USD141,369.35 as at 4th December, 2012. Out of this balance, USD 238.10 was transferred and used as opening balances for four new bank accounts for the Mission namely, salaries, ORT, visa and deposit.

Following the closure of the Properties Account on 5th December, 2012 the closing balance of USD141,118.92 equivalent to 11,988,052.20 Kenyan shillings was transferred to Deposit Account number 0400589702 in readiness for the opening of the Mission.

It was further observed that subsequent to closure of the Properties Account and the changing of signatories to the Mission staff, funds totaling 11,990,000.00 Kenyan shillings were transferred from the Deposit Account to ORT in May, 2013 without Treasury Authority.

**(c) Fundamental Breach of Contract by Tenant– Dr. Richard Sinangó at Official Residence**

The then tenant at the Official Residence (L R No. 27/95) Dr. Richard Sinango breached provisions of the tenancy agreement. The tenancy agreement required that The tenant will redecorate and varnish all interior of the said premises, fittings and fixtures with two coats of good paint of the same color and quality as are found at the commencement of the tenancy”. It was however observed that the tenant did not redecorate the house after expiry of the tenancy agreement in December, 2012. In this regard the cost of redecoration was to be borne by the Mission instead of the then tenant which would result in the Mission incurring expenditures not planned for.

It was also observed that the tenant was using the main garage attached to the main house for manufacturing oil related products such as herbal drugs contrary to the provisions of the tenancy agreement which stipulated that “The premises shall be used for the tenant’s own residential purposes and will not carry out any form of business or for any other purpose without Landlord consent in writing”. The machinery used by the tenant caused damage to the premises and call for substantial amount of funds to repair and re-decorate the premises. Since the premises were not re-decorated at the expiry of the tenancy agreement, Messrs Kairu Mbuthia and Kiingati Advocates who were deemed fiduciary custodians of the property did not discharge their duties as contained in the Letter of Authorisation for their appointment.

**(d) Repairs and Rehabilitation of the Official Residence at Ridgeways Estate (L.R.29/97)**

Messrs Kairu Mbuthia and Kiingati Advocates of Nairobi Kenya, for and on behalf of the Malawi Government engaged MEMU General Building Works Ltd of Nairobi Kenya, to carry out major repairs and

rehabilitation of the official residence of the High Commissioner at Ridgeways Estate (L R 27 / 97) in Nairobi at a contract price of Kshs 8,145,752.00 (equivalent to USD 96,973.24). In addition, the Letter of Authorisation required Messrs Kairu Mbuthia and Kiingati Advocates to prepare and conclude service contract for the Architect who was to be responsible for supervising the rehabilitation works and issuing work completion certificates.

A review of documents presented for audit and enquiries made during the audit showed that the service contract was not prepared. It was also observed that work completion certificates were not prepared despite the fact that the contractor had raised invoice numbers 0226 and 0227 for Kshs 985,304.00 (USD 11,729.81) and Kshs 429,200.00 (USD 5,109.52) respectively dated 21 December, 2012 which were sent to Messrs Kairu Mbuthia and Kiingati Advocates for settlement. Physical verification at the Official residence showed that even though some repairs to the roof were claimed to have been done signs of leakages could be noticed in some rooms and repairs on the gutters and the balcony were of poor quality.

**(e) Repairs and Rehabilitation Works at the Chancery**

Messrs Kairu Mbuthia and Kiingati Advocates of Nairobi Kenya, for and on behalf of the Malawi Government engaged MEMU General Building Works Ltd of Nairobi Kenya, to carry out major repairs and rehabilitation works at the main Chancery in September, 2012 at a total contract price of Kshs 16,617,552 (USD 197,892.00).

A review of documents and enquiries made at the mission showed that between December, 2012 and February, 2013, the contractor raised invoice numbers 0651, 0652 and 0653 for Kshs 1,661,753.00, Kshs 1,184,200.00 and Kshs 660,850.00 respectively in respect of rehabilitation works carried out at the Chancery. However, the management of the Mission was of the view that the amounts quoted by MEMU General Building Works Ltd were very exorbitant as they managed to do the very same rehabilitation works at a total cost of USD 12, 000.00. It was noted during the audit that although the invoices were submitted to Kairu Mbuthia and Kiigati Advocates, no payment had been made to the contractor as at the time of audit despite the fact that funds had already been disbursed to the Lawyers by the Ministry.

**(f) Re-Engagement of MEMU General Building Works Limited to Carry Out Rehabilitation Works at the Chancery Before Termination of First Contract.**

It was observed during the audit that the Mission re-engaged the same contractor (MEMU General Building Works Limited) to carry out painting works on the exterior walls, car park and entertainment center without a formal contract and without following the approved procurement procedures since single source method was used. As at

June, 2013, a total sum of Kshs 750,300.00 had been paid to the contractor.

The painting works which the contractor was engaged to carry out under this new arrangement included painting of some exterior walls which were already painted under the first contract which was awarded to the contractor through Kairu Mbuthia and Kiingati Advocates. The overlap rendered it difficult to verify the painting works carried out in the earlier works contract.

**(g) Contract Management by Kairu Mbuthia and Kiingati Advocates**

According to the terms stipulated in the Letter of Authorisation appointing Messrs Kairu Mbuthia and Kiingati Advocates as custodians of the Malawi Government finances in Nairobi Kenya, Messrs Kairu Mbuthia and Kiingati Advocates were supposed to prepare and conclude a service contract for an Architect who would be supervising the rehabilitation works and issue work completion certificates and subsequently effect payments to the contractors upon receipt of an invoice accompanied with a work completion certificate from an appointed qualified Architect.

To the contrary, there was no evidence that an Architect was engaged to supervise the rehabilitation works and as such the invoices raised by the contractor were not supported by work completion certificates. This was gross negligence on the part of the lawyers as invoices were raised by the contractor and payments made by the Ministry before the rehabilitation and repairs were actually done at the sites and in some instances the repair works were of poor standard.

**(h) Progress Reports Issued Before Commencement of Repairs/ Rehabilitation Works**

A review of progress reports and contract agreements entered into by Kairu Mbuthia and Kiingati Advocates and MEMU General Building Works Limited, herein referred to as employer and contractor respectively, for repairs of the Malawi Government Properties disclosed that progress reports for rehabilitation works at the Official residence and the chancery were issued before the actual rehabilitation works started on sites.

It was observed that Mr. K Mbuthia through his letter Ref. No. 6/21/12 dated 29 June, 2012 addressed to the Secretary for Foreign Affairs and International Cooperation indicated that the contractor had partially completed works on the roof and other works at the Official residence yet the contract agreement was actually signed on 19 September, 2012 and the contractor commenced the repair works at the site between September and October, 2012. Mr. K Mbuthia also reported that the contractor had completed landscaping and exterior works at the Chancery yet the contract agreement for rehabilitation works at the Chancery was signed on 19 September, 2012 and the actual works on

site commenced in February, 2013. This was a clear indication that the Lawyers Messrs Kairu Mbuthia and Kiingati Advocates acted un-professionally with the intention to defraud Malawi Government of funds.

