



Malawi Government

PERFORMANCE AUDIT REPORT  
ON THE  
MANAGEMENT AND IMPLEMENTATION OF  
LOCAL DEVELOPMENT FUND PROJECTS  
BY  
LOCAL DEVELOPMENT FUND–TECHNICAL  
SUPPORT TEAM



NATIONAL AUDIT OFFICE  
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PERFORMANCE AUDIT REPORT ON MANAGEMENT AND  
IMPLEMENTATION OF LOCAL DEVELOPMENT FUND PROJECTS

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P.O. Box 30045  
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Malawi  
18th May, 2017

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

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

Dear Sir,

Pursuant to the provision of Section 184 (2) of the Constitution of the Republic of Malawi and the Public Audit Act Cap 37:01, I have the honour to submit my report on the results of the Performance Audit on the Management and Implementation of Local Development Fund Projects by Local Development Fund Technical Support Team.

A Performance Audit is an audit of Economy, efficiency and effectiveness with which the audited entity uses its resources to achieve its goals. The prime aim of a performance audit is to ensure better use of resources, improved operations and better decision making in reaching policy objectives set.

Yours faithfully,

S.D.L. KAMPHASA  
*Auditor General*



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## **EXECUTIVE SUMMARY**

Local Development Fund (LDF) was established in 2009 by the Government of Malawi to support and strengthen decentralization process in Malawi. Its overall objective is to empower local communities to take part in decision-making processes through improved local governance and development management, in order to reduce poverty and improve service delivery. The LDF is supported with funding from the Government of Malawi (GoM) and Cooperating Partners.

Local Development Fund Technical Support Team (LDF-TST) is responsible to coordinate functions of resource mobilisation, programming, funds management and accountability. The TST also provides technical advice, controls, checks and balances to District Councils and communities during the implementation of LDF projects. Projects that involve huge contracts are implemented centrally by the LDF-TST.

A Performance Audit was carried out at LDF-TST with an objective of establishing the extent to which the LDF-TST has ensured efficiency in the management and implementation of the projects. In order to achieve the objective, the audit answered the following questions;

1. To what extent has LDF-TST ensured efficiency in the identification and selection of projects?
2. To what extent has LDF-TST ensured timely disbursement of funds?
3. To what extent have LDF-TST ensured effective Project committees?
4. To what extent has LDF-TST ensured timely completion of projects?
5. To what extent does LDF-TST ensure that there is efficient monitoring, evaluation and reporting system?
6. To what extent does LDF ensure that projects are carried out according to set standards?

The audit covered a period of four financial years from 2010/2011 to 2013/2014. To collect data for the audit, documentary reviews, interviews and physical inspection of projects were conducted at the LDF-TST and nine sampled District Councils.



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### **Key Findings**

A review of documents as well as interviews with officers at LDF-TST, District Councils and Communities visited, revealed that the LDF-TST funded and implemented projects without adhering to the set criteria for identification and selection. As a result, projects that were funded were not priority projects as they did not appear in the Urban Development Plan (UDP) and District Development Plan (DDP) and also were implemented on an encumbered land. During field inspections it was discovered that these projects had stalled, failed or been abandoned, resulting in waste of public resources.

It was also established during documentary and file reviews that funds for Public Works Programs disbursed to beneficiaries took an average of 102days contrary to the 41days provided for in the funds flow system. The delays in disbursement of funds to the intended beneficiaries resulted in late cash transfers to beneficiaries which are meant to purchase food and subsidized farm inputs. It was further noted that projects took longer to complete than the specified timeframes resulting in projects incurring extra costs.

Furthermore the LDF-TST monitoring, evaluation and reporting system controls were not adhered to. It was established during interviews and file reviews that there were no adequate supervisions by the DEC, resulting in demolishing of projects due to poor workmanship. It was also established that there was mismanagement of resources at some District Councils e.g. Chikwawa and Mangochi. The LDF-TST failed to enforce the reporting system at District Councils as no quarterly or annual reports were produced by the councils. However, the TST continued to fund the councils yet the funds were not liquidated by the councils.

### **Conclusion**

Based on the evidence presented in the findings chapter, the audit team concluded that there are inefficiencies in the management and implementation of LDF projects. Some of the projects being funded by LDF-TST do not adhere to or comply with the selection criteria that qualify a project for implementation. On the other hand, the monitoring, evaluation and reporting system of the LDF-TST is ineffective. These are the main reasons why some LDF objectives have not been met.



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**Recommendations**

The LDF-TST must only fund and implement projects that have qualified for identification and selection through relevant criteria provided for in the LDF operational manual. The TST must also ensure that funds are disbursed timely to the intended beneficiaries.

LDF-TST should establish a clear reporting structure that can be used for reporting on a regular basis. It must also put in place measures that ensure that supervisions, monitoring and evaluations are conducted timely and according to the set standards in order to avoid mismanagement of resources by council officials.



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**Abbreviations and Glossary of Terms**

ADC	Area Development Committee
AEC	Area Executive Committee
AIP	Annual Investment Plan
CW	Community Window
COMSIP	Community Savings and Investment Promotions
BOQ	Bills of Quantity
LED	Local Economic Development
IGFTF	Inter-Government Fiscal Transfer Formula
FGD	Focus Group Discussions
ESWAP	Education Sector Wide Approach
DAIP	District Annual Investment Plan
DDP	District Development Plan
DEC	District Executive Committee
DOF	Director of Finance
DPD	Director of Planning and Development
DPW	Director of Public Works
KfW	Kreditanstalt für Wiederaufbau
LAW	Local Authority Window
LDF	Local Development Fund
LDF-TST	Local Development Fund-Technical Support Team
MASAF	Malawi Social Action Fund
MGDS	Malawi Growth and Development Strategy
MLGRD	Ministry of Local Government and Rural Development
MoF	Ministry of Finance
NLGFC	National Local Government Finance Committee
PMC	Project Management Committee
PWP	Public Works Programme
VAP	Village Action Plan
VDC	Village Development Committee



## PERFORMANCE AUDIT REPORT ON MANAGEMENT AND IMPLEMENTATION OF LOCAL DEVELOPMENT FUND PROJECTS

### **1. INTRODUCTION**

#### **1.0 BACKGROUND INFORMATION**

Local Development Fund (LDF) was established in 2009 by the Government of Malawi in line with Section 29 (1) of the Public Finance management Act, 2003 as a financing mechanism. Its aim is to mobilize financial resources for equitable economic growth and development to local communities. The Policy basis for budgeting under LDF is the Malawi Growth and Development Strategy (MGDS) which is an overarching policy for development.

Through LDF, the Government promotes harmonization of all community developments and fiscal discipline, improves pro-poor resource allocation, implements plans prioritised in the District Development Plans (DDP) or Urban Development Plans (UDP) and enhance budget public accountability. The resources raised through the LDF are transferred directly to District Councils and communities which is in consistent with the decentralisation program.

As a specifically designed funding mechanism, the LDF finances development projects and capacity building enhancement activities at the District Councils and community levels. The LDF is supported through four funding sources, namely: Government of Malawi (GoM), World Bank, African Development Bank (ADB) and German Development Group (KFW). The funds enhance the capacity of communities to plan, manage and sustain their own development priorities and also improve poor households' incomes and food security as well as contribute to socio-economic infrastructure such as hospitals, schools, police units and growth centres.

For the fund management activities, the Government established a Technical Support Team (TST) which is responsible for the everyday activities of the LDF. The TST is also responsible for mobilization of funds to implement different programs so as to achieve the LDF goals. The programs are; Malawi Social Action Fund (MASAF) 3 APLII funded by World Bank, Local Economic Development (LED) funded by African Development Bank (ADB), Education Sector Wide Approach Project (ESWAP) financed by GoM, Support to Urban Window Projects funded by Germany Partners (KFW), Rural/Open Menu projects financed by the Government of Malawi.



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### 1.1 MOTIVATION

A performance audit on management and implementation of LDF projects was carried out because there was a public outcry at the community levels concerning their involvement in identification and implementation of projects. The communities complained that the District Councils are the ones who are carrying out the projects on their behalf. A story carried out by a local online newspaper highlighted that 71% of LDF projects in Chikwawa district were incomplete due to irregularities. This was attributed to corrupt practices by district council officials and the committees which were handling the projects.<sup>1</sup>

On the other hand, two financial audits conducted by the Auditor General in the Local Development Fund for the years ending December 2013 and 2014 revealed that projects were being abandoned by the contractors or stalled. The reports also depicted poor workmanship on some of the projects.<sup>2</sup>

Furthermore, the LDF received funds from the Government of Malawi (GoM) and the Cooperating Partners (CP) amounting to MK14 Billion and MK29 Billion respectively to support the LDF projects during the period 2010/2011 to 2013/2014.<sup>3</sup>

### 1.2 DESIGN OF THE AUDIT

#### 1.2.1 Audit Objective

The main objective of the audit was to assess the extent to which LDF-TST is ensuring efficiency in the management and implementation of LDF projects so that there is improvement in provision of socio-economic infrastructure and services to achieve community development.

#### 1.2.2 Audit Questions

To achieve the audit objective, the following audit questions were used;

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<sup>1</sup> Nyasa Times On August 25, 2012 (1:11 am)

<sup>2</sup> Financial Audit reports for 2013 and 2014

<sup>3</sup> Local Development Fund; Establishment, successes and challenges pg.16



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1. To what extent has LDF-TST ensured efficiency in the identification and selection of projects?
2. To what extent has LDF-TST ensured timely disbursement of funds
3. To what extent have LDF-TST ensured effective Project committees?
4. To what extent has LDF-TST ensured timely completion of projects?
5. To what extent does LDF-TST ensure that there is efficient monitoring, evaluation and reporting system?
6. To what extent does LDF ensure that projects are carried out according to set standards?

### **1.2.3 Audit Scope**

The audit focused on the Management and Implementation of Projects for a period of four financial years; 2010/11, 2011/12, 2012/13 and 2013/14. The four financial years were selected to establish a trend of how the LDF has performed since its establishment. The audit was conducted at LDF-TST who is also the Auditee, District Councils and Local Communities and other key stakeholders i.e. Ministry of Local Government and Rural Development (MLGRD) and National Local Government Finance Committee (NLGFC).

The team visited 9 sampled districts that represented the whole country namely; Mangochi, Phalombe, Chikwawa, Mwanza, Dedza, Kasungu, Mzimba, Nkhata-bay and Chitipa.

The LDF-TST will be responsible to effect changes based on the recommendations of the audit.

### **1.3 ASSESSMENT CRITERIA**

The criteria for answering the six audit questions were divided into four categories namely: identification and selection, implementation



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of the projects<sup>4</sup>, monitoring, evaluation and reporting system and standard of projects.

### **1.3.1 Project Identification And Selection**

According to Local Authorities Window (LAW), Urban Window (UW) and Community Window (CW) Handbooks, identification and selection of the projects should follow the following criteria;

- Preparation of Village Action Plans (VAPs) based on Village priority. The identified projects should come from Urban Development Plans (UDP) or District Development Plans (DDPs) and prioritized in the Annual Investment Plans (AIPs).
- The communities/LDF-TST should make land available for the projects
- The chosen land should be that which is not encumbered in any way.<sup>5</sup>
- LDF-TST in conjunction with District Executive Committee (DEC) should conduct Desk and Field Appraisals with community members and other relevant stakeholders.

At the end of the field appraisal, if everything is agreed, then the project should be recommended for funding if not, the project is rejected or deferred for more information.

### **1.3.2 Timely Disbursement Of Funds**

As stated in the Funds flow chart disbursement of funds should take a maximum 41 days.

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<sup>4</sup> This category encompasses Timely disbursement of funds, Project Management Committees, Timely Completion of Projects and standard of projects.

<sup>5</sup> The Community Window handbook, page 8



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### **1.3.3 Effective Project Management Committees (PMCs)**

According to the LDF Operational Manual and its subsequent handbooks<sup>6</sup>:-

- Project Management Committee (PMC) is elected immediately after identifying the project idea. Each subproject has a Project Management Committee with delegated authority from the Village Development Committee to organize, plan and implement the community project.
- The PMC is trained by the District Executive Committee in all aspects of project management including financial management, procurement, maintenance, supervision, technical aspects, reporting etc.
- Members of the PMC are required to be available on site every day for monitoring.
- The LDF-TST will be responsible for the overall execution of the works in conjunction with the PMC, manage the other workers and most importantly ensure the technical standards of the project.

### **1.3.4 Timeframe For Project Completion**

Time for completion of Local Economic Development (LED) projects is specified in their specific contractual agreements. For ESWAP it is a requirement that projects should be completed within three months from the start of the project. For bigger projects under Open Menu, time for completion is specified in contractual agreements made before the onset of the project. Smaller projects are expected to be completed within three months.<sup>7</sup>

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<sup>6</sup> LA Handbook, Community Window Handbook and Urban Window Handbooks

<sup>7</sup> Construction of School blocks and Teacher Houses under ESWAP through LDF, September 2014, page....



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### **1.3.5 Monitoring, Evaluation And Reporting Systems**

The criteria for assessing the monitoring and reporting systems is extracted from the LDF Operational Manual which provides for the internal and external periodic assessments and evaluation<sup>8</sup>, Quarterly Reports from District Councils on financial and physical progress, and disbursement principles for each window (CW, LAW, UW, PW).

Monitoring visits to each project are to be conducted monthly by the DEC and Area Development Committee (ADC). The LDF-TST will conduct sample supervision visits to projects at least once in a quarter. The monitoring team checks expenditure against physical progress, technical quality of the project and community involvement and problem solving.

### **1.3.6 Standard Of Projects**

The criteria for assessing the standards of projects will be the Standard Designs and Specifications of the LDF projects which are provided by the LDF-TST. These designs and specifications are accompanied by the Bills of Quantities that specifies what and how much materials are supposed to be procured.

## **2.0 AUDIT METHODOLOGY**

In order to collect data for the audit, the audit team conducted interviews<sup>9</sup>, focus group discussions, documentary review and field visits/physical inspections<sup>10</sup>.

### **2.1 Document Reviews**

A number of reports were reviewed at the LDF-TST to check the frequency of the monitoring processes and the number of projects that LDF had funded during the review period. These documents

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<sup>8</sup> LDF Operational Manual, page 43

<sup>9</sup> Interviews were done at the LDF-TST and LA and the interviewees were personnel who are directly involved in the implementation and monitoring of the projects

<sup>10</sup> Visits to areas in which the projects are being implemented where visited to check the standard and existence of the project



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included quarterly and annual reports. At the District Councils the team also reviewed the individual project files (for projects conducted at the district), Annual Investment Plans and Monthly Financial Reports. This helped the team to gather evidence on the time, progress and challenges met during project implementation.

The team also reviewed financial reports, bank statements and cashbooks to check how timely funds were disbursed to the beneficiaries.

### **2.2 Interviews**

Follow up interviews were conducted to obtain testimonial evidence on how the selected projects were implemented and the challenges that the officers faced during the implementation. At the LDF-TST, interviews were done with the directors of different programs<sup>11</sup>. At each of the nine sampled councils, interviews were conducted with key staff members who were directly involved in the facilitation of the projects and these included; Director of Public Works (DPW), Director of Finance (DOF) and Director of Development and Planning (DPD).

Interviews were also conducted at the councils to check the existence and involvement of Project Management Committees in the communities.

Refer to appendix 2 for the interview schedule

At the community level interviews were conducted with the Project Management Committees at each of the project sites visited. This was done to get an in-depth understanding of the projects as to how the projects were identified to its completion.

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<sup>11</sup> Director of Operations, Director of Urban Window, Monitoring Evaluation Specialist, Director of LA Capacity Enhancement



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### **2.3 Focus Group Discussion**

The Focus Group Discussions were conducted with various community members<sup>12</sup> in Phalombe and Mwanza. This was done to understand the communities' involvement in identification, implementation, monitoring and how they are benefiting from the project.

### **2.4 Physical Inspection**

Physical Inspections were done in each of the districts visited to check the quality and status of the projects being implemented. The selection of the areas to be visited was based on the review of the files presented. The team visited projects which had a lot of issues/irregularities pertaining to how the monitoring and construction of the projects.

### **2.5 Selection Of Districts To Be Visited**

The audit team selected nine out of 29 districts in Malawi. The nine districts were purposefully selected based on their geographical location and their performance for the past four years. Geographical coverage was applied in order to get a wide coverage of implementation of the LDF in District Councils in the country. The purposive sampling was based on performance of the councils for the past four years to learn why others were highly performing while others were not.

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<sup>12</sup> FGDS with Area Development Committee, Village Development Committee, Project management committee and Cooperatives Committees



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**Table 1 below shows LDF projects selected in the nine selected districts**

<b>District</b>	<b>Region</b>	<b>Projects visited</b>
Mangochi	Eastern Region	Misolo, St. Augustine 2, Mtema 2 and Chikomwe
Phalombe	Southern Region	Chitekesa Growth Centre, Mpatasa Health and Chinjika Sch. Block
Chikwawa	Southern Region	Chikwawa Hosp. VIP Ward, Mphimbi, Kandeu and Mzongwe Staff Houses
Mwanza	Southern Region	Chimlango Irrigation Scheme, Muwale Sch. Block and Kalanga Teachers House
Dedza	Central Region	Dedza Govt Sch. Block
Kasungu	Central Region	Chithiba, and Chimwang'ombe Staff House
Mzimba	Northern Region	Manyamula and Kaphuta Sch. Block
Nkhatabay	Northern Region	Kalambwe Sch. and
Chitipa	Northern Region	Chitipa Hosp. Guardian Shelter

Figure 1: LDF Projects Inspected During the Audit

## **2.6 Limitations In Data Collection And Analysis**

i. Non-availability Of Council Officials

Much as the communication was sent earlier to the required officials to be present for the audit, most District Council officials were not present during the time of the audit. This impacted the team in terms of getting the required data needed for the audit as well as clarifications which were needed.

ii. Transfers Of Key Officers At The Council Without Proper Handover Process

In as much as the team was able to find some District Council officials, it was difficult for the team to get clarification on the issues found in the project files. This was the case because there were no proper handovers.



### **3.0 SYSTEMS DESCRIPTION OF THE MANAGEMENT AND IMPLEMENTATION OF LDF PROJECTS**

#### **3.1 Mission**

The Local Development Fund exists to ensure sufficient, harmonized and decentralized development funding for Local Authorities and achievement of improved development outcomes at local and community level.

#### **3.2 Objectives Of LDF**

The overall LDF objective is to mobilize financial resources for equitable economic growth and development in order to reduce poverty and improve service delivery in line with the development aspirations of the country<sup>13</sup>. Its specific objectives are:

- i. Support planning and management of development resources at District Councils and community levels;
- ii. Facilitate the implementation of the Integrated Rural Development Strategy
- iii. Provide resources which ensure that development investments respond to prioritized community development needs;
- iv. Protect financial resources for pro-poor development activities and service delivery at District Councils and Community levels;
- v. Enhance the accountability of District Councils to their constituencies;

#### **3.3 Legal Framework**

The Local Development Fund was established as a Development Fund in line with Section 29 (1) of the Public Finance management Act, 2003 as a basis for financing local development<sup>14</sup>.

The LDF technical support team is mandated to provide a framework for mobilizing and managing development resources for local governments using an Intergovernmental Fiscal Transfer mechanism.

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<sup>13</sup> LDF Operational Manual 5

<sup>14</sup> Public Finance Management Act, 2003 page 20



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### 3.4 Source of Funding

The LDF is funded by GoM and Cooperating Partners (CP) namely; World Bank, ADB and KFW. Table below shows the funding figures for the five projects under LDF for a period of four years.

**Table 2: Funding details by financing source 2010 to 2014**

Source of Funds	Project	2010/2011 MK	2011/2012 MK	2012/2013 MK	2013/2014 MK
World Bank	MASAF APL 3	2,093,165,298	1,997,830,052	9,952,024,591	9,826,182,047
African Development Bank	LED	91,415,835	388,939,631	944,798,886	3,668,701,476
Malaw Government	ESWAP		3,506,470,519	4,742,025,131	2,800,000,000
KFW	Urban Window Projects		71,825,774	234,024,765	346,920,776s
Malawi Government	Open Menu/Demand Driven Projects	1,233,204,039	1,129,441,140	613,595,869	40,000,000
<b>Grand Totals per year</b>		<b>3,417,785,172</b>	<b>7,094,507,116</b>	<b>15,872,873,373</b>	<b>16,681,804,299</b>

### 3.5 LDF Organization Structure

The Secretary to the Treasury is the Chairperson of the LDF.

LDF-TST is responsible for the day to day operationalization of the fund as well as the fund management activities of the LDF. This includes implementation of projects but also works hand in hand with other implementing agencies of LDF, more particularly District Councils. The structure has the Executive Director as its controlling officer at its helm.

District Councils are responsible for implementation of district level projects and provide link between LDF-TST and communities. The District Commissioner/Chief Executive as a controlling officer is responsible for the overall administrative control of the work and staff and answerable for the implementation deliverables.

Refer to Appendix 3 for LDF organogram



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### **3.6 PROCESSES IN THE MANAGEMENT AND IMPLEMENTATION OF LDF PROJECTS**

Implementation of projects emphasises on the need for local development planning that fully encompasses: a bottom up planning process; the need for community input in the planning; the need to link planning and budgeting within the context of District Planning Framework (DPF); and the role of District Councils in service delivery and development planning.<sup>15</sup>

The main objective of the local development planning and budgeting is to derive from the District Councils, priorities to be supported by LDF and thus allocate resources objectively for Integrated Rural Development. The LDF relies on District Development Plans (DDP) or Urban Development Plan (UDP) which serve as a point of reference for effective implementation and monitoring activities and utilization of resources in the District Councils area of jurisdiction.

#### **3.6.1 Project Identification and selection**

According to the Local Development Fund Operational Manual, the management and implementation of the LDF projects starts with project identification. In the identification process the Village Development Committees (VDCs) identify community development needs which are compiled by the Area Development Committee (ADCs). ADCs, with advisory and backstopping services of Community Development Assistants (CDAs) and the Area Executive Committees (AECs), come up with a Village Action Plans (VAP). The VAP are compiled and presented to the full council for prioritization of the projects proposed therein. The proposed projects should have land readily available without any encumbrances. The DEC conducts desk appraisals in which it provides oversight and policy framework to the Council to ensure that projects prioritized are aligned to different sectorial Plans to develop District Development Plan (DDP) and District Socio-Economic Profile. The DEC also

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<sup>15</sup> Local Development Fund Operational Manual



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conducts field appraisals to verify information contained in the project appraisals. Projects that meet the appraisal criteria are selected and approved by the LDF-TST for implementation.<sup>16</sup>

For project to be selected it has to fulfill the following criteria:

ESWAP and Rural/Open Menu projects

- Projects must be included in Annual Investment Plan
- Minimum community contribution of 10% of the total project cost
- Mobilizing community assets and putting them into product use<sup>17</sup>
- Projects must either use standard or specific design

MASAF 3 APL II,

Projects must be Labour intensive with not less than 40% of the project cost going into cash transfers

- The project shall address food security
- The projects shall assist the vulnerable and mitigate the social economic impact of disasters

LED and Support to Urban Window (KFW)

- The project should benefit multiple communities
- The project will have been identified as a priority investment in the Annual Investment Plan
- Infrastructure development projects which will enhance the opportunities for revenue collection for the District Councils
- The projects must be financially sustainable and economically viable and provision for operations for maintenance assured

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<sup>16</sup> LDF Community Window handbook., page 15 and 16

<sup>17</sup> Bricks, sand and quarry stone



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- District Councils should have the capacity to manage the project and involve a defined priority beneficiaries group in identification, implementation and subsequent management

### LED and MASAF 3 APLII–Local Authority Capacity Enhancement Program

- The performance window will have a supply side and demand side in terms of accessing the funds
- The supply side will involve the center (LDF-TST) conducting assessments, capacity building initiatives and provision of rewards.
- Demand side will involve District Councils submitting proposals to the LDF on capacity building

### **3.6.2 Project Approval**

The selected projects are compiled to formulate Annual Investment Plans (AIP) which is sent to TST for approval. TST then submits the AIP to National Technical Advisory Committee (NTAC)<sup>18</sup> for review. NTAC reviews each project according to its sector ministry if it is in line with the ministry's approved Plans. After review, NTAC recommends projects for approval to the TST after which the TST approves to be implemented.

### **3.6.3 Disbursement of Funds**

Funds for implementation of LDF move through the following eight stages

1. Treasury/Donor processes LDF funding request
2. LDF prepares payment instruction
3. NLGFC prepares Credit Ceiling Authority
4. Accountant General authorizes RBM to transfer funds

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<sup>18</sup> NTAC is committee chaired by MLGRD and comprised of members from different sector ministries as well as other Non-Governmental organizations



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5. RBM effects transfer
6. District Council pays beneficiaries/transfer of funds to sub projects
7. PMC implements the project
8. PWP beneficiaries/Contractors

Refer to Appendix 3 for funds flow diagram

Funds are disbursed to the District Councils to be used across the funding windows, based on approved projects. The District Councils open an LDF Bank Account with a commercial bank into which transfer of funds from the Treasury for all Funding Windows are made. The LDF specific financing windows include; Community Window; Local Authority Window; Urban Window and Performance Window. All ledgers for the windows are kept by the District Councils in respect of LDF financing.

- (1) Community Window (CW) and Local Authority Window (LAW): Using the trenching principle Ministry of Finance upon instruction from the LDF-TST release first allocation of 50% of the approved project budget to the LAs. The LA then transfers the funds to communities. The LDF-TST shall only authorize the MoF to transfer the final disbursement to the District Councils after the District Councils have accounted for at least 70% of the first disbursement using agreed reporting lines.
- (2) The Urban Window (UW): Disbursement under this window is based on approved work schedules. The mode of funding is twofold; funding from LDF to District Councils<sup>19</sup> and direct funding to contractors for larger single contracts.

#### **3.6.4 Training and Capacity Building**

When funds have been disbursed for the approved project(s), training and capacity building is provided for effective management. It is a requirement that 10 % of the disbursed project funds should carter for administration and training

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<sup>19</sup> Activities include, road rehabilitation,



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needs for the PMCs and VDCs during project pre-launch with a view to improve performance in project management. These committees are trained in procurement, financial management reporting, and how to use the standard Bill of Quantities (BOQ). Training and capacity building for the District Councils staff is dependent on the supply and demand side of the performance window.<sup>20</sup>

### 3.6.5 Procurement for Materials

Procurement of goods and works using funds provided under the LDF is in accordance with Government of Malawi Public Procurement Act (2003)<sup>21</sup> and its supporting Regulations and Desk Manuals issued by the Office of the Director of Public Procurement. The LED and Support to Urban Window projects (KFW) follow World Bank procurement guidelines.

Materials, contractors and transporters at the community level are procured by a procurement committee with guidance from District Councils. The Bills of Quantities (BOQs) are used to determine the types, quantity and quality of materials to be procured based on each stage of completion. All procurements are facilitated by the District Councils Internal Procurement Committee (IPC).

The Project Management Committee manages the procurement process which involves the following requirements;

- Procurement Planning; during which Bills of Quantities are used to determine the types, quantity and quality of goods to be procured based on stage of implementation.
- Shopping for Goods and Services- The Procurement Committee is required to solicit quotations from at least three qualified suppliers based on simplified quotation form that include a description of the goods or materials and detailed specifications. All quotations are made in writing and signed.

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<sup>20</sup> LDF Operational Manual, page 28

<sup>21</sup> Procurement Act 2003, No.8 Part IV; General procurement guidelines Section 13



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- Local Bidding for Works or Labour Contracts- The bids should be advertised locally using media. The advert should principally target contractors within the vicinity of the beneficiably community. The request for bids shall spell out the work needed, the criteria for selection and the deadline for submission of bids. Applications will be evaluated based on qualifications, experience, skills, price and proximity of the contractor to the project site. Contractors' fees should be agreed prior to the start of the work. Payment should agree and done on stages e.g. at foundation, window, roof and finishing level.

For LED and Support to Urban window Projects (KFW), the TST is responsible for procuring contractors, supervisors and when necessary provide certification of payment to the service providers and processing direct payments.

### 3.6.6 Supervision, Monitoring & Reporting

Supervision, monitoring and evaluation is done to ensure better planning, targeting and feedback to relevant stakeholders and timely decision making inorder to improve service delivery. The LDF-TST monitors and evaluates performance of all the projects even those being directly implemented by the District Councils. This is done to track project performance, progress and quality in order to ensure that designs and specifications for the project are being adhered to.<sup>22</sup>

Monitoring visits to each project are conducted monthly by the District Executive Committee (DEC) and Area Development Committee (ADC). At every stage, the Director of Public Works also monitors progress and certifies completion.

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<sup>22</sup> LDF Community Handbook, page 23



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The LDF-TST and central level stakeholders will conduct sample supervision visits to the project at least once in a quarter. The monitoring team checks expenditure against physical progress, technical quality of the project and community involvement and problem solving.

At the District Council level, Monitoring and Evaluation (M&E) Officers coordinate all M&E activities. The M&E officers provide technical assistance to communities to ensure that all relevant sub-project information is recorded for consolidation at the District Councils and for feedback to other community members. Each District Council produces a quarterly report that covers both financial and physical progress on respective projects which is sent to the LDF-TST.

### 3.7 COMPLETION OF PROJECTS

LDF projects are given timeframes within which they should be completed i.e. Public Works Projects and ESWAP are given 12 days<sup>23</sup> and 90 days<sup>24</sup> respectively. The time limits are given in order to curb for unforeseeable circumstances such as increased project costs due to inflation which may lead to projects being stalled and abandoned.

### 3.8 QUALITY CONTROL

Quality control is the process of ensuring that high quality product is achieved by adhering to prescribed standards and specifications.<sup>25</sup> Quality control is done at the critical project delivery stages, thus checking expenditure versus physical progress, community participation and contribution.

To achieve quality control the LDF approach emphasises on five elements of quality control cycle including the appropriate use of designs, provision of guidance on appropriate construction materials through training, procurement, selection of suitable contractors/artisans and undertaking adequate supervision and technical backstopping. Refer to the figure below

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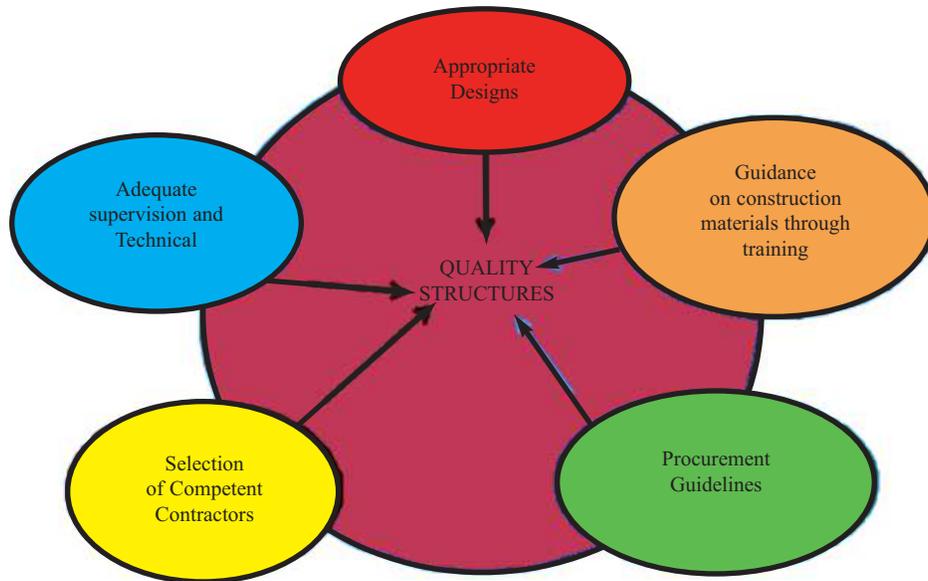
<sup>23</sup> LA Window Handbook

<sup>24</sup> Community Window Handbook

<sup>25</sup> LDF Community Window Handbook, September 2009, page 23



Figure 1: Quality Assurance Cycle



In ESWAP projects key elements of Quality Control include:<sup>26</sup>

- Standard designs for teacher houses, classroom blocks and latrines
- PMCs are trained on the basics of project management and supervision
- Training of the DPW at the council on project management and supervision
- Issuance of procurement guidelines and technical backstopping from the council on procurement
- Only competent contractors are required to be selected. These contractors are required to be oriented on the designs and drawings and other technical aspects of construction by instructors from technical colleges.

<sup>26</sup> Construction of School blocks and Teacher Houses under ESWAP through LDF, September 2014, page 11



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### **3.9 OTHER KEY STAKEHOLDERS**

Ministry of Local Government and Rural Development (MLGRD)

The ministry of Local government plays a key role in the implementation of the LDF activities. The MLGRD has the following functions;

- i. Provision of leadership in the institutionalization of the LDF as a mechanism for local development planning and financing through local government
- ii. Provide policy directions on sector devolution of functions and resources for better local service delivery
- iii. Provide a critical linkage between District Council Planning process and National Planning process
- iv. Managing the annual performance assessment of District Council
- v. Coordinate and provide capacity building for better service delivery
- vi. Oversee the implementation of the Performance Window of the LDF

National Local Government Finance Committee

The NLGFC is responsible for:

- i. Advising MoF on the inter-Government Fiscal Transfer Formula (IGFTC) for allocating financial resources to the District Councils in line with the LDF principles and guidelines.
- ii. Regulating the functional of District Councils with respect to resource budgeting, mobilization and utilization
- iii. Ensuring fiscal discipline for District Councils in the implementation of the LDF
- iv. Ensuring the LDF financial management system is incorporated into the Integrated Financial Management System and rolled out to District Councils



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## 4.0 FINDINGS

### 4.1 Non- Adherence to Criteria for Identification and Selection of Projects

According to the Urban Window Handbook the LDF-TST is required to carry out an assessment of the LED and Urban Window project applications in order to check the completeness of the documentation provided, eligibility of the District Councils and the feasibility of the project submitted.<sup>27</sup> The TST together with the District Councils are therefore required to undertake a desk and field appraisal of the proposed project using set criteria.

However during the audit it was established that, the criteria which were set to be followed in the identification and selection of projects were not followed as presented by the findings below

#### 4.1.1 Implementation of projects that are not prioritised in the DDP and UDP

To qualify for the Urban Window, the project being applied for should be among the list of eligible projects prepared by the District Council. When undertaking the assessment, the project selected should be those that are prioritised on the projects list. The project should also have been included and prioritised in the Urban Development Plan (UDP), Urban Structure Plan (USP) and District Development Plan (DDP).

Interview with the Phalombe DPW revealed that the district did not have the UDP and USP but only the District Development Plan (DDP). A review of the DDP however did not include Chitekesa Rural Growth Centre<sup>28</sup>.

Through interviews, the Village development committee (VDC) and beneficiaries from the area expressed concern that though they are doing business they have problems in selling their produce. This is because the project is situated 30km away from the tarmac road such that many traders fear

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<sup>27</sup> Urban Window Handbook, page 15

<sup>28</sup> Chitekesa Rural Growth Centre is being constructed in Phalombe district under the Urban Window projects. Phalombe District Development Plan 2010-2013



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the Growth Centre is very far to reach. The area is also not connected to electricity and water system is not yet in place making the project not economically viable as required in the manual<sup>29</sup>

*Management Response: It should generally be understood that the Criteria established in the Urban Window Handbook was in May, 2011 whilst all the projects under review were identified and selected in 2010. The Urban Window handbook was meant to ensure that a proper identification and selection of projects should ideally follow the now established criteria.*

*For other community projects under the community window, in the absence of the DDP there was a process which ensured that the projects that are implemented represent the community priorities. This was being done through the District Consultative Forum. The Forum consisted of the chiefs, M.Ps and Sector heads. Projects were coming from the communities through the extension workers. The sector heads would then undertake an appraisal of the sub projects and consolidate them and present the same to the consultative forum. The consultative forum would then confirm and prioritize the sub projects. The projects would then be submitted to the LDF TST for funding with minutes of the consultative forum attached. This was the process of confirming community and district priorities. Based on what is indicated above, this was the more reason why the Project had to prepare an Urban Structure Plan (USP) for Chitekesa in order to ameliorate and establish that the Rural Growth Centre has for its own the USP that would guide the general urban development planning activities. In fact the USP pointed out in its plan that accessibility to Chitekesa was very difficult and that the centre would not be fully developed if the Mwangi – Chitekesa was not considered as a vital sub project. The said road became part of the sub project that was identified and selected by the community.*

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<sup>29</sup> Urban Window Handbook page 12



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*Please take note Chitekesa is 12 km from the tarmac road and was selected based on the physical planning guidelines. The project upgraded the 12km road to make Chitekesa accessible.*

**4.1.2 Projects being implemented on encumbered/not free Land**

According to LDF Urban Window Handbook projects that are selected for implementation are supposed to have land that should not be encumbered in any way. Any land to be used must already belong to the community or it must be known that legal ownership can and will be transferred to the community prior to commencement of the intended project.<sup>30</sup>

Through interview with Council officials it was revealed that some projects were being funded when land is not free contrary to the requirement.

**Table 1 below shows projects in various districts that were funded without having free land;**

**Table 3:**

Project Name	Location/ District	Finding	Effect
Mtangatanga Primary School-Teachers House	Mzimba	Project was funded while land had not been secured	Construction works delayed. The project took 2 years to be completed (2012-2014) instead of 3 months.
Chitekesa Growth Center-Staff Houses for District Council Sub-Office 12	Phalombe	Project for 3 staff houses was funded but the land had not been identified	Construction works not yet started at the time of the visit. The funds were diverted to the Water Drilling System project <sup>31</sup>
Chitekesa Growth Center-Water Drilling System	Phalombe	3 Boreholes were drilled on land which was not free.	The project was stopped by Villagers as they were not yet compensated as at the time of audit.

<sup>30</sup> CW Handbook page 8

<sup>31</sup> This was made known to the team by the VDCs who had been informed by the TST that funds for the house project were no longer available.



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Figure 2 below shows one of the boreholes drilled under the Chitekese Water Drilling System at a standstill.



One of the three boreholes which was drilled in Khamula Village under Chitekese Water project

*Management Response: All projects were demanded by the communities and the sites chosen were matters already agreed by the communities themselves. The 3 staff houses that were not constructed due to non-availability of the land only confirms that the criteria was being followed. Regarding the drilling of the boreholes, the matter was due to delayed payments of Compensation by OPC, but the matter was finally resolved and the boreholes are up and functional.*



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**4.1.3 Implementation of a project without conducting desk appraisals in conjunction with DEC**

According to Urban Window handbook, the LDF-TST is supposed to conduct Desk Appraisal in conjunction with DEC before approval and funding of any project.<sup>32</sup>

Interview with District Water Officer who is a member of DEC in Phalombe revealed that TST implemented the Chitekese Water project without conducting desk appraisal in conjunction with DEC. The officer stated that LDF-TST and their contractor went ahead to construct a water tank costing over K198 million<sup>33</sup> on a site where the water office and other agencies (COMWASH) had earlier on constructed a tank which failed to operate. The Water department said this had failed due to gravitational make-up of the site and therefore would not recommend the contractor to do likewise.

However during a visit to the site, the team noted that the TST and its contractor went ahead to construct another tank just adjacent to the former which also failed to bring water. This resulted in waste of resources invested as the tank is not operational. Failure to bring water into the tank from the Thuchila gravity fed Phalombe major<sup>34</sup> the LDF-TST in conjunction with the contractor embarked on a new project to drill boreholes so as to bring water into the tank which at the time of the audit was stalled as the boreholes were drilled on encumbered land.

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<sup>32</sup> Urban Window Handbook page 18, figure 5

<sup>33</sup> Chitekese Water Supply Contractor No: LDF/LED/CHITEKESA/4W

<sup>34</sup> The main water source in Phalombe is Thuchila major which is gravity fed system



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**Figure 3 below shows the new Water tank along with the old one**



*The picture above shows new water tank (square) alongside  
the old tank (oval)*

*Management Response: The location of the Water Tank at Chilayeni had nothing to do with a failed gravitational make-up of the site. In fact the location was previously firmly ascertained as the best location. The problem of the tanks not being fed with water was resulting from vandalism of the feeder pipes along the line from the Thuchila River where communities simply blocked the pipes for their own use in the upper land. It is a matter of civic education to the communities and not a technical failure and poor location of the tank site. New boreholes were drilled near the tank sites and the water supply system is functional.*



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**4.1.4 Implementation of Projects That Are Not Community Demand Driven**

According to the LDF Operational Manual, projects implemented under the LDF are supposed to come from the DDP.<sup>35</sup> This is to ensure that projects implemented are solely community demand driven and prioritised by the communities to address their needs. Additionally, before the projects are selected for implementation, DEC is required to undertake field appraisals to ascertain communities' readiness to participate and contribute in the implementation.<sup>36</sup>

A review of the sample from 9 districts visited during the audit showed that, only 3 districts (Phalombe, Nkhata-bay and Kasungu) had implemented projects from the DDP. However, 86 percent of the projects in all 9 districts were implemented without undertaking field appraisals. It was further noted that 73percent of the projects that did not originate from the DDP, had poor community contributions which hindered implementation and resulted in the projects exceeding their timeframes. Additionally, it was established that in 77percent of the projects that had not originated from the DDPs, had poor contributions and also exceeded timeframes, field appraisals had not been conducted.

*Management Response: The finding is noted. Districts will be encouraged to update their DDPs and keep appraising projects*

**4.2 Delay in Disbursement of Funds**

The LDF funds move through eight stages from the financing source i.e. Malawi Government or Cooperating Partners designated account to the beneficiary LA/communities.<sup>37</sup> It was revealed that there were inefficiencies and delay in the fund flow system as explained below

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<sup>35</sup> LDF Operational Manual page 18

<sup>36</sup> LDF Operational Manual page 19

<sup>37</sup> LDF establishment, successes and challenges, page 17



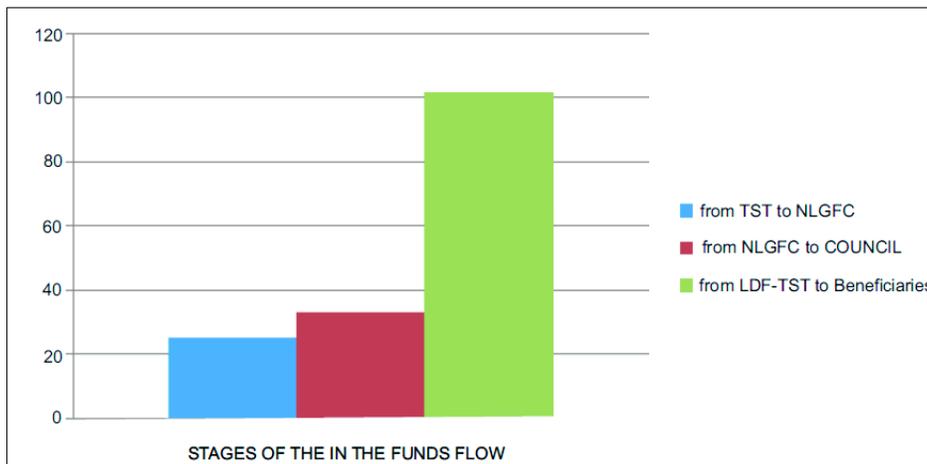
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**4.2.1 Number of days taken to release funds to beneficiaries**

According to the LDF Financial Management Manual, funds for the implementation of projects are supposed to take a maximum of 41 working days for the payment to reach intended beneficiary<sup>38</sup>.

However inspection of files at LDF-TST, NLGFC and bank statements belonging to LA revealed that funds actually took an average of 102 days than the required 41 days stipulated in the manual.<sup>39</sup> The delays were experienced in all of the eight stages of the funding flow. However, it was noted that more delays were experienced during disbursement of funds from LDF-TST to NLGFC and NLGFC to LA. These two stages took an average of 58 days.

The graph 1 below shows the average number of days taken in disbursement of funds from LDF-TST to NLGFC, NLGFC to Councils and from LDF-TST through to Beneficiaries.



<sup>38</sup> An Outlook of the LDF Funding Mechanism 2009-2014, page 17.

<sup>39</sup> Based on a sample taken from 5 districts (Kasungu, Mzimba, Phalombe, Mangochi and Dedza)



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Delay in disbursement of funds from LDF-TST to the intended beneficiaries caused some projects which were seasonal in nature fail to meet their intended objectives.

*Management Response: There are many players involved in fund transfer to the councils, while the LDF initiate the transfer process it has no control over other institutions like NLGFC, Reserve Bank, Accountant General and Malswitch who also play their part in this chain. Most of the delays are systemic in nature and were beyond LDF. However, there has been an improvement and it takes about 14 to 21 days for the funds to reach the councils.*

### **4.2.2 Failure of Public Works Funds to meet its objectives**

Cash transfers for Public Works Program are provided in two cycles. The first cycle runs from December to January (from council to beneficiaries) and is aimed at helping the beneficiaries to purchase food and subsidized farm inputs to increase house hold calorie consumption and enhance farm productivity<sup>40</sup>. The second cycle incomes are expected to go mainly towards savings and investments to facilitate long term household recovery initiatives.

A review of 2012-2013 financial year Cashbooks and Beneficiaries' Register List of projects at Dedza District Council revealed that while works were carried out in December and January for the first cycle, the actual payments to the beneficiaries which were supposed to be made in December were made in March. As a result beneficiaries failed to procure the subsidized farm inputs.

*Management Response: This is related to delays in fund release and implementation. Districts wait until they receive funding to start planning for PWP implementation. Implementation also takes time and it takes time to pay the beneficiaries. Councils have been advised to do preparatory activities before the funds are sent.*

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<sup>40</sup> Public Works Sub Project Implementation Guidelines 2012, page 3



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### **4.3 Council Official undertaking PMCs duties**

The implementation of the LDF projects at the community level requires each subproject to have a Project Management Committee (PMC) to facilitate the participation of communities in development issues. The PMCs are also effective in implementing community managed projects.<sup>41</sup> The PMCs are also responsible to procure project materials according to the procurement Plan and the bills of quantities as prescribed in the subproject costing.<sup>42</sup> This is to encourage ownership by the community members and that it be done according to the conditions of that area.

During a visit to Chikwawa, it was established that there was no project management committee for the Hospital VIP Ward project. The Director of Public Works stated that it was difficult to mobilise community members and that it was easy for the council to manage the project themselves. All the duties of implementation and overseeing the projects were solely done by the council as a result the project which was implemented was different from what was supposed to be implemented (Guardian shelter or maternity wing or staff houses).<sup>43</sup> As at the time of visit the project stalled because the funds were not enough to cater for the VIP ward project.

It was also revealed through interviews with DPW that some of the duties of the PMCs were being undertaken by the council officials. The council officials were recruiting contractors to carry out the community projects and also procuring materials. For instance, during interviews with project management committees in Mtema II, Misolo and Kandeu it was revealed that the PMCs were only asked to collect quotations from 3 suppliers already identified by the council officials. The purchasing and transportation of materials was done by the councils.

In Misolo classroom block project the floor had developed cracks within a period of 4 months as floor wire was not procured while in Kandeu the contractor abandoned a house project before completion

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<sup>41</sup> Local Development Fund operational Manual, page 16

<sup>42</sup> LDF Operational Manual, September 2009, page 31

<sup>43</sup> Requirements as per Community Window Projects at Health Facilities



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and the community identified another contractor<sup>44</sup> to take over. The project which also included a VIP latrine was not yet completed at the time of audit. The latrine did not exist and the second contractor had not yet been paid contrary to the contractual agreement.

Interviews with PMC at Mtema II revealed that some of the materials procured by council officials did not match up to the BOQs specifications set by LDF-TST. The items were later returned back by the PMC and this contributed to the delay in the commencement and completion of project.

A review of files for the above mentioned projects revealed that the committees requested for extra funding to complete the projects because the prices for the materials had gone up.

**Figure 4: The Picture below shows a house at Mtema II school which did not receive all required materials**



*Figure 4 shows the floor of the house in a dilapidated state*

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<sup>44</sup> Second contractor for Kandeu House project was Brazio Chimimba



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*Management Response: The case that has been cited of Chikhwawa Hospital VIP wing was not funded by LDF. The LDF operates under the decentralised system where councils establish PMCs for every sub project. The PMCs have the overall mandate of project implementation including procurement supervision and reporting. It is only in one isolated incidence, when the Ministry of Education recommended the specialized door and window frames to be used in school blocks under ESWAP, where an exception was made where the LDF instructed the councils staff to procure these specialized type door and window frames on behalf of the councils because the types was not readily available all councils.*

### **4.4 Projects not completed within the specified timeframe**

The agreement with contractors awarded LDF sub projects in the PSSHP, ESWAP, Open Menu is that the projects are to be completed within 90 days.<sup>45</sup> The 90 days period serves to avoid the project incurring extra costs as a result of the rising inflation. Additionally, it also ensures that community members are not deprived of time to work on their personal commitments in the name of contributing to the project.

A review of all project files which had information on starting and completion dates available, showed that all projects exceeded 90days with only Makumbi (Classroom block) project in Nkhatabay which was completed within the time frame. One of the projects that the team visited is Mpatsa Gurdian Shelter project in Phalombe and noted that the project started in 2010 under the LDF Open Menu but was not yet completed as at the time of audit. According to the DPW,PMC and hospital officials, the delay in completion of this project was attributed to fact that it was not this project which the council had approved but the Staff House Solar Installation project.

In an interview with the DPW, it was confirmed that the funds were diverted from the initial project to the latter project after the MP had promised to add more funds and had compelled the community leaders to turn down the initial project. Consequently, the bags of cement and paint which were procured for the project have all been

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<sup>45</sup> Contractual Agreement Forms



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expired and the project abandoned. Refer to figure 5 for a picture of mpatsa guardian shelter which was abandoned.

**Figure 5: picture of abandoned Mpatsa Gurdian Shelter**



*The picture above shows an abandoned guardian shelter  
at Mpatsa Health Centre with one door frame stolen*

### **Chitekesa Water Supply Project**

At Chitekesa Rural Growth Centre Water Supply Project in Phalombe district, the contractual agreed duration was 9 months starting from 24/06/2013 to March 2014.<sup>46</sup> The quarterly report further stated that the project should be 95% complete with tank and pipe works completed as at 31/03/2014. The water project is set to supply water at the Chitekesa Rural Growth Center i.e Health Center, Milk Bulk, Pegin Pea Factory and D.C. Sub-Office.

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<sup>46</sup> LDF Quarterly Report Jan-March 2014 pg. 24; table 12



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However, during the team's visit to the site on 21/01/2016, it was noted that the pipes work had not yet been completed. The team visited the sites namely Chilaine, Nkhumbwa and Khamula Villages where the water tank and boreholes were located. As at the time of the audit the project was at standstill and according to Interviews with the DPW this was because the communities had not yet been compensated.<sup>47</sup> The delay in completion of the project has contributed to delay in opening of facilities at the Rural Growth Center.

*Management Response: The finding is noted. Chitekesa Water Supply Project: The Contractual obligation was met within the timeframe, it was only the functionality i.e. the launching/opening of the water supply system that could not be done until OPC paid the respective compensations. Compansations were done and the water supply system is now functional*

### 4.5 Lapses in the Monitoring and Reporting System

#### 4.5.1 Inadequate supervision and monitoring of the projects by District Executive Committee

According to LDF community window handbook page 23, the District Executive Committee is required to conduct monthly visits to each of the project sites. The Director of Public Works is also required to monitor progress at every stage, and certifies completion of project stage. Each PMC is supposed to maintain a visitors' book to act as a source for noting who visited the project.

During a review of the project's file, it was noted that there was no documentation to show any supervisions by the DEC. The visitors' book showed that the DPW only visited the project during its launch. For instance, in Mzimba district at Kaphuta School Block project, the contractor had to demolish the walls at window level after it was noted that the initially constructed walls were not to the required standard. According to the PMC, this was due to lack of technical supervision during the first two phases of the implementation.

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<sup>47</sup> Interview minutes with the DPW in Phalombe on the Chitekesa Project



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*Management Response: The role of DEC is indeed to monitor projects' progress for quality assurance. LDF provides resources for this purpose. Councils will be reminded of this need and encourage them to do so.*

### 4.5.2 Failure to produce Quarterly Reports

The LDF-TST M&E system is designed to track both physical and financial progress by generating quarterly reports from M&E officers at District Councils.<sup>48</sup>

During the four year period under review the 9 sampled District were supposed to produce a total of 144 quarterly reports. However the team was provided with a total of 35 reports from three districts namely; Kasungu (3) Nkhata Bay (16) and Mwanza (16). The team also requested for the Districts Councils quarterly M&E reports from the LDF-TST M&E Specialist, however these were not provided. The team established through interviews with the M&E officers at the Councils and LDF-TST M&E Specialist that the councils failure to produce the reports was due to lack of LDF enforcement mechanism following the abandonment of the Performance Window.<sup>49</sup>

*Management Response: The finding is noted and LDF has now put in place enforcement mechanisms, such as reports production a condition for funding.*

### 4.5.3 Non adherence to the trenching principle

The LDF-TST is supposed to use the trenching principle in transferring funds to District Councils which requires the Councils and communities to account for 70% of an initial 50% tranche before disbursement of the balance.<sup>50</sup> This is to enhance reporting and control systems so that there is accountability of LDF funds at both District Councils and community levels.<sup>51</sup>

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<sup>48</sup> LDF Operational Manual pg. 42

<sup>49</sup> Performance Windows rewards good performance and punishes poor performance

<sup>50</sup> LDF Operational Manual pg. 31

<sup>51</sup> LDF Financial Management Manual pg. 17



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The team however could not find any reports of the initial tranches to all the projects before the transferring of the remaining tranche. The sub-project accounts details revealed that all projects' funds were being disbursed at once at all levels. Additionally, the Executive Director of LDF-TST, The Finance Management Director at TST and Directors of Finance at sampled councils all accepted the fact that the tranching principle was not adhered to.<sup>52</sup>

Failure to account for LDF funds has led to shortfalls in accountability and transparency as councils e.g. Kasungu had fallen victim for not reporting how they managed and spend funds amounting 100 Million Kwacha<sup>53</sup>.

*Management Response: This was stopped due to inflation that the country was experiencing over the past few years. The high inflation coupled with delays in fund transfers made the tranching arrangement difficult. It meant long lapses in project implementation which could have led to cost escalations and failure to control project costs.*

### 4.6 Sub-standard and Low Quality Projects

#### 4.6.1 Failure to adhere to standard designs drawings

Community artisans are provided with standard designs drawings and BOQs which are to be followed during implementation of projects<sup>54</sup>

Contrary to this, it was noted through the review of project list in various districts that there was non adherence to standards. For example, In Chikwawa at the district hospital, the team visited a 'Very Important Persons' (VIP) ward sub- project being constructed under the Open-Menu window. In an interview with the DPW the team noted that the ward was intended for high profile people only and it was requested by the chiefs. The open menu projects allocations report showed

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<sup>52</sup> Interview Minutes with the Director of Financial Management and Director of finance in districts

<sup>53</sup> The Nation Newspaper Oct 13, 2014

<sup>54</sup> LDF establishment, success and challenges page 10



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that LDF had funded 5million Kwacha which was meant for open menu projects in the district. The VIP wards are not among the list that the window funds.

**Refer to figure 6 below for a picture of a 'VIP" ward at Chikwawa Hospital**



The DPW confirmed in a meeting that the project did not have a project file. Furthermore the project which commenced in April 2014 was still at a stand still as at 26 January 2016. The DPW and Hospital Assistant Administrator, explained to the team that project funds had been exhausted and that they were seeking for additional funds from other sources e.g Illovo .

*Management Response: The observation is correct and the LDF will follow up with the District to hear their side of the story as to why they included this project when it was not among the list of approved project by the LDF.*



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#### 4.6.2 Failure to Achieve Value for Money

One of the three planning core principles of LDF sub projects requires that maximum value for money in the delivery of public goods and services is obtained.<sup>55</sup> Obtaining value for money requires that the final output should be of reasonable quality as well as durable.

The team decided to assess value for money by benchmarking some of 2010-2014 LDF well-constructed structures against LDF problematic structures constructed within the same period<sup>56</sup>. Out of 16 school infrastructure projects physically inspected during the audit, it was only 4 structures which were still in good condition<sup>57</sup>. For instance Chinjika classroom block in Phalombe was constructed from 2012 and completed in 2014. The classroom had only been used for one year but the condition of classroom was in a delapidated state as shown by the figure 7 below.



*Figure 7: A classroom block has only been in use for one year in a dilapidated state*

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<sup>55</sup> LDF Financial Management Manual pg. 21

<sup>56</sup> Working Paper 15

<sup>57</sup> Main study working papers



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The figure above shows the classroom block at Chinjika Primary School in Phalombe with cracked floor, walls substandard ring beam.

*Management Response: This related to finding 4.5.1. Without supervision, quality is compromised. The LDF will encourage councils to supervise projects and intensify implementation support missions to the councils.*

### 4.7 OTHER OBSERVATIONS

#### 4.7.1 Poor Record Keeping

According to Treasury Instructions 2013, every controlling officer should 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.<sup>58</sup>

A review of documents at the councils visited revealed that project files were not maintained for most of the projects. Some of the project files maintained did not have the required documentations e.g. bank account application form, land agreement form, contract agreement, field and environmental appraisal form, supervision and monitoring report and certificate of project completion. Furthermore, in the 9 councils visited the team was not provided with some of the documentation and records requested such as DDPs/AIPs, VAPs, Quarterly Reports etc.

This limited the team's scope in selecting the projects to include on the study sample as well as necessary information that could be used as evidence.

*Management Response: the LDF noted this problem and conducted a record keeping training to all councils.*

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<sup>58</sup> Treasury Instruction 2013 (5.15.1)



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## **5.0 CONCLUSIONS**

Based on the evidence presented in the findings chapter, the audit team concluded that there are some inefficiency in the management and implementation of LDF projects. Some of the sub-projects being funded by LDF-TST do not adhere to or comply with the set criteria that qualify a project for implementation. On the other hand, the monitoring, evaluation and reporting system put in place to ensure that LDF objectives are met are not being adhered to by the councils. These are the main reasons why LDF is experiencing challenges in achieving some of its objectives. More specific conclusions are as follows:

1. The funding and implementing of projects which do not comply with the criteria for identifying and selecting LDF projects lead to untimely completion, stalling and abandoning of some sub-projects. The audit team concluded that this results in LDF failing to attain infrastructural development that improves service delivery and economic growth. It also leads to waste of public resources invested in those projects.

The auditors further concluded that the non-compliance to the selection criteria leads to implementation of projects which are not community demand driven as well as priority needs, hence contradicting the decentralization policy. Furthermore, this contradicts LDF objectives which are to support planning and management of development resources at District Council and community levels, and to provide resources which ensure that development investments respond to prioritized community development needs.

2. Based on auditors' findings, it was established that the fund flow system is long as it has to go through many processes. Nevertheless it was concluded that delay in the flow of funds from LDF-TST through to the beneficiaries resulted from the inefficiencies in transferring of funds from LDF-TST to NLGFC and from NLGFC to District Councils. These inefficiencies resulted in delays in implementation and completion of projects. The auditors further concluded that the delays led to mismatch



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between PWP beneficiaries' access to funds and objectives of the program and if this continues future Public Works Program projects will not cushion poor populations from the economic challenges facing the country. Additionally, the objective to increase incomes for poor households and reduce insecurity through expansion of opportunities in labour intensive activities will not be met.

3. It was concluded that the LDF does not have an effective monitoring, evaluation and reporting system. The system does not have effective measures to bring to book council officials' misuse of resources and roles/duties. The lack of adequate supervisions and monitoring which has resulted in structures of poor quality and those that do not follow LDF standards. This negatively impacts the achievement of value for money for the LDF projects.

The reporting side of the system is neither complied with nor enforced at both central (LDF-TST) and Local Authority (District Councils and Communities) levels. The auditors concluded that the system fails to advance accountability and transparency in the physical and financial aspects of the management and implementation of LDF projects. Continuous provision of funds which are not liquidated by the users as well as failure to produce and follow-up on reports will result in failure to protect financial resources for pro-poor development activities and service delivery. It also leads to challenges in enhancing the accountability of District Councils to their constituencies.

## **6.0 RECOMMENDATIONS**

The findings and conclusions highlighted that there are inefficiencies in management and implementation of LDF projects. The Office of the Auditor General therefore, believes that the inefficiencies will be minimized and that Value for Money will be achieved if the recommendations presented below are implemented:



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**1. IDENTIFICATION AND SELECTION OF PROJECTS**

- The LDF-TST must only fund and implement projects that have qualified for identification and selection through relevant criteria provided for in the LDF operational manual. The TST should also ensure that all relevant stakeholders are fully involved in the identification and selection process. This will ensure that projects do not face resistance and inefficiencies during implementation phase.
- District Councils must maintain and update DDPs/AIPs and these must be compiled from VAPs. All projects proposed to the TST and actually implemented under LDF must originate from these documents so that they address community priority needs.

**2. DISBURSEMENT OF FUNDS**

- The LDF-TST must ensure that it minimises the days taken for funds to flow in all 8 stages from an average of 102 days to the required 41 days. Furthermore, it should make timely follow up to ensure that NLGFC speed up the processing of transferring of funds to District Councils to avoid unnecessary delays in order to ensure that PWP programs benefits the communities.

**3. EFFECTIVE PROJECT MANAGEMENT COMMITTEES (PMCs)**

- LDF-TST should encourage district councils to refrain from carrying out duties of the communities' project committees like procurement of contractors and materials rather they should provide technical advice.
- The District Councils should ensure that their officers refrain from undertaking duties of the PMCs as this contradicts the decentralisation policy as well as LDF objectives. The officials should restrict to their roles, duties



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and responsibilities as provided for in the Manuals that guide implementation of LDF projects.

**4. MONITORING, EVALUATION AND REPORTING**

- The LDF-TST must put in place measures that ensure that supervisions, monitoring and evaluations are conducted timely and according to the set standards. The TST must also enforce record management as these form evidence that supervisions and monitoring indeed took place. Additionally, it may also consider empowering communities/beneficiaries to directly inform the TST when supervisions by the council officials are not being adequately undertaken with reference to standards provided for in the supervision, monitoring and evaluation guidelines.
- LDF-TST should establish a clear reporting structure that can be used for reporting on a regular basis. It also needs to consolidate all reports with the help of M&E officials at District Councils in order to track the project status and impact on communities.
- The LDF-TST must put in place measures that enforce reporting at all levels. It should return to the tranching principle as it encourages liquidations which provides both financial and physical progress of projects. It should also consider reviving the Performance Window so that councils are compelled and motivated to produce reports.



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**APPENDICES:**

**DOCUMENTS REVIEWED AND REASONS**

**APPENDIX 1**

<b>Documents</b>	<b>Reason</b>
Quarterly Reports, Annual Reports	To get information on the progress, achievements and challenges
Local Authority Window Handbook, Community Window Handbook, Monitoring and Evaluation Framework	To know the extent to which Government supports the programme
Standardised BOQs Forms	To get more information on the costing of projects
Indicative Planning Framework	To get information on the provision to District Councils with predictable resource allocations
Community Readiness Form (Field Appraisal Forms)	To get more information on how the communities prepare in readiness for projects i.e. contributions made
District Development Plan(DDPs)	To ascertain if the projects being implemented originate the DDPs and VAPs
Project File M&E Reports	To get information on the progress, achievements and challenges
LDF Establishment, Successes and Challenges	To find more information on Establishment, Successes, and Challenges that have been encountered by LDF TST
Annual reports	To get an understanding of the programme
Operational Manual	To get information on guidelines on the implementation of LDF projects



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**Appendix 2: LIST OF INTERVIEWEES AND REASONS FOR  
INTERVIEWS**

**INTERVIEWEE**

Director of Planning and Development (DPD)

Director of Public Works (DPW)

Director of Finance (DOF)

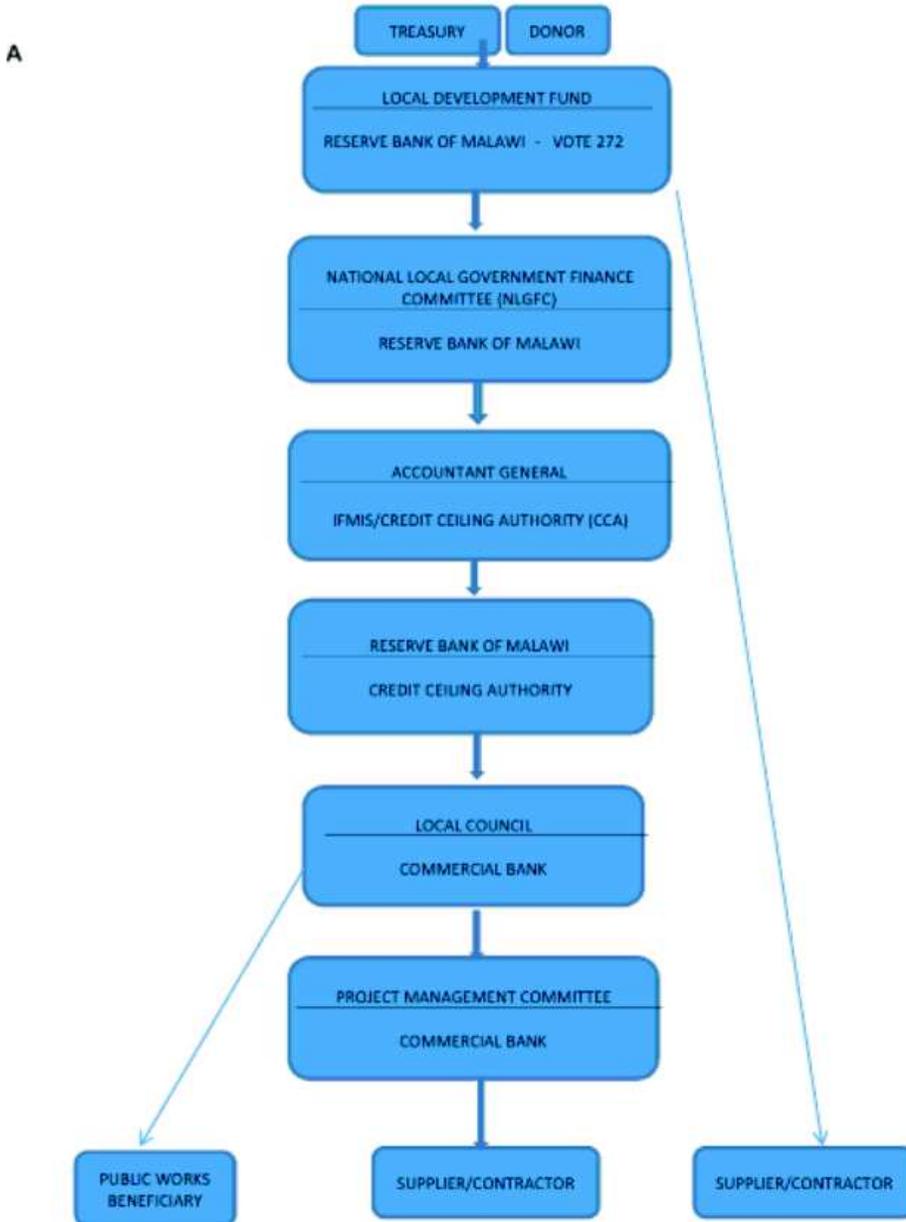
**INTERVIEW PURPOSE**

- To get clarification on the information which was missing in the project file
- To ask for clarification on the information in the project files
- To get clarification on some information



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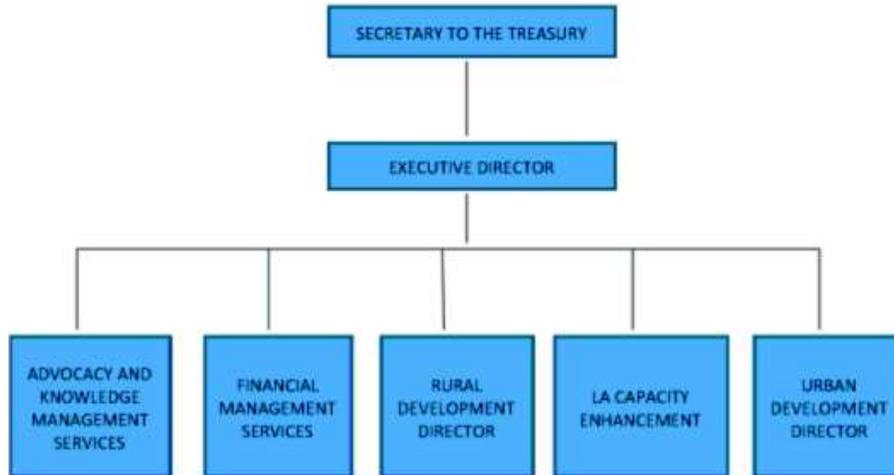
Appendix 3: LDF Funding Flows





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**Appendix 4: LDF Organogram**





REPUBLIC OF MALAWI

PERFORMANCE AUDIT REPORT

ON THE

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BY

LOCAL DEVELOPMENT FUND–TECHNICAL  
SUPPORT TEAM

National Audit Office  
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