

**REPORT OF THE AUDITOR GENERAL**

**ON THE**

**COMPLIANCE AUDIT OF LOCAL**

**COUNCILS**

Financial Year Ended 30th June, 2018

## NATIONAL AUDIT OFFICE

- VISION STATEMENT** : “To be an independent Supreme Audit Institution that promotes good governance.”
- MISSION STATEMENT** : “To provide assurance on accountability, transparency, integrity and value for money in the management of public resources to all stakeholders through quality audits.”
- CORE VALUES** : Professional competence, behaviour and due care, Integrity; Objectivity; Independence; Confidentiality; Transparency and Accountability; Inclusiveness, Creativity and innovation and Public Interest oriented.

Telephone No: +265 1 770 700  
Facsimiles : +265 1 773 071  
              : +265 1 774 138  
              : +265 1 776 125  
**e-Mail** : **nao@eomw.net**



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

31st December, 2018

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 provisions of Section 184 (2) of the Constitution of the Republic of Malawi and the Section 15 of the Public Audit Act of 2003, I have the honour to submit my report on the results of the Compliance audit of Local Councils for the year ended 30th June, 2018 for tabling in the National Assembly.

Yours faithfully,



THOMAS K.B. MAKIWA  
**ACTING AUDITOR GENERAL**

## TABLE OF CONTENTS

	<b>PAGES</b>
ACRONYMS .. .. .	(v)
LIST OF FIGURES .. .. .	(vi)
LIST OF TABLES .. .. .	(vi)
<b>PART I</b>	
BACKGROUND AND GENERAL INFORMATION .. .. .	1
Scope of Audit .. .. .	3
Audit Methodology .. .. .	4
Audit Reports .. .. .	4
<b>PART II</b>	
STRUCTURE AND OVERALL PERFORMANCE .. .. .	5
Financial Management and Administration Policies .. .. .	5
Budgeting process .. .. .	5
Accounting and financial reporting for local authorities .. .. .	6
Analysis of Findings .. .. .	7
<b>PART III</b>	
AUDIT RESULTS OF THE COUNCILS .. .. .	10
General audit observations .. .. .	10
Accounting Records and Preparation of financial Requirement .. .. .	10
Accounting for Non-Current Assets .. .. .	11
Bank Reconciliation Requirement .. .. .	11
SPECIFIC AUDIT FINDINGS .. .. .	11
BALAKA DISTRICT COUNCIL .. .. .	11
BLANTYRE CITY COUNCIL .. .. .	14
BLANTYRE DISTRICT COUNCIL .. .. .	19
CHIRADZULU DISTRICT COUNCIL .. .. .	20
CHITIPA DISTRICT COUNCIL .. .. .	25
DEDZA DISTRICT COUNCIL .. .. .	27
DOWA DISTRICT COUNCIL .. .. .	33
KARONGA DISTRICT COUNCIL .. .. .	37
KASUNGU DISTRICT COUNCIL .. .. .	42
KASUNGU MUNICIPAL COUNCIL .. .. .	45
LILONGWE CITY COUNCIL .. .. .	47
LILONGWE DISTRICT COUNCIL .. .. .	52
LIKOMA DISTRICT COUNCIL .. .. .	54
LUCHENZA MUNICIPAL COUNCIL .. .. .	60
MACHINGA DISTRICT COUNCIL .. .. .	61

MANGOCHI DISTRICT COUNCIL .. .. .	65
MCHINJI DISTRICT COUNCIL .. .. .	68
M'MBELWA DISTRICT COUNCIL .. .. .	73
MULANJE DISTRICT COUNCIL .. .. .	78
MWANZA DISTRICT COUNCIL .. .. .	80
MZUZU CITY COUNCIL .. .. .	84
NENO DISTRICT COUNCIL .. .. .	87
NKHATABAY DISTRICT COUNCIL .. .. .	92
NKHOTAKOTA DISTRICT COUNCIL .. .. .	94
NSANJE DISTRICT COUNCIL .. .. .	99
NTCHEU DISTRICT COUNCIL .. .. .	104
NTCHISI DISTRICT COUNCIL .. .. .	110
PHALOMBE DISTRICT COUNCIL .. .. .	112
RUMPHI DISTRICT COUNCIL .. .. .	114
SALIMA DISTRICT COUNCIL .. .. .	116
THYOLO DISTRICT COUNCIL .. .. .	119
ZOMBA CITY COUNCIL .. .. .	121
ZOMBA DISTRICT COUNCIL .. .. .	123
PART IV .. .. .	125
CONCLUSIONS AND RECOMMENDATION .. .. .	125
RECOMMENDATION .. .. .	126
GLOSSARY .. .. .	127

## ACRONYMS

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

## **LIST OF FIGURES**

- Figure 1: Budgeting process for the Councils
- Figure 2: Budget preparation for Councils
- Figure 3: Summary of Major Common Findings in Malawi Kwacha
- Figure 4: Other Significant Irregularities
- Figure 5: Comparative Analysis of Irregularities 2017 and 2018 AG's Report

## **LIST OF TABLES**

- Table 1: Table 1: The Table below requires an analysis of other isolated irregularities by Council in Malawi Kwacha
- Table 2: Fuel Not Accounted For-Balaka
- Table 3: Fuel Not Accounted For-Blantyre City Council
- Table 4: Payment Vouchers without Supporting Documents- Blantyre City Council
- Table 5: Payment Vouchers Not Produced For Audit- Blantyre City Council
- Table 6: Misallocation of Expenditure-Blantyre District Council
- Table 7: Payment Vouchers Submitted Without Supporting Documents-Chiradzulu District Council
- Table 8: Cash Payments to Staff-Chiradzulu
- Table 9: Misallocation of Funds-Chitipa District Council
- Table 10: Stores Not Accounted For-Chitipa District Council
- Table 11: Misallocation of Expenditure-Karonga
- Table 12: Single Sourcing Procurement Method Not Followed-Karonga
- Table 13: Fuel Not Accounted For-Karonga
- Table 14: Payment Vouchers Not Presented For Audit-Karonga
- Table 15: Stores Items Not Accounted For-Karonga
- Table 16: Payments Made Without Preparing Payment Vouchers-Karonga
- Table 17: Procurement of goods and services without IPDC approval-Karonga
- Table 18: Payment Vouchers without Supporting Documents-Kasungu District Council
- Table 19: Purchases Made Using Single Sourcing-Kasungu District Council
- Table 20: Failure to Produce Activity Reports-Kasungu District Council
- Table 21: Payment Vouchers Not Produced For Audit Inspection-Kasungu

District Council

- Table 22: Misallocation of Expenditure-Kasungu District
- Table 23: Under Collection of Revenue-Kasungu Municipal
- Table 24: Payment Vouchers without Supporting Documents-Lilongwe City Council
- Table 25: Payment Vouchers Not Produced For Audit- Lilongwe City Council
- Table 27: Fuel Not Recorded In Fuel Register-Lilongwe City Council
- Table 28: Misallocation of Expenditure-Lilongwe District Council
- Table 29: Stores Items Not Recorded In Stores Ledger-Lilongwe District Council
- Table 30: Single Sourcing Procurement Method Not Followed
- Table 31: ORT Funds Not Accounted For-Likoma District Council
- Table 32: Procurement of Goods and Services without IPDC Approval-Likoma District Council
- Table 33: Payment Vouchers Not Authorized and Countersigned-Likoma District Council-Likoma District Council
- Table 34: Payment Vouchers without Supporting Documents-Likoma District Council
- Table 35: Failure to Comply with Single Sourcing Method of Procurement-Likoma District Council
- Table 36: Stores Items Not Recorded In Stores Ledger-Likoma District Council
- Table 37: Payment of Subsistence Allowances without Activity Reports-Likoma District Council
- Table 38: Projects Implemented without District Development Plan-Likoma District Council
- Table 39: Failure to Maintain Fixed Asset Register-Likoma District Council
- Table 40: Payments Vouchers Not Presented For Audit Inspection-Mangochi District Council
- Table 41: Fuel Not Accounted For-Mangochi District Council-Mangochi District Council
- Table 42: Stores item not accounted for-Mangochi District Council
- Table 43: Fuel not accounted for-Mchinji District Council
- Table 44: Payment Vouchers Not Stamped Paid-Mchinji District Council
- Table 45: Allowances Paid Without To Leave Duty Station Authority-Mchinji



District Council

- Table 46: Failure to attach loose minutes to payment vouchers-Mchinji District Council
- Table 47: Payment Vouchers without Supporting Documents-Mchinji District Council
- Table 48: Failure to Maintain Cheque Register-Mchinji District Council
- Table 49: Non-Existent CDF Projects-Mulanje District Council
- Table 50: Payment Vouchers Not Presented For Audit-Mulanje District Council
- Table 51: Failure to Comply with Single Sourcing Method of Procurement-Mulanje District Council
- Table 52: Fuel Not Accounted For-Mulanje District Council
- Table 53: Missing wholesale license books-Mwanza District Council
- Table 54: Fuel not accounted for-Mwanza District Council
- Table 55: Payments made without supporting documents-Mwanza District Council
- Table 56: Payment Vouchers Not Produced For Audit-Mwanza District Council
- Table 57: Under Collection of Locally Generated Revenue-Mzuzu City Council
- Table 58: Failure to remit tax deducted-Neno District Council
- Table 59: Payments Charged To Wrong Budget Line Items-Nkhatabay District Council
- Table 60: Fuel not accounted for-Nkhatabay District Council
- Table 61: Failure to do bank reconciliation-Nsanje District Council
- Table 62: Fuel not accounted for –Nsanje District Council
- Table 63: Payment Vouchers Not Presented For Audit-Nsanje District Council
- Table 64: Procurement of Services from None Contracted Suppliers-Nsanje District Council
- Table 65: Payments Made Without Supporting Documents-Nsanje District Council
- Table 66: Stores Items Not Accounted For-Nsanje District Council
- Table 67: Failure to comply with Single Sourcing Procurement Method-Ntcheu District Council
- Table 68: Payment Vouchers without Supporting Documents-Ntcheu District Council
- Table 69: Stores items not recorded in the stores ledger-Ntcheu District Council

- Table 70: Receipted vouchers not produced for audit-Ntcheu District Council
- Table 71: Fuel not accounted for-Ntcheu District Council
- Table 72: Stores Not Recorded in Stores Ledger-Phalombe District Council
- Table 73: Misallocation of Expenditure-Phalombe District Council
- Table 74: Payment Vouchers without Supporting Documents-Phalombe District Council
- Table 75: Payment Vouchers without Supporting Documents-Rumphi District Council
- Table 76: Fuel Not Accounted For-Rumphi District Council
- Table 77: Misallocation of Expenditure-Rumphi District Council
- Table 78: Misallocation of Expenditure-Salima District Council
- Table 79: Fuel Not Accounted For-Salima District Council
- Table 80: Stores Items Not Recorded-Salima District Council
- Table 81: Misprocurement of Goods and Services –Salima District Council
- Table 82: Payment Vouchers Not Presented For Audit-Zomba City Council
- Table 83: Payments Not Authorized and Countersigned-Zomba City Council
- Table 84: Fuel Not Accounted For
- Table 85: Stores Not Accounted For Through Stores Ledgers-Zomba City Council
- Table 86: Unapproved Contract Variations-Zomba District Council
- Table 87: Overpaid Contract-Zomba District Council

## **EXECUTIVE SUMMARY**

In accordance with Section 6 of the Public Audit Act (PAA) of 2003 and Section 54(1) of the Local Government Act of 1998, I have, on behalf of the National Assembly, examined and enquired into other financial information of City, Town and District Councils for the year ended 30th June, 2018.

### **Scope of Audits**

The audit of the other financial information was conducted on twenty Councils in Malawi for financial year ended 30th June, 2018 in all thirty four Councils, I conducted compliance audits. The audits were performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audits were intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audits were conducted in accordance with ISSAIs, they do not guarantee absolute accuracy of the detection of non- compliance with laws and regulations, financial irregularities and fraud.

However, the PAA empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Similarly, substantive tests were made on selected areas of the Councils' other financial information in order to find out whether the Councils funds were expended economically and in conformity with the wishes of the National Assembly.

### **Audit Methodology**

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

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

### **Main Findings**

The following main observations were noted during the audit:—

- Documents not provided for audit inspection
- Payments without supporting documents

- Failure to maintain a Fixed Asset Register
- Poor Fuel Management
- Poor Stores Management
- Failure to record transactions in the cashbook
- Unauthorised Payments
- Breach of the provisions of the Public Procurement Act and its related Regulations.
- Failure to Prepare Bank Reconciliation Requirement
- Non-remittance of PAYE and other tax to Malawi Revenue Authority
- Construction materials for projects not delivered
- Payment for no work done or Non Existent CDF Projects
- Failure to produce financial requirement

### **General Recommendations**

- The Councils should be staffed with qualified personnel, who will be able to adequately maintain accounting books.
- Councils should ensure that the Fixed Asset Register is maintained for accountability of Non-Current assets.
- There is need to develop an effective system of accounting and internal control to institute measures to ensure that the system is operating effectively.
- There is need to for Councils to adhere to procurement procedures and systems Council and the Office of the Director of Public Procurement should be requested to assist in training of personnel in procurement procedures in the Councils.
- Management in the Councils should strengthen the systems of internal control and supervision;
- All payments should be properly approved, countersigned and supported by relevant documentation;
- Management of the Councils should ensure that proper records management is in place to avoid loss of supporting documents and failure to account for fuel and stores.
- The Councils should ensure proper coordination with Members of Parliament (especially on CDF project management) to ensure that there is adherence to laws and regulations
- The Councils should ensure that the statutory deadline for the production of financial requirement should be adhered to at all times
- The Ministry of Local Government and Rural Development should ensure that there is no frequent rotation and turnover of accounting staff which has greatly impacted on the performance of Councils

**Acknowledgement**

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

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

## **PART I**

### **BACKGROUND AND GENERAL INFORMATION**

#### **Compliance audit of Councils**

1. I am required under Section 6 (4a) of the PAA to monitor compliance with the requirements of any written law governing the management and control of public money and public resources.
2. Section 184 (2) of the Constitution requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Although Section 15 of the PAA requires me to forward the report to the President and to the Speaker of National Assembly, this is somehow inconsistent with the Constitution as explained in paragraph 1 above. Consultations with the Law Commission and relevant stakeholders have been initiated to have the inconsistency cleared. The issue is still work in progress
3. The PAA requires, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required under Section 6 (4) (d) of the same Act to determine whether the procedures and systems of internal control of each Ministry, Department, Agency and public authority or body do ensure that:—
  - Revenue is properly assessed and collected;
  - Expenditure is validly and correctly authorized;
  - Revenue, expenses, assets and liabilities are properly recorded and accounted for;
  - Financial and operating information is reliable;
  - Assets are safeguarded against loss or destruction;
  - Resources are employed and managed in an economic, effective and efficient manner;
  - There has been no waste or extravagance;
  - Outcomes or provisions produced are consistent with those specified in any Appropriation Act;
  - Relevant Government policies and legislation are being complied with;
  - All expenditure is charged against the relevant allocation appropriated by the National Assembly; and
  - The accounts and records have been properly kept.
4. In fulfilling these duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of the PAA, I am required and any person authorized by me to:—

- (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit, and to any place where they are kept;
- (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money, or operations subject to audit and examination by me;
- (c) Give notice in writing, requiring any person having possession or control of any documents, books and accounts subject to audit and examination by me to deliver all or any of them at a time and place and to such person specified in the notice;
- (d) Inspect, measure or test any real or personal property to which any Government contract relates; and
- (e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

#### **Compilation and Submission of Financial Requirement**

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

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

- 7. In terms of LGA as read with Section 10 of the PFMA, it is the Controlling Officer's responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. The Act also requires the Councils to keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Councils and enable them to ensure that the financial requirement comply with the Public Finance Management Act, Public Procurement Act, Public Audit Act, Financial Management and Accounting Procedures for District Councils, District Development Fund Management Manual and other relevant Acts of Parliament.
- 8. In preparing the financial Information, the Controlling Officers have the following responsibilities:—
  - (a) Maintenance of proper accounting records;

- (b) Selection of suitable accounting policies and applying them consistently;
  - (c) Making judgments and estimates that are reasonable and prudent;
  - (d) Compliance with applicable standards when preparing financial requirement subject to any material departures being disclosed and explained in the financial requirement;
  - (f) Preparation of financial requirement on a going concern basis (sustainability of service) unless it is inappropriate to presume that the Council will continue in business.
9. It is also the responsibility of the Controlling officer to ensure that:—
- (a) Public funds are only used to the extent, and for the purpose intended by the National Assembly;
  - (b) All necessary precautions are taken to safeguard the collection and custody of public money;
  - (c) All necessary precautions are taken to safeguard public resources;
  - (d) All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;
  - (e) There is no over-expenditure or over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment; and
  - (f) The collection of public moneys is in accordance with approved plans and the estimates.

#### **Scope of Audit**

10. In compliance with Section 13 of the PAA which requires me to use Generally Accepted Auditing Standards, the audit of the Councils' other information was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). The audit was intended to provide an overall assurance of the general accuracy and propriety of the Councils' financial and accounting transactions. Although the audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud.
11. The PAA empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. Substantive tests were made on selected areas of Councils' accounts in order to form an opinion as to whether or not Councils money is expended economically, and in conformity with the wishes of the National Assembly.



### **Audit Methodology**

12. The core objective of the external audit function is to ensure accountability of public funds. The Public Audit Act empowers me to use discretion and make tests in any particular case. To discharge this responsibility, the audit approach in this assignment involved the following:—
- Planning the audits to obtain relevant information in the most efficient manner and to determine the audit procedures employed;
  - Evaluation and testing of the accounting and internal control systems;
  - Testing of controls to ensure that procedures have been applied and that the relevant laws and regulations have been complied with, including the test for validity, completeness and accuracy of the accounts; and
  - Reporting the audit findings based on the audit procedures performed and evidence gathered.

### **Audit Reports**

13. Section 14 (1) of the PAA requires the Controlling Officer, Head of an agency, statutory body or other affected person in respect of any matters that may relate to an audit, to respond to me within fourteen (14) days of receiving the report.

## PART II

### STRUCTURE AND OVERALL PERFORMANCE

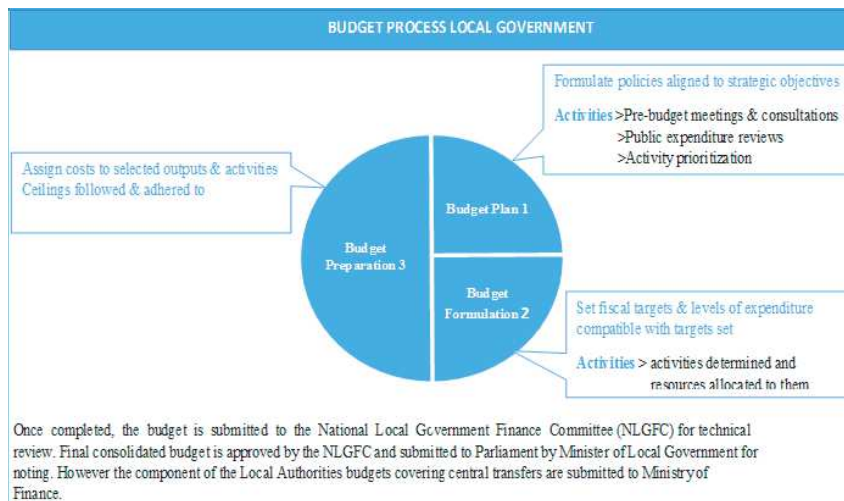
#### Financial Management and Administration Policies

14. The Local Authorities' Financial Management is governed by the Local Authorities Accounting and Financial Management Procedures Manual of May, 2009. However, the following prevailing legal instruments provide the overarching framework:—
- The Constitution of the Republic of Malawi, 1994;
  - The Public Finance Management Act (PFMA), 2003;
  - The Public Audit Act (PAA), 2003;
  - The Public Procurement and Disposal of Assets Act (PPDA), 2016;
  - The Local Government Act (LGA), 1998;
  - Local Authority Accounting and Procedures Manual 2014;
  - The Corrupt Practices Act (CPA), 1998; and
  - By-laws of the Local Authority

#### Budgeting process

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

**Figure 1: Budgeting process for the Councils**



**16. Budget planning**

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

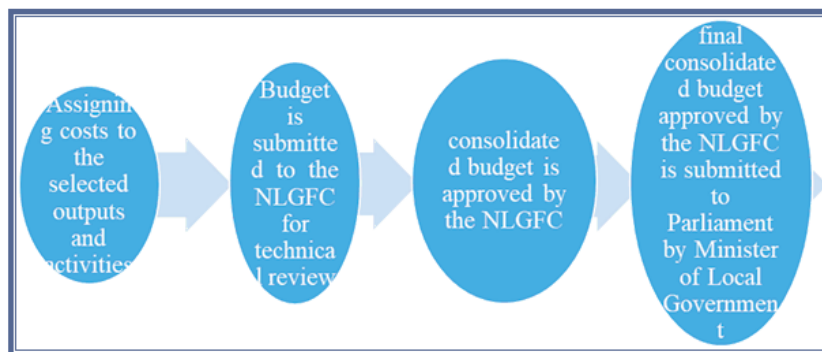
**17. Budget Formulation**

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

**18. Budget Preparation**

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

**Figure 2: Budget preparation for Councils**



**Accounting and financial reporting for local authorities**

19. The functions of the National Local Government Finance Committee in relation to the accounting and financial reporting for Local Authorities are:
- To receive all estimates of revenue and all budgets of local authorities;
  - To prepare a consolidated budget for all local authorities' annual revenue and expenditure estimates in consultation with the Ministry of Finance, Economic Planning and Development for presentation to the National Assembly by the Minister of Local Government and Rural Development;
  - To examine and supervise accounts of local authorities in accordance with any Act of Parliament, subject to recommendations of the Auditor General;

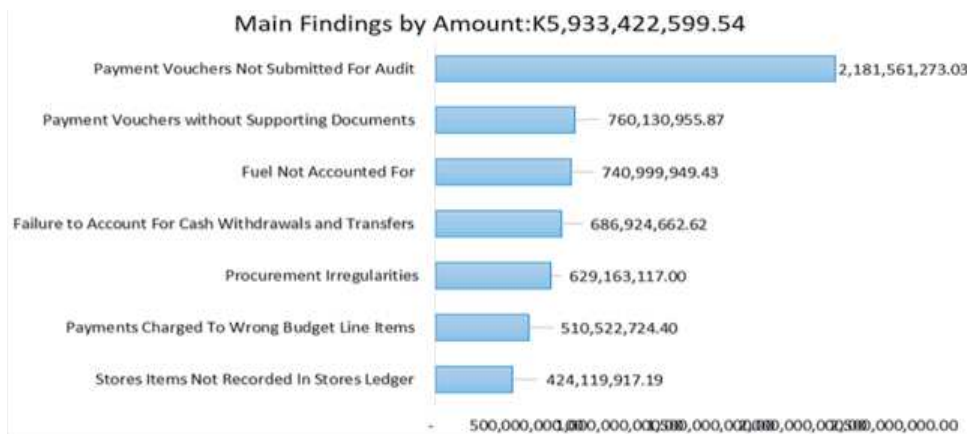
- To make recommendations relating to the distribution of funds allocated to local authorities by Central Government and to vary from time to time the amounts of allocation in accordance with economic realities on the ground; and
- To make application to the Minister for supplementary funds where necessary.

**Analysis of Findings**

20 The analysis using figures below would provide an overview of the general picture in terms of how Councils are operating and its effects on financial reporting and non-compliance with various financial Laws, regulations and procedures.

**The main findings are summarised in the chart below;**

**Figure 3: Summary of Main Findings in Malawi Kwacha**



**Other Significant Irregularities: K1,568,180,800**

21 Apart from the main findings above, there were other irregularities which were also quite significant These include; Payment vouchers not recorded in the cash book, Revenue from sale of Council land not accounted for, Payments made without raising payment vouchers, Pension deductions not remitted to pension fund, Payment vouchers not authorized and countersigned, Expenditure returns not prepared and submitted, Failure to remit PAYE, Procurement of services from none contracted suppliers as well as Grants to schools funds not accounted for.

Other significant findings are presented by Figure 4 below.