**(i) Payments Made in Advance to Kairu Mbuthia and Kiingati Advocates for Repairs and Rehabilitation of the Official Residence and the Chancery**

A review of payment vouchers and related documents showed that, following the Presidential directive to have the Mission opened by December, 2012, the Ministry of Foreign Affairs and International Cooperation made advance payments totaling USD 178,540.00 to the appointed Lawyers Kairu Mbuthia and Kiingati Advocates in order to facilitate speedy completion of the rehabilitation works to the two properties in Nairobi. The payments were made through Equatorial Commercial Bank, Nairobi between May, 2012 and December, 2012.

It was further observed that six (6) cheques totaling USD 117,040.00 were made payable to Kairu Mbuthia and Kiingati Advocates and five (5) cheques totaling USD 61,500.00 were made to Mr. Charles Karanja Njenga for and on behalf of Kairu Mbuthia and Kiingati Advocates. Although a total of USD 178,540.00 had been disbursed to Kairu Mbuthia and Kiingati Advocates for purposes of repairs and rehabilitation of the Residence and the Chancery, no payment had been made to the contractor as at the date of the audit.

It was also observed that there were no proper mechanisms put in place by the Ministry to monitor the progress on the repairs and rehabilitation works both at the official Residence and the Chancery.

The Ministry's responses to my report which were submitted to me through letter Ref. No. EA/1/4/33B/65 dated 30th May, 2016 were not adequate to clear the above matters.

**Malawi UN Permanent Mission in New York**

37. National Audit Office received a request from the Ministry of Foreign Affairs to conduct an investigative audit of the general operations of the Malawi Permanent Mission to the United Nations. This audit was commenced on the premise of allegations relating to mismanagement at the Mission by Ambassador and the diplomats. The audit of the Mission commenced on 18th May, 2015 for a period of two weeks. The audit covered the period from May 2011 to May 2015. The report highlighted the following findings:

**(a) Lack of Effective Internal Controls**

A review of the transaction processing system revealed that the internal controls were weak and at times not existing. There was duplication of payments as two vouchers were processed in July, 2011 as payable to rentals for the same house. Details are below:

<u>DATE</u>	<u>PV NO.</u>	<u>RESIDENCE ADDRESS</u>	<u>AMOUNT IN US\$</u>	<u>EQUIVALENT IN MK</u>	<u>RESIDENTS OF</u>
31.07.11	1031	70 Avondale Road LLC	7,000	1,060,876.00	First Secretary J.Z Karim, for July 2011 to Sept 2011
31.07.11	1036	70 Avondale Road LLC, 44 Boyd road, Goshen	10,500	1,699,484.85	First Secretary J.Z Karim, for July 2011 to Sept 2011

**(b) Wrong Claims by the Ambassador**

A review of payment vouchers and other documents established that the Ambassador HE Bowler had been making claims relating to foreign trips, household and office items that were considered irregular between December, 2014 and April, 2015. According to the discussions we had with the Ambassador this has been due to the fact that there are no circulars available to the Mission that indicate that the claims cannot be made. Some of these claims are made by cash to local staff for the Ambassadors benefit instead of drawing in his name. The claims range from top-up allowances that were abolished by the Government, purchase of food for official residence to car hire charges as detailed below:

<u>DATE</u>	<u>CHEQUE NO</u>	<u>PAYEE</u>	<u>AMOUNT (\$)</u>	<u>AMOUNT (MK)</u>	<u>DETAILS</u>
11.12.14	10718	L. Kalimanjira	1,618	744,280	Food items such as vegetables, milk e.t.c
11.12.14	10717	C. Mkandawire	1,260	579,600	Top up allowances
15.12.14	10751	E. Phiri	1,500	690,000	Top up allowances to Thailand
17.12.14	10787	N. Charles	500	230,000	No supporting documents attached
16.12.14	10786	R. Panganiba	906	416,686	Hire charges for temporary vehicle.
18.04.15	10842	L. Kalimanjira	850	374,000	Top up allowances to Hong Kong
18.04.15	10842	L. Kalimanjira	850	374,000	Top up allowances to Hong Kong
17.04.15	10819	R. Panganiba	850	374,000	Top up allowances to Japan

**(c) Excess Baggage Allowance Paid Without Supporting Attachments**

A review of Mission correspondence with the Ministry revealed that the Ministry deployed officers as temporary diplomats to the Mission to assist in covering UNGA committee meetings. We noted that they were paid external allowances plus \$2000 (K653,803) excess baggage allowance. There was no evidence that the diplomats had carried baggage up to 240 kg, and in any case this should have been attached as

supporting documents to the payment voucher. The related payments were made on cheque numbers 1319 and 1318 to George Mtilatila and Paul Butao respectively on voucher dated 29th November, 2012. These payments were authorised by Mr. Felix Mwenifumbo for PS, however he was clear that this should be paid direct to shippers not diplomats.

**(d) Lack of Proper Controls and Guidelines for UN Peacekeeping Mission Funds**

The MDF as Government Institution has been receiving funds from UN for peacekeeping operations. As of November, 2012 an amount of \$8,081,173 was received through the Mission deposit account. We noted that there were no proper controls and guidelines on the use of the funds; as a result, the funds were used for other purposes other than peacekeeping operations. These funds were being paid for defence attaché allowances, purchase of motor vehicle and rent which are activities not related to peacekeeping. Further, we noted that no delivery note was attached for the military equipment bought. During that month payments amounting to \$7,981,173 were made as follows;

<u>DESCRIPTION OF PROCUREMENT</u>	<u>AMOUNT IN US\$</u>
Purchase of troop's equipment (boots, t-shirts, shoes)	1,294,790
Purchase of motor vehicle for defence attaché	28,585
Insurance for motor- vehicle of defence attaché	1,415
Defence attaché's allowance and driver fees	3,200
Top up rent for defence attaché	800
Transferred to Malawi Defence Account No 0880573236	
FCDA with National Bank of Malawi	<u>6,652,383</u>
<b>Totals</b>	<b><u>7,981,173</u></b>

**(e) Borrowing of UN Funds**

The UN remitted funds to the Deposit account to be used for peacekeeping operations undertaken by Malawian troops in African countries. It was noted that the Mission borrowed funds from the UN account totalling \$25,037.40 (K8,316,385.22) to support activities that were not directly related to peacekeeping. This included payment of \$8,921.40 on 17th December, 2012, and another payment on 7th January, 2015 amounting to \$16,116 on cheque number 10545 to Milton Hershey Medical centre for LT Col Mbite's wife as medical bill discharge. Further borrowings were made from the account and the breakdown is as follows;

<u>DATE</u>	<u>OFFICER</u>	<u>AMOUNT BORROWED IN US\$</u>	<u>AMOUNT REPAID US\$</u>	<u>BALANCE US\$</u>	<u>DESCRIPTION</u>
17.12.12	Lt Col Mbite	8,921.40	-	8,921.40	Medical bill
07.01.15	Lt Col Mbite	16,116.00	10,000.00	6,116.00	Medical bill
05.12.12	Brig Spoon Phiri	20,000.00	-	20,000.00	Loan

**MINISTRY OF FINANCE, ECONOMIC PLANNING AND DEVELOPMENT**

38. An audit of the financial records and other information of Ministry of Finance for the financial year ended 30th June 2013 were completed in December, 2013. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated 13th April, 2016. The report highlighted the following observations:

**(a) Misallocations of Funds:– MK7,460,233.00**

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

An examination of the expenditure records revealed that expenditure totaling MK7,460,233.00 which was incurred between September, 2012 and June 2013 was charged to wrong budget lines. There was no evidence to indicate that appropriate action was taken to correct the situation.

**(b) Procurement Contracts not Produced for Audit Inspection– MK9,193,056.88**

Section 7 (a) of the Public Audit Act, 2003 states that ‘For the purpose of fulfilling the functions and duties lawfully conferred or imposed on the Auditor General, the Auditor General and every person authorized by him shall have full access at all reasonable time to all documents, books and accounts, public funds, public securities, Government contracts and books; and accounts relating thereto and subject to audit, and to any place where they are kept.

An examination of financial records disclosed that procurement contracts amounting to MK9,193,056.88 made in 2012/2013 financial year were not produced for audit inspection hence contravening the requirement of section 7(a) of the Act.

List of contracts are below:

<u>DATE</u>	<u>CONTRACTOR</u>	<u>CONTRACT</u>	<u>CHQ #</u>	<u>AMOUNT (MK)</u>
23/01/2013	Global Internet Limited	Provision of Internet services	70148	6,680,000.00
19/12/2012	Mchape Landscapers	Landscape around the ministry	38825	557,763.00
19/10/2012	Clepa Investments	Provision of cleaning services	11479	679,544.50
19/10/2012	G4S Security Services (MW) Ltd	Provision of security services	13649	1,275,749.88
<b>TOTAL</b>				<b><u>9,193,056.88</u></b>

**(c) Over– Expenditure on External Travel**

Section 4.13.2.2 of Treasury Instructions states that unless otherwise indicated in the notes in the approved estimates, every Controlling Officer shall ensure that expenditure is in accordance with budgetary provisions, and that there is no over-expenditure.

An analysis of actual expenditure against the provisions of key budget lines disclosed that approved budget for external travel was K105,320,279. It was revised to K99,933,984 during mid-year review and actual expenditure was K119,839,287 during the year under review. The comparison between revised budget figure and actual expenditure figure disclosed that there was over- expenditure of K19,905,303.

**(d) Stores Items not Recorded in the Bin Card– K4,613,167.00**

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

An examination of payment vouchers, delivery notes along with the bin card revealed that stores items valued at K4,613,167.00 purchased between May and August, 2013 were not recorded in the ledger or bin cards. This made it difficult for the inspecting auditors to ascertain the disposal of the purchased items.

**(e) Fuel Not Recorded in the Fuel Register– K3,085,000.00**

Treasury Instruction number 5.9(b), (2004) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger. It is imperative that fuel purchased should be recorded in a fuel register before being issued to subsequent users for accountability and transparency.

An examination of payment vouchers revealed that fuel worth K3,085,000.00 purchased between August, 2012 and June 2013 was not recorded in the fuel register. The audit team was unable to ascertain the accountability of the fuel purchased.

## **ACCOUNTANT GENERAL'S DEPARTMENT**

39. An audit of the financial statements of the Accountant General's Department for the financial year ended 30th June 2013 was completed in January 2015. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated 8th March, 2016. The report highlighted the following observations:

**(a) Misallocations/Mis-posting of Funds:– K96,263,771.86**

Treasury Instructions stipulate that expenditure must be charged to the appropriate Vote/Programme and spent on intended purposes in accordance with the approved budget estimates. The instructions further state that no expenditure for that purpose may be charged to any other allocation without Treasury approval.

Contrary to this requirement, an examination of expenditure records for the period ending 30th June 2013 disclosed that without Treasury authority, funds amounting to K96,263,771.86 were spent on items which were not related to their intended purposes as approved by Parliament.

**(b) Fuel Not Recorded in the Fuel Register**

Treasury Instructions state that where consumable goods are received in bulk for subsequent issue in small lots, the transaction must be entered in consumable stores ledger.

Contrary to this requirement, an examination of payment vouchers, fuel ledgers and logbooks for the period ending 30th June 2013 revealed that fuel worth K1,497,000.00 which was purchased between April and June, 2013, was not properly accounted for as evidenced by non-recording of the fuel in the fuel ledger and logbooks.

**(c) Failure to Produce Activity Reports**

It is a requirement that when officers have undertaken an activity, an implementation report should be prepared. This provides evidence that such an activity had actually been undertaken. It was however observed during the audit that several activities whose cost amounted to MK11,497,000.00 were undertaken by the Department between June and September, 2013 but were not supported by activity reports.

**Fraud and Mismanagement of Malawi Government Finances dated 25th September, 2014**

40. An audit of the IFMIS-Central Payment System at the Accountant General's Department was completed. The audit disclosed failure and lack of application of the existing systems of internal controls in IFMIS-Central Payment System which were communicated to the Controlling Officer in my audit report dated 25th September, 2014. The report highlighted the following observations:

**(a) Government Consolidated Cash Book Reconciliation.**

The Government cash book system is maintained and recorded on the EPCOR IFMIS System, and each of the ministries' cash book data is stored separately on the system. The consolidated cash book is to be regularly reconciled with Government Control Account Number One maintained at the Reserve Bank of Malawi, in accordance with Government financial rules and regulations.

Recent reviews of the consolidated cash book have disclosed that the cash book was not properly maintained and reconciled. It was observed that payments totaling MK122.2 billion on the bank statements were not in the cashbook and these are being investigated to establish if any loss of public funds occurred.

**Government Outstanding Commitments (Arrears) as at 30th June, 2013:– MK6,480,496,226.00**

41. The Public Finance Management Act, section 10 (f) provides that each Controlling Officer is responsible for ensuring that there is no over-expenditure or over-commitment of funds in relation to his/her Ministry.

- (a) An examination of Government stock of arrears which was submitted to the National Audit Office by the Secretary to the Treasury through his letter dated 10th October, 2014, disclosed that Ministries, Departments, and Agencies (MDAs) accumulated expenditure arrears totaling MK6.5 billion as at 30th June, 2013. This contravened the above quoted provision and defeated the objectives of the Cash Budget System being implemented by Government.

It was observed that the main factor that led to the accumulation of arrears was that MDAs continued to overlook observance of well established procurement systems and procedures and best practices.

The table below has details of MDAs which accumulated expenditure arrears as at 30th June, 2013.

<u>VOTE</u>	<u>MDA</u>	<u>AMOUNT (K)</u>
050	State Residences	106,556,781.37
070	Judiciary	217,851.80
097	Civil Service Commission	3,576,625.79
099	Office of the Director of Public Procurement	183,560.00
100	National Defence	4,000,000.68
101	Malawi Defence Force	2,586,270,342.69
130	Lands & Housing	71,948,973.95
200	Disability	14,111,470.00
210	Irrigation & Water Development	840,054,007.02
310	Health	218,120,000.00
330	Information	25,370,066.91
341	Police	1,257,845,220.53
342	Prison	101,961,805.23
360	Tourism	2,531,122.76
400	Transport	1,107,238,833.70
510	ACB	1,553,608.44
550	Ombudsman	1,877,190.00
	Malawi Post Corporation	137,078,764.75
<b>Total</b>		<b><u>6,480,496,225.62</u></b>

**MINISTRY OF HEALTH**

**Kamuzu Central Hospital**

42. An investigative audit of Kamuzu Central Hospital (KCH) for the seven (7) months period (April to October, 2013) was completed in March, 2014. The audit concentrated on Other Recurrent Transactions (ORT) which included,

inter alia, expenditure on drugs and medical supplies and revenue collection. The audit disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated 24th March, 2016. The report highlighted the following observations:

**(a) Subsistence Allowance Paid While Working Within Duty Station:– MK3,191,930.00**

An examination of the financial records disclosed that between April and October, 2013, Kamuzu Central Hospital paid subsistence allowances to its employees while working within duty station. This was evidenced by places of work which were Kamuzu Central Hospital, Nathenje and Six Miles which are within Lilongwe District. Consequently, total subsistence allowance which was paid while working within duty station amounted to MK3,191,930.00.

**(b) Overpayment of Subsistence Allowance:– MK355,000.00**

An examination of payment vouchers in respect of subsistence allowances revealed that between 17th September, 2012 and 15th August, 2013 subsistence allowances which was paid to officers on cheque numbers; 147768, 102440 and 3423 amounted to MK1,417,250.00. However, re-calculation of amounts claimed on request to leave duty station forms, disclosed K1,062,250.00 as total correct amount payable resulting into overpayment of subsistence allowance by MK355,000.00.

**(c) Fuel Purchased but Under Recorded in the Fuel Register:– MK6,970,476.63**

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

Contrary to the above requirement, comparison of fuel worth MK20,524,000.00 for Doctors' use procured from PUMA Energy Malawi Limited with fuel which was entered in the fuel register, disclosed that fuel worth MK6,890,289.63 was under-recorded in the fuel register. It could not be ascertained how the fuel which was not recorded was accounted for.

**(d) Purchases of Drugs Not Recorded in the Ledger and Stock Cards:– MK16,914,527.40**

Instruction 11.7 among other things requires that all stores to be recorded in the stores ledger for accountability purposes.

Contrary to the above requirement, a review of payment vouchers and delivery notes in respect of drugs and medical supplies at Kamuzu Central Hospital disclosed that between 5th February and 5th June, 2013, drugs and medical supplies worth K16,914,527.40 were

purchased but not recorded in the stores records and stock cards. As a result, it was difficult to ascertain whether the drugs were delivered and used by Kamuzu Central Hospital.

**(e) Excess Payment of Locum Allowance:– MK19,541,691.00**

The locum system provides a ceiling for locum claims so that a consolidated claim should not exceed the ceiling. Consequently, a locum payment should not exceed a claim.

A comparison of locum claims for services provided between February and October, 2013 with relevant payment vouchers, revealed excess payment of MK19,541,691.00 to locum claimants. There was no evidence to show that the amount has since been recovered from the beneficiaries.

**(f) Locum Payment Vouchers Without Supporting Documents– MK123,727,117.00**

Out of the total amount of MK129,397,717.00 spent on locum between 20th June, 2013 and 1st August, 2014, only locum supporting documents worth MK5,670,600.00 were provided and examined against relevant payment vouchers. Supporting documents for the payments totaling MK123,727,117.00 were not produced for audit examination.

**(g) General Procurement Made Without Relevant Supporting Documents:– MK55,997,013.45**

Government procedures require that supporting documents such as delivery notes, Local Purchase Orders, Internal Procurement Committee approvals and Invoices, must be firmly attached to payment vouchers to enhance transparency and accountability.

It was noted that expenditure totaling MK55,997,013.45 was made without relevant supporting documents. Payments totaling MK48,348,738.59 were made from ORT while payments totaling MK7,648,274.86 were made from revenue collection. 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.

**(h) Expenditure Charged to Incorrect Sub-Items:– MK174,582,291.69**

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

An examination of payment vouchers revealed that payments in respect of drugs, subsistence allowances, locum, contracts, fuel, heating and lighting and rentals for doctors amounting to MK174,582,291.69 were

charged to wrong budget line items contrary to the requirements of the above Public Finance Management Act. There was no evidence of Treasury authority to vire or transfer funds between the sub-items.

**(i) Payment Vouchers Not Produced for Audit Inspection– MK70,584,770.00**

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

An examination of IFIMIS expenditure report for the period from April to October, 2013 revealed that payment vouchers totaling MK70,584,770.00 could not be presented for audit. According to the information obtained from the IFIMIS Reports Coordinator at Accountant General's Office, of this amount, payment vouchers totaling MK28,580,537.43 were in respect of procurement of drugs, payment vouchers amounting to MK26,518,333.00 were in respect of locum, payment vouchers totaling MK3,310,950.00 were in respect of subsistence allowance and payment vouchers amounting to MK12,174,949.57 were in respect of other expenditure items. It was therefore difficult for the inspecting auditors to ascertain the validity of the payments.

**(j) Irregular Payments on Housing Accommodation for Medical Doctors:– MK52,683,310.00**

Government through circular letters reference number HRM/PA/04/3 and MH/CHS/17C dated 12th April, 2006 and 25th April, 2006 respectively, directed with effect from 1st July, 2006, not to pay for housing accommodation to its public servants including medical doctors. The latter further stipulates that renting private property for doctors would not be in line with government directive.

Examination of rental records and a sample of physical verification of doctors' rented houses in conjunction with client's experts (valuers) revealed irregular payment of rentals for medical doctors by Kamuzu Central Hospital and Ministry of Lands respectively, contrary to the circular letters. However, the auditors were not provided with the waiver circular letter for medical staff accommodation.

Kamuzu Central Hospital and Ministry of Lands paid sums of rentals to private landlords amounting to MK37,747,025.00 and MK14,936,295.00 respectively.

**(k) Payment of Rentals for Untraced Doctors' Rented Houses:– MK16,813,300.00**

It was also discovered that some Doctors' rented houses could not be physically verified as they could not be located or traced. The Ministry

spent an amount of MK16,813,300.00 for the rentals for a period between January 2012 and December 2013 for the houses that could not be physically traced.

**(l) Payment of Rentals for Houses Traced but Found Vacant– MK1,897,625.00**

Further, it was noted that houses number 9/413/51 and 9/413/9 were vacant at the time of verification, contrary to the personal and rental file records which showed that the houses were originally occupied by Doctors Msekandiana for house number 9/413/51, Kwadera and Jere for house number 9/413/9. Hence, an amount of MK1,897,625.00 for the period between January and December 2013 was paid to Watt Consultancies for the vacant houses or for the services not provided.

**(m) Payment of Rentals for Private House Occupant:– MK3,070,200.00**

Physical verification of houses rented for Doctors indicated that house number 6/47-49/17 was occupied by a business lady other than Dr. Bonongwe a Kamuzu Central Hospital Doctor, yet government through Ministry of Lands continued paying rent for a period of twelve (12) months from January to December 2013 in the name of Dr. Bonongwe.

**(n) Overpayment of Doctor’s House Rentals:– MK24,721,300.00**

A comparison of approved rates of monthly rentals for Doctors and actual house rentals paid for the period from March 2012 to October 2013 revealed an overpayment of MK24,721,300.00.

**(o) Failure to Deduct and Remit Withholding Tax:– MK5,178,244.68**

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

An examination of payment vouchers for the period under review disclosed that withholding tax amounting to K5,178,244.68 was not deducted from the suppliers. There was no evidence that the suppliers were exempted from paying withholding tax.

**(p) Revenue Collected but Not Accounted For:– MK2,473,755.43**

The summaries of the revenue provided by the institution totaling MK10,446,155.70 for the period under review were analyzed by comparing with the verified amount of K13,655,045.31 for the specific general receipts. It was noted that there was a difference of MK2,473,755.43, management could not provide satisfactory explanation.

**(q) Retention and use of Revenue Collections Without Treasury Authority:– MK7,648,274.86**

Treasury Instructions Section 5.7.2 (e) of 2004 state that all Government institutions which collect revenue should deposit such revenue into Government Control Account (MG1 Account).

It was noted that Kamuzu Central Hospital retained and used revenue collected at source without Treasury authority. Payments from revenue collections amounting to MK7,648,274.86 were made without Treasury authority to meet Other Recurrent Transactions like subsistence allowances and other goods and services. It was further observed that GP 10 Forms (payment vouchers) were not raised when making payments out of revenue, contrary to Treasury Instructions. There was no evidence to show that Treasury authority was obtained to use revenue collected at source.

**(r) Borrowed Funds from Revenue Collections Not Refunded:– MK13,333,364.61**

Government financial rules and regulations state that all purchases of goods and services should be made based on funds allocated and available.

It was learnt that Kamuzu Central Hospital had a tendency of borrowing funds from revenue collections for payment of subsistence allowances and maintenance of motor vehicles, among others, and in turn, making subsequent refunds to the revenue collections through paying individual bank accounts. The individual bank account holders would withdraw the money to refund the revenue account.

During the period under review funds which were borrowed from revenue collections amounted to MK13,333,364.61. There was no evidence to show that the borrowed money was refunded to the revenue account.

### **Mzuzu Central Hospital**

43. An audit inspection of the financial and other records of Mzuzu Central Hospital was completed on 15th December, 2014. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 13th April 2016. The report highlighted the following observations.

**(a) Misallocation of Funds:– MK45,390,614.82**

Treasury Instructions stipulate that expenditure must be charged to the appropriate Vote/Programme and spent on intended purposes in accordance with the approved budget estimates. The instructions further state that no expenditure for that purpose may be charged to any other allocation without Treasury approval.

An examination of payment vouchers disclosed that between March and June 2013, funds amounting to MK45,390,614.82 meant for activities as indicated in budget estimates were spent on different lines of allocation. The misallocations were done as follows:

- Misallocated funds meant for drugs:– MK19,842,904.21
- Misallocated funds meant for other activities:– MK25,547,710.61

The misallocated funds meant for drugs were largely spent on motor vehicle maintenance, utility bills, fuel and subsistence allowances.

- (b) Failure to Source At least Three Quotations:– MK14,641,683.65**  
Public Procurement Act Section 35 (1) states that in request for quotations, a procuring entity shall request quotations from at least three bidders.

An examination of payment vouchers disclosed that between September 2012 and June 2013, goods and services worth MK14,641,683.65 were procured without sourcing at least three quotations. This may lead to procuring substandard items or good with inflated prices.

- (c) Failure to Account for Procured Drugs:– MK10,612,605.70**  
Instruction 11.7 among other things requires that all stores to be recorded in the stores ledger for accountability purposes.

An inspection of drug records disclosed that drugs worth MK10,612,605.70 procured between August 2012 and April 2013 could not be traced in stock cards. Consequently, it was difficult to ascertain the accountability of drugs in question.

- (d) Fuel not Recorded in the Fuel Register:– MK32,300,000**  
Treasury Instruction 11.7, among other things, requires that receipts and issues of all stores be recorded in the stores ledger for proper accountability.

An inspection of payment vouchers in respect of fuel purchases against fuel ledgers disclosed that fuel worth MK32,300,000 purchased between July 2012 and May 2013 was not recorded in the fuel register. Consequently, the inspecting auditors were not able to ascertain the accountability of the fuel in question.

## **MINISTRY OF GENDER, CHILDREN, DISABILITY AND SOCIAL WELFARE**

44. An audit of the financial statements of the Office of the Vice President for the financial year ended 30th June, 2013 was completed in April, 2016. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated June; 2016. The report highlighted the following observations

- (a) Misallocation of Expenditure:– K72,120,224.29**  
Treasury Instruction 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates.

An examination of expenditure records for the financial year under review revealed that expenditures amounting to K72,120,224.29 were charged against wrong items.

**(b) Fuel Not Accounted For:– K15,080,185.00**

Treasury Instruction number 5.9 (b) requires Controlling Officers to ensure that all transactions are recorded in a primary government record or ledger.

Contrary to the requirement, it was discovered that the ministry did not maintain fuel ledgers and log books during the year under review as a result the audit team failed to verify how fuel purchased amounting to K15,080,185.00 was accounted for.

**(c) Payment of Subsistence Allowances Without Supporting Documents:– K21,898,285.00**

Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed for easy and ready accessibility upon request by Ministry of Finance and National Audit Office staff. And in case of subsistence allowances authority to leave duty station forms should be firmly attached.

An examination of payment vouchers relating to subsistence allowance disclosed that payments amounting to K21,898,285.00 for the period under review had no authority to leave duty station forms. It was therefore difficult for the audit team to ascertain the propriety of these payments as there was no evidence to show that the trips in question were authentic and duly authorized by relevant authorities.

## **MINISTRY OF HOME AFFAIRS AND INTERNAL SECURITY**

### **Ministry Headquarters**

45. An audit of financial statements of the Ministry of Home Affairs and Internal Security for the financial year ended 30th June, 2013 was completed in February, 2016. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report dated 15th July, 2016. The report highlighted the following observations:

**(a) Procurement above Threshold Without Seeking Approval From ODPP**

The Public Procurement Regulations require that in procurements of over MWK 5million, the Procurement Unit must seek approval, letter of no objection, from the Office of the Director of Public Procurement (ODPP) where the suppliers are invited to bid for supply of goods, works or services.

The audit established that the Ministry made procurement items above the Ministry's threshold amounting to MK19,576,885.51 without seeking authority from the ODPP.

**(b) Weak Fuel Management and Administration System:– MK2,040,000.00**

An examination of fuel records for the period under review disclosed weaknesses in the management and administration of fuel in such a way that there were no relevant receipts to support fuel purchases and fuel was not recorded in the register and log book.

Fuel not accounted for in this manner amounted to MK2,040,000.00, and relates to the period between January 2011 and March 2013. As a result of these weaknesses, the audit team could not ascertain the authenticity of expenditure on fuel and its usage.

**(c) Misallocation of Expenditure: K 75,694,625.23**

Treasury Instructions require that each expenditure should be made on the item it was voted for in Parliament and for the purpose it was intended. Controlling Officers are expected to ensure that there are no departures, unless written authority from the Secretary to the Treasury has been granted to vire funds from one sub item to the other.

An examination of expenditure records disclosed several cases of misallocations in most of the expenditure lines for the period between under audit. The total amount involved was MK75,694,625.23.

**(d) Payments Without Supporting Documents: K32,975,500.00**

Treasury Instructions stipulate, inter alia, that any payment voucher on which an official payment has been made should have sufficient documentation to support the expenditure.

Contrary to the above requirement, in the period under review, the Ministry effected some payments amounting to MK32,975,500.00 without relevant supporting documents. These documents include receipts, loose minutes, and to-leave duty station authorisation forms among others.

### **Karonga Police Station**

46. An audit inspection of the financial and other records of Karonga Police Station was completed on 28th November 2014. The audit review disclosed weaknesses in the financial controls which were communicated to The Controlling Officer in my report dated 13th April 2016. The report highlighted the following observations.

**(a) Revenue Spent at Source: MK1,672,300.00**

An examination of revenue records for 2012/2013 financial year revealed that Karonga Police Station collected revenue amounting to MK25,202,400.00 and deposited K23,530,100.00 giving a balance of MK1,672,300.00 as unbanked revenue. It was noted that the unbanked revenue was used at source between July 2012 and June 2013.

### **Nkhatabay Police Station**

47. An audit inspection of the financial and other records of Nkhatabay Police Station was completed on 26th September, 2014. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 13th April 2016. The report highlighted the following observations.

**(a) Unbanked Revenue: MK1,675,700.00**

An examination of revenue records for 2012/2013 financial year revealed that revenue collected amounting to MK1,675,700.00 was spent at source without prior authority from the Secretary to the Treasury. The amount represented 64% of total revenue collected by the station.

### **Chitipa Police Station**

48. An audit inspection of the financial and other records of Chitipa Police Station was completed on 31 October 2014. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 13 April 2016. The report highlighted the following observations.

**(a) Revenue Spent at Source: MK3,084,500.00**

An examination of General Receipt Books, Deposit Slips and Payment vouchers for the period December 2012 to May 2013 revealed that revenue amounting to MK3,084,500.00 had been spent at source without seeking authority from Treasury.

**(b) Fuel Not Recorded in Fuel Register: MK2,014,000.00**

An examination of payment vouchers and fuel registers for the period July 2012 to March 2013 revealed that fuel worth MK2,014,000.00 was not recorded in the fuel register. As a result, the accountability of the fuel could not be ascertained.

### **Mzuzu Police Station**

49. An audit inspection of the financial and other records of Mzuzu Police Station was completed on 19th September 2013. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 27th January 2014. The report highlighted the following observation:

**(a) Revenue Spent at Source: MK2,540,832.48**

An inspection of General Receipts for traffic offences, police report charges, service fees and fire arms license fees against deposit slips and bank statements disclosed that revenue collected between August 2012 and June 2013 amounting to MK2,540,832.48 was spent at source without Treasury Authority, contravening the above quoted financial instruction.

## Rumphi Police Station

50. An audit inspection of the financial and other records of Rumphi Police Station was completed on 28 August 2014. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated April 2016. The report highlighted the following observations.

**(a) Fuel Not Recorded in Fuel Register: MK2,100,624.71**

An examination of payment vouchers and the fuel register for the period July 2012 to May 2013 revealed that fuel worth MK2,100,624.71 was not recorded in the fuel register. As a result, the accountability of the fuel could not be ascertained.

**(b) Stores not Recorded in Stores Ledger: MK1,185,778.45**

An inspection of payment vouchers and stores records revealed that stores items valued at MK1,185,778.45 purchased between August 2012 and June 2013 were not recorded in the stores ledger. As such, it was difficult to ascertain the disposal of the items.

## Department of Immigration

51. An audit inspection of the financial and stores records of Immigration Headquarters was completed on 26th April, 2013. The audit review disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 18th June, 2013. The report highlighted the following observations:—

**(a) Uniforms and Accessories Purchased in Excess of the Requirements: MK1,106,727,986.00**

An examination of procurement records along with the establishment warrant revealed that uniforms valued at MK1,106,727,986.00 were purchased in excess of requirements as compared to the staffing levels. It was noted that uniforms were purchased in large quantities without any basis while the movement of uniforms issued was too slow to warrant additional procurement of uniforms resulting in accumulation of Government expenditure arrears.

**(b) Purchase of Uniform of Substandard Quality: MK24,509,000.00**

A review of the minutes of the Uniform Committee meeting dated 19th July, 2010 at which the African Commercial Agency was in attendance disclose that Mens' Parabellum and Ladies Grantham shoes valued at MK24,509,000.00 which were purchased from the supplier were of poor quality. Consequently, the meeting had agreed with the supplier that the items would be replaced with items of good quality. It was, however noted that the shoes had not yet been replaced as at date of audit. This clearly showed that there was miss-procurement of stores items resulting in failure by the office to obtain value for money. Below are the details:

DATE	CATEGORY	DELIVERY		QTY	LEDGER	UNIT/	AMOUNT
		NOTE NO	QTY	ISSUED	BALANCE	PRICE	MK
08.03.10	Mens' Junior	4958/4953	1,020	570	450	12,500	15,625,000.00
08.03.10	Mens' Senior	6237/4958	1,000	347	653	15,500	10,121,500.00
08.03.10	Ladies	4953/4958	1,120	419	701	12,500	8,762,500.00
<b>Total</b>							<b><u>24,509,000.00</u></b>

**Irregular Increase of Prices of Goods After Delivery: MK2,096,232,184.80**

(c) A review of the contracts for supply of goods by three companies namely, Africa Commercial Agency, Yiannakis General Import and Export, S. F. International revealed that prices of goods which were already supplied on credit were adjusted upwards following the depreciation of Malawi Kwacha against other foreign currencies resulting in an increase of MK2,096,232,184.80 from the original amount of MK1,715,150,565.00 to MK3,811,382,749.83, but this was not provided for in the contract. The price increments were authorized by the former Chief Immigration Officer, Mr. E Thodi. Below are the details: -

SUPPLIER	INVOICE NOS.	AMOUNT MK	AMOUNT	INCREASE
			AFTER ADJUSTMENT PRICE MK	MK
S.F. International	67,068	87,828,500.00	92,563,328.00	4,734,828.00
Yiannakis General Import & Export	MD 01001	53,000,000.00	115,617,512.50	62,617,512.20
Africa Commercial Agency	3707, 3708, 3710, 3676, 3700, 3702, 3706, 3715, 3703, 3704, 3705, 3726, 3157, 3176, 3175, 3177, 3178, 3675, 3709, 3081, 4161, 4162, 4173, 3724, 4153, 3516	1,574,322,065.00	3,603,201,909.33	2,028,879,844.30
<b>Totals</b>		<b><u>1,715,150,565.00</u></b>	<b><u>3,811,382,749.83</u></b>	<b><u>2,096,232, 184.80</u></b>

**(d) Purchase of lockers at exorbitant price: MK1,475,280.000.00**

A review of the procurement records disclosed that the office purchased 500 lockers at a unit price of MK2,950,560.00 amounting to MK1,475,280.000.00 from Africa Commercial Agency under Contract Number IM/01/85 dated 27th March, 2010, which was extended without involving other bidders. It was noted that the lockers were not included in the previous contract which was extended through the Office of Director of Public Procurement in a letter Ref. No ODPP/03/8 dated 4th March, 2010. Although the lockers had some specifications which were required, the audit was of the view that 500 lockers supplied

by Africa Commercial Agency at a unit price of MK2,950,560.00 were obtained at an exorbitant price considering that the size of the lockers and the required specifications could not justify the price.

**(e) Issues of Staff Uniforms Not Signed for: MK24,665,988.00**

Treasury Instructions require all issues of stores items to be signed for by the officers collecting them to enhance accountability.

An examination of stores ledger disclosed that uniforms valued at MK24,665,988.00 which were alleged to have been issued out were not signed for by the officers who collected them. Consequently, it was difficult for the inspecting auditors to satisfy themselves whether the uniforms were properly disposed of.

**MINISTRY OF JUSTICE AND CONSTITUTIONAL AFFAIRS**

**Registrar General**

52. An audit of financial transactions of the Department of Registrar General for the financial year ended 30th June, 2013 was completed in May, 2016. The audit disclosed some weaknesses in financial control which were communicated the Controlling Officer in my audit report dated 30th September, 2016. The report highlighted the following observations:

**(a) Payments Made Without IPC Approval- MK46,766,162.66**

The Public Procurement Act, section 8 states that, among other functions of the Internal Procurement Committee are to examine and approve procurements.

Contrary to the requirement, an examination of payment vouchers and Internal Procurement Committee minutes revealed that purchases amounting to MK46,766,162.66, comprising of items under offices supplies and other expenses valued at MK830,175.49 purchased between July 2012 and September 2012, and items under acquisition of plant and office equipment valued at MK45,935,987.17 purchased between July and August, 2012 were made without IPC approval. Below is a summary of the payments.

<b>Component</b>	<b><u>Amount (MK)</u></b>
Office Supplies	830,175.49
Acquisition of Plant and Office Equipment	<u>45,935,987.17</u>
<b>TOTAL</b>	<b><u>46,776,162.66</u></b>

**(b) Payment Vouchers Not Presented for Audit Inspection:- MK1,979,656.10**

Treasury Instruction 5.9 (a) states that every Controlling Officer shall ensure that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and

readily accessible, and can be produced immediately upon the request of Ministry of Finance and National Audit office staff.

Contrary to that, an inspection of the expenditure detailed sheet from the Treasury Cashier for the period between October 2012 and June 2013 and payment vouchers presented for inspection revealed that payment vouchers amounting to MK1,979,656.10 were not presented for audit inspection. Below are the details.

<u>VR DATE</u>	<u>PAYEE</u>	<u>CHQ NO</u>	<u>DETAILS</u>	<u>AMOUNT (MK)</u>
14/06/2013	Total Malawi LTD	19963	Purchase of Fuel	400,000.00
25/06/2013	Puma Energy Malawi	22280	Purchase of Fuel	100,000.00
28/06/2013	Puma Energy Malawi	23356	Purchase of Fuel	130,000.00
13/11/2012	Puma Energy Malawi	436501	Purchase of Fuel	150,000.00
24/10/2012	Total Malawi LTD	434596	Purchase of Fuel	40,000.00
13/11/2012	Total Malawi LTD	436485	Purchase of Fuel	550,000.00
13/11/2012	Puma Energy Malawi	436501	Purchase of Fuel	150,000.00
20/11/2012	Stansfield Motors Limited	437722	Maintenance of motor vehicles	265,287.50
20/11/2012	Associated Suppliers	437721	Maintenance of motor vehicles	194,368.60
<b>Total</b>				<b><u>1,979,656.10</u></b>

### **Legal Aid Department**

53. An audit of financial transactions of the Legal Aid Department for the financial year ended 30th June, 2013 was completed in December 2015. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated 20th June 2016. The report highlighted the following observations;

**(a) Misallocation of Expenditure: MK23,854,219.91**

Section 6.3 (b) of Desk Instructions (2007) of Government Finance Control Accounting Procedures under Credit Ceiling Authority System (CCAS), stipulates that expenditure must be charged to appropriate vote program or sub item and made on intended purposes in accordance with approved budget estimates. The instruction further states that no expenditure for that purpose may be charged to any other allocation without Treasury approval.

An examination of payment vouchers disclosed that expenditure amounting to MK23,854,219.91 which was incurred between July 2012 and June 2013 was charged to items other than the items for which the funds were appropriated.

**(b) Payments Made Without Supporting Documents: MK3,832,320.16**

Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

Contrary to the above instruction, payments made between July, 2012 and June, 2013 amounting to MK3,832,320.16 had no supporting documents. In the absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge to public funds.

**(c) Stores Items Not Recorded in Ledger: MK845,561.62**

It was noted that stores items purchased between July 2012 and June 2013 worth MK845,561.62 were not recorded in the stores ledger. It was therefore difficult to ascertain how the items were accounted for.

**(d) Payment Vouchers Not Presented for Audit: MK4,142,722.93**

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

An examination of IFMIS expenditure statement by cost centre and related records revealed that payment vouchers amounting to MK4,142,722.93 processed between July,2012 and June, 2013 were not presented for audit verification. Consequently, it was difficult for the audit team to ascertain the validity of the expenditures.

## **MINISTRY OF LABOUR & MANPOWER DEVELOPMENT**

54. An audit of the financial statements of the Ministry of Labour for the financial year ended 30th June 2013 was completed in February 2015. The audit disclosed some weaknesses in the financial controls which were communicated to the Controlling Officer in my audit report dated 16th February 2016. The report highlighted the following:

**(a) Failure to Produce Payment Vouchers: MK30,203,472.2**

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

Contrary to the above requirement, payment vouchers amounting to MK30,203,472.20 were not produced for audit. As a result, the audit team could not ascertain the propriety and validity of such expenditure.

## **MALAWI HUMAN RIGHTS COMMISSION**

55. An audit of financial transactions of the Malawi Human Rights Commission for the financial years ended 30th June, 2013 and 2014 was completed in September 2015. The audit disclosed some weaknesses in financial control which were communicated to you in my audit report dated 8th August 2016. The report highlighted the following observations:

- (a) Payments Charged to Wrong Budget Line Items:—K5,552,776.00**  
Treasury Instruction 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates. The provisions further require that funds should be spent on the intended activities, otherwise Treasury approval must be sought to transfer funds from one expenditure line item to another as represented by account codes in the Integrated Financial Management Information System (IFMIS).

An examination of the expenditure records for the financial years 2012/2013 revealed that payments amounting to K5,552,776.00 were charged to incorrect budget lines.

## **MINISTRY OF NATURAL RESOURCES, ENERGY AND MINING**

### **Ministry Headquarters**

56. An audit of financial statements of the Ministry of Natural Resources for the financial year ended 30th June, 2013 was completed in January, 2016. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report dated 25th July, 2016. The report highlighted the following observations:

- (a) Payment Vouchers Without Supporting Documents: MK5,398,618.26**

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

An examination of payments vouchers for the period between July, 2012 and June, 2013 disclosed that expenditure amounting to MK5,398,618.26 was not supported with relevant supporting documents.

### **Viphya Plantations Division**

57. An audit inspection of the financial and other records of Viphya Plantations Division was completed on 27th February 2015. The audit review disclosed weaknesses in the financial controls which were communicated to the Controlling Officer in my report dated 11th January 2016. The report highlighted the following observations.

- (a) Outstanding Debts: MK484,215,677.80**

Chapter 63.01 of the Forestry Act and article 5 (2) of the Contract Agreement under 'Application for license to reside and or operate a

mobile sawmill in forest reserves' clearly stipulates that "Logs shall be sold on cash term".

An inspection of revenue and debtors' records disclosed that there was an accumulation of debts amounting to MK338,610,385.80 owed by sawyers as at 30th June 2013. It was also observed during the audit that various timber sawyers had been operating as individuals before they grouped into cooperatives. When the cooperatives came into operation some sawyers had already accumulated debts during the period 2012 to 2013 with the Plantations Office amounting to MK145,605,292.00. The Cooperatives failed to recover these debts from their members and the situation remained so up to the date of audit. The total amount of outstanding debt was, therefore, MK484,215,677.80.

Although effort was made through reminders to collect the outstanding debts, nothing had since been collected.

**(b) Rental Charges Not Collected from Institutional Houses: MK408,820.00**

Treasury Instructions stipulate that all officers must acquaint themselves with Laws or Regulations governing the collection of revenue for which they are responsible for, to ensure that revenue is collected at the prescribed rates. The Instructions further require that a receipt be issued once revenue is collected.

An inspection of records relating to rental charges and collections for dwelling houses revealed that from 2011 to 2015, rentals amounting to MK408,820.00 had not been collected as at the date of audit. There was no evidence to show that management took action to collect the unpaid rentals. This could lead to loss of government revenue.

## **Department of Energy and Mining**

58. An audit of financial statements of the Department of Energy and Mining for the financial year ended 30th June, 2013 was completed in January, 2016. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report dated 28th July, 2016. The report highlighted the following observations:

**(a) Misallocation of expenditure: K6,611,067.74**

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

An examination of expenditure records for the 2012/2013 financial year, revealed that the Department made payments amounting to K6,611,067.74 which were charged against wrong expenditure lines.

**(b) Fuel not accounted for: K6,652,955.00**

An examination of Fuel records disclosed that fuel valued at K6,652,955.00 purchased between October 2012 and March 2013 was not recorded in the fuel register. Consequently, accountability of this fuel could not be ascertained.

## **MINISTRY OF ENVIRONMENTAL AFFAIRS AND CLIMATE CHANGE MANAGEMENT**

59. An audit of financial statements of the Ministry of Environmental Affairs and Climate Change Management for the financial year ended 30th June, 2013 was conducted and completed. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report dated 5th September, 2016. The report highlighted the following observations:

**(a) Failure to record fuel in fuel register: K2,498,000.00**

Treasury Instruction 11.7.1 among other things requires that items of stores like fuel should be recorded in the fuel register before being issued out for proper accountability.

An examination of payment vouchers and fuel register revealed that fuel worth MK2,498,000.00 purchased between January, 2013 and March, 2013 was not recorded in fuel register. Consequently, accountability of this fuel could not be ascertained

**(b) Failure to record goods procured in stores ledgers: K60,186,255.36**

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

An examination of the stores records revealed that stores valued at MK60,186,255.36 purchased by the Ministry between January, 2013 and June 2013, were not recorded in the stores ledger.

**(c) Misallocation of Expenditure: K21,906,191.13**

Treasury Instruction 4.14(1) requires that all expenditures should be charged to an appropriate vote and that expenditure should be classified strictly in accordance with estimates.

An evaluation of the payment vouchers at the Ministry revealed that the Ministry had made payments amounting to MK21,906,191.13 which were charged to wrong budget lines in direct contrast with the treasury requirement.

## MALAWI LAW COMMISSION

60. An audit of financial statements of the Malawi Law Commission for the financial year ended 30th June, 2013 was conducted and completed. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report dated 5th September, 2016. The report highlighted the following observations:

**(a) Misallocations/Mis-Posting of Funds**

Treasury Instructions stipulate that expenditure must be charged to the appropriate Vote/Programme and spent on intended purposes in accordance with the approved budget estimates. The instructions further state that no expenditure for that purpose may be charged to any other allocation without Treasury approval.

Contrary to this requirement, an examination of expenditure records for the period ending 30th June 2013 disclosed that without Treasury authority, funds amounting to K8,328,246.79 were spent on items which were not related to their intended purposes as approved by Parliament.

**(b) Payments with Inadequate Supporting Documents:**

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

An examination of payment vouchers for the period under audit disclosed that the Law Commission effected some payments amounting to K854,068.00 without adequate supporting documents contrary to the above requirement.

## MALAWI ELECTORAL COMMISSION

61. An audit of financial statements of the Malawi Electoral Commission for the financial year ended 30th June, 2013 was completed in October 2014. The audit disclosed weaknesses in financial and internal controls which were communicated to the Controlling Officer in my report dated 3rd October, 2014. The report highlighted the following observations:

**(a) Missing Supporting Documents: MK962,270,180.00**

Treasury Instruction 5.9 (a), states that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An examination of payment vouchers revealed that payments amounting to MK962,270,180.00 in respect of procurement of non-current assets were made without supporting documents. In the absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge to public funds.

## PART IV

### RECOMMENDATIONS AND ACKNOWLEDGEMENT

#### RECOMMENDATIONS

62. In the course of my audit of the 2012/2013 Accounts of the Government of the Republic of Malawi, each Controlling Officer was sent appropriate audit inspection report with recommendations, regrettably, evidence has shown that in certain cases the recommendations have not been given due consideration by the Controlling Officers.

**A summary of recommendations includes:—**

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

- (j) Further investigations should be conducted by special teams on the areas suspected that public resources may have been lost or mismanaged.

### **ACKNOWLEDGEMENTS**

- 63. I wish to place on record my profound gratitude and appreciation to staff in my office who carried out their work diligently despite resources constraints. I also wish to acknowledge the assistance and cooperation given to me during the year under review by the Secretary to the Treasury, the Accountant General and all Controlling Officers and their staff. The cooperation enabled me to obtain information and documentation for the audit services.