Figure 4: Other Significant Irregularities

**Other Isolated Irregularities**

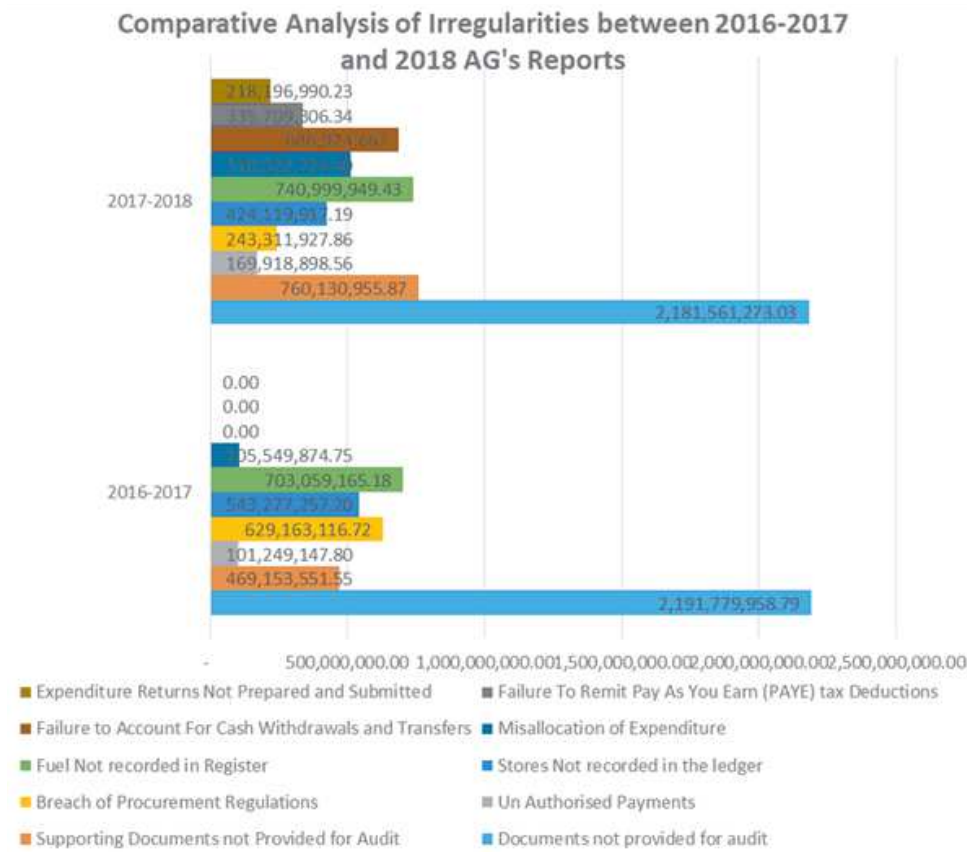
22 I now present a third category of isolated irregularities by Council.

**Table 1: The Table below shows an analysis of other isolated irregularities by Council in Malawi Kwacha**



**Comparative Analysis of Irregularities**

23 The figure below analyses changes in irregularities between 2017 and 2018 Auditor General Report.



**Figure 5: Comparative Analysis of Irregularities 2017 and 2018 AG's Report**

## PART III

### AUDIT RESULTS OF THE COUNCILS

#### General audit observations

24. An audit of financial requirement of the Local Councils for the year ended 30th June 2018 was completed in August, 2018. Between September, 2018 and June, 2018, I engaged the Controlling Officers (District Commissioners and Chief Executive Officers) to provide responses to the observations raised in their respective management letters. Further, reference sheets were issued to them as a final reminder. The findings included in this report relate to the observations that were not satisfactorily responded to in both the Management Letters and Reference Sheets. Observations of some Councils may not necessarily appear in this report because they were resolved at management level.

The Compliance audit was conducted in all the 35 Councils that is Balaka District, Blantyre City, Blantyre District, Chikwawa District, Chiradzulu District, Chitipa District, Dedza District, Dowa District, Karonga District, Kasungu District, Kasungu Municipality, Likoma District, Lilongwe City, Lilongwe District, Luchenza Municipal, M'mbelwa, Machinga District, Mangochi District, Mangochi Town, Mchinji District, Mulanje District, Mwanza District, Mzuzu City, Neno District, Nkhatabay District, Nkhotakota District, Nsanje District, Ntcheu District, Ntchisi District, Phalombe District, Rumphu District, Salima District, Thyolo District, Zomba City and Zomba District.

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

#### Accounting for Financial Resources

25. The audit has revealed that most Councils failed to account for the financial resources through non-accountability of cash, fuel and procured stores.

#### Accounting Records and Preparation of Financial Requirement.

26. Local Government Act of 1998 Sections 53 (1) requires that all Councils shall keep proper books of accounts and other records from which financial requirement or final accounts will be produced. The audit has revealed that most Councils failed to maintain all the necessary books of accounts and records. This has been evidenced by significant differences between the figures in the financial requirement and the underlying records as well as lack of supporting schedules for the figures as presented in the financial requirement, hence issuance of the twenty disclaimers of opinion. For fifteen Councils, I failed to express an opinion on the financial requirement because they could not be produced during the time of audit.

### **Accounting for Non-Current Assets**

27. Financial Management and Accounting Procedures Manual for the Councils requires each Council to open and maintain a fixed asset register regularly which should contain all assets' details. The audit review disclosed that most Councils did not maintain fixed assets registers to account for assets as required by the Local Authorities Accounting and Financial Management Procedures Manual. In addition, almost all Councils' assets were not valued and the values required in the Financial Requirement were not realistic. For the Councils that managed to have Fixed Asset Registers, the registers were incomplete. This is serious non-compliance of accruals concept of accounting under International Public Sector Accounting Standards (IPSAS) which the Councils adopted

### **Bank Reconciliation Requirement**

28. Most Councils' bank accounts were not reconciled regularly and where accounts officers attempted to prepare the reconciliation requirement, there was little relevance to the underlying cashbook balances. Further, there were no reviews by senior officers to approve the reconciled requirement. This weakness resulted in figures not properly adding up in the books of accounts as well as the financial requirement balances.
29. **Apart from the observations above, the following were also noted:**
- Documents not provided for audit inspection;
  - Payments without supporting documents;
  - Failure to maintain a fixed asset register;
  - Differences between the underlying records and the financial requirement;
  - Failure to provide supporting schedules to the figures in the financial requirement;
  - Poor fuel management;
  - Poor stores management;
  - Failure to include some figures in the financial requirement; and
  - Unauthorised payments

## **SPECIFIC AUDIT FINDINGS**

### **BALAKA DISTRICT COUNCIL**

30. An audit of Balaka District Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:



**(a) Misallocation of Expenditure: K5,623,173.50**

Treasury Instructions (2004) 4.14.1 requires that specific approval is required before any payment can be vired or transferred between a programme/item within the same vote. The section further requires that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may apply to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An examination of payment vouchers for the Council revealed that expenditure amounting to K5,623,173.50 was misallocated without obtaining prior approval from the Secretary to the Treasury. Therefore, the practice contravenes the requirement of the above Treasury Instructions.

**(b) Failure to Source a Minimum of Three Quotations: K12,995,403.00**

Public Procurement and Disposal of Assets Act (2016) 37(9) requires that Single-source method is permitted only in the following circumstance:

- (a) where the estimated value of the procurement does not exceed the amount set in the regulations;
- (b) where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured;
- (c) where there is an emergency need for the goods, works and services.

However, an examination of payment vouchers and supporting documents revealed that goods worth K12,995,403.00 which did not meet the requirement as required in the above section were procured using single source method. Therefore, the practice contravenes the requirement of the above Treasury Instructions.

**(c) Maintenance of Motor Vehicles without PVHES Approval: K3,000,000.00.**

Circular Reference number HVMC 1006 of 12th August 2006 from the Controller of Plant and Vehicles requires all Government motor vehicles to pass through Plant and Vehicle Hire Engineering Service (PVHES) for inspection before and after repairs to ensure that proper maintenance and repair procedures are followed and to ensure value for money in the procurement of maintenance services.

An examination of payment vouchers revealed that an amount of K3,000,000.00 was spent on maintenance of motor vehicles at private

garages without PVHES inspection report by the Plant and Vehicle Hire Engineering Services. Therefore, the practice may result into loss of public funds.

**(d) Payment Vouchers without Supporting Documents: K7,248,392.80**

Treasury Instructions (2004) 5.9(a) requires 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 for the period under review revealed that some payment vouchers totaling K7,248,392.80 were passed without supporting quotations, invoices, receipts and loose minutes. In the absence of the supporting documents it was difficult to ascertain whether the payments were a proper charge against the public funds.

**(e) Fuel Not Accounted For: K20,109,701.00**

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of payment vouchers revealed that fuel worth K20,109,701.00 purchased during the period under review was not recorded in the register and motor vehicle logbooks. Therefore, it was difficult for the audit team to ascertain the disposal of the fuel purchased. See Table 2 below for details:

**Table 2: Fuel Not Accounted For**

<u>Sector</u>	<u>Amount (K)</u>
DHO	17,950,000.00
DEM	2,159,700.65
<b>Total</b>	<b><u>20,109,701.00</u></b>

**(f) Stores Items Not Accounted For: K11,143,005.45**

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the Stores Ledger for accountability and transparency.

An examination of payment vouchers, delivery notes, and invoices disclosed that items valued at K11,143,005.45 were purchased from different suppliers but with no evidence of entering into stores ledger.

As a result, accountability of the stores items could not be established i.e. whether goods purchased were delivered and properly utilized by the Council

**(g) Contract Agreements for Rentals and Food Stuffs Not Presented for Audit: K2,664,892.00**

Public Audit Act (2003) 7(a) requires that the Auditor General shall have full access at all reasonable times to all documents, books and accounts, public securities, Government contracts and books and accounts relating thereto and subject to audit.

Contrary to the above requirement, management failed to produce contract agreements for the rentals and supply of foodstuffs to the audit team for review. Payments related to such contracts amounted to K2,664,892.00. Therefore, it was difficult for the audit team to ascertain the validity of the contract.

**BLANTYRE CITY COUNCIL**

31. An audit of Blantyre City Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure To Collect City Rates On Time: K2,946,747,797.86**

Accountant General Department Desk Instructions of 2007, 3.2.1 require among other things recognizing the time value for money; taking any other action that avoids locking up money unnecessarily and inefficiently; collecting revenue when it is due and banking it promptly; and pursuing the debtors with appropriate sensitivity and rigor to ensure that the amounts receivable by the government are collected and banked properly.

An examination of records for the period under review revealed that the Council failed to collect city rates amounting to K2,946,747,797.86. The audit team sampled 1000 out of 11,000 property owners and it was discovered that the amount of city rates in question relate to the sampled property owners.

**(b) Uncompleted Market Fee Books Not Disclosed On Revenue Returns: K2,118,000.00**

Treasury Instructions of (2004) 5.9(9) requires that adequate internal controls must exist within each Ministry and Department and they should ensure that revenue is properly assessed and collected; all public money is correctly banked and held in a secure environment; financial and operating information is accurate and reliable; and that the responsibility, rests with each Controlling Officer to be sure that adequate procedures exist to properly protect all public money.

An examination of market general receipt book register, revenue returns and bank deposit slips for Blantyre and Limbe markets for July, 2017, March and June, 2018 revealed that market fee tickets from uncompleted market fee receipt books valued at K2,118,000.00 were not disclosed on revenue returns. The audit team could not physically verify the actual receipt books because they were not produced for inspection on the basis that they were bulky. It was therefore difficult to ascertain if revenue was collected using the remaining tickets or not.

**(c) Fuel Not Accounted For: K119,833,115.00**

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of payment vouchers and cash books revealed that fuel valued at K119,833,115.00 was not entered in fuel registers. It was, therefore, difficult for the audit team to ascertain the disposal of the fuel. Table 3 below refers.

**Table 3: Fuel Not Accounted For**

<u>Account type</u>	<u>Amount (K)</u>
Operations Accounts/Locally generated Revenue	114,933,116.90
ORT-Headquarters	3,829,999.00
ORT-DEM	1,070,000.00
<b>Total</b>	<b><u>119,833,115.00</u></b>

**(d) Payment Vouchers without Supporting Documents: K89,414,033.10**

Treasury Instructions (2004) 5.9(a) requires 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 for the period under review revealed that some payment vouchers totaling K89,414,033.10 were passed without supporting documents such as quotations, invoices, receipts and loose minutes. In the absence of the supporting documents it was difficult for the audit team to ascertain whether the payments were a proper charge against the public funds. Table 4 below refers.

**Table 4: Payment Vouchers without Supporting Documents**

<u>Account Type</u>	<u>Amount (K)</u>
Operations Accounts/Locally generated Revenue	69,251,305.76
ORT-Headquarters	17,831,487.45
ORT-DEM	2,331,240.00
<b>Total</b>	<b><u>89,414,033.10</u></b>

**(e) Stores Items Not Recorded in the Stores Ledger: K73,152,424.08**

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issues in small lots, the transactions must be recorded in the Stores Ledger for accountability and transparency.

An examination of payment vouchers, stores ledger and other related documents revealed that stores items valued at K73,152,424.08 were not recorded in the stores ledger. As a result, the accountability of the stores could not be ascertained by the inspecting auditors.

**(f) Payment Vouchers Not Produced For Audit: K31,026,480.80**

The Public Audit Act (2003) 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.

An examination of payment vouchers, cashbooks and other related records showed that the Council did not submit payment vouchers amounting to K31,026,480.80. It was therefore difficult for the auditors to ascertain the propriety of the expenditure. Table 5 below refers.

**Table 5: Payment Vouchers Not Produced For Audit**

<u>Account type</u>	<u>Amount (K)</u>
Operations Accounts/Locally generated Revenue	20,518,733.41
ORT-Headquarters	10,507,747.45
<b>Total</b>	<b><u>31,026,480.80</u></b>

**(g) Irregular Payments Made By the Council: K10,381,592.71**

Treasury Instructions (2004) 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 approval must be sought to transfer funds from one expenditure line to another.

An examination of payment vouchers, cash books, bank statements and loose minutes revealed that the Council made payments in form of accommodation for the Minister of Local Government and Rural Development without specifically mentioning why the Council was paying for the Minister's expenses who was already covered by the Ministry, 10-member table booking at Democratic Progressive Party's blue night and Zokonda a Mayi for two table booking charge. In the absence of evidence of these payments in the budget, procurement plan; and the invitation letters makes it difficult for the audit team to conclude that these were proper charge against the public funds. Such irregular payments amounted to K10,381,592.71.

**(h) Fuel Not Recorded in the Motor Vehicle Log Books: K4,222,760.28**

Section 20.2 of the Local Authorities Accounting and Financial Management and Procedures Manual (1998) require all fuel purchased to be recorded in the fuel registers, and issues signed for by the recipients. Fuel drawn into vehicles should be properly recorded in the respective motor vehicle log books.

An examination of payments for purchase of fuel for locally generated revenue account revealed that fuel valued at K4,222,760.28 was drawn but not entered in motor vehicle log books. It was, therefore, difficult for the audit team to ascertain if the fuel was used for the purposes intended or not.

**(i) Use of Single Sourcing In Hiring of Motor Vehicles: K8,803,633.15**

The Public Procurement and disposal of Assets Act of 2017, section 37(9) (a, b, c, d) gives circumstances the procuring entity may use single sourcing as a method of procurement of goods and services. For example, in cases of emergencies and when only one supplier of goods and services is available.

An examination of records for locally generated revenue account revealed that the Council procured services of hiring motor vehicles for the Mayor and the Deputy Mayor from various suppliers valued at K8,803,633.15 using single sourcing. It was further noted that no IPDC minutes were available to give reasons as to why single sourcing method of procurement was used.

**(j) Duplicated Payment in Procurement of Paint: K978,852.38**

Treasury Instructions (2004) 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, loose minutes and IPDC minutes revealed that the Council procured paint from Monolux Paint

for Bangwe Clinic at K978,852.38. The Council ended up paying twice the invoice number 396 thereby duplicating the payment. The management admitted the anomaly and that it wrote the supplier about it of which he acknowledged and accepted to pay back the second payment. However, it was noted that over six months has elapsed without the supplier paying back the money to the Council.

**(k) Contract Agreement Not Produced For Audit**

The Public Audit Act (2003) 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.

An interview with the management of Blantyre City Council revealed that the Council entered into an agreement with First Merchant Bank (FMB) to collect revenue on its behalf some years back. However, the Council failed to produce contract for audit inspection detailing the terms and conditions of the contract. Therefore, the auditors could not establish if the terms and conditions in the contract were being fulfilled by both parties.

**(l) Over- Commitment on Constituency Development Fund: K6,066,948.16**

Treasury Instructions 5.16.4 of 2004 require that every Controlling Officer should ensure that commitments are made against available funding not against budget provisions, and further that commitments in any one month do not exceed monthly funding levels.

An examination of payment vouchers, IPDC minutes, contracts, cash books and ledgers revealed that the Council over committed on CDF by K6,066,848.16 in four constituencies. Therefore, the over commitment contravened the requirement of the above treasury Instructions.

**(m) Unbudgeted For Expenditure**

CDF guidelines of 2014, Section 11 require that Member of Parliament should ensure that all prioritized projects are costed and a budget is prepared for the allocation approved by Parliament and that all Local Authorities should note in their budgets all projects funded under CDF.

An examination of payment vouchers, cash books, other related documents and interviews with management revealed that Blantyre City Council is implementing Makhetha Village Project in Blantyre City East Constituency with the funding from CDF funds and a contribution from the Member of Parliament for the Constituency. However, no budget and time frame for the project was in place.



**(n) Control Weaknesses in the IFMIS System: K21,036,214.78**

CoBIT PO2.4 requires that an organization should define and implement procedures to ensure the integrity and consistency of all data stored in electronic form.

An analysis of account records produced from the system such as cash books revealed that the Integrated Financial Management System (IFMIS) failed to reject the duplication of some Cheque numbers. The audit team sampled eight duplicated transactions valued at K21,036,214.78. It was further noted that the system failed to reconcile the uploaded market fee books against the actual books sold by the market masters and the ticket sellers.

**BLANTYRE DISTRICT COUNCIL**

32. An audit of Blantyre District Council for the year ended 30th June, 2018 was completed in August, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Disallowed Expenditure: K1,532,000.00**

Constituency Development Fund (CDF) guidelines Section 4 requires that disallowed expenditure shall include sponsorship of competitions of any kind including promotional activities.

An examination of payment vouchers for CDF revealed that on 9th January, 2018, the Council bought footballs for promoting sports activities which is against the above quoted guideline. The items were bought from Rene Enterprises on voucher number RQ 17-1802049 whose cheque number is 022468 and amounted to K1,532,000.00. The expenditure was in respect of Blantyre South West Constituency.

**(b) Failure To Remit Withholding Tax To MRA: K2,747,260.23**

The Taxation Act (2000) Section 146, subsection 6(1) requires that a person who has deducted from a payment an amount representing withholding tax shall remit such amount to the Commissioner within fourteen days from the end of the month in which such deduction was made.

Contrary, to the above quoted section, the Council failed to remit withholding tax deducted from CDF payments amounting to K2,747,260.23 for the period of the audit review to MRA.

**(c) Misallocation of Expenditure: K13,572,000.00**

Treasury Instructions (2004) 4.14.1 requires that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within



the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

An examination of payment vouchers for the period of the audit review revealed that Blantyre District Council used funds amounting to K13,572,000.00 for unrelated activities without seeking for virement from Treasury. Table 6 below refers.

**Table 6: Misallocation of Expenditure**

<b>Sector</b>	<b>Amount(K)</b>
District Education Manager	2,815,600.00
District Agricultural Development Officer	5,298,000.00
Headquarters	1,408,400.00
District Health Officer	4,050,000.00
<b>Total</b>	<b><u>13,572,000.00</u></b>

**CHIRADZULU DISTRICT COUNCIL**

33. An audit inspection of the financial and other information for Chiradzulu District Council for the year ended June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Market Fee Books Not Produced For Audit Review: K3,290,000.00**

Treasury Instructions (2004) 2.6.1(d) requires that responsibility of a Controlling Officer include ensuring that all necessary precautions are taken to safeguard the collection and custody of public money.

An inspection of delivery notes for the purchased market fee books, registers for markets fees from all markets and revenue summary sheets revealed that the office received market fee books totalling K3,290,000.00 but there was no record as to how the books were distributed and used. The audit team did not find any unused books which means that all the books purchased were utilised. In the absence of proper records it was difficult to establish how the revenue collected was accounted for.

**(b) Payment Vouchers (Revenue) Not Produced for Audit: K186,077,721.33**

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

An inspection of payment vouchers against revenue cashbook revealed that payment vouchers amounting to K186,077,721.33 were

not produced for audit. In the absence of the payment vouchers it was difficult to ascertain the propriety of the expenditure incurred.

**(c) Payment Vouchers Submitted Without Supporting Documents: K12,823,107.89**

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

An inspection of payment records disclosed that some payment vouchers amounting to K12,823,107.89 were produced for audit review without supporting documents. Consequently, the validity of the expenditure could not be ascertained. Table 7 below refers.

**Table 7: Payment Vouchers Submitted Without Supporting Documents**

<b>Sector</b>	<b><u>Amount (K)</u></b>
District Health Office	10,135,107.89
Secretariat	<u>2,688,000.00</u>
<b>Total</b>	<b><u>12,823,107.89</u></b>

**(d) Cash Payments to Staff: K26,358,946.43**

Circular number ST/S7 dated 10th December, 2010 requires that following the numerous challenges that the Government has had to contact with in making cash payments to its employees, an approval has been granted from the Office of the President and Cabinet to stop making payments in cash to civil servants with effect from 1st February, 2011. This relates to any payments, be it salaries, all types of allowances, leave grants, refunds etc.

Contrary to the above requirement, it was revealed that the office made payments amounting to K26,358,946.43 in the name of staff instead of the beneficiaries' bank account numbers. Table 8 below has the summary.

**Table 8: Cash Payments to Staff**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Secretariat	7,734,401.43
District Health Office	13,609,689.00
District Education Manager	660,000.00
District Agriculture Manager	<u>4,354,856.00</u>
<b>Total</b>	<b><u>26,358,946.43</u></b>

**(e) Fuel Not Accounted For: K2,463,000.00**

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

Contrary to the above requirement, an examination of payment vouchers against stores ledger revealed that the office purchased fuel amounting to K2,463,000.00 but did not record the fuel in the ledger. Consequently the accountability of the fuel could not be ascertained.

**(f) Uncompleted Projects Fully Paid For: K2,708,600**

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

During verification of CDF projects it was revealed that the office made full payments amounting to K2,708,600 for projects which were not completed. There was no proper explanation why management paid the full cost when the projects were uncompleted.

**(g) CDF Materials Not Accounted For: K3,877,400.00**

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

Contrary to the above requirement, an examination of payment vouchers, delivery notes, stores ledgers revealed that the office purchased CDF materials amounting to K3,877,400 but management failed to produce accountability records as evidence that the materials were delivered.

**(h) Local Development Fund (LDF) Fuel Not Accounted For: K7,281,360.70**

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

An examination of payment vouchers against fuel ledger revealed that the office purchased fuel amounting to K7,281,360.70 but there was no evidence that the fuel in question was recorded in the fuel register. As such it was difficult to ascertain how the fuel was accounted for.

**(i) District Development Fund (DDF) Construction Not Certified: K20,360,553.00**

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

Contrary to the requirement, an examination of payment vouchers revealed that the office made payments amounting to K20,360,553.00 without evidence that before payment was processed the Director of Public works had certified the construction.

**(j) Projects Paid Outside Approved Plan: K11,239,995.61**

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

An examination of projects plans against payment vouchers for LDF projects revealed that the office made payments amounting to K11,239,995.61 on projects that were not on their project plan.

**(k) Un-commenced Projects Disclosed As Completed: K1,474,400.00**

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

An examination of payment vouchers and a physical verification to the project sites, revealed that the office made payments amounting to K1,474,400 for the project that were disclosed in the Council records as completed whilst the actual projects on the ground had not even started.

**(l) Payment Vouchers Not Produced For Audit (ORT): K1,415,367.00**

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

An inspection of payment vouchers against cashbook revealed that payment vouchers amounting to K1,415,367.00 were not produced for audit. As such it was difficult to establish the propriety of the expenditure.

**(m) Food Stuff Procured with Sourcing At Least Three Quotations: K4,812,400**

Public Procurement Act of 2003 35 (1) requires that a procuring entity shall request quotations from at least three bidders.

An examination of payment vouchers revealed that the office procured food stuff amounting to K4,812,400 but there was no evidence that management sourced at least three quotations. As such value for money could not being ascertained.

**(n) Revenue Not Posted Into IFMIS: K1,145,913.00**

Treasury Instructions (2004) 5.10 requires that all payments, receipts and other accounting transactions must be entered and processed into a Financial Management Information System (IFMIS) approved by the Secretary to the Treasury.

Contrary to the above requirement, an examination of revenue documents revealed that the office failed to post all the revenue received into IFMIS. As such revenue amounting to K1,145,913.00 could not be traced in IFMIS.

**(o) Unauthorized Virement: K11,067,783**

Specific approval is required before any allocations can be vired or transferred between outputs. The PFM Act authorizes the Secretary to Treasury, with the approval of the Minister at the request of a Controlling Officer, to direct the virement or transfer of funds between the provisions assigned to programmes/item under a Head/Vote of expenditure, or to create a new programme/item if the amount appropriated under the Head/Vote is not exceeded. If the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

An examination of payment vouchers revealed that the office made misallocated expenditures amounting to K11,967,783 from one budget line to another without seeking virement authority from the Secretary to the Treasury.

**(p) Payments Made Outside IFMIS: K1,335,605.00**

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

Contrary to the instruction an examination of payment vouchers against cashbooks revealed that the office made payments amounting K1,335,605.00 outside IFMIS.

**(q) Payments Made Without Evidence Of IPC Approval: K3,215,299.36**

Treasury Instructions (2004) 5.16.2 requires that every Controlling must ensure that internal control measures and procedures are in place in respect of transactions for payments.

An examination of payment vouchers revealed that the office made payments for amounting to K3,215,299.36 without evidence of IPC involvement. In the absence of IPC involvement, value for money could not be achieved.

**(r) Quotations with Different Specifications From Suppliers: K2,309,459.36**

Public Procurement Act of 2003 Section 15 requires that in the preparation of bidding and pre-qualification documents, any specifications, quality characteristics of the goods or description of services, and any contract terms, shall be drawn up in an objective, and performance and function based manner so as to maximize competition and avoid creating obstacles to participation by bidders in the procurement proceedings, while ensuring that applicable national and international standards and the requisite quality levels are met.

An inspection of payment vouchers disclosed that the office made payments amounting to K2,309,459.36 based on different quotations sourced to support the purchase that was being made.

**(s) Payment Vouchers For School Improvement Grants Not Countersigned: K43,350,000.00**

Treasury Instructions (2004) 5.16.2 requires that every Controlling must ensure that internal control measures and procedures are in place in respect of transactions for payments.

An examination of payment vouchers revealed that the office made payments amounting to K43,350,000.00 for school improvements grants without being countersigned. The non-countersigning of payment vouchers signifies that management was not involved in the payment process.

**(t) Fuel Not Accounted For Through Log Book: K7,147,305.55**

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

An examination of payment vouchers against fuel ledger revealed that the office purchased fuel amounting to K7,147,305.55 but there was no evidence that the fuel was recorded the fuel in the motor vehicle log books.

**CHITIPA DISTRICT COUNCIL**

34. An audit inspection of the financial and other information for Chitipa District Council for the year ended June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as in highlighted the following observations:

**(a) Payment Vouchers Without Supporting Documents: K39,599,571.79**

Treasury Instructions (2004) 5.9(a) requires 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.

Contrary to the above requirement, payment vouchers totaling K39,599,571.79 which were processed for payment during the period under review did not have relevant supporting documents. Therefore, it was difficult for the audit team to ascertain the authenticity of the payments made.

**(b) Fuel Not Accounted For: K38,553,355.19**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of records revealed that fuel worth K38,553,355.19 purchased during the period under review was not recorded in the fuel register. Therefore, it was difficult the audit team to ascertain the accountability of the fuel purchased.

**(c) Misallocation of Expenditure: K18,267,542.00**

Treasury Instruction (2004) 4.14.1 requires that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further requires that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An examination of payment vouchers revealed that the Council misallocated funds amounting to K18,267,542.00 without Treasury authority. This is contrary to the requirement of the above Treasury Instruction. Table 9 below refers.

**Table 9: Misallocation of Expenditure**

<b>Sector/Account</b>	<b>Amount(K)</b>
Youth	964,984.00
Labour	698,925.00
Trade	75,000.00
Immigration	260,000.00
Fisheries	220,000.00
Gender	83,364.00
Education	15,965,269.00
<b>Total</b>	<b>18,267,542.00</b>



**(d) Airtime Not Accounted For: K7,399,131.60**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of payment vouchers and the stores ledger revealed that airtime purchased during the period under review worth K7,399,131.60 was not recorded in the stores ledger. Therefore, it was difficult for the audit team to ascertain the accountability of the airtime purchased.

**(e) Stores Items Not Accounted For: K19,921,439.64**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of payment vouchers revealed that stores items worth K19,921,439.64 which were purchased during the period under review could not be traced in the stores ledger. Consequently, the accountability of the stores items purchased could not be ascertained. Table 10 below refers.

**Table 10: Stores Not Accounted For**

<b>Sector/Account</b>	<b>Amount(K)</b>
CDF Water	12,976,949.00
Immigration	26,900.00
Environment	22,500.00
Agriculture	899,221.00
Education	5,335,869.64
Water	660,000.00
<b>Total</b>	<b><u>19,921,439.64</u></b>

**DEDZA DISTRICT COUNCIL**

35. An audit of Dedza District Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Fuel Not Accounted For: K83,363,983.80**

Treasury Instructions (2004) 11.7.1.5 requires that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store and section 20.2 of the Local Authorities Accounting and Financial Management and Procedures Manual, require all fuel purchased to be recorded in the fuel registers, and issues signed for by the recipients.



An inspection of fuel registers for Dedza District Council various sectors revealed that fuel worth K15,167,219.68, K62,898,120.47, K3,961,455.00 and K1,337,188.65 for Headquarters, Health, Education and Agriculture respectively totaling K83,363,983.80 purchased during the year under review was not recorded in the fuel register prior to issuing. In the circumstance the audit team could not ascertain how the fuel purchased was accounted for.

**(b) Procurement Made Without IPDC Approval: K26,603,227.84**

Public Procurement and Disposal of Public Assets Act (2016) Section 26 require that each procuring entity that establishes an Internal Procurement and Disposal Committee (IPDC). The IPDC shall be responsible for all procurement in the procuring entity.

An inspection of payment vouchers revealed that the Council made procurements worth K8,734,453.75 and K17,868,774.09 for Headquarters and Health Sector respectively totaling K26,603,227.84 without the involvement of IPDC.

**(c) Misallocation of Expenditure: K92,027,755.39**

Treasury Instructions (2004) 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. 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.

An examination of Other Recurrent Transaction IFMIS system expenditure records for financial year revealed that the Council made payments amounting to K35,085,657.26, K39,931,256.17, K5,222,842.00 and K11,787,999.96 for Headquarters, Health, Education and Agriculture respectively amounting to K92,027,755.39 which were charged against wrong expenditure codes.

**(d) Payment Vouchers Not Presented For Audit Inspection: K305,931,806.10**

Public Audit Act number 6 of 2003 section 7 (1) (a) requires that for the purpose of fulfilling the functions and Auditor General 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 Council cashbook and payment vouchers revealed that Council payment vouchers amounting to K69,378,162.04, K96,649,807.59, K102,117,061.00 and K39,786,775.44 for

Headquarters, Health, Education and Agriculture respectively totaling to K307,931,806.07 were not presented for audit inspection.

**(e) Payments Not Recorded In Cash Book: K31,625,748.28**

Local Authority Accounting & Financial Management Procedure Manual 5.4.1 require that all receipts and payments transactions must pass through the cash book.

An inspection of payment vouchers and cashbooks for General Resource Fund processed during the period of the audit revealed that payments amounting to K8,514,173.28, K22,553,175.00 and K558,400.00 for Headquarters, Education and Agriculture sectors respectively totaling K31,625,748.28 were not recorded in the cashbook.

**(f) Receipted Vouchers Not Presented for Audit: K19,005,000.00**

Treasury Instructions of 2004 Section No 5.9 (a) requires 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 the above quoted Instructions, the Council's Education sector paid allowances to various recipients amounting to K19,005,000.00, which were not supported by signing sheets. As a result, the accountability of the allowances could not be determined.

**(g) Payments Without Supporting Documents: K188,641,991.53**

Treasury Instructions of 2004 Section 5.9 (a) requires 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 for the period under review revealed that Council made payments amounting to K16,723,168.45, K66,176,993.98, K25,905,317.00, K77,254,512.85 and K2,581,999.25 for Headquarters, Health, Education, CDF and Agriculture respectively totaling to K188,641,991.53 but the related supporting documents were not presented for audit.

**(h) Payments Made Without Evidence of Delivery: K9,772,389.00**

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

An examination of cashbooks, payment vouchers for 2018/2018 fiscal year, disclosed that payments amounting to amount of K9,772,389.00 were made to various suppliers for the supply of goods which had no documentary evidence that the goods were indeed delivered.

**(i) Misapplication of Funds: K46,000,000.00**

According to the letter reference no. LG/1/13/79 dated 28th May, 2018 on the Community Managed Social Economic Projects, Guidelines requires that all funds/ cheques for the community implemented projects were supposed to be deposited in the DDF account.

An examination of other recurrent transaction cash book revealed that Other Recurrent Transaction (ORT) funds worth K46,000,000.00 were transferred to Dedza Rural Development account without evidence of funding of the said transferred funds which is contrary to fund Guidelines.

**(j) Grants To Schools Funds Not Accounted For: K172,260,705.00**

Treasury Instructions (2004) 5.26.6 requires that the person making the payment shall file properly all paid documents duly stamped 'PAID' together with an acknowledgement of receipt from the beneficiary.

An examination of payment vouchers dated revealed that Dedza Education Sector transferred Grants amounting to K 172,260,705.00, which were not supported by deposit slips and general receipts into schools bank accounts. As a result, the audit team failed to determine the accountability of the grants deposited.

**(k) Payments For Unbudgeted For District Development Budgets: K10,436,601.00**

Treasury Instructions (2004) 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. 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.

An examination of Other Recurrent Transaction IFMIS system expenditure records for the financial year revealed that the office made payments for District Development Budget amounting to K10,436,601.00 which were not budgeted for.

## **CDF PROJECTS**

**(l) CDF Project Identification Without The Involvement of ADC, s: K78,928,842.74**

CDF Guideline No. 5 requires that Members of Parliament, Councillors and Area Development Committees shall be required to familiarize themselves with the key priorities of the District. Furthermore, the Member of Parliament should at least once per year organise a meeting with chiefs, Councillors and Area Development Committees (ADCs) within the Constituency to identify and prioritise projects that meet the immediate social economic needs of the people in the constituency that can be funded under the CDF- including ongoing projects.

An examination of payment vouchers revealed that payments worth K78,928,842.74 were made for projects which the ADCs were not involved in identification.

**(m) Single Sourcing of Supplies: K22,461,615.70**

Section 35 of the Public Procurement Act (2003) requires that procuring entities should request quotations from at least three bidders when procuring goods and services. The request for quotations should contain a clear requirement of the requirements of the procuring entity as to quality, quantity, terms and time of delivery as well as any other special requirements.

A review of procurement records disclosed failure by the Council to abide by the procurement regulations. It was noted that goods amounting to K22,461,615.70 were procured using the single sourcing method. There was no justification to warrant use of the method.

**(n) Disallowed CDF Expenditure: K2,099,750.00**

CDF Guidelines No. 4 requires that all non-project related expenditures and all expenditures having an attribute accruing personal benefit shall not be drawn against the CDF account.

An examination of payment vouchers revealed that payments worth K2,099,750.00 were made for disallowed CDF expenditure that is payment for netball and footballs.

**(o) Procurement of CDF Materials Without Project Appraisal: K85,319,012.94**

CDF Guideline No 6 requires that the Council shall appraise all new projects submitted by the Members of parliament. The District Commissioner shall assign the Director of Public Works and other relevant sector staff to ensure that all new infrastructural projects are appraised so that they adhere to acceptable government and sectoral standards.

An examination of payment vouchers and other related documents revealed that no CDF projects worth K85,319,012.94 was appraised by the relevant sector by way of producing the bill of quantity for the project.

**(p) CDF Monitoring And Supervision Allowances Not Accounted For: K9,379,828.00**

CDF Guideline No 9 requires that VDC/ADC shall be responsible for day to day monitoring of the CDF projects, the District Commissioner shall monitor projects implementation and collaborate with the MPs on project monitoring programmes to visit projects at least twice a year.

An examination of payment vouchers and enquiry revealed that amount worth K9,379,828.00 were paid for monitoring and supervision without any ADCs report to the Member of Parliament and the Council on a quarterly basis, while the District Commissioner does not monitor projects implementation and collaborate with the MPs on project monitoring programmes to visit projects at least twice a year.

**LOCAL GENERATED REVENUE ACCOUNT**

**(q) Non Maintenance of Local Generated Cash Book: K27,275,982.30**

Local Assembly Accounting & FM Procedures Manual Paragraph 5.4.1 requires that the principal record in respect of cash kept by a Local Authority is a cash book which records both cash and bank transactions.

It was noted that the Revenue Section did not open and maintain a cashbook for its revenue collection. Hence, the revenue amounting to K27,275,982.30 collected during the period under audit was not recorded in the cashbook. It was, therefore, difficult to ascertain the accountability of the revenue collected.

**(r) Under Banking of Local Generated Revenue: K10,662,922.05**

The Local Assembly Financial Procedures Manual Chapter 2.1.2 (c) requires that all monies collected from any source should be deposited intact into the LA's bank account(s).

Contrary to the above quoted requirement, the Council collected K25,588,009.75 and banked K14,925,087.70 leading to under banking of K10,662,922.05. Consequently, the audit team failed to determine how the under banked revenue was utilised.

**(s) Payments Made Without Raising Payment Vouchers: K127,879,294.19**

Treasury Instructions (2004) 5.16 among other things requires every payment voucher in respect of expenditure must be in a form approved by the Secretary to the Treasury and a payment voucher must be computer generated, typed or completed with a ballpoint pen.

An examination of Cheque folios and bank requirement for locally generated revenue revealed that Council issued cheques amounting to K127,879,294.19 without preparing payment vouchers.

**(t) Receipted Voucher Not Presented For: K19,005,000.00**

Treasury Instructions (2004) 5.9 requires that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

Contrary to the above quoted Instructions, the Council's Education sector paid allowances to various recipients by cash amounting to K19,005,000.00 which were not supported by signing sheets. As a result, the accountability of the allowances could not be determined.

**(u) Payments Made Towards Non-Existent or Substandard projects: K4,497,846.29**

Treasury Instructions 2004 Section 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste. In addition, CDF guideline on monitoring and evaluation requires that the District Commissioner compile reports of any monitoring, highlighting any observations made, advice provided and any corrective action taken and eventually provide the same to the appropriate Member of Parliament.

Physical verification of CDF projects revealed that CDF projects worth K4,497,846.29 either did not exist or were constructed in a substandard manner.

**DOWA DISTRICT COUNCIL**

36. An audit inspection of the financial and other information for Dowa District Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure To Appraise CDF Projects**

Paragraph 6 of the guidelines for Constituency Development Fund requires that the Council shall appraise all new projects submitted by the Member of Parliament (MP). This was to be done through the

Director of Public Works and relevant sector staff to ensure that the projects adhere to acceptable government and sectorial standards.

A review of CDF documents and enquiry from management indicated that this was done but not for all project. Rather the Council was dependent on the information filled on the CDF claim form which was primarily supposed to be filled by a Development Committee.

**(b) Non Usage Of The Relevant Committees In Implementing CDF Projects**

Paragraph 8 of the guidelines for Constituency Development Fund indicate that a Member of Parliament is supposed to work with Development Committees in implementing projects and that for each project there should be a Project Implementation Committee consisting of not less than 5 people. One has to be the MP Representative 4 chosen by Area Development Committee and respective Ward Councillors.

A physical verification to some of the Projects site and enquiry with Development Committee Members revealed that these committees are at times there but the implementation is done by other people not the ones in the committees. Most of the visited projects lacked the Project Implementation Committee. Where the Project Implementation Committee was available the relevant stakeholders were not getting reports from the Project Implementation Committee.

**(c) Non Compilation Of Annual Reports By Members of Parliament**

The guidelines for constituency development fund requires Members of Parliament to compile annual reports for CDF projects and submit them to the Council for accountability and record keeping.

An enquiry from management showed that there is no such report for the period under audit.

**(d) Lack Of BOQs For CDF Projects**

The procurement guidelines for CDF requires that ADC should provide description of goods services or works (BOQs), method of procurement and justification, list of suppliers who provided quotations, their qualifications and prices quoted, evaluation of quotations, their qualifications and prices quoted in addition to evaluation of quotations and reason for choosing successful bidder subject to ratification by IPCs and who did the evaluation.

A review of documents and enquiry from management showed that payments made by the Council for CDF building projects had none of the required procedures and they had no completion certificates but only CDF claim form and invoices. Due to this lapse in the internal control the audit team failed to ascertain if the cost of these projects matches their progress.



## **OTHER RECURRENT TRANSACTIONS**

**(e) Stores Not Accounted For: K38,453,772.30**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

Contrary to the requirement, stores items worth K38,453,772.30 which were purchased during the years under review, were not recorded in the stores ledger. Consequently, it was difficult for the audit team to ascertain the issuing of the stores and how it was accounted for.

**(f) Fuel Not Accounted For: K71,728,026.15**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of the fuel records revealed that fuel amounting to K71,728,026.15 was not recorded in fuel register and that the monthly fuel expenditure returns were not maintained to assist in control of fuel usage making the ascertainment of fuel usage difficult.

**(g) Maintenance of Motor Vehicles without Approval From PVHES: K3,453,446.00**

Circular Reference number HVMC 1006 of 12th August 2006 from the Controller of Plant and Vehicles requires all motor vehicles to pass through Plant and Vehicle Hire Engineering Service (PVHES) for inspection before and after repairs to ensure that proper maintenance and repair procedures are followed and to ensure value for money in the procurement of maintenance services.

Contrary to the requirement, it was observed that some vehicles were maintained at private garages without being inspected by PVHES.

**(h) Payment Vouchers Not Recorded In Cash Book: K3,162,511.90**

Chapter 8.8.1 of Local Authorities Accounting and Financial Management Procedures Manual requires that payment vouchers be entered in the combined receipts and payments cashbook as soon as transaction take place

Contrary to this requirement, it was observed that payment transactions amounting to were not recorded in the cashbook.

**(i) Payment Vouchers Without Supporting Documents: K23,322,382.26**

Treasury Instructions 2004 5.9(a) requires that controlling officers shall ensure that proper accounting records are maintained to support



all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible.

Contrary to the above requirement, payments amounting to K23,322,382.26 had no supporting documents as at the time of audit. In the absence of documents it was, therefore, difficult for the inspecting auditors to ascertain whether the expenditure made was a correct charge to public funds.

**(j) Receipted Vouchers Not Produced For Audit: K11,017,560.00**

Treasury Instructions require that where a payment made to pay several officers, each officer must sign on the payment voucher against his or her name for the cash received and cash receipts must be obtained where cash was used to support the expenditure.

All signed receipted payment vouchers should be returned to the cash office for record and audit purposes within ten (10) days after the closure of the activity.

An examination of expenditure records made between June, 2017 and July, 2018 disclosed that receipted vouchers amounting to K11,017,560.00 were not produced for audit review. The accountability of the cash drawn could, therefore, not be established by the audit team.

**(k) Expenditure Returns Not Prepared And Submitted 218,196,990.23**

Treasury Instructions (2004) 2.15.2 requires that controlling officers may issue funds which they are responsible and shall require the officers to whom such funds are sub-warranted to periodically submit returns of expenditure against such funds.

An examination of financial records for the period under review disclosed that monitoring of expenditure on funds sub-warranted to various schools was not effective. It was observed that funds totaling K218,196,990.23 meant for development activities in various schools could not be supported with expenditure returns or reports to show how the funds were utilized or spent.

**(l) School Improvement Grant Not Recorded In School Cashbooks: K68,706,087.36**

Primary School Improvement Program Financial Management Guideline requires that each school should maintain a cashbook and every transaction must be recorded in the cashbook.

An inspection of cashbooks and statements for School improvement Grant for primary schools at Dowa District Council revealed that

funds receipts amounting to K68,706,087.36 were not recorded in the cashbook and accountability of these receipts could not be ascertained.

**(m) Expenditures In Cash Book But Not On Bank Statement: K3,822,800.00**

Treasury Instruction (2013) 5.16 requires that all payment ,receipts and other accounting transactions shall be entered and processed into the integrated financial information system approved by the secretary to the treasury. The same is supposed to be reflected on the bank statement.

An inspection of IFMIS cashbook, ledger, school cashbooks and bank statements showed that receipts amounting K3,822,800.00 that were made during the year were shown on the council's cashbook and ledger but they did not have a corresponding entry in the schools cashbook.

**(n) Revenue Collected But Not Banked: K24,501,350.00**

Local Authority Accounting Manual Paragraph 2.1.3 (b) requires that all revenues collected should be remitted to the cashier and deposited INTACT. Where revenue collected is deposited directly to the bank by collectors, relevant receipt numbers must be endorsed on the deposit slips and immediately reconciled with the cashier.

A review of the General Receipts and deposit slips showed that some revenue collected were not bank as per requirement. For the revenues, which had, deposit slips the relevant receipt numbers were not endorsed on the deposit slips.

**(o) Revenues Not Recorded In The Books Of Accounts: K5,173,400.00**

Local Authority Accounting Manual Paragraph 2.1.3 (d) requires that all revenues should properly and timely be recorded in the books of accounts.

A review of the General Receipts, deposit slips, general ledger and cashbook showed that some revenue collected was not recorded in the books of accounts as per requirement

**KARONGA DISTRICT COUNCIL**

37. An audit inspection of the financial and other information for Karonga District Council for the year ended 30th June, 2018 was completed in August, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Misallocation of Expenditure: K26,613,221.35**

Treasury Instruction (2004) 4.14.1 requires that specific approval is required before any allocations can be vired or transferred between a Programme/item within the same Vote. The Section further requires that if the Controlling Officer is satisfied that the provision against a Programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a Programme/item within the same Vote.

An examination of payment vouchers revealed that payments amounting to K26,613,221.35 made between August 2017 and June 2018 were made without Treasury authority. This is evidenced by lack of authority from Treasury to spend on budget lines other than those approved by Parliament. Therefore, funds were not spent in accordance with the approved budget. Table 11 below refers.

**Table 11: Misallocation of Expenditure**

<u>Sector</u>	<u>Amount (K)</u>
Headquarters	6,740,402.13
Agriculture	4,221,056.00
Education	15,651,763.22
<b>Total</b>	<b>26,613,221.35</b>

**(b) Payment Vouchers without Supporting Documents: K117,754,620.94**

Treasury Instructions (2004) 5.9(a) requires 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 records revealed that payment vouchers totaling K117, 754,620.94 did not have supporting documents. Therefore, it was difficult for the audit team to ascertain the accountability of the funds spent.

**(c) Cash Payments to Staff: K35,594,396.00**

Circular No. T 7634, dated 7th February 2011 from Accountant General; Paragraph 1.2.1.1 directs that allowances, advances, leave grants and other payments will be paid to government employees through bank accounts.

An examination of payment vouchers processed between August 2017 and June 2018 revealed that funds amounting to K35,594,396.00 paid

in respect of allowances and other payments were first withdrawn by individuals who later made payments to third parties. The payment was supposed to be made through individuals' bank accounts.

**(d) Single Sourcing Procurement Method Not Followed: K2,740,200.00**

Public Procurement and Disposal of Assets Act of 2016 Section 37(9) requires that Single-source method is permitted only in the following circumstance &—

- (a) where the estimated value of the procurement does not exceed the amount set in the regulations;
- (b) where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured;
- (c) where there is an emergency need for the goods, works and services.

An examination of payment vouchers revealed that between August 2017 and June 2018 the Council procured goods and services amounting to K2,740,200.00 without sourcing at least three quotations. Therefore, value for money could not be achieved. Table 12 below refers.

**Table 12: Single Sourcing Procurement Method Not Followed**

<b>Sector</b>	<b>Amount (K)</b>
Health	979,280.00
LDF	1,760,920.00
<b>Total</b>	<b><u>2,740,200.00</u></b>

**(e) Fuel Not Accounted For: K27,211,129.90**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of payment vouchers and the fuel ledger revealed that fuel purchased between August 2017 and June 2018 worth K27,211,129.90 was not recorded in the fuel ledger. Malswitch receipts were not even available to authenticate its disposal. Table 13 below refers.

**Table 13: Fuel Not Accounted For.**

<b>Sector</b>	<b>Amount(K)</b>
Headquarters	3,529,208.75
Agriculture	2,002,623.40
Education	11,295,225.75
Health	3,870,000.00
LDF	6,514,072.00
<b>Total</b>	<b>27,211,129.90</b>

**(f) Payment Vouchers Not Presented For Audit: K52, 935,426.63**

Treasury Instruction (2004) 11.6.1 requires that in terms of the Public Audit Act (2003), the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

An examination of records revealed that management failed to produce evidence to the audit team that payment vouchers totaling K52,935,426.63 had supporting documents. Therefore, accountability of the funds could not be ascertained. Table 14 below refers.

**Table 14: Payment Vouchers Not Presented For Audit**

<b>Sector</b>	<b>Amount(K)</b>
Headquarters	10,739,643.62
Education	23,920,337.01
Health	11,696,107.00
Agriculture	6,579,339.00
<b>Total</b>	<b>52,935,426.63</b>

**(g) Stores Items Not Accounted For: K83,274,186.84**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An examination of payment vouchers together with stores ledger revealed that stores items purchased between August 2017 and June 2018 worth K83,274,186.84 were not recorded in the stores ledger. Therefore, the accountability of the stores items could not be ascertained. Table 15 below refers.

**Table 15: Stores Items Not Accounted For**

<b>Sector</b>	<b><u>Amount(K)</u></b>
Health	14,817,138.50
Local Development Fund (LDF)	18,538,416.00
LDF - Social Cash Transfer	<u>49,918,632.34</u>
<b>Total</b>	<b><u>83,274,186.84</u></b>

**(h) Payments Made Without Preparing Payment Vouchers: K60,753,731.75**

The Local Authority Accounting and Financial Management Manual (1998) 1.3.4 Roles of the District Commissioner, role (o) requires that the District Commissioner shall ensure that an effective system of internal control is developed and maintained including an effective Internal Audit Function.

An examination of payment vouchers compared with Cheque counterfoils revealed that between August 2017 and June 2018 payments amounting to K60,753,731.75 were processed without raising a payment vouchers. Therefore, there was a serious lapse in internal control which contravenes the requirement of the above requirement. Table 16 below refers.

**Table 16: Payments Made Without Preparing Payment Vouchers**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Local Development Fund (LDF)	28,407,290.50
District Development Fund (DDF)	5,550,568.20
Constituency Development Fund (CDF)	575,719.00
Headquarters	<u>26,220,154.05</u>
<b>Total</b>	<b><u>60,753,731.75</u></b>

**(i) Procurement of Goods and Services without IPDC Approval: K96,902,647.90**

Public Procurement and Disposal of Public Assets Act (2016) Section 26 requires that there shall be established in all ministries, departments and parastatals organizations, and other entities and authorities of public administration in Malawi, Internal Procurement and Disposal Committees (IPDC). The functions of the committees will include ascertaining the availability of funds to pay for each procurement.

An examination of payment vouchers revealed that payments for different goods and services amounting to K96,902,647.90 were made without the approval of the IPDC. Therefore, the practice contravenes the requirement of the above section. Table 17 below refers.

**Table 17: Procurement of goods and services without IPDC approval**

<b>Sector</b>	<b>Amount (K)</b>
Headquarters	958,429.81
Education	1,300,114.00
Social Cash Transfer	12,593,968.00
Donor Development Fund	1,096,174.20
Constituency Development Fund (CDF)	6,047,120.00
District Development Fund	74,906,841.89
<b>Grand Total</b>	<b>96,902,647.90</b>

**(j) Failure to Produce Project Inspection Reports**

CDF guideline (2014) 16.5 requires that the Director of Public Works shall inspect projects in each constituency quarterly and issue a report to the DC. The report shall detail the status of the projects, quality of workmanship, capacity of Area Development Committee and PMC in implementing and monitoring projects. Where the DC as a controlling officer feels that CDF money is not being spent in accordance with the regulations, he reserves the right to seek remedies in consultation with the NLGFC.

During the course of the audit, the audit team requested for the quarterly inspection reports and were not provided by management to the audit team for review. Therefore, it was difficult for the audit team to ascertain the existence of the inspections requires in the above CDF guideline.

**KASUNGU DISTRICT COUNCIL**

38. An audit inspection of the financial and other information for Kasungu District Council for the year ended 30th June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Payment Vouchers without Supporting Documents: K7,547,823.00**

Treasury Instructions (2004) 5.9(a) require 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 and ready accessibility upon request by Ministry of Finance and National Audit Office staff.

Contrary to the above requirements, payment vouchers amounting to K7,547,823.00 were presented for audit without attaching relevant supporting documents. In the absence of the supporting documents, it

was difficult for the inspecting audit team to ascertain whether the expenditure incurred was accurate and proper charge to the public funds. Table 18 below refers.

**Table 18: Payment Vouchers without Supporting Documents**

Sector	<u>Amount</u>
Education	3,078,176.00
Health	4,469,647.00
<b>Total</b>	<b><u>7,547,823.00</u></b>

**(b) Purchases Made Using Single Sourcing: K4,127,818.00**

Public Procurement and Disposal of Public Assets 2016, Section 37 (9) requires that Single-source method is permitted only in the following circumstance—

- (a) Where the estimated value of the procurement does not exceed the amount set in the regulations;
- (b) Where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured; (c) where there is an emergency need for the goods, works and services.

Contrary to this requirement, the audit team discovered that the Council procured goods worth K4,127,818.00 using single sourcing.

**Table 19: Purchases Made Using Single Sourcing**

Sector	<u>Amount (K)</u>
GRF	605,625.00
CDF	2,119,650
Health	1,402,543
<b>Total</b>	<b><u>4,127,818.00</u></b>

**(c) Failure to Produce Activity Reports: K6,989,400.00**

Treasury Instructions (2004) 5.13.1 requires that adequate internal controls must exist within each Ministry, Department and Agency to ensure meeting control objectives which ensure that resources are employed and managed in an effective, economic and efficient manner and that there is no waste or extravagance.

It was noted, however, that funds amounting to K6,989,400.00 were used for various activities that were undertaken during the period under review but activity reports were not produced.



**Table 20: Failure to Produce Activity Reports**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Education	2,981,600
Agriculture	<u>4,007,800</u>
<b>Total</b>	<b><u>6,989,400.00</u></b>

**(d) Stores Not Recorded in the Stores Ledger: K28,906,788.00**

Treasury Instructions (2004) 11.7 among other things, requires that a stores ledger be opened and maintained for purposes of recording all receipts and issues made thereof.

Contrary to the above requirement, it was observed that stores for Constituency Development Fund (CDF) totaling K28,906,788.00 purchased during the period under review were not recorded in the stores ledger despite management having a stores ledger in place. In the absence of proper record, it was difficult to ascertain whether the items were received and accounted for.

**(e) Payment Vouchers Not Produced For Audit Inspection: K11,002,550.71**

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

A review of financial records for the Council revealed that some payment vouchers were not presented for audit inspection. It was therefore difficult to ascertain the accountability of the funds. Table 21 below refers.

**Table 21: Payment Vouchers Not Produced For Audit Inspection**

<b>Sector</b>	<b><u>Amount (K)</u></b>
CDF	6,660,438.00
GRF	2,045,112.71
Health	<u>2,297,000.00</u>
<b>Total</b>	<b><u>11,002,550.71</u></b>

**(f) Misallocation of Expenditure: K10,774,700.00**

Treasury Instructions (2004) 4.14.1 requires that all expenditures 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.

An examination of records indicated that some expenditures amounting to K10,774,700 .00 were misallocated resulting in under and over expenditure of specific budget lines. Table 22 below refers.

**Table 22: Misallocation of Expenditure**

<b>Sector</b>	<b><u>Amount(K)</u></b>
GRF	2,777,200
Health	7,997,500
<b>Total</b>	<b><u>10,774,700</u></b>

**(g) Failure to collect rental fees: K3,153,000.00**

Treasury Instructions (2004) 5.7.1 requires that Controlling Officers of MDAs shall manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue and Section 44 (1) of the Local Government Act 1998 empowers Local Authorities to collect locally generated revenues in order to discharge their statutory mandate. Locally generated revenues are revenues that are generated by the Local Authorities from their own sources other than from Central Government and Development Partners.

The Council owns premises from which it is supposed to collect monthly rental fees from the tenants occupying the premises. The fees are an important revenue source for the day to day running of the Council.

However, it was discovered that the Council failed to collect rentals to a total of K3,153,000.00 from tenants occupying some of the premises.

**KASUNGU MUNICIPAL COUNCIL**

39. An audit inspection of the financial and other information for Kasungu Municipal Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Fuel Not Accounted For: K1,981,575.60**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

A review of payments for purchase of fuel revealed that fuel amounting to K1,981,575.60 purchased in the concerned period was not recorded in the fuel register and was not supported with motor

vehicle log books. It was, therefore, difficult for the audit team to ascertain the disposal of the fuel.

**(b) Failure to Prepare A Procurement Plan: K6,793,896.28**

Public Procurement and Disposal of Assets Act 2016 Section 25.2b requires that Ministries should prepare and submit annual procurement and disposal plans to the Authority.

A review of transactions disclosed that the Council did not prepare a procurement plan for the year 2017/2018 to guide its procurement transactions totaling K6,793,896.28. Therefore, this is in contravention to the requirement of the above section.

**LOCAL DEVELOPMENT FUND**

**(c) Payment Vouchers without Supporting Document: K2,378,075.28**

Treasury Instruction (2004) 5.9(a) 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 (2004) 5.9 (a), requires that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An examination of the financial records disclosed that payment vouchers amounting to K2,378,075.28 were presented for audit without all the necessary supporting documents attached. In absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge to public funds.

**(d) LDF Fuel Not Accounted For: K122,434.70.**

Treasury Instruction (2004) 5.16.1 requires every Controlling Officer to ensure that internal controls exist with the department or ministry to ensure that all revenue, expenditure, assets and liabilities are properly recorded and accounted for.

A review of payments for purchase of fuel revealed that fuel amounting to K122,434.70 purchased in the concerned period was not recorded in the fuel register and was not supported with motor vehicle log books. It was, therefore, difficult for the audit team to ascertain the disposal of the fuel.

**(e) Under Collection of Revenue: K158,891,370.31**

Treasury Instructions (2004) 5.7.1 requires that Controlling Officers of MDA's shall manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue.

The analysis of budgeted and actual revenue collections revealed that the Council under collected revenue worth K158,891,370.31 for township rates, taxi operators' fees, sign posts, shop rentals and market fees. The analysis of budgeted revenue and actual revenue collections are detailed in the Table 23 below:

**Table 23: Under Collection of Revenue**

<b>Type of Revenue</b>	<b>Budget (K)</b>	<b>Actual (K)</b>	<b>Difference (K)</b>
Township Rates	45,000,000.00	24,485,479.69	20,514,520.31
Taxi Operators Fees	8,611,000.00	20,000.00	8,591,000.00
Sign Posts	2,500,000.00	521,000.00	1,979,000.00
Shop Rentals	1,872,000.00	1,795,000.00	77,000.00
Market Fees	148,000,000.00	23,325,250.00	124,674,750.00
Hire Of Hall	810,000.00	503,000.00	307,000.00
Bus Departure Fees	10,860,000.00	8,111,900.00	2,748,100.00
<b>Total Under collection</b>			<b><u>158,891,370.31</u></b>

#### **LILONGWE CITY COUNCIL**

40. An audit inspection of the financial and other information of Lilongwe City Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Fuel not accounted for: K6,845,338.00**

Treasury Instructions (2004) 11.6 requires that items of stores like fuel should be recorded in the fuel register before being issued out. The Instructions further requires 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.

Examination of payment vouchers for the period between October 2017 and May 2018 in respect of fuel purchases disclosed that fuel valued at K6,845,338.00 for constituency development fund projects was not recorded in the fuel registers and no documentation showing how it was disposed was made available to the audit team, hence it being not accounted for.

**(b) Wasteful Expenditure: K45,799,750.00**

Treasury Instruction (2004) 2.6.1(h) requires that all expenditures incurred should be with regard to the economy efficiency and effectiveness and avoidance of waste.

On 19th December, 2012 Lilongwe Council signed a grant amounting up to USD193, 515.00 (equivalent to K66,375,579.89 based on the

exchange rate of K342.9996: USD1) with the Embassy of Japan for the construction of Biwi clinic in Lilongwe city under the 'Grant Assistance for the Grassroots Human Security Project'. The Council awarded the contract to Mark Construction Company on 17th January, 2013 to construct the clinic including the cooking shelter at a contract sum of K49,219,000.00. The agreed work flow schedule was 16 weeks from 23rd January, 2013 to 22nd May, 2013.

A review of the assessment report of Malawi Institute of Engineers dated 28th April, 2016, Ref: MIE/TECH/01 and Infracon Infrastructure Consultants Ltd (INFRACON) report of April 2018, Ref: RA/CON/14/09 revealed that the circumstances that led to termination of the contract with Mark Construction Company were: use of substandard materials; poor workmanship; lack of procedure; poor design of the structure and lack of supervision. Further enquires revealed that the Council resolved to award the contract for the re-construction of the clinic to Pachalo Building Contractors on 3rd May, 2018 at the contract sum of K118,947,989.28 to be financed by funds from Infrastructure Development fund as project funds donated by the Embassy of Japan had been depleted and as at the time of audit the new contractor had been paid K57,573,211.26 for the executed works. Consequently, the audit team noted a wasteful expenditure amounting to K45,799,750 spent on the first contractor and the consultants. The tendency resulted into the Council losing financial resources which would have been utilized on other planned activities. There is a further risk that potential donors may not be willing to finance Council's projects in future for fear of such occurrences thereby negatively impacting on the smooth delivery of Council's mandate.

**(c) Fringe benefits tax not paid: K9,753,070.20**

Malawi Taxation Act 2000, Section 94A (1) requires every employer, other than the Government, who requires fringe benefits to any of his employees, to pay fringe benefits tax on the total taxable value of such fringe benefits.

Contrary to the requirement, an inspection of payment vouchers and loose minutes revealed that the Council did not pay fringe benefit tax amounting to K9,753,070.20 on fuel benefits paid to the Chief Executive Officer, Directors, Deputy Directors and other officers as determined by the Council from time to time. This tendency implies that the Council may incur financial loss as a result of possible penalties and fines that may be imposed by the Malawi Revenue Authority for non-compliance with tax regulations.

**(d) Irregular payment of fuel benefits: K3,193,242.00**

Lilongwe City Council Terms and Conditions of Service Section 5.3 requires the Council to provide fuels on monthly basis for the Chief

Executive Officer and Heads of Department as determined by the Council from time to time for official duties and a reasonable private use. Moreover, where the provision of transport services to Deputy Heads of Department is not affordable, the Council shall provide reasonable amount of fuels on monthly basis for official discharge of their duties as shall be determined by the Council from time to time.

An examination of payment vouchers, loose minutes, fuel issues records and personal files revealed that the Council paid fuel benefits amounting to K1,956,192.00 to Mr. M. Zeleza, the Chief Executive Officer during the period between July 2018 to January 2018. A review of personal files and interview with management revealed that during that period the Chief Executive Officer (CEO) was on administrative leave which commenced in May 2018 and finished in January 2018. During the CEO's administrative leave, Mr. Charles Makanga, the then District Commissioner of Lilongwe District Council, was the Council's Acting Chief Executive Officer and he was also paid the same amount of the fuel benefits.

Similarly, the Council's Director of Engineering, Mr J. Tsogolani was suspended from his post during the period between March 2016 to January 2018 and Mr C. Nyando replaced him in an acting capacity. It was noted that fuel benefits were being paid to the Acting Director of Engineering during the suspension period. However, after he was reinstated in January 2018, Mr J. Tsogolani did not resume his duties as Director of Engineering due to disagreements with his junior staff in the directorate. For this reason, Mr Nyando continued to act as Director of Engineering. It was however noted that although Mr Tsogolani was not reporting for duties during the period between February and June 2018, he drew fuel benefits amounting to K1,237,050.00.

Consequently, payment of fuel benefits worth K3,193,242.00 paid to Mr M. Zeleza and J Tsogolani was irregular as the two officials were not executing official duties for the benefit of the Council. There is a risk that fuel may be used for activities that do not benefit the Council at all.

**(e) Maintenance of Motor Vehicles without IPC Approval: K5,567,922.91**

Public Procurement Act, 2003 Section 8 among other things requires all procuring entities to procure goods and services through the scrutiny and approval of the Internal Procurement Committee (IPC).

A review of payment vouchers and other procurement records for the period between August, 2018 and May, 2018 revealed that maintenance of motor vehicles valued at K5,567,922.91 was made without the IPC approval as there were no IPC minutes to show that

the IPC approved the procurement. This tendency implies that goods and services may not be procured in compliance with the procurement regulations and that the procuring entity may fail to obtain value for money in public procurement.

**(f) Payment Vouchers without Supporting Documents: K98,449,186.52**

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

An inspection of the financial records for the financial year ended 30 June 2018 disclosed that payment vouchers amounting to K98,449,186.52 in respect of Constituency Development funds projects and fuel purchases were passed for payment but did not have supporting documents like receipts as per the summary in the Table 24 below.

**Table 24: Payment Vouchers without Supporting Documents**

<b>Source of funds/Fund Type</b>	<b>Amount (K)</b>
CDF	74,700,982.52
General Resource Fund	771,036.00
Sector Funds	9,751,275.00
Locally Generated Revenue	13,225,893.00
<b>Total</b>	<b>98,449,186.52</b>

**(g) Payment Vouchers Not Produced For Audit: K67,003,856.36**

Treasury Instructions of 2004 Section 11.6.1 requires that in terms of the Public Audit Act, 2003, the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

An inspection of expenditure reports and payment vouchers for period between July, 2018 and June, 2018 revealed that payment vouchers amounting to K67,003,856.36 were not produced for audit inspection. The tendency made it difficult for the audit team to establish the validity of the expenditure processed on these vouchers. Table 25 below refers.



**Table 25: Payment Vouchers Not Produced For Audit**

<b>Source of funds/Fund Type</b>	<b><u>Amount (K)</u></b>
Constituency Development Fund	9,100,459.38
Sector Funds	302,750.00
Locally Generated Revenue	57,674,315.57
General Resource Fund	<u>9,026,790.79</u>
<b>Total</b>	<b><u>67,003,856.36</u></b>

**(h) Payments Made Without Being Authorized: K39,839,785.85**

Treasury Instructions (2004) 5.16.2.1 requires that no officer of a Ministry or Department shall spend or commit public money except with the approval (either in writing or duly authorized electronic means) of the controlling officer or properly delegated officer or authorized officer of that Ministry or Department.

An examination of payment vouchers for the period of July 2018 to June 2018 disclosed that payments amounting to K39,839,785.85 were not authorized as evidenced by lack of either authorizing or counter signature on the payment vouchers as summarized in the Table 26 below refers.

**Table 26: Payments Made Without Being Authorized**

<b>Cost centre/Source of funds</b>	<b><u>Amount (K)</u></b>
Constituency Development Fund	15,007,190.50
Infrastructure Development Fund	<u>24,832,595.35</u>
<b>Total</b>	<b><u>39,839,785.85</u></b>

**(i) Fuel Not Recorded In Fuel Register: K16,095,126.00**

Treasury Instructions (2004) 5.9(b) requires that Controlling Officers to ensure that all transactions are recorded in a primary government record ledger. It is therefore required that fuel purchased should be recorded in fuel register with complete information before issued to subsequent users for accountability and transparency purposes.

An inspection of payment vouchers and fuel registers for Lilongwe City Council for the period under review revealed that fuel amounting to K16,095,126.00 was not recorded in the fuel register. It was therefore difficult for the audit team to ascertain accountability of fuel usage. Table 27 below refers.



**Table 27: Fuel Not Recorded In Fuel Register**

<b>Cost centre/Source of funds</b>	<b><u>Amount (K)</u></b>
General Resource Fund	771,036.00
Sector Funds	1,445,317.00
Locally Generated Revenue	<u>13,878,773.00</u>
<b>Total</b>	<b><u>16,095,126.00</u></b>

**LILONGWE DISTRICT COUNCIL**

41. An audit inspection of the financial and other information for Lilongwe District Council for the year ended June 2018 was completed in August, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Misallocation of Expenditure: K81,866,600.43**

Treasury Instructions of 2004 Section 4.14.1 requires 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 may submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application should be in writing and should be signed personally by the Controlling Officer.

Examination of payment vouchers for the year under review revealed that the Council charged K81,866,600.43 to expenditure accounts which were contrary to the budgetary provision according to the estimates. See Table 28 below for details.

**Table 28: Misallocation of Expenditure**

<b>Sector</b>	<b><u>Amount(K)</u></b>
Head Quarters	15,768,400.29
Health	<u>66,098,200.14</u>
<b>Total</b>	<b><u>81,866,600.43</u></b>

**(b) Stores Items Not Recorded In Stores Ledger: K132,135,192.43**

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

An examination of payment vouchers against stores ledger disclosed that stores items worth K132,135,192.43 were not recorded in the stores ledger. It was noted that most CDF items are delivered direct on site without the engagement of stores personnel to see to it that the paid items have been delivered. See Table 29 below for details.

**Table 29: Stores Items Not Recorded In Stores Ledger**

<b>Sector</b>	<b>Amount(K)</b>
Head Quarters-CDF	117, 382,495.29
Health	8,178,091.14
Education	6,574,606.00
<b>Total</b>	<b><u>132,135,192.43</u></b>

**(c) Payments Made For Undelivered Items: K4,669,443.00**

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

An audit inspection of payment vouchers, invoices and stores ledgers disclosed that payments for Constituency Development Fund (CDF) materials amounting to K4,669,443.00 were made in respect of undelivered goods. A site visits and interviews with people on the ground of where the materials were destined to be delivered indicated that the materials were not delivered though payments were already done.

**(d) Single Sourcing Procurement Method Not Followed: K20,252,576.02**

Public Procurement Act of 2003 Section 35(1) requires that ‘the procuring entity shall request quotations from at least three bidders.’

Contrary to the requirement, an inspection of payment vouchers disclosed that the office made payments amounting to K20,252,576.02 to suppliers without sourcing at least three quotations. See Table 30 below for details.

**Table 30: Single Sourcing Procurement Method Not Followed**

<b>Sector</b>	<b>Amount(K)</b>
Head Quarters-CDF	2,053,586.00
Local Development Fund	18,198,990.02
<b>Total</b>	<b><u>20,252,576.02</u></b>

**(e) Fuel Not Accounted For: K28,826,474.00**

Treasury Instructions of 2004 Section 5.9 (b) requires that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

A review of payments for purchase of fuel for Local Development Fund projects and activities revealed that fuel amounting to

K28,826,474.00 purchased in the year was not recorded in any fuel register and was not supported with any dispatch note nor motor vehicle log books.

**(f) Mis-procurement of Goods: K17,792,326.85**

Public Procurement and Disposal of Assets Act 2016 Section 37 (8) requires that request for quotations method may be used for the procurement of goods, works and routine services when the estimated value of the procurement does not exceed the amount set by the regulations.

An audit of procurement process revealed that the Council made a payment on 12 November 2018 on requisition No. 17-18-01417 using Cheque No. 180 amounting to K17,792,326.85 to Top General Dealers for MASAF 4 Public Works programs projects using Request for Quotation when the amount of the transaction exceeded the threshold level of K10,000,000.00.

**(g) Cash Payments to Staff: K6,300,000.00**

The Local Authority Accounting and Financial Management Regulatory Framework 8.6.1 (c) requires that receipted payment vouchers, shall be returned within ten days from the last date of payment. If the vouchers are not returned within ten days, efforts by the DOF to follow up on the vouchers shall be made. Any monies unpaid shall be brought on charge

Contrary to the requirement, the examination of payment vouchers for District Health Office (DHO) on payments that were made in the name of staff towards provision of hot meals to medical personnel could not be supported to establish how the funds were used. Further enquiry on the matter on how the funds were liquidated could not provide details on how the money was spent.

## **LIKOMA DISTRICT COUNCIL**

42. An audit inspection of the financial and other information for Likoma District Council for the year ended June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) ORT Funds Not Accounted For: K4,282,000.00**

Treasury Instructions (2004) 5.7.3.7 requires that money paid into any designated bank account is public money and shall not be removed except as provided by the Constitution or the PFM Act.

An inspection of payment vouchers revealed that between 31st August, 2018 and 26th June, 2018 Likoma District Council transferred funds amounting to K4,282,000.00 from ORT to District

Development Fund (DDF) Account. Management did not produce any regulation or authority covering these payments or any documentation to account for the money that was being transferred. Table 31 below refers.

**Table 31: ORT Funds Not Accounted For**

<b>Sector /Account</b>	<b>Amount (K)</b>
Secretariat	331,000.00
Health	1,055,000.00
Education	1,603,000.00
Agriculture	1,293,000.00
<b>Total</b>	<b>4,282,000.00</b>

**(b) Payments Made Outside IFMIS: K 28,277,621.00**

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

An inspection of Cheque counterfoils revealed that between 21st July 2018 and 11 May 2018, funds amounting to K28,277,621.00 were spent without initializing a payment process in the IFMIS as such the transactions were not supported by payment vouchers.

**(c) Procurement of Goods and Services without IPDC Approval: K9,460,841.40**

Public Procurement and Disposal of Public Assets Act (2016) Section 26 requires that there shall be established in all ministries, departments and parastatals organizations, and other entities and authorities of public administration in Malawi, Internal Procurement and Disposal Committees (IPDC). The functions of the committees will include ascertaining the availability of funds to pay for each procurement.

An inspection of payment vouchers, procurement records and IPDC Minutes between 30th July 2018 and 26th June 2018 revealed that the office procured items valued at K9,460,841.40 without IPDC approval. Table 32 below refers.

**Table 32: Procurement of Goods and Services without IPDC Approval**

<b>Sector /Account</b>	<b>Amount (K)</b>
Secretariat	1,482,487.50
Health	5,964,213.90
Education	1,280,200.00
Agriculture	733,940.00
<b>Total</b>	<b>9,460,841.40</b>

**(d) Payment Vouchers Not Authorized and Countersigned: K14,866,768.00**

Local Authorities Accounting and Financial Management Procedures Manual Paragraph 5.5.2 requires that it is the responsibility of the Director of Finance to authorize a payment voucher and the District Commissioner to countersign. Sector heads are responsible for validating and certifying requests for activities on the expenditure requisition forms, prior to authorization.

An inspection of payment vouchers revealed that payments totaling K14,866,768.00 made between 30th July 2018 and 30th June 2018 were not authorized and countersigned by responsible officers. Table 33 below refers.

**Table 33: Payment Vouchers Not Authorized and Countersigned**

<b>Sector /Account</b>	<b>Amount (K)</b>
Secretariat	1,209,780.00
Health	6,038,444.00
Education	658,200.00
Agriculture	645,800.00
Gender	303,844.00
CDF	6,010,700.00
<b>Total</b>	<b>14,866,768.00</b>

**(e) Payment Vouchers without Supporting Documents: K55,727,577.16**

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

An inspection of payment vouchers revealed that payments amounting to K55,727,577.16 made between 30th July 2018 and 30th June 2018

were not supported by relevant documents such as Receipts, Delivery notes etc. It was therefore difficult to ascertain the validity of the expenditure. Table 34 below for details.

**Table 34: Payment Vouchers without Supporting Documents**

<b>Sector /Account</b>	<b><u>Amount (K)</u></b>
Secretariat	1,907,630.00
Health	6,149,541.60
Education	813,000.00
Agriculture	885,360.00
Gender	448,360.00
Labour	697,000.00
DDF	44,826,685.56
<b>Total</b>	<b><u>55,727,577.16</u></b>

**(f) Failure to Comply with Single Sourcing Method of Procurement: K6,080,978.54**

Public Procurement and Disposal of Assets Act of 2016 Section 37(9) requires that Single-source method is permitted only in the following circumstance &—

- (a) where the estimated value of the procurement does not exceed the amount set in the regulations;
- (b) where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured;
- (c) where there is an emergency need for the goods, works and services

An inspection of payment vouchers revealed that between 30th July 2018 and 26th June 2018 Likoma District Council procured goods and services amounting to K6,080,978.54 without adhering to single sourcing method procedures of procurement. Table 35 below refers.

**Table 35: Failure to Comply with Single Sourcing Method of Procurement**

<b>Sector/Account</b>	<b><u>Amount(K)</u></b>
Secretariat	1,444,107.50
Health	3,381,671.04
Education	1,255,200.00
<b>Total</b>	<b><u>6,080,978.54</u></b>

**(g) Stores Items Not Recorded In Stores Ledger: K13,297,232.86**

Treasury Instructions (2004) 11.7 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An inspection of payment vouchers and the stores ledger revealed that stores purchased between 03rd August 2018 and 26th June 2018 worth K13,297,232.86 were not recorded in the stores ledger. Table 36 for details.

**Table 36: Stores Items Not Recorded In Stores Ledger**

<b>Sector/Account</b>	<b>Amount (K)</b>
Health	3,291,402.86
Education	318,700.00
Agriculture	613,940.00
DDF	9,073,190.00
<b>Total</b>	<b><u>13,297,232.86</u></b>

**(h) Payment of Subsistence Allowances without Activity Reports: K17,106,039.00**

Treasury Instructions (2004) 5.13.1 requires that adequate internal controls must exist within each Ministry, Department and Agency to ensure meeting control objectives which ensure that resources are employed and managed in an effective, economic and efficient manner and that there is no waste or extravagance.

Contrary to the requirement, an inspection of payment vouchers for subsistence allowances disclosed that Likoma District Council between 31st July, 2018 and 25th June, 2018 paid to officers' subsistence allowances amounting to K17,106,039.00 on activities which did not have any report. Table 37 below refers.

**Table 37: Payment of Subsistence Allowances without Activity Reports**

<b>Sector /Account</b>	<b>Amount(K)</b>
Health	1,231,220.00
Education	3,359,909.00
Agriculture	8,072,460.00
Gender	1,054,800.00
Labour	605,700.00
Irrigation	691,000.00
Immigration	510,000.00
Fisheries	690,000.00
Water	572,350.00
National Registration Bureau	318,600.00
<b>Total</b>	<b><u>17,106,039.00</u></b>

**(i) Projects Implemented without District Development Plan.**

Guidelines for the utilization of Development Budget 4.0 requires that the criteria for selecting the projects to be considered for financing have bearing on the District Development Plans and Annual Investment Plans. These projects have been justified on their economic, social, technical, financial and institutional feasibility. In addition, these projects have been designed to contribute to the national goals, objectives and priorities as required in the Malawi Growth and Development Strategy II (MGDS II).

An inspection of payment vouchers and the District Development Plan revealed that between July 2018 and June 2018, Projects worth K94,343,524.00 were implemented but were not extracted from the District Development Plan. Table 38 below refers.

**Table 38: Projects Implemented without District Development Plan.**

<u>Project Name</u>	<u>Contractor</u>	<u>Contract Price</u>
Council office extension	Rama Construction	38,319,230.00
Mocho School block	B. Malola	12,976,100.00
District Commissioner's house	Kowera Construction	4,900,000.00
Staff house at Chiponde	Tam Civil Works	13,665,594.00
Mortuary	Tam Civil Works	17,945,000.00
Mutu Ulongolo water extension		6,537,600.00
<b>Total</b>		<b><u>94,343,524.00</u></b>

**(j) CDF without Project Implementation Committee (PIC) Involvement: K13,909,200.00**

CDF Guidelines Section 8 requires that the Member of Parliament shall work with the relevant ADC/Urban Development Committee (UDC) and VDC/NC to facilitate project implementation for each project there shall be a project implementation committee (PIC) consisting of not less than 5 persons, one of whom shall be a representative of the MP, and the other 4 appointed by the ADC and the respective ward Councilor(s).

An inspection of payment vouchers and contract files revealed that K13,909,200 was spent on CDF projects which did not have Project Implementation Committees (PIC).

**(k) Failure to Maintain Fixed Asset Register: K46,140,000.00**

Treasury Instructions (2004) 5.13.1(d) requires that all Controlling Officers shall ensure that adequate internal controls must exist within each Ministry and Department to among other things ensure that revenue, expenditure, assets and liabilities are properly recorded and accounted for.



A physical inspection of fixed assets owned by Likoma District Council revealed that as at 30th June 2018, fixed assets with an estimated valued of K46,140,000.00 were not recorded in a fixed asset register. Table 39 below refers.

**Table 39: Failure to Maintain Fixed Asset Register**

<u>Sector /Account</u>	<u>Amount(K)</u>
Secretariat	1,150,000.00
Health	1,540,000.00
Education	9,070,000.00
Agriculture	5,540,000.00
Forestry	1,750,000.00
LDF	990,000.00
National Registration Bureau	6,100,000.00
<b>Total</b>	<b><u>46,140,000.00</u></b>

#### **LUCHENZA MUNICIPAL COUNCIL**

43. An audit inspection of the financial and other information for Luchenza Municipal Council for the year ended 30th June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) No Bank Reconciliation for Local Development Fund Project: K18,857,600.**

Treasury Instruction 5.9 of 2004 requires 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.

However, the audit exercise revealed that wages were processed and paid without the wages sheets being signed by foremen, Group Village Headmen and Councilors. It was therefore difficult for the audit team to ascertain the legitimacy of the payments made.

**(b) Under Collection of Revenue: K87,787,943.71**

Treasury Instruction (2004) 4.13.1 requires that every Controlling Officer shall submit to the Secretary to the Treasury monthly revenue projections before the commencement of the financial year. The projections shall be revised in the course of the financial year following consultations between the Controlling Officer and the Secretary to the Treasury.

However, it was noted that the Council projected to collect revenue amounting to K152,097,370.71 in 2017-2018 financial year but only managed to collect K64,309,427 thus falling short of the targeted amount by K87,787,943.71 representing 42% success rate.

**(c) Failure to Bank Cash Intact and Timely: K15,222,744.17**

The Local Authority Accounting and Financial Management Regulatory Framework (2009) 5.33 and 5.6.3 among other cash office procedures requires that “cash must be banked intact and on a daily basis.

An examination of general receipts and bank deposit slips revealed that there was under banking of cash amounting to K15,222,744.17 hence cash was not banked intact. Therefore, there is a breach to the above regulation.

**(d) Payment Vouchers Not Produced for Audit: K4,146,771.06**

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

Contrary to the requirement above, management failed to furnish the audit team with payment vouchers amounting to K4,146,771.06. Therefore, it was difficult for the audit team to ascertain the validity of the payment made.

**(e) Expenditure Charged To Wrong Budget line: K4,855,047.93**

Treasury Instruction (2004) 4.14.1 requires that if the Controlling Officer is satisfied that the provision against a Programme/item shall be inadequate, he or she shall submit an application to the Secretary to the Treasury to vire or transfer funds between a Programme/item within the same vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

An examination of payment vouchers revealed that transactions worth K4,855,047.93 which were processed for payment were charged wrong budget lines. Management failed to provide evidence to the audit team that authority was sought from Treasury to charge transactions to other budget lines other than their original ones.

#### **MACHINGA DISTRICT COUNCIL**

44. An audit of Machinga District Council for the year ended 30th June, 2018 was completed on 21st September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Deposits Not Supported by General Receipts: K1,158,764.00**

Local Authority accounting and Financial Management Procedures Manual 5.2.1 requires that all revenue collected shall be acknowledged by the cashier through an issuance of an official general receipt.

A reconciliation of general receipts with bank deposit slips revealed that cash deposited exceeded cash collected by K1,158,764.00. The reconciliation was done by comparing cash shown general receipts with cash shown on deposit slips. Therefore, the audit team could not place reliance on the amount of cash deposited in the National Bank account.

**(b) Under Banking Of Revenue: K1,722,678.90**

Local Authority accounting and Financial Management Procedures 2.1.2(c) requires that all monies collected from any source should be banked intact into the Local Authority's bank account(s).

An arithmetic test check on revenue collected through general receipts and cash deposited in the Council's National Bank of Malawi Account number 1124347 excluding electron transfers (e-credits) and direct Cheque deposits for the period between July 2017 and March 2018 disclosed that the Council did not bank revenue amounting K1,722,678.90. There was no explanation as to how the unbanked cash was utilized by the Council.

**(c) Failure to Maintain Fixed Asset Register**

Treasury Instruction Treasury Instruction (2004) 5.16.1 requires every Controlling Officer to ensure that internal controls exist with the Council or Council to ensure that all assets are recorded and safeguarded against loss, destruction or unauthorized use.

In addition, the circular from the Chief Secretary to the Government dated 2nd March, 2010 titled 'Government Physical Assets Register', requires the maintenance of an asset register which should among other things indicate the monetary values of the assets and their condition.

An Inquiry with the District Administration Officer disclosed that the Council does not have a fixed asset register. This is a violation of the above regulations. For instance, the Council, Agriculture, Education and Health procured assets but they were not recorded anywhere. Therefore, accountability of the Council's assets could not be ascertained.

**(d) Servicing Of Motor Vehicles without PVHES Approval: K5,364,274.54**

Circular Reference number HVMC 1006 of 12th August, 2006 from the Controller of Plant and Vehicles requires that prior to sending the vehicle for maintenance and services to any prequalified dealer, management ought to sending the vehicle to P.V.H.E.S whom upon inspecting the vehicle must produce an inspection report confirming the areas requiring services. This ensures that only specific identified problems must be serviced.

An examination of payment vouchers revealed that the Council had a number of motor vehicles maintained at private garages without prior inspection by P.V.H.E.S. Total expenditure incurred through such maintenance services amounted to K5,364,274.54. The breakdown of the above figure was as follows; K2,800,127 is for Agriculture, K1,589,061 is for the Council and K975,085 is for Health

**(e) Fuel Not Accounted For: K16,999,719.00**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger.

A review of records revealed that fuel worth K16,999,719.00 purchased during the period under review was not recorded in the fuel register and motor vehicle logbooks. It was therefore, difficult for the audit team to ascertain the disposal of the fuel in question.

**(f) Misallocation of Expenditure: K3,989,870.00**

Treasury Instructions (2004) 4.14.1 requires that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

A review of cash book revealed that funds from Education and Agriculture sectors were diverted to meet expenditures other than those intended for hence compromising the achievement of the objectives of the sectors. Procurement of new text books and Procurement of vaccines and pharmaceuticals amounting to K2,809,870.00 and K1,180,000.00 respectively were not done since funds allocated for the purchase of these items were diverted to the internal travel expenses. At the time of audit there was no evidence that the money was reimbursed to the respective sectors.

**(g) Payments Made To Contractors without Certification By The ADC's/PIC: K13,094,400.00**

Guidelines for the Constituency Development Fund (Revised) (2014) Section 16 under contract administration requires that the ADC shall have a primary role of supervising projects and certifying stages of completion for payment of contractors. The exception being where the Director of Public Works shall have determined that he would need to inspect works at particular stages.

Contrary to the requirement above, an examination of payment vouchers relating to payments for contractors revealed that payments amounting to K13,094,400.00 were made without certification by the ADC and Director of Public Works. The attachments to the payment vouchers had only a copy of the funds authorization by the Member of Parliament. Therefore, there was breach of section 16 of CDF guideline as stated above.

**(h) Ineligible Expenditure: K1,305,493**

Guidelines for the Constituency Development Fund (Revised) (2014) Section 4 enlightens nature of projects and expenditures which are allowable and disallowable.

A review of payment vouchers for Constituency Development Fund disclosed that the Council procured Gowns for Councillors using Constituency Development Funds. The Council was supposed to charge Other Related Transaction (ORT) account. Therefore, the expenditure is ineligible because it is not related to the development of constituency.

**(i) Non Existing Project (Chingamba Market) K3,305,961.00**

CDF guideline (Revised) (2014) number 9 requires ADC to keep record of all CDF projects being implemented in their area and shall report a report to the MP and the Council on quarterly basis.

The audit team, the Councilor in the constituency and the Internal Auditor of the Council physically inspected some of the project under the Constituency development fund in Machinga Central Constituency to appreciate how the projects were being implemented and it was discovered that Chingamba Market was drawing funds from CDF account while there was no project on the ground.

**(j) Construction Materials Not Delivered to the Project Site (Masenjere School): K1,950,155.00**

Section 15 (2) of CDF guideline (Revised) (2014) requires that project implementation committee shall be required to maintain stores records that indicate the materials that were received, who received them, and who witnessed the receipt of the goods.

Physical inspection of Masenjere School Project disclosed that construction material worth K1,950,155.00 which were procured for the school were not delivered to the project site. This was discovered after comparing what was recorded in the stores ledger, invoices with physical structure on the ground. The audit team also interviewed the School Committee Chairman Mr. Medson Thawani who confirmed about the development. According to the Delivery Note Number 0162 the goods were received by Mr. Patrick Tambala which the school committee did not recognize.

#### MANGOCHI DISTRICT COUNCIL

45. An audit of the Mangochi District Council for the year ended 30th June, 2018 was completed on 22nd September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Payment Vouchers Not Presented For Audit Inspection: K67,693,887.54**

Treasury Instructions 5.9 (2004) requires that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of financial records revealed that Council's payment vouchers amounting to K67,693,887.54 were not produced for audit inspection. The audit team was therefore not able to ascertain the authenticity and propriety of the payments made. Table 40 below has the details.

**Table 40: Payments Vouchers Not Presented For Audit Inspection**

<u>Sector</u>	<u>Amount (K)</u>
Headquarter	31,326,579.74
Agriculture	7,815,075.00
Health	1,167,869.80
Education	27,384,363.00
<b>Total</b>	<b><u>67,693,887.54</u></b>

**(b) Failure to Collect Approved Revenue: K49, 715,700.00**

Treasury Instructions (2004) 5.6.2 requires that Controlling Officers of MDAs shall manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue.

A review of Consolidated Itemized Income Statement revealed that the Council under collected the revenue on Income from Markets Establishments, Fees and service charges, Licenses and Permits whilst Commercial undertakings, there was over collection. Therefore the actual overall under collection is K49,715,700.00. Table below has the details.

**(c) Fuel Not Accounted For: K34,921,781.23**

Treasury Instructions (2004) 20.2 of the Local Authorities Accounting and Financial Management and Procedures Manual, require all fuel purchased to be recorded in the fuel registers, and issues signed for by the recipients. Fuel drawn into vehicles should be recorded in the respective motor vehicles log books.

An inspection of payment vouchers against fuel records revealed that fuel purchased during the period under review amounting to K34,921,781.23 was not accounted for through the fuel register. Table 41 below for details.

**Table 41: Fuel Not Accounted For.**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Headquarter	11,415,731.74
Agriculture	4,808,559.00
Health	14,426,401.75
Education	4,271,088.74
<b>Total</b>	<b><u>34,921,781.23</u></b>

**(d) Stores Items Not Accounted For: K17,429,108.74**

Treasury Instructions (2004) 11.7.1.5 requires that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store.

An examination of payment vouchers revealed that store items purchased during the period under review amounting K17,429,108.74 had no evidence that they were recorded in stores ledgers. Table 42 below refers.

**Table 42: Stores item not accounted for**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Headquarter	1,652,063.38
Agriculture	881,278.00
Health	1,694,792.49
Education	11,634,103.00
SOCAT	1,592,200.00
<b>Total</b>	<b><u>17,429,108.74</u></b>



**(e) Payments Made Without Being Authorized/Approved: K14,397,701.98**

Public Finance Management Act (2003) requires that all payment vouchers must be authorized/approved before they are passed for payment.

An examination of payment vouchers for the period under review disclosed that documents in case of proforma invoice for fuel, airtime and authority to leave duty station forms amounting to K14,397,701.98 for Education Sector were not authorized/approved as evidenced by lack of signatures of either authorizing or approving officers on the supporting documents.

**(f) General Materials Not Accounted For: K7,892,128.00**

Treasury Instructions (2004) 11.7 among other things, requires that receipts and issues of all materials be recorded in the appropriate ledgers for proper accountability.

An examination of payment vouchers and request for quotations disclosed that general materials for building and roofing amounting to K7,892,128.00 were purchased from different suppliers but had no evidence that were recorded in appropriate ledgers.

**(g) Project Not Implemented: K2,068,388.70**

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

An examination of payment vouchers and other related documents revealed that expenditure amounting to K2,068,388.70 was incurred to purchase building materials for four staff toilets at Tanyamuka Community Day Secondary School but the toilets have not been built despite that the building materials were delivered on the 17th of December 2018.

**Local Development Fund**

**(h) Fuel Not Accounted For: K18,208,279.00**

Treasury Instructions (2004) 11.7.1.2 requires that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store and section 20.2 of the Local Authorities Accounting and Financial Management and Procedures Manual, require all fuel purchased to be recorded in the fuel registers, and issues signed for by the recipients. Fuel drawn into vehicles should be recorded in the respective motor vehicles log books.



An inspection of payment vouchers against fuel records revealed that fuel purchased during the period under review amounting to K18,208,279.00 was not accounted for through the fuel register.

#### **MCHINJI DISTRICT COUNCIL**

46. An audit of the Mchinji District Council for the year ended 30th June, 2018 was completed on 19th September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure to Maintain Proper Fixed Asset Register: K3,727,702.38**

Circular from the Chief Secretary to the Government dated 2nd March, 2010 titled 'Government Physical Assets Register', the asset register should among other things indicate the monetary values of the assets and their condition.

A review of payment vouchers disclosed that Assets worth K3,727,702.38 which were procured by the Council during the period under review could not be traced as there were no specific identification features of assets in the register such as serial numbers, year of make, allocated life span as well as the monetary value. This was contrary to statement of proper record keeping.

**(b) Quotations selected without IPC Meeting: K4,604,713**

Accountant General Desk Instructions 5.2.1(iv) requires that Internal Procurement Committee (IPC) shall meet to select quotations.

Contrary to the requirement, a review of procurements made by several sectors at the Mchinji District Council revealed that sectors did not comply with the regulation as procurements amounting to K4,604,713 were made without IPC authority.

**(c) Payments made without issuing "Request for Quotations": K5,269,114**

The Public Procurement and Disposal of Public Assets Act (2016) 8 requires that the Request for Quotation method may be used for the procurement of goods, works, and routine services when the estimated value of the procurement does not exceed the amount set by the regulations.

Contrary to the requirement, management of Mchinji Council failed to comply with the statements it offered business opportunities amounting to K5,269,114 without issuing Request for Quotations.

**(d) Payment Vouchers without Supporting Documents: K3,281,725**

Treasury Instructions (2004) 5.9(a), requires 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.

Contrary to the requirement, management processed payments without attachment of invoices amounting to K3,281,725 to the payment vouchers.

**(e) Fuel Not Accounted for: K60,670,326.08**

Treasury Instructions (2004) 11.7.1.5 requires that stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store. This includes fuel which has to be recorded in fuel register and its issue needs to be signed for to ensure accountability.

An examination of payment vouchers and fuel records revealed that fuel worth K60,670,326.08 purchased in different sectors of the Council was not properly accounted for by not recording in the fuel register. This made it difficult for auditors to verify the accountability of the fuel. Table 43 below refers.

**Table 43: Fuel not accounted for**

<b>Sector</b>	<b>Sector Number</b>	<b>Amount (K)</b>
DC Headquarters	1	7,787,761.50
Agriculture	2	2,624,767.00
Water	3	1,027,097.00
Housing	4	1,028,923.67
Education	5	1,251,000.00
Health	6	38,345,139.00
Trade	7	387,824.00
Gender	8	2,243,221.91
Environment	10	2,393,460.00
National Registration Bureau	13	1,339,585.00
Youth and Sports	17	2,241,547.00
<b>Total</b>		<b>60,670,326.08</b>

**(f) Payment for un-identified rented house for the Chairman of Council: K1,180,000.00**

Public Finance Management Act (2003) 10.1i requires that public resources should be safeguarded. This includes payment of rents which can be safeguarded by inspecting the house before starting payments in order to know if the amount being paid is suitable for the rented house.

This means that the Council failed to safeguard expenditure on the rentals amounting to K1,180,000.00, since payments were just being done without proper assessment of the existence of the house which was against the requirement.

**(g) Failure to Deduct Withhold Tax from Rental charges paid: K561,000.00**

Taxation Act of 2000 102 A (1) of requires that every person who makes any payment specified in the Fourteenth Schedule to any other person shall, before making such payment withhold tax in accordance with the rates specified in that schedule unless the person has withholding tax exemption certificate. Rental charges payment is not exempted.

Contrary to the Act provision, the Council was paying rental charges for the DC and the chairman without deducting withholding tax of 15%. The rental amount totaled to K3,740,000.00 which resulted to revenue loss in terms of withholding tax of K561,000.00.

**(h) Payment Vouchers Not Stamped PAID: K83,173,869.77**

Final Draft of Accountant General's Desk Instructions 7.6.2.v requires that after the Cheque is signed all copies of the voucher and attachments shall be stamped "PAID".

An examination of payment vouchers revealed that some of the payment vouchers for the period under review amounting to K83,173,869.77 were not stamped "PAID". Table 44 below refers.

**Table 44: Payment Vouchers Not Stamped Paid**

<u>Sector</u>	<u>Sector Number</u>	<u>Amount (K)</u>
Agriculture	2	10,924,500.00
Health	6	72,249,369.77
<b>Total</b>		<b>83,173,869.77</b>

**(i) Allowances Paid Without To Leave Duty Station Authority: K9,000,000.00**

Treasury Instructions (2004) 0617 requires that the signature of an authorizing officer certifies to the accuracy of every detail on the payment voucher.

An examination of payment vouchers disclosed that subsistence allowances amounting to K9,000,000.00 were paid in different cost centers without duly approved Authority to Leave Duty Station forms. As a result, the propriety of the expenditure could not be well established. Table 45 below refers.

**Table 45: Allowances Paid Without To Leave Duty Station Authority**

<u>Sector</u>	<u>Sector Number</u>	<u>Amount (K)</u>
Agriculture	2	2,546,400.00
Water	4	301,000.00
Health	6	6,153,000.00
<b>Total</b>		<b><u>9,000,000.00</u></b>

**(j) Failure to attach loose Minutes to payment vouchers: K73,818,318.67**

Payment voucher is supposed to be passed and approved for payment when it is complete in terms of attachments. All necessary supporting documents including loose minutes are required to be attached. Loose minutes outlines the purpose, timing and budget of the activity and also details of any procurements to be done. Therefore, the information on the payment voucher should reflect that on the loose.

However, an examination of payment vouchers of the Mchinji DC revealed that payments amounting to K73,818,318.67 were made in different sectors without attaching loose minutes which is against the requirement. This made it difficult to ascertain the accountability of the expenditure made. Table 46 below refers.

**Table 46: Failure to attach loose minutes to payment vouchers**

<u>Sector</u>	<u>Sector Number</u>	<u>Amount (K)</u>
DC Headquarters	1	3,801,558.30
Agriculture	2	9,379,101.77
Education	5	10,548,100.00
Health	6	50,089,558.60
<b>Total</b>		<b><u>73,818,318.67</u></b>

**(k) Payments Vouchers without Supporting Documents: K66,599,969.27**

Treasury Instructions (2004) 5.9 (a) and Section 5.5.1 of the Local Authorities Accounting and Financial Management Procedures Manual requires among other things that payment vouchers must be fully supported by relevant documents such as invoices, memos, and loose minutes among others.

An examination of payment vouchers of the Council for the period under review disclosed that some payment vouchers amounting to K66,599,969.27 had inadequate supporting documents at the time of audit which is in against the requirements. These included quotations, good received notes and fuel requisition forms. Table 47 below refers.

**Table 47: Payment Vouchers without Supporting Documents**

<u>Sector</u>	<u>Sector Number</u>	<u>Amount (K)</u>
DC Headquarters	1	6,620,216.10
Health	6	59,355,897.17
Youth and Sports	17	623,856.00
<b>Total</b>		<b><u>66,599,969.27</u></b>

**(l) Payment Vouchers not presented for Audit: K80,596,459.40**

Treasury Instructions (2004) 5.9 requires that accounting records should be maintained and filed in such a way that they are easily accessed and produced when requested by any authorized persons.

An examination of payment vouchers for Mchinji DC and other cost centres revealed that ORT payment vouchers amounting to K80,596,459.40 were not presented for inspection. Table 47 below refers.

**Table 47: Payment Vouchers not presented for Audit:**

<u>Sector</u>	<u>Sector Number</u>	<u>Amount (K)</u>
DC Headquarters	1	7,017,158.00
Water	3	669,313.00
Health	6	50,242,008.16
<b>Total</b>		<b><u>80,586,459.40</u></b>

**(m) Failure to Maintain Cheque Register**

Desk Instructions Accountant General 7.6.2.vi requires that the cashier shall enter the Cheque number in the Dispatch Cheque Register.

Contrary to the provision, the Council did not properly maintain the Cheque register in such a way that some cheques were not recorded in the register and also the Cheque register was incomplete in terms of information. For instance, only Cheque numbers could be found in the Cheque register without any other details. Table 48 below refers.

**Table 48: Failure to Maintain Cheque Register.**

<u>Sector</u>	<u>Sector Number</u>	<u>Amount (K)</u>
Agriculture	2	7,905,422.14
Housing	4	884,262.56
Health	6	51,018,889.29
Community	7	916,792.50
Irrigation	14	1,435,361.25
Immigration	15	781,000.00
<b>Total</b>		<b><u>62,941,727.74</u></b>

**(n) Failure to Present Market Fee Book for Audit: K17,636,720.00**

Public Audit Act 2003 (2) requires that the auditor general is to audit and examine transactions, books and accounts, and other financial records associated with any projects, programme and other activity receiving funding in whole or in part from public monies of which documents to support this work has to be provided for the audit.

Contrary to the Instruction, the Council failed to produce market fee books amounting to K17,636,720.00 for audit. This made it difficult for the team to account for collected revenue.

**(o) Failure to present Main General Receipt Books for audit inspection: K14,159,400**

Public Audit Act 6 2003 (2) requires that the auditor general is to audit and examine transactions, books and accounts, and other financial records associated with any projects, programme and other activity receiving funding in whole or in part from public monies of which documents to support this work has to be provided for the audit.

Contrary to the statement of the law, General Receipt books amounting to K14,159,400 were not produced for audit inspection.

**(p) Revenue not recorded in cashbook and GR not provided: K1,510,000.00**

Public Audit Act 6 2003 (2) requires that the auditor general is to audit and examine transactions, books and accounts, and other financial records associated with any projects, programme and other activity receiving funding in whole or in part from public monies of which documents to support this work has to be provided for the audit.

Our review of transactions revealed that records relating to revenue receipts amounting to K1,510,000.00 for the period under audit were not captured in the Cashbook and the GR was not provided.

**(q) Receipts not recorded in cashbook: K4,925,500.00**

General Accepted Accounting Procedures require that bank and Cash transactions should be properly captured in Cashbook to ensure completeness of reports.

Our review of transactions revealed that records relating to revenue receipts amounting to K4,925,500.00 for the period under audit were not captured in the Cashbook.

**M'MBELWA DISTRICT COUNCIL**

47. An audit of M'mbelwa District Council for the years ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Bank Lodgments Figures in The Bank Reconciliation Not Supported: K5,282,500.00**

Treasury Instructions of 2004 Section 5.7.2 (j) requires that bank reconciliation statement should be prepared so that errors in the bank statement cash book are detected.

A review of the bank reconciliation for 0001000300582 Account held at FDH Bank Mzimba Branch, revealed that the reconciliations prepared had bank lodgements figures amounting to K5,282,500.00 which could not be supported or explained as to why the Council got that figure.

**(b) Variations on Amount Deposited and Amounts on Bank Statements: K1,408,451.00**

The Council has an agreement with FDH bank to be receiving revenue collected by market masters to be sent through Airtel money which is called LGAP.

Upon reviewing the documentation, the audit revealed that the amount on receipts used in transferring money through Airtel money could not match with amounts on the bank statements. Total difference amounted to K1,408,451.00. No further explanations were given as regards to the differences

**(c) Missing General Receipt Books: K1,949,166.00**

Treasury Instructions 5(15)(3) require among others, the safe custody and care for accountable documents such as General Receipt Books, invoices and debit notes in a bid to safeguard them against theft, loss or damage.

An examination of revenue records revealed that some General Receipt books which were used to collect revenue amounting to K1,949,166.00 for different fees could not be traced.

**(d) Overpayments On the Payroll System: K909,112.17**

Public Finance Management Act 2003, Section 10(1) (e) requires that all expenditure, including salaries and other personal emoluments, is properly authorized and applied to the specific purposes for which it is appropriated.

Contrary to the above statement was observed that salaries paid to employees exceeded their entitlement with a total overpayment of K909, 112.17.

**(e) Dormant Advances: K1,540,026.91**

The Public Finance Management Act and Local Authorities Accounting and Financial Management Procedures Manual Section

21.6 requires that an entity should recover all the advances paid which should then be deposited in an advances account from where advances for other officers can be paid as a revolving fund.

Contrary to the above statement it was noted that advances amounting to K1,540,026.91 which were not recovered were not written off and reported to the accountant general.

**(f) Payment of Rural Allowances To Undeserving Teachers: K1,560,000.00**

In principle, rural allowances are supposed to be paid only to those teachers who are in rural areas as they face a number of challenges in their lives as they serve the nation.

A review of payroll expenses for M'mbelwa District Education Manager's office revealed that rural allowances amounting to K1,560,000.00 were paid to under serving teachers whose duty stations are not in rural areas. Some teachers are being paid rural allowances although they are teaching in urban schools.

**(g) Allowances Paid to Staff not Accounted For: K3,803,443.00**

Treasury Instructions (2004) Section 5.26.1 requires that a person making the payments shall file properly and all paid documents duly stamped PAID together with an acknowledgement receipt from the beneficiary. All signed receipted payment vouchers should be returned to the cash office for the record and audit purposes within ten (10) days after the closure of the activity.

An examination of payment vouchers revealed that the Council paid K3, 803,443.00 worth of allowances in cash to its members of staff but there were no liquidation sheets in terms of signatures of beneficiaries as evidence of receipt.

**(h) Misallocation of Expenditure: K4,210,000.00**

Treasury Instructions 2004 Section 4.14(1) - (3) 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 between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

An examination of payment vouchers, vote's ledgers, and cashbook revealed that expenses for some items amounting to K4,210,000.00 were charged to wrong account codes.



**(i) Failure to Produce SIG Project Inspection Reports: K114,908,948.00**

School Improvement Grants (SIG) guidelines on reporting, requires that the DEM shall inspect projects in each School and issue a monitoring report to the DC and a copy to be filed. The report shall detail the status of the projects, quality of workmanship, capacity of ADC and PMC in implementing and monitoring projects. Where the DC as a controlling officer feels that SIG money is not being spent in accordance with the regulations, he reserves the right to seek remedies in consultation with the Ministry of Education Secretariat and NLGFC.

During the course of the audit, the audit team was not provided with quarterly inspection reports review, instead checklist was given but without any Management Comments after supervision to the respective Schools. The grant to schools amounted to K114,908,948.00.

**(j) Single Sourcing Method of Procurement not Followed: K16,866,432.16**

Section 51 (1) of the Public Procurement and disposal Act requires that a procuring entity shall request quotations from at least three quotation (bidders) when using the request for quotation (RFQ) method.

An inspection of payment vouchers for CDF projects revealed that between July 2017 and June 2018 the Council procured goods and services amounting to K16,866,432.16 without sourcing at least three quotations.

**(k) Payments Vouchers not Countersigned: K21,519,519.66**

Local Authority Accounting and Financial Management Procedures Manual 14.3 requires that Payment vouchers must be duly authorized by the Director of Finance and countersigned by the DC/CE.

An examination of payment vouchers revealed that payments amounting to K21,519,519.66 effected between July 2017 and June 2018 were not countersigned by the district commissioner.

**(l) Procurements of Services From Unregistered Suppliers: K98,229,327.80**

Public Procurement and Disposal of Public Assets Act 2016 Section 52 requires that in order to be eligible to be awarded a procurement contract, a bidder shall be registered, depending upon the nature of the contract, with the Registrar of Companies, or with the National Construction Industry Council of Malawi, or such other entity as may be prescribed by regulations.

Review of suppliers contracted by the Council indicated that procurements amounting to K98,229,327:80 were made to unregistered suppliers with the Public Procurement and Disposal of Assets Authority (PPDA).

**(m) Food-Things Not Accounted for: K24,771,707.65**

Treasury Instructions (2004) 11.7 requires that a stores ledger for the purpose of recording receipts and issues of all stores will be kept for each store.

An inspection of ORT payment vouchers for M'mbelwa South DHO Food & Rations and the stores ledger revealed that food rations for purchased between July 2017 and June 2018 worth K24,771,707.65 were not recorded in the stores ledger.

**(n) Failure to Produce and signed Receipted Vouchers and: K40,680,753.60**

Treasury Instructions (2004) (11)7 require that where a payment is made to pay several officers, each officer must sign on the payment voucher against his or her name to acknowledge receipt and where applicable, cash receipts must be attached to support the expenditure made.

An examination of payment vouchers in respect of allowances for the period disclosed that allowances amounting to K40,680,753.60 were paid without supporting receipted payment vouchers on which recipient's signatures could be secured. Consequently, the inspecting auditors were unable to ascertain the propriety of the expenditure in the absence of the recipients' signatures.

**(o) Fuel Not Accounted for: K100,157,647**

Treasury Instructions (2004) 11.7 requires that a stores ledger for the purpose of recording receipts and issues of all stores will be kept for each store.

A review of payment vouchers from all sectors revealed that fuel worth K100,157,647 bought between July 2017 and June 2018 was not properly accounted for.

**(p) CDF Building Materials Without Delivery Notes: K118,774, 771**

Constituency development fund guidelines 2014 Paragraph 17(3) on stock management requires that the project implementation committee shall be required to maintain stores records that indicate for each project materials that received, who receive them, who witnessed. These shall be supported by a copy of the delivery that the area development committee collected with the goods.

An inspection of payment vouchers and the stores ledger for CDF revealed that stores purchased between July 2017 and June 2018 worth K118,774,771 did not have Delivery Note attached and it was difficult for the Audit Team to confirm if the building materials were really delivered to the Project Site.

**(q) CDF Payment Vouchers Without Supporting Documents: K11,026,143**

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

An inspection of CDF payment vouchers processed between July 2017 and June 2018 disclosed that payments amounting to K11,026,143.95 did not have supporting documents. It was, therefore, difficult to ascertain accountability of these funds.

**MULANJE DISTRICT COUNCIL**

48. An audit inspection of the financial and other information for Mulanje District Council for the year ended 30th June 2018 was completed on 18th October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Non-Existent CDF Projects: K2,733,850.00**

CDF Guidelines (2014) Paragraph 9 requires ADC to keep record of all CDF projects being implemented in their areas and report to the MP and Council on quarterly basis.

A physical verification of Constituency Development Fund Projects in Limbuli Constituency revealed that two projects were not in existence. The project's cost was K2,733,850.00 for 2017/18 financial year. Table 49 below refers.

**Table 49: Non-Existent CDF Projects**

<u>Project</u>	<u>Amount (K)</u>
Khulubwe bridge	1,327,500.00
Namaraka bridge	1,406,350.00
<b>Total</b>	<b>2,733,850.00</b>

**(b) Payment Vouchers Not Presented For Audit: K9,613,570.56**

Public Audit Act, 2003 Section 7 (1) (a) of 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 records revealed that payment vouchers totaling K9,613,570.56 for the period under review were not presented for Audit. Therefore, it was difficult for the audit team to ascertain the authenticity of the expenditure made. Table 50 below refers.

**Table 50: Payment Vouchers Not Presented For Audit**

<b>Sector/Project</b>	<b>Amount (K)</b>
FICA	195,000.00
Constituency Development Fund (CDF)	3,445,950.80
District Development fund (DDF)	379,829.60
Local Development Fund (LDF)	5,592,790.16
<b>Total</b>	<b>9,613,570.56</b>

**(c) Failure to Comply with Single Sourcing Method of Procurement: K15,595,200.78**

Section 37(9) of the Public Procurement and Disposal of Assets Act of 2016 requires that Single-source method is permitted only in the following circumstance:

- (a) Where the estimated value of the procurement does not exceed the amount set in the regulations;
- (b) where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured;
- (c) Where there is an emergency need for the goods, works and services;

Contrary to the requirement above, the Council procured items worth K15,595,200.78 without sourcing at least three quotations. Therefore, value for money could not be achieved. Table 51 below refers.

**Table 51: Failure to Comply with Single Sourcing Method of Procurement**

<b>Sector/Project</b>	<b>Amount (K)</b>
FICA PROJECT	5,316,000.00
Constituency Development Fund (CDF)	4,599,830.78
District Development Fund (DDF)	4,393,150.00
Agriculture	485,000.00
Secretariat	801,220.00
<b>Total</b>	<b>15,595,200.78</b>

**(d) Fuel Not Accounted For: K15,292,500.66**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger.

An examination of records revealed that fuel worth K15,292,520.00 purchased during the period under review was not recorded in the fuel registers. Therefore, it was difficult for the audit team to ascertain the accountability of the fuel purchased. Table 52 below refers.

**Table 52: Fuel Not Accounted For.**

<b>Sector/Account</b>	<b>Amount (K)</b>
District Development Fund (DDF)	2,340,852.00
Local Development Fund (LDF)	2,146,401.15
MDRRP	2,195,867.20
Health	3,000,000.00
Education	1,688,000.00
Secretariat	2,603,307.00
FICA Project	1,318,092.65
<b>Total</b>	<b><u>15,292,520.00</u></b>

**MWANZA DISTRICT COUNCIL**

49. An audit inspection of the financial and other information for Mwanza District Council for the years ended 30th June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

**(a) Locally Generated Revenue Collected Not Posted In IFMIS: K33,209,684.00**

Treasury Instruction (2004) 5.10 requires that all payments, receipts and other accounting transactions must be entered and processed into integrated financial management system(IFMIS) approved by the Secretary to the treasury to enhance transparency and accountability of public funds.

However, a review of monthly revenue summaries revealed that the Council did not post into the IFMIS all of its locally generated revenue for the year under review amounting to K33,209,684.00. This implies that the figure of revenue was understated by the amount in question.

**(b) Missing Wholesale License Books: K6,000,000.00**

Treasury Instruction 5.13.1 of 2004 requires adequate internal controls to exist within each Ministry and Department. Internal control is defined in the Public Finance Management Act, and is recognized as including all the controls and procedures adopted to ensure that within

Government, and within each entity in Government, assets are safeguarded among others.

Contrary to the above instruction, an examination of security document register revealed that wholesale license books were missing. The missing receipt books were worth K6,000,000.00. Table 53 below show the details.

**Table 53: Missing wholesale license books**

<u>Serial No</u>	<u>Face Value (K)</u>	<u>Collected By</u>
0022751-0022800	1,500,000.00	Agness Kanjuchi
0022801-0022850	1,500,000.00	Agness Kanjuchi
0022851-0022900	1,500,000.00	Agness Kanjuchi
0022901-0022950	1,500,000.00	Agness Kanjuchi
<b>Total</b>	<b><u>6,000,000.00</u></b>	

**(c) Failure to Produce Bank Reconciliations**

Local Council, Accounting and Financial Management Procedures Manual of 1998 Section 5.7 requires that Bank Reconciliation is an accounting process of reconciling the bank and cash book balances. Local Authorities must ensure that Bank Reconciliation Statements are produced each month.

During the audit it was noted that the Council was not up to date in reconciling some bank accounts and in some cases reconciliation was not done at all in the period under review. Therefore, it was difficult for the audit team to ascertain the authenticity of bank and cash book balances for the period under review.

**(d) Fuel Not Accounted For: K14,078,617.66**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger.

An examination of payment vouchers against fuel records revealed that fuel purchased during the period under review was not accounted for through the fuel register. Table 54 refers.

**Table 54: Fuel not accounted for.**

<u>Sector/Account</u>	<u>Amount (K)</u>
Agriculture	250,000.00
DDF	2,600,000.00
Education	2,011,935.37
LDF	2,478,612.09
Secretariat	6,261,070.20
Trade	477,000.00
<b>Total</b>	<b><u>14,078,617.66</u></b>

**(e) Airtime Not Accounted For: K1,475,000.00**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue in small lots, transactions will be recorded in a consumable stores ledger.

Contrary to the above instruction, a review of the stores ledgers disclosed that airtime worth K1,475,000.00 which was issued out through the stores ledger was not signed by the recipients to acknowledge the receipt.

**(f) Stores Items Not Recorded In the Ledger: K4,001,506.21**

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

Contrary to the requirement above, a review of payment vouchers and stores registers revealed that building materials and consumables were not recorded in the ledger as per the stated requirement. Therefore, the accountability of the stores items could not be ascertained.

**(g) Payments Vouchers without Supporting Documents: K8,048,559.00**

Treasury Instruction 5.9(a) of 2004 requires that every Controlling Officer must ensure that internal control measures and procedures are in place in respect of the processing of transactions for payment.

An examination of payment vouchers disclosed that payment vouchers amounting to K8,048,559.00 were submitted for audit without supporting documents. Therefore, accountability of the expenditure made could not be ascertained. Table 55 below refers.

**Table 55: Payments made without supporting documents**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Secretariat	2,214,000.00
Health	3,183,800.00
CDF	2,585,495.00
LDF	65,264.00
<b>Total</b>	<b><u>8,048,559.00</u></b>

**(h) Misallocation of Voted Funds: K1,198,069.90**

Treasury Instruction 4.14.1 of 2004 requires that specific approval is required before any allocations can be allocated or transferred between outputs.

An examination of payment vouchers disclosed that funds amounting to K1,198,069.90 which were meant for other activities were used on unrelated activities. Therefore, there was a breach of the above Treasury Instruction.

**(i) Payment Made For Non-Existent Project: MK855,200.00**

Constituency Development Fund guidelines number 5 require that the member of Parliament should organize a meeting with chiefs, Councilors and Areal development committees within the constituency to identify and prioritize projects that meet the immediate socioeconomic needs of the people in the constituency that can be funded under the CDF including ongoing project.

Physical verification of CDF projects led to the revelation of nonexistence of Mtapadothi Bridge which was paid for on Cheque number 13430 dated 29/09/17 amounting K1,019,400.00. The bridge could not be traced.

**(j) Payment Vouchers Not Produced For Audit: K13,698,925.00**

Treasury Instruction 11.6.1 of 2004 requires that the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

Contrary to the regulation, an inspection of the expenditure cashbook in IFMIS against payment vouchers revealed that payment vouchers valued at K13,698,925.00 for LDF and CDF were not presented for audit. Table 56 below refers.

**Table 56: Payment Vouchers Not Produced For Audit**

Sector/Account	<u>Amount (K)</u>
CDF	2,362,730.00
LDF	11,336,195.00
	<u><b>13,698,925.00</b></u>

**(k) Failure to Remit Pay As You Earn (PAYE) tax Deductions: K3,090,840.00**

The Taxation Act of 2006, Section 102 (1) requires that when making payment of, or on account of, any emolument at a rate exceeding an amount established by the Minister of Finance per annum received or accrued in respect of services rendered, whether payable under any contract of employment or service or not, whether paid or payable weekly or monthly or at other intervals, and including any amounts assessable under sections 16, 17 and 18, income tax shall, subject and in accordance with any regulations made by the Minister under section



146, be deductible by the person making the payment and be remitted to Malawi Revenue Authority.

Contrary to the above quoted requirements, the Council failed to remit PAYE amounting to K3,090,840.00 to MRA. Therefore, non-remittance of PAYE may attract penalty.

## **MZUZU CITY COUNCIL**

50. An audit of the Accounts of Mzuzu City Council for the years ended 30th June, 2018 was completed on 21st September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Under Collection Of Locally Generated Revenue: K768,323,069.00**

Local Government Act 1998 Section 44 (1) empowers Local Authorities to collect locally generated revenues in order to discharge their statutory mandate. Locally generated revenues are revenues that are generated by the Local Authorities from their own sources other than from Central Government and Development Partners.

An examination of the approved budget and the revenue cashbooks revealed that the Council did not perform according to their budget. There was under-collected in revenue by K768,323,069.00 representing a 46 %. Table 57 below refers.

**Table 57: Under Collection of Locally Generated Revenue**

<u>Details</u>	<u>Approved Budget (K)</u>	<u>Actual Collection (K)</u>	<u>Difference (K)</u>
Central Government			
Property Rates	7,342,521.00	5,812,072.00	1,530,449.00
Other property rates	489,357,479.00	395,104,317.00	94,253,162.00
Income from markets	173,702,000.00	96,223,270.00	77,478,730.00
Fees and services charges	712,749,100.00	301,986,304.00	410,762,796.00
Licences and permits	237,648,900.00	106,416,368.00	131,232,532.00
Income from Commercial undertakings	54,300,000.00	1,234,600.00	53,065,400.00
<b>Grand Total</b>	<b><u>1,675,100,000.00</u></b>	<b><u>906,776,931.00</u></b>	<b><u>768,323,069.00</u></b>

**(b) Pension Deductions Not Remitted To Pension Fund: K145,360,587.02**

The Local Assembly Financial Procedures Manual (1998) Chapter 1.3.4 (j) requires that the roles of District commissioners and Chief Executives shall include ensuring that any tax, duty, fee, levy or other charge imposed by legislation for which the Local Authority is responsible is collected promptly and to the fullest extent.

An examination of payment vouchers for the period between 31st July, 2017 and 30th June, 2018 for the Pension deductions undertaken by the council revealed that Mzuzu City Council did not remit Pension deductions amounting to K145,360,587.02 to the NICO Pension Fund, as evidenced by lack of NICO receipts, contrary to the above quoted requirement. Pensioned employees may fail to get their gratuities in time as a result of this anomaly.

**(c) Pay As You Earn (PAYE) Not Remitted To MRA: K332,618,466.34**

The Local Assembly Financial Procedures Manual (1998) Chapter 1.3.4 (j) requires that the roles of District Commissioners and Chief Executives shall include ensuring that any tax, duty, fee, levy or other charge imposed by legislation for which the Local Authority is responsible is collected promptly and to the fullest extent.

An examination of payroll records for the period ending 30th June, 2018 revealed that Mzuzu City Council was in arrears on deduction and remittance of pay as you earn tax (PAYE) amounting to K332,618,466.34. Mzuzu City Council may be surcharged for non-remittance of pay as you earn (PAYE).

**(d) Misallocation of Expenditure: K28,132,069.00**

Treasury Instructions (2004) 4.14.1 requires that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

An examination of payment vouchers for the period of the audit revealed that the Council charged funds totalling K28,132,069.00 on unrelated items without seeking approval for virement of funds from the Secretary to the Treasury as required by Treasury Instructions.

**(e) Payment Vouchers Not Presented For Audit Inspection: K57,197,247.88**

Treasury Instructions (2004) 5.15.1 requires 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.

A review of accounting records for cost centres under the Council showed that some fuel, telephone units, and subsistence allowances vouchers the period under review were not produced for audit review. Consequently, the audit team could not ascertain how funds totaling

K57,197,247.88 paid during the period under review were accounted for.

**(f) Payment Vouchers without Supporting Documents: K29,019,442.03**

Treasury Instructions 5.9(a) (2004) requires 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 some vouchers totaling K29,019,442.03 had no supporting documents. As a result, it was not possible to establish the accountability of the payments.

**(g) Stores Items Not Accounted For: K9,572,836.03**

Treasury Instructions 11.7 (2004) requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

A review of payment vouchers for Constituency Development Fund and Infrastructure Development Fund showed that stores items worth K9,572,836.03 procured between July, 2017 and June, 2018 were not recorded in the stores ledger. As a result, it was difficult to ascertain how the stores items were accounted for.

**MZUZU CITY DEM**

**(h) Expenditure Not Supported With Activity Reports: K18,828,856.00**

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

Contrary to the above stipulated requirement, the audit inspection disclosed that payments amounting to K18,828,856.00 for one year ended 30th June, 2018 were paid for various activities but these were not substantiated by activity reports. This made it difficult for the inspecting auditors to justify the expenditure incurred.

**(i) Payments of Goods And Services Not Supported With Receipts: MK8,213,791.00**

Treasury Instructions 5.26.6 (2014) requires that the person making the payment shall file properly all paid documents duly stamped 'PAID' together with an acknowledgement of receipt from the beneficiary.

Contrary to the above instruction, the Council paid for goods and services amounting to K8,213,791.00, which were not supported by receipts. As a result, the accountability of the allowances and other services could not be determined.

**(j) Fuel Not Entered In the Fuel Register: K2,616,631.00**

Treasury Instruction 11.6 of 2004 Section 20.2 of the Local Authorities Accounting and Financial Management and Procedures Manual, require all fuel purchased to be recorded in the fuel registers, and issues signed for by the recipients. Fuel drawn into vehicles should be recorded in the respective motor vehicles log books. Government Circular Ref. N0. CS/S/001 dated 2nd March, 2010 on Measures on the Management of Government Fleet (13- 14) from the Chief Secretary to the Government requires that controlling officers shall be obliged to submit Monthly Motor Vehicle Returns to the Chief Secretary to the Government with copies to the Auditor General and the Accountant General.

A review of payments for purchase of fuel revealed that fuel valued at K2,616,631.00 was used without evidence that the fuel was entered in fuel registers and no monthly returns were maintained. It was, therefore, difficult for the audit team to ascertain the disposal and accountability of the fuel.

**NENO DISTRICT COUNCIL**

51. An audit of the Accounts of Neno District Council for the year ended 30th June, 2018 was completed on 21st September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Revenue Deposited without Corresponding Deposit Slips: K11,212,960.00**

The Local Assembly Financial Procedures Manual (1998) Chapter 2.1.2 (c) requires that all monies collected from any source should be deposited intact into the Local Authorities' bank account(s).

An examination of bank statements, deposit slips, and general receipts revealed that some deposit slips worth K11,212,960.00 were not available to correspond with transactions on the bank statements and

to cast with General Receipts to ensure that all revenue collected was correctly deposited.

**(b) Cash Not Banked: K1,321,420.00**

Treasury Instructions (2004) 5.8.2 authorizes a revenue collector to deposit revenue direct to a bank or bank agency for credit of a prescribed Government bank.

A review of bank statement, bank deposit slips against general receipts indicated that some of the revenue collected amounting to K1,321,420.00 was not banked. Therefore, the practice contrives the above Treasury Instruction.

**(c) Failure to Prepare Bank Reconciliations**

Section 5.7 of Local Assembly Financial Procedures Manual (1998) requires that bank reconciliation is an accounting process of reconciling the bank and cash book balances. Local Authorities must ensure that Bank Reconciliation Statements are produced each month.

An examination of records revealed that bank reconciliation statement for all accounts was not being done. The following bank accounts were not reconciled even at the time of audit.

**(d) Documents Not Produced For Audit Inspection**

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

Upon requesting of the documents, the audit team was not presented with the following documents;

- Revenue Collection plan
- General Receipt books and market fee books
- Procurement plan
- Strategic plan
- Tender document for contractors
- Cheque Dispatch register
- ORT-Expenditure report
- Creditors and Debtors ledger
- DASP Payments vouchers
- Asset register
- Revenue expenditure cashbooks
- General Receipts and Deposit slips-Forestry Department
- DDF payment voucher with Cheque numbers 003918 and 003620
- CDF payments vouchers worth

**(e) Payments Not Reflected In The Cashbook: K2,827,262.00**

Treasury Instruction (2004) 5.9 (b), as read together with 5.13.1 require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and that the resources are efficiently and meritoriously managed.

An examination of payment vouchers and cashbook for all sectors disclosed that some payment vouchers amounting to K2,827,262.00 which were passed and processed for payment were not entered in the cash book. Therefore, the total figure of expenditure will be understated by the figure in question.

**(f) Single Sourcing Method of Procurement Not Followed: K20,744,902.00**

Public Procurement and Disposal of Assets Act (2016) 37(9) requires that Single-source method is permitted only in the following circumstance:

- (a) where the estimated value of the procurement does not exceed the amount set in the regulations;
- (b) where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured;
- (c) Where there is an emergency need for the goods, works and services;

Contrary to the requirement above, an examination of payment vouchers for all the sectors disclosed that the Council made payments for goods amounting to K20,744,902.00 to various suppliers without sourcing at least three quotations.

**(g) Misallocation of Expenditure: K311,207,835.97**

Treasury Instruction (2004) 4.14.1 requires that specific approval is required before any allocations can be allocated or transferred between outputs.

An inspection of payment vouchers and cashbooks for all the sectors for the period under review revealed that expenditures amounting to K311,207,835.97 were charged to wrong sub items. This is contrary to the requirement stated above.

**(h) Failure to Remit Withholding Tax To Malawi Revenue Authority (MRA):K2,929,202.37**

Taxation Act (2000) 102A requires that withholding tax must be deducted from payments in respect of goods and services to suppliers

who do not possess withholding tax exemption certificates and be remitted to MRA.

An examination of payment vouchers for all the sectors disclosed that withholding tax amounting to K2,929,202.37 which were deducted from various suppliers' was not remitted to MRA. The audit team was not presented with evidence that the amount in question was remitted to MRA. Table 58 below refers.

**Table 58: Failure to remit tax deducted**

<b>Sector</b>	<b>Amount(K)</b>
Secretariat	2,506,195.74
DHO	221,755.86
DADO	2,250.00
DEM	132,146.70
Water, Forest, Fisheries, Trade, Social, Immigration, Sport	66,854.07
<b>Total</b>	<b>2,929,202.37</b>

**(i) Stores Item Not Recorded In Ledger: K17,885,330.45**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger.

An examination of payment vouchers for all the sectors against stores ledgers revealed that stores items worthy K17,885,330.45 purchased for the period under review were not recorded in the stores ledger. Therefore, it was difficult for the audit team to ascertain the accountability of stores items used.

**(j) Poor Workmanship at Mpimbi Junior Primary School: K9,000,000.00**

Treasury Instruction (2004) 2.6.1(h) requires that all expenditures incurred should be with regard to the economy efficiency and effectiveness and avoidance of waste.

The Mpimbi Junior primary school block was one of the school blocks projects under MASAF 3. The school block was built by local artisans. This school is near Mozambique, a bit far from Neno central business district.

An interview with one of the ADC members revealed the block developed dangerous cracks before it was finished. In August, 2018, heavy rain fell and the school block completely fell down. The reason for sub-standard work is that the Council did not monitor the whole project despite the amount of K9,000,000.00 spent on administration



costs, allowances, purchase of construction materials and wage payment.

**(k) No CDF Project Contract Agreement Forms: K10,949,957.50**

Constituency Development Fund guideline number 16.1 of 2014 require that all contractors shall sign a contract which will describe the work to be done, standards (design, drawings and similar specifications) and stages at which payments will be made and where agreed 10% retention fee plan.

However, an examination of financial records revealed that supplies which were awarded contracts for various projects worth K10,949,957.50 did not sign Contract Agreement Forms. Therefore, no formal contract was made between ADC and the contractors.

**(l) CDF Projects Payment Vouchers without Supporting Documents: K8,987,060.65**

Constituency Development Fund guidelines 2014 Paragraph 8 require that the Project Implementation Committee shall maintain and keep records of all aspects of the project under their responsibility.

An examination of CDF records revealed that payment vouchers totaling K8,987,060.65 did not have supporting documents. In the absence of supporting documents it was difficult for the audit team to establish transparency and accountability of the CDF payments made.

**(m) Non Involvement of Village Development Committee in CDF Projects: K3,606,040.00**

Constituency Development Fund guidelines 2014 Paragraph 15.1 requires that the Area Development Committee in collaboration with the Village Development Committee where the project is located shall ensure that for each project a secure location is found to keep materials and that the Project Implementation Committee has chosen people to be accountable for the materials.

Contrary to the requirement above, the Village Development Committee was not involved in maintenance of some boreholes under CDF worth K3,606,040.00. This contravene requirement of the above section.

**(n) Incomplete Status of Zalewa Truck Yard Project: K68,388,000.00**

An examination of Internal Procurement Committee minutes, Full Council minutes and payment vouchers revealed that the Council agreed to construct a truck yard at Zalewa as an income generating activity. The Council contracted C.K Construction Company to do the job after following all procurement requirements.



However, a visit to the place showed that the project got started but it was uncompleted. There was just a concrete slab 60 m by 30m and the funds spent amounted to K68,388,000.00 which was not the true reflection of the work done. The funds spent was on the higher side.

**(o) Failure to Produce Activity Report: K18,662,200.00**

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

An examination of payment vouchers for the period under review disclosed that payments worth K18,662,200.00 were made relating to training and workshops which could not be verified with activity report. Therefore, it was difficult for audit team to ascertain whether the activity took place.

**NKHATABAY DISTRICT COUNCIL**

52. An audit of Nkhata Bay District Council for the year ended 30th June, 2018 was completed on 21st November, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payments Charged To Wrong Budget Line Items: K20,889,741.50**

Treasury Instructions (2004) 4.14 (1) requires that if the Controlling Officer is satisfied that the provision against a programme/ item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/ item within the same vote. The application should be in writing and should be signed personally 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 inspection of payment records in respect of Other Recurrent Transactions, locally generated revenue and the general rate fund disclosed that expenditure amounting to K20,889,741.50 was charged to wrong budget line items during the financial year under review. Table 59 below refers.

**Table 59: Payments Charged To Wrong Budget Line Items**

<b>Sector/Account</b>	<b><u>Amount (K)</u></b>
Education	3,409,000.00
Agriculture	3,528,497.00
Health	11,120,523.20
Headquarters	<u>2,831,721.30</u>
<b>Total</b>	<b><u>20,889,741.50</u></b>

**(b) Fuel Not Accounted For: K19,210,424.18**

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Stores Ledger.

An inspection of payments for purchases of fuel revealed that fuel amounting to K19, 210,424.18 which was purchased in the year 2018/2018 was not supported with any record such as fuel registers and motor vehicle log books. It was, therefore, difficult for the audit team to ascertain proper accountability and disposal of the fuel. Table 60 below refers.

**Table 60: Fuel not accounted for**

<b>Sector/Account</b>	<b><u>Amount (K)</u></b>
Headquarters	2,738,220.20
Health	12,956,782.48
Education	<u>3,515,421.50</u>
<b>Total</b>	<b><u>19,210,424.18</u></b>

**(c) Payment Vouchers Not Authorised: K6,094,102.13**

Local Authorities Accounting and Financial Management Procedures Manual Section 8.3.1 requires that it is the responsibility of the Director of Finance to authorize a payment voucher and the District Commissioner to countersign. Sector heads are responsible for validating and certifying requests for activities on the expenditure requisition forms, prior to authorization.

An inspection of payment vouchers for the year under review disclosed that payment vouchers amounting to K6,094,102.13 were processed and passed for payment without being authorized by the Chief Accountant. This comprised K3,475,800.00 and K2,618,302.13 for Education and Headquarters respectively.

**(d) CDF Stores Purchases Not Recorded In Ledger: K27,416,685.00**

Treasury Instructions (2004) 11.7.1.5 requires that a Stores Ledger for the purpose of recording the receipts and issues of all stores will be kept for each store.

An inspection of stores records on sample basis disclosed failure by management to record purchases in the ledger. It was noted that purchases valued at K27,416,685.00 were purchased and utilised without being recorded in the stores ledger.

**(e) CDF Building And Electrical Materials Not Accounted For: K6,882,220.00**

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

An inspection of CDF payment vouchers disclosed that funds amounting to K6,882,220.00 were paid to suppliers of goods and services to supply building and electrical materials for the renovation of Luweyai F.P. School and construction of Upper Luweyai Private Clinic.

An interview with the Village Development Committee Chairman, Mr Felix Mwale, and the Village Headman for Mdolozzi Village, Mr Washington Chirwa, disclosed that the materials were not received by the community and that the project site for the clinic was not identified by the community.

#### **NKHOTAKOTA DISTRICT COUNCIL**

53. An audit of Nkhotakota District Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure to Account For Cash Withdrawals and Transfers: K686,924,662.62**

Local Authority Accounting and Financial Management Procedures Manual 5.6 (b) requires that an Expenditure Cashbook must be maintained and that, all cash withdrawals from the bank should be recorded under the bank column in the ECB with a contra entry. The corresponding contra entry shall be recorded in the RCB.

Contrary to the above requirement, the Council failed to produce accountability documents for withdrawals and bank transfers of cash amounting to K686,924,662.62

**(b) Abuse of Funds Realized From the Sale of Land: K22,244,885.40**

Local Assembly Financial Procedures Manual Chapter 2.1.2 (c) read together with 2.1.6 (a) requires that all monies collected from any source should be deposited intact into the Local Authorities' bank account(s) and the Council may invest any portion of their monies in any profitable investment approved by the Full Assembly and recorded as assets.

The Council in March 2015 sold demarcated plots to the public on what used to be an Old Airport. The total amount realized from the sale was K36,254,940.00. An examination of the ledger maintained for this account since 2014, revealed that 61% of the expenditure made from this account were nugatory payments. Most of these payments were subsistence allowances which were not even related to the land management or towards reinvestment. Total payments amounted to K22,244,885.40.

**(c) Outstanding Plot Sale Bills: K2,216,500.00**

In March 2015, Nkhotakota District Assembly demarcated plots for residential as well as commercial housing allocations on what used to be an old airfield. These plots were offered to the general public to purchase.

A list of those people that were offered plots by the Assembly was examined. It was noted that 12 members had not finished paying for the plots offered as at the time of audit. The total amount owing was K2,216,500.00

**(d) Poor Loan Management: K40,870,359.23**

Local Assembly Financial Procedures Manual Chapter 2.1.12 (c) empowers the Councils to obtain a loan from any source and make repayments thereof in accordance with section 48 and 49 of the Local Government Act (1998).

Nkhotakota District Assembly in December of 2013 had applied for a loan from Development Fund for Local Assemblies (DFLA) for the construction of a restaurant and a butchery in the Dwangwa Market. The initial loan applied was K16,500,000.00 which was later topped up by K8,669,950.00 making a total loan of K25,169,950.00.

It was noted that the Council had not been making any repayments towards the loan except for a single payment of K1,000,000.00 made in December 2017. As per the DFLA loan Statement of February 2018 the loan amount had accumulated interest and risen to K40,870,359.23.

**(e) Payment Vouchers To Contractors without Supporting Documents: K11,125,334.12**

The Accountant General's Desk Instructions (2007) 6.6 (i-vi) lists information that must be indicated and attached to payment vouchers made to contractors in order for them to be complete. Only upon availability of that information should a payment be made.

Inquiries from management and Inspection of Contracts showed that most of the payment vouchers to contractors were made contrary to the provision of the above authority. During the period under review,

payment vouchers amounting to K11,125,334.12 were processed without considering the requirements of the required authority.

**(f) Contract Agreements Not presented for Audit: K8,996,738.12**

Accountant General's Desk Instructions 6.8iv requires that the prices on all Payment vouchers to contractors shall be charged according to the contract.

A review of payment vouchers for the period under review revealed that funds amounting to K8,996,738.12 were drawn for various contract services but contract agreements were not availed to the audit inspection to confirm if the prices are charged according to the contract terms.

**(g) Unpaid Wages: K26,388,359.00**

Local Authority Accounting and Financial Management Procedures Manual 2.1.3 requires that Local Authorities shall pay salaries and wages to their staff on established and non-established positions respectively. Pension and gratuities shall be paid in accordance with the prevailing Local Authority's Conditions of Service

A review of the salaries and wages records of the assembly showed that Direct employees and Casual laborers were owed K20,871,289.00 and K5,517,070.00, respectively, in salaries and wages since March 2018.

**(h) Inter Borrowings: K29,693,743.00**

Local Assembly Financial Procedures Manual Chapter 2.1.12 (c) empowers the Councils to obtain a loan from any source and make repayments thereof in accordance with section 48 and 49 of the Local Government Act (1998).

An examination of the account ledgers of CDF and DDF showed that on several occasions the Assembly borrowed funds from these accounts to be used on Other Recurrent Transactions with the understanding that refunds will be made. The amounts owed were K11,482,004.26 and K18,211,743.16 respectively

**(i) Payment Vouchers Without Supporting Documents: K9,460,530.00**

Treasury Instructions 5.9 (a) requires Controlling Officers to ensure that proper accounting records are maintained to support all financial and related transactions. Furthermore, Accountant General's Desk Instructions 6.8i, requires an authorizing officer to check that vouchers are supported with original invoices, duplicate local purchase orders, official copies of receipts (in case of refunds) and other relevant documents.

An examination of payment vouchers disclosed that some payment vouchers amounting to K9,460,530.00 made between July 2017 and June 2018, without attaching supporting documents. In the absence of the necessary supporting documents, it was difficult to ascertain the genuineness of the payments made.

**(j) Misallocation of Expenditure: K7,843,779.63**

Treasury Instructions (2004) 4.14.1 requires that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further requires that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

Inspection of the payment vouchers showed that the Assembly failed to vire funds but instead misallocated the payments. The total misallocated payments came up to K7,843,779.63

**(k) Use of CDF Funds on Unrelated Activities: K7,179,532.00**

Constituency Development Fund Guideline number 4, “Disallowed Expenditure” requires that all non-project related expenditures and all expenditures having an attribute of accruing personal benefits shall not be drawn against the CDF. In addition, the guideline disallows payment of community or personal allowances other than those with direct relevance to approved tasks under CDF projects.

An inspection of a sample of Payment Vouchers, Cashbook and Bank Statement revealed that, during 2017/2018 financial period, Nkhotakota District Council spent over K7,179,532.00 from CDF account on subsistence allowances and fuel for the activities that are not related to CDF activities.

**(l) Awarding of Procurement Contract to In-Eligible Suppliers: K3,486,813.00**

Public Procurement and Disposal of Assets Act, Section 52 “Eligibility of a Supplier” requires that, in order to be awarded a procurement contract, a supplier shall be registered, be tax compliant and not be debarred from participating in procurement proceedings.

An inspection of payment vouchers and its supporting documents revealed that Nkhotakota District Council made payments amounting to K3,486,813.00 to Peter Spider who is not registered with the Registrar of Companies as a supplier, in respect of building materials supplied.

**(m) Construction Materials Procured Not Accounted For: K9,331,642.00**

CDF Guidelines number 17 requires the Project Implementation Committees (PICs) to keep appropriate stores record for each project for their accountability.

A visit to some of the projects revealed that most PICs did not keep records of materials they receive from the suppliers. Thus, records for materials amounting to K9,331,642.00 were not presented for audit. Worse still, some suppliers for the material did not produce delivery notes for the supplies they delivered.

**(n) Difference in Deceased Estate Cheque Amount Deposited and Distributed to Beneficiaries: K12,481,8769.52**

Local Authority Accounting and Financial Management Procedures Manual (15.3.1) requires that the deceased funds from any organization should be recorded or registered in the paper money register and then consequently the Cashier should issue the general receipts whose details are similar with those in the paper money register.

Contrary to the requirement, a review of the paper money register and payment vouchers and comparison with deceased estates funds Cheque amounts received by the Council from Administrator General and the amounts distributed to the beneficiaries revealed some variances. The audit established that more funds were distributed to the beneficiaries compared to what the Council had received with a variance amounting to K12,481,8769.52. As such the accountability of the amounts could not be ascertained.

**(o) Deceased Estates Minors Funds Not Accounted For: K14,459,056.25**

Local Authority Accounting and Financial Management Procedures Manual 15.3.5 requires that the deceased funds which have been received from the concerned organization, where it includes the minor's funds, the minor's bank accounts should specifically be opened for them. Furthermore, it requires that opened minor's bank account should also be endorsed in the third party money register where minors should sign for their balances.

Contrary to the requirement, an examination of a sample of payment vouchers revealed that some minor's funds were not recorded in the third party money register amounting to K14,459,056.25.

**(p) Deceased Cheque Numbers Not Recorded In The Paper Money Register: K21,248,454.88**

Local Authority Accounting and Financial Management Procedures Manual 15.3.1 requires that all cheques which have been received



from any concerned organisation should be recorded in the paper money register before any payment process have been made.

An examination of a sample of payment vouchers for Nkhotakota District Council disclosed that cheques valued to K21,248,454.88 paid out during the period were not recorded in the paper money register. In the absence of such records, accountability of the concerned cheques could not be ascertained.

**(q) Signing of The Deceased Funds By A Single Or Two Beneficiaries On Behalf Of The Others: K10,247,373.00**

Local Authority Accounting and Financial Management Procedures Manual 15.3.5 requires that every Cheque should be withdrawn in the name of the beneficiary and that every beneficiary should sign for his or her share in the third party money register.

Contrary to the above requirement, it was noted that a single beneficiary signed for the deceased funds on behalf of all other beneficiaries amounting to K10,247,373.00.

**(r) Delays In Banking The Unclaimed Honoraria: K4,403,000.00**

The PFMA (2003) 44 requires that cash that is unclaimed has to be brought on charge and banked immediately.

Contrary to the provision the Assembly failed to comply with the said provision by not banking the unclaimed honoraria amounting to K4,403,000.00, several months after cash was drawn to be paid to the Chiefs.

**(s) Delay in Cleaning the Chiefs Honoraria Payroll: K2,040,000.00**

The Chiefs honoraria payroll was examined. It was noted that for several months the wages of some chiefs on the payroll were never signed for. It was further observed that in those months it was at least the same people who didn't sign for their money. Upon enquiry as to why the same people were not signing for their wages, it was learnt that some of those chiefs' names did not belong to Nkhotakota District.

It was therefore surprising that the names still kept appearing on the payroll every month for the whole period under review without deleting them. An annual average amount of K2,040,000.00 remained unclaimed translating into K170,000.00 unclaimed monthly.

## **NSANJE DISTRICT COUNCIL**

54. An audit of Nsanje District Council for the year ended 30th June, 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:



**(a) Locally Generated Revenue Collected Not Posted in IFMIS: K33,637,011.00**

Treasury Instructions (2004) 5.10 requires all payments, receipts and other accounting transactions to be entered and processed into integrated financial management system (IFMIS) approved by the Secretary to the treasury to enhance transparency and accountability of public funds.

However, a review of monthly revenue summaries revealed that the Council did not post into the IFMIS all of its locally generated revenue for the year under review amounting to K33,637,011.00.

**(b) Failure to Perform Bank Reconciliations**

Public Finance Management Act 2003 Section 78(1) and (2) requires a statutory body or a subsidiary to keep proper accounts and records of its transactions and financial position, and shall do all things necessary to ensure that all payments are correctly made and properly authorized and shall maintain adequate internal control over its assets, or assets in its custody, and over the incurring of liabilities by it.

The audit noted that the Council was not up to date in reconciling some bank accounts and in some cases; reconciliation was not done at all in the period under review. Table 61 below refers.

**Table 61: Failure to do bank reconciliation.**

<u>Account Name</u>	<u>Account Number</u>	<u>Date Last Reconciled</u>
<b>FDH Bank</b>		
Nsanje District Council ORT	1554213096001	January 2018
Nsanje District Assembly Operations	141115688300	December 2018
Nsanje District Assembly Revenue Account	1022656500001	Not done
Nsanje District Council LDF	1552002996001	Not done
<b>National Bank</b>		
Nsanje District Assembly DDF	798158	Not done

**(c) Fuel Not Accounted For: K57,418,399.87**

Treasury Instructions (2004) 5.9 (b), as read together with Treasury Instructions 5.13.1 and also Revised Local Authority Accounting and Financial Procedure Manual 2.1.8 (b) require, among other things, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and accounted for.

An inspection of payment vouchers against fuel records revealed that fuel purchased during the period under review was not accounted for through the fuel register. Table 62 below refers.

**Table 62: Fuel not accounted for**

<u>Sector/Account</u>	<u>Amount (K)</u>
Headquarters ORT	39,272,052.78
Headquarters Operations Account	4,778,498.00
Education	6,472,437.39
Health	3,054,367.70
Agriculture	1,208,000.00
LDF	2,633,044.00
<b>Total</b>	<b><u>57,418,399.87</u></b>

**(d) Payment Vouchers Not Presented For Audit: K 585,269,268.80**

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

An Inspection of Expenditure return and Payment vouchers disclosed that Vouchers amounting to K585,269,268.80 were not presented for audit. Details on Table 63 below.

**Table 63: Payment Vouchers Not Presented For Audit**

<u>Name Of Sector</u>	<u>Amount (K)</u>
Headquarters	17,402,917.00
MASAF IV	170,667,857.00
Health	36,286,600.00
Education	24,334,027.00
Agriculture	1,140,000.00
CDF	57,785,186.50
LDF	218,679,722.02
DDF	60,112,959.28
<b>Total</b>	<b><u>585,269,268.80</u></b>

**(e) Procurement of Services From None Contracted Suppliers K87,522,712.97**

Accountant General Desk Instructions 5.2.2 for contracts for procurement of goods and services requires that where goods and services are procured the following shall apply: (i) Identification of

the need for goods and services. (ii) Invitation for bids and selection of successful bidder. (iii) Upon selection, contract forms should be signed by the two parties.

Contrary to the above Instructions, the Council offered tenders to suppliers who were not on contract to the tune of K87,522,712.97. Table 64 below has the details.

**Table 64: Procurement of Services from None Contracted Suppliers**

<b>Name of Sector</b>	<b>Amount (K)</b>
Headquarters	82,007,862.97
Health	5,514,850.00
<b>Total</b>	<b>87,522,712.97</b>

**(f) Delivery Notes Not Presented For Audit: K29,758,550.00**

Treasury Instructions (2013) 11.6.1 requires that the Auditor General and his staff are at all times are entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents”.

A review of payment vouchers established that the Council did not attach Delivery notes for items amounting to K29,758,550.00 as supporting documents. Furthermore, the delivery notes were not available for inspection upon request at the time of audit and the goods could not be physically verified where they had been delivered.

**(g) Payments Made Without Supporting Documents: K12,317,839.00**

Treasury Instructions (2004) 5.9(a) 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 Instructions 5.9 (a), requires that Controlling Officers shall ensure proper accounting records are maintained to support all financial and related transactions.

An Inspection of the financial records disclosed that payment vouchers amounting to K12,317,839.00, which were processed and passed for payment had no supporting documents like loose minutes, Invoices, wage sheet, leave to duty station forms and receipts where necessary. In absence of the supporting documents, it was difficult to ascertain whether the payments were a proper charge to public funds. Details are shown on the Table 65 below;

**Table 65: Payments Made Without Supporting Documents**

<b>Name of Sector</b>	<b>Account Name</b>	<b>Details</b>	<b>Amount (K)</b>
Headquarters	Operations	Fuel purchased	1,928,626.00
Headquarters	Operations	Payment of wages	2,345,700.00
Headquarters	ORT	Payment of allowances	3,352,307.00
Headquarters	ORT	Payment of wages.	4,691,206.00
<b>Total</b>			<b><u>12,317,839.00</u></b>

**(h) Undelivered Material For: K7,968,167.50**

Treasury Instructions (2004) 5.13.1(j) requires that adequate internal controls must exist within each Ministry and Department. Internal control is defined in the PFM Act and is recognized as including all controls and procedures adopted to ensure that within Government and within each entity in Government the following control objectives are met:

- There is no waste or extravagance of resources
- Relevant Government policies and legislation are being complied with
- Overall there is effective and efficient management of the financial resources of Government

Contrary to the requirements, an inspection of payment vouchers disclosed that the Council engaged Expert General for supply of material worth K9,579,185.00 but only material worth K5,721,979.00 were delivered, leaving a balance of K3,857,206.00. It also engaged Nathy Distributors to supply material worth K7,330,606.00 but only material worthy K3,219,644.50 were delivered leaving a balance of K4,110,961.50. Thus, Council paid money amounting to K7,968,167.50 for undelivered material.

**(i) Stores Items Not Accounted For: K16,124,315.00**

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions should be recorded in a consumable stores ledger.

Contrary to this requirement, an examination of payment vouchers and stores ledger for the period under review disclosed that the Council purchased stores items amounting to K16,124,315.00 for the projects but did not record them in the ledger. Table 66 below has the details.

**Table 66: Stores Items Not Accounted For**

<b>Description</b>	<b>Amount (K)</b>
LDF	10, 436,865.00
DDF	5,687,450.00
<b>Total</b>	<b><u>16,124,315.00</u></b>

**(j) Disallowed Expenditure: K7,190,176.47**

Public Finance Management Act (2003) 29 (5) requires that all non-projects related expenditures and all expenditures having an attribute of accruing personal benefit shall not be drawn against the Development Funds account if they have not been included in the total approved estimated costs under development expenditure.

It was however observed that expenditures worth K7,190,176.47 incurred during the period under audit for Legal services were disallowed expenditures as they had not been included in the approved estimated costs.

**(k) Failure to Comply with Single Sourcing Method of Procurement: K5,602,660.00**

Public Procurement and Disposal of Assets Act of 2016 Section 37(9) requires that Single-source method is permitted only in the following circumstance &—

- a. where the estimated value of the procurement does not exceed the amount set in the regulations;
- b. where only one supplier has the technical capability or capacity to fulfil the procurement requirement, or only one supplier has the exclusive right to manufacture the goods, carry out the works, or perform the services to be procured;
- c. where there is an emergency need for the goods, works and services;

An inspection of payment vouchers for the period under audit revealed that contract worth K5,602,660.00 were awarded using single source method of procurement without complying to the required procedures.

**NTCHEU DISTRICT COUNCIL**

55. An audit inspection of the financial and other information for Ntcheu District Council for the year ended 30th June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

**(a) Failure to Produce Financial Requirement**

Local Government Act of 1998 Section 42(2) requires that the Assembly shall publish not later than six months after the end of each financial year an annual report of its work and of the local government affairs.

Contrary to the above requirements, Ntcheu District Council failed to produce and submit Financial Requirement for the year ending 30th June, 2018 within six months from the end of the financial year.

**(b) Failure to Prepare Bank Reconciliation Requirement**

Treasury Instructions (2004) 5.7.2 (j) requires that bank reconciliation Statement should be prepared so that errors in the bank Statement or cashbook are detected in good time for proper action to be taken by Controlling Officers.

However, it was noted that the Council did not prepare bank reconciliation requirement for Other Recurrent Transactions for the whole period under review.

**(c) Failure to comply with Single Sourcing Procurement Method: K16,394,170.48**

Public Procurement Act (2003) Section 35(1) requires that a minimum of three quotations should be sourced whenever a request for quotation method has been used.

However, an examination of financial records revealed that the Council purchased goods and services worth K18,498,430.14 without complying with section 35(1) of Public Procurement Act which requires soliciting of at least three quotations when procuring goods and services. Refer to Table 67 below for the summary.

**Table 67: Failure to comply with Single Sourcing Procurement Method**

<b>Sector</b>	<b>Amount (K)</b>
Secretariat	5,586,704.46
DHO	1,029,343.63
DEMO	9,778,122.39
<b>Total</b>	<b><u>16,394,170.48</u></b>

**(d) Payment Vouchers Without Supporting Documents: K11,223,313.41**

Treasury Instructions (2004) 5.9(a) requires every Controlling Officer to ensure that proper accounting records are maintained to support all financial and related transaction and that full supporting documents

are retained and filed in such a way that are easily and readily accessible by the National Audit Office.

Contrary to the above regulation, an examination of records disclosed that payment vouchers totalling K11,223,313.41 did not have supporting documents. In the absence of supporting documents, it was difficult for inspecting auditors to establish the validity of the expenditure made. The summary is shown in Table 68 below.

**Table 68: Payment Vouchers without Supporting Documents**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Secretariat	1,419,500.00
DHO	<u>9,803,813.41</u>
<b>Total</b>	<b><u>11,223,313.41</u></b>

**(e) Stores Items Not Accounted For: K6,053,241.67**

Treasury Instructions (2004) 11.7.1.5 requires that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store for proper accountability.

An examination of payment vouchers, delivery notes, invoices disclosed that items valued at K6,053,241.67 which were purchased from different suppliers were not recorded in the stores ledger. In the absence of the stores ledger it was difficult to ascertain the accountability of the stores items purchased and used. The summary is shown in Table 69 below:

**Table 69: Stores items not recorded in the stores ledger**

<b>Sector</b>	<b><u>Amount (K)</u></b>
DEMO	3,825,950.39
DADO	<u>2,227,291.28</u>
<b>Total</b>	<b><u>6,053,241.67</u></b>

**(f) Failure to Collect Revenue From Shops in the New Market: K3,840,000.00**

Treasury Instructions (2004) 5.7.1 requires Controlling Officers of MDAs to manage revenue efficiently and effectively by implementing appropriate processes that provide for identification, collection, recording, safeguarding and reconciliation of information in respect of revenue and Section 44 (1) of the Local Government Act 1998 empowers Local Authorities to collect locally generated revenues in order to discharge their statutory mandate.

An examination of records revealed that Government constructed a bus depot for the Council. The bus depot was also provided with shops to help the Council increase its revenue base. The Council advertised for the shops and many willing business people applied for the same and successful ones were awarded contracts to occupy the shops. Despite entering into these agreements with vendors, the Council has not yet collected the rent from the vendors amounting to K3,840,000.00.

**(g) Received Vouchers Not Presented For Audit: K16,992,500.00**

Treasury Instructions (2004) 11.6.1 requires that the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

An examination of records revealed that received vouchers amounting to K16,992,500.00 were not produced for audit inspection. Table 70 for the summary.

**Table 70: Received vouchers not produced for audit**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Secretariat	2,040,000.00
DEMO	<u>14,952,500.00</u>
<b>Total</b>	<b><u>16,992,500.00</u></b>

**(h) Fuel Not Accounted For: K57, 716,309.69**

Treasury Instructions (2004) 11.7.1.2 requires all stores items purchased to be recorded in the fuel register for accountability.

However, an examination of payment vouchers and fuel register revealed that fuel worth K57,716,309.69, which was purchased during the period under review was not recorded in the fuel register. This made it difficult for the auditors to ascertain the disposal of the purchased fuel. Table 71 shows the summary.

**Table 71: Fuel not accounted for**

<b>Sector</b>	<b><u>Amount (K)</u></b>
Secretariat	5,164,190.00
DHO	30,500,000.00
DEMO	15,645,560.00
DADO	<u>5,121,031.69</u>
<b>Total</b>	<b><u>56,430,781.69</u></b>



**(i) Airtime Bought Not Accounted For: K1,170,000.00**

Treasury Instructions (2004) 11.6.1.3 requires that where consumable stores are received in bulk for subsequent issue in small lots, the transactions must be recorded in the consumable ledger.

An examination of records for DEMO revealed that management failed to provide airtime register to the audit team for examination hence airtime worth K1,170,000.00, which was purchased during the period under review recorded not accounted. Therefore, the accountability of airtime could not be ascertained.

**(j) Payment Vouchers Not Recorded In The Cashbook: K1,919,701.70**

Treasury Instructions (2004) 5.9 (b), as read together with Treasury Instructions (2004) 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 and the Cashbook for DADO in respect of various payments for the Council revealed that payments amounting to K1,919,701.70 were not recorded in the cashbook.

**(k) Payment Vouchers Not Presented For Audit: K10,533,257.70**

Public Audit Act no. 6 of 2003 Section 7 (1) (a) empowers the Auditor General and any other officer delegated by him to have unlimited access to all documents, books of accounts, public funds, public securities among other things, that are subject to audit.

An examination of cashbook and payment vouchers for DADO revealed that payment vouchers amounting to K10,533,257.70 were not presented for audit review. Therefore, it was difficult to ascertain the validity of the payments made.

**(l) Payments Made For Services Not Rendered: K450,937.70**

Treasury Instructions of 2004 paragraph number 5.19.1 requires that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered.

An examination of payment vouchers, LPOs, invoices, delivery notes, Stores Register and a field visit to Bilila EPA and for DADO revealed that iron sheets and timber worth K450,937.70, which were bought for rehabilitation of the roof of the house at Bilira EPA were not delivered. A field visit also disclosed that the roof of the house was maintained using old iron sheets and plunks.

**(m) Projects On Cash Book But Not On Master Project List: K58,274,416.35**

CDF guideline 3 requires that both new and on-going projects should be in line with district development plan and should be included in the new implementation plan, which acts as a master project list.

A comparison of documents containing all projects undertaken in 2018/2018 financial year and a cashbook revealed that payments amounting to K58,274,416.35 were made for some projects that could not be traced on the master project list.

**(n) CDF Stores Items Not Accounted For: K76,961,501.79**

CDF guideline 15(2) requires that the Project Implementation Committee to maintain stores records that indicate for each project the materials that were received, who received them, who witnessed. These are to be supported by a copy of the delivery that the ADC collected with the goods.

A review of documentation at the Council and a snap visit of some CDF project sites revealed that the Council does not maintain proper records relating to stores. The audit established that stores items worth K76,961,501.79 were not recorded in the stores ledger as such their accountability could not be ascertained.

**(o) Failure by the Council to Maintain a CDF Account: K61,870,716.35**

CDF Guideline 7 requires that, with the direction of the Accountant General's Office, each Local Government to open and maintain a Constituency Development Fund account, which shall serve as the conduit for receiving the funding. In addition, a bank reconciliation Statement to be prepared in respect of each month's transactions as recorded in the cash book and bank Statement.

An examination of records revealed that for the period under review, Ntcheu District Council did not have a bank account for CDF hence all transactions amounting to K61,870,716.35 were being done in ORT pool account.

**(p) Materials Paid For Hoda CBCC But Not Delivered: K689,443.51**

Treasury Instructions of 2004 paragraph number 5.19.1 requires that payment for goods and services received shall be effected upon verification and confirmation that goods were received or that services were rendered.

An examination of payment vouchers, LPOs, Invoices, Delivery notes and a site visit to Hoda revealed that project materials worth K689,443.51 purchased on 29th November 2018 for Hoda CBCC in Ntcheu West Constituency were not delivered.

**(q) Poor Workmanship For Kandeu Health Clinic's Brick Wall Fence: K358,124.00**

Treasury Instruction (2004) 2.6.1(h) requires that all expenditures incurred should be with regard to the economy efficiency and effectiveness and avoidance of waste.

An examination of a cashbook and payment vouchers revealed that Ntcheu District Council made a payment of K358,124.00 on cheque number 067536 on 12th March 2018 to Continental Trade House for the construction of Kandeu Health Clinic's brick wall fence in Ntcheu North East Constituency. However, the quality of the fence is substandard.

**NTCHISI DISTRICT COUNCIL**

56. An audit inspection of the financial and other information for Ntchisi District Council for the year ended 30th June 2018 was completed in October, 2018. The audit disclosed some weaknesses in the financial controls and other related gaps as highlighted in the following observations:

**(a) Goods Paid For But Not Delivered: K5,175,326.45**

Local Authority Accounting and Financial Management Procedures Manual (2014) Paragraph 8.3.2(c) provides that before a payment voucher is raised, goods or services shall be certified to have been received by an authorized receiving officer through delivery note dully signed by the stores officer or completion certificate.

An examination of procurement activities under District Development Fund (DDF) for the period beginning July 2017 to June 2018 showed that some goods amounting to K5,175,326.45 had been paid for but there was no evidence that the goods were delivered.

**(b) Payment Vouchers Not Presented For Audit: K30,211,381.82**

Treasury Instruction (2004) 11.5.1 requires the Auditor General and his staff shall at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers shall give them every facility for inspecting such documents.

An examination of expenditure records and payment vouchers for District Development Fund (DDF) revealed that payment vouchers amounting to K30, 211,381.82 for the period beginning July 2017 to June 2018 were neither on files nor presented for audit. Further audit procedures could not establish propriety of the expenditure in question.

**(c) Revenue from Sale Of Council Land Not Accounted For: K120,600,000.00**

Public Finance Management Act (2003) Section 10(d) provides that a controlling officer must take all necessary precautions to safeguard the collection and custody of public money.

An examination of records on the disposal of 804 plots of land for the Council disclosed that sales proceeds were neither properly assessed nor collected and accounted for. The Council demarcated and sold 104 plots at Ntchisi Boma and 700 plots at Malomo Rural Growth Centre in 2016/2017 and 2017/2018 accounting periods respectively. In both accounting periods, no tangible amounts were reported in financial reports to reflect proceeds sales of land parcels. In addition, there were no reports on land parcels which remained unsold as at the date of the audit. Total value of land which was available for sale both at Boma and Malomo, valued at K150,000.00 as a price for high density plot, amounts to K120,600,000.00.

Further additional procedures revealed that most people that purchased land were not issued a valid and stamped general receipts after depositing their money into a DDF bank account maintained at National Bank of Malawi.

**(d) Fuel Not Accounted For: K10,115,686.37**

Treasury Instruction (2004) 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 and meritoriously managed.

A review of fuel expenses for the entity revealed that fuel amounting to K10,115,686.37 was not recorded in the fuel register and motor vehicle log books. Therefore, it was difficult for the audit team to ascertain the accountability of the fuel purchased.

**(e) Payment Vouchers Without Supporting Documents: K9,304,295.00**

Treasury Instruction (2004) No 5.9(a) Requires 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 for the period ending 30th June, 2018 revealed that payment vouchers totaling K9,304,295.00 were presented for audit without appropriate supporting documentation as

required by Treasury Instructions. Consequently, the accountability of such expenditure could not be ascertained.

**PHALOMBE DISTRICT COUNCIL**

57. An audit inspection of the financial and other information for Phalombe District Council for the year ended June 2018 was completed on 22nd September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Fuel Not Recorded In the Fuel Ledger: K9,700,000.00**

Treasury Instructions (2004) 5.9 (b) requires 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 summarized in the ledgers held by the Ministry of Finance, or in a record maintained by the Ministry of Finance.

An examination of the fuel ledger and vehicle log books revealed that fuel amounting to K9,700,000.00 for the Health Sector was not recorded in the fuel ledger.

**(b) Stores Not Recorded in Stores Ledger: K37,346,700.00**

Treasury Instructions 5.9 (b) requires 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 summarized in the ledgers held by the Ministry of Finance, or in a record maintained by the Ministry of Finance.

An examination of the fuel ledger and vehicle log books revealed that stores amounting to K37,346,700.00 were not recorded in the fuel ledger. A summary of the observation is in the Table 72 below refers.

**Table 72: Stores Not Recorded in Stores Ledger**

<b>Sector</b>	<b>Amount (K)</b>
Council Headquarters (Airtime not recorded)	1,420,000.00
District Development Fund (Building materials)	32,591,600.00
Local Development Fund (Materials)	3,335,100.00
<b>Total</b>	<b>37,346,700.00</b>

**(c) Misallocation of Expenditure: K 12,706,374.00**

Treasury Instructions (2004) 4.14.1 requires that if the Controlling Officer is satisfied that the provision against a programme/item shall be inadequate, he shall submit an application to the Secretary to the Treasury to vire or transfer funds between a programme/item within the same Vote. The application shall be in writing and shall be signed personally by the Controlling Officer.

Contrary to the regulation, an examination of payment vouchers revealed that payments amounting to K12,706,374.00 for subsistence allowances were charged to several other sub items such as water and sanitation and internal training. However, there was no documentation to indicate that a virement warrant was granted by the Secretary to the Treasury to vire funds from those sub items to subsistence allowance sub item. The details are summarized in Table 73 below.

**Table 73: Misallocation of Expenditure**

<b>Sector</b>	<b>Amount (K)</b>
District Council Headquarters ORT	1,344,624.00
District Health Office ORT	10,022,000.00
District Education Managers Office ORT	1,339,750.00
<b>Totals</b>	<b>12,706,374.00</b>

**(d) Payment Vouchers without Supporting Documents: K10,544,906.50**

Treasury Instructions 5.9(a) requires that proper accounting records be maintained to support all financial and related transactions and further that full supporting documents be retained and filed in such a way that they are easily and readily accessible.

Contrary to the requirement, payment vouchers worth K10,544,906.50 for the period under review did not have evidence of supporting documents such as invoices and receipts. Below is Table 74 for the summaries per sector.

**Table 74: Payment Vouchers without Supporting Documents**

<b>Sector</b>	<b>Amount (K)</b>
District Council Headquarters ORT	870,574.30
District Agriculture Office ORT	553,535.00
District Education Managers Office ORT	81,600.00
Constituency Development Fund	6,937,220.00
Local Development Fund	2,101,976.50
<b>Total</b>	<b>10,544,906.50</b>

**(e) CDF Building Materials Not Traced At Project Sites: K4,904,720.00**

Treasury Instructions (2004) 11.7.1.5 require that a stores ledger for the purpose of recording the receipts and issues of all stores will be kept for each store.

An examination of payment vouchers revealed that the Council spent a sum of K4,904,720.00 for the purchase of materials for the building

of various projects but could not be physically traced as during the projects verification exercise, the Council staff could not show the audit team where the projects were constructed.

#### **RUMPHI DISTRICT COUNCIL**

58. An audit inspection of the financial and other information for Rumphu District Council for the year ended June 2018 was completed on 20th August, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Failure To Observe Procurement Thresholds: K13,492,550.00**

Section 6 (1) (a) of the Public Procurement and Disposal of Public Assets Act requires for revision of procurement thresholds for procurement of goods , works and services taking into consideration prevailing economic environment. The Director of Public Procurement released a circular reference number ODPP/01/22 dated 22nd October, 2015 in which new thresholds for all MDAs were released.

An inspection of payment vouchers and other procurement documents revealed that the office procured goods for some projects amounting to K13,492,550.00 for District Development Fund without observing the set thresholds for the district (in category D) as required in the circular quoted above.

**(b) Payment Vouchers Without Supporting Documents: K18,298,654.14**

Treasury Instructions (2004) No. 5.9(a) requires that proper accounting records are maintained to support all financial and related transactions and further that full supporting documents are retained and filed in such a way that they are easily and readily accessible and can be produced immediately upon the request of Ministry of Finance and National Audit Office.

An inspection of financial records revealed that between August 2017 and June 2018 payment vouchers amounting to K18,298,654.14 were presented for audit without supporting documents. Therefore, it was difficult to establish the validity of the expenditure. Table 75 below for details.



**Table 75: Payment Vouchers without Supporting Documents**

<b>Sector/Account</b>	<b>Amount (K)</b>
CDF	4,427,328.00
DDF	1,543,900.50
Headquarters (Operations)	1,734,132.50
Headquarters (ORT)	4,194,340.00
Agriculture	4,272,014.00
DHO	5,798,839.64
<b>Total</b>	<b>18,298,654.14</b>

**(c) Fuel Not Accounted For: K41,178,257.50**

Treasury Instructions (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions shall be entered in a Consumable Ledger.

An inspection of payment vouchers and fuel records during the period under audit review revealed that fuel purchases worth K41,178,257.50 were not recorded in the fuel register. Accordingly, the audit team failed to determine how the fuel was disposed of. Table 76 below.

**Table 76: Fuel Not Accounted For.**

<b>Sector</b>	<b>Amount (K)</b>
CDF	1,443,783.00
Headquarters (Operations)	4,341,229.50
Headquarters (ORT)	5,655,741.00
Local Development Fund	1,700,170.00
Agriculture	1,634,184.00
Health	26,403,150.00
<b>Total</b>	<b>41,178,257.50</b>

**(d) Misallocation of Expenditure: K6,019,903.00**

Treasury Instructions (2004) 4.14.1 requires that specific approval is required before any allocations can be vired or transferred between a programme/item within the same Vote. The section further requires that if the Controlling Officer is satisfied that the provision against a programme/item will be inadequate, he may submit an application to the Secretary to the Treasury in writing to vire or transfer funds between a programme/item within the same Vote.

An inspection of payment vouchers and expenditure cash books for the period under review revealed that expenditure amounting to K6,019,903.00 was made on budget lines other than those indicated in the approved budget without Treasury authority. Table 77 below refers.



**Table 77: Misallocation of Expenditure**

<b>Sector</b>	<b><u>Amount (K)</u></b>
DADO	2,630,000.00
Education	3,389,903.00
<b>Total</b>	<b><u>6,019,903.00</u></b>

**(e) Payment Vouchers Not Submitted For Audit: K49,266,275.50**

Public Audit Act Section 7(1) (a) of 2003 requires 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.

Contrary to the above quoted Instructions, Rumphi District Council did not provide for audit examination payment vouchers belonging to Education sector. Consequently, the audit team failed to determine the propriety of expenditure amounting to K49,266,275.50.

**SALIMA DISTRICT COUNCIL**

59. An audit of Salima District Council for the year ended 30th June, 2018 was completed on 20th September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted the following observations:

**(a) Revenue and Expenditure Records Not Presented for Audit**

The Public Audit Act No 6 of 2003, 7(1) (a) requires powers of the Auditor General that he shall have full access at all reasonable times to all documents, books and accounts among other things.

During the audit the Council failed to provide payment vouchers together with the cashbooks for the Council Main Operating Account for the period under review. Further to that, there were no financial reports to monitor the performance of the council in terms of its expenditures against the budgeted figures. The total budget for the year was K374,183,843.00.

**(b) Misallocation of Expenditure: K17,002,248.54**

Treasury Instruction (2004) 4.14.1 requires that all expenditures 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.

Contrary to this, the Council made a number of misallocations without the approval from Treasury. Table 78 below refers.

**Table 78: Misallocation of Expenditure**

<b>Account name</b>	<b>Amount (K)</b>
Health sector	6,485,741.00
Education sector	6,031,414.54
Agriculture sector	4,485,093.00
<b>Total</b>	<b><u>17,002,248.54</u></b>

**(c) Payment vouchers not presented for audit inspection: K11,830,091.00**

The Public Audit Act No 6 of 2003, section 7(1) (a) requires powers of the Auditor General that he shall have full access at all reasonable times to all documents, books and accounts among other things.

During the audit examination of cash books, ledgers, and payment vouchers for Constituency Development Fund (CDF) Account for the period under review discovered that payment vouchers amounting to K11,830,091.00 were not presented to the audit team and as such it was difficult to ascertain the validity of the expenditure.

**(d) Failure to prepare bank reconciliation statements**

Local Authorities Manual (Section 5.7) requires every Council to prepare bank reconciliations on a monthly basis. The Manual further requires the purposes of bank reconciliations as follows:

- To analyze the difference between the cash book and the bank statement balances
- To detect and correct errors made by the bank or cash office
- To detect possible fraudulent withdrawals from the bank
- To recognize or identify appropriate expenditures or receipts made directly by the bank.

The Council's bank accounts were not reconciled regularly and where accounts officers attempted to prepare the reconciliation statements, there was little relevance to the underlying cashbook balances.

**(e) Fuel not accounted for: K47,415,700.70**

Treasury Instruction (2004) 11.7.1.2 requires that items of stores like fuel should be recorded in the fuel register before being issued out. It further requires that Controlling Offices must ensure that an efficient system of stores procedures exists within the ministries or departments to sufficiently safeguard and govern procurement transactions.

An examination of payment vouchers in respect of fuel disclosed that payment vouchers on fuel amounting to K47,415,700.70 were not

accounted for through the fuel register. In some cases, the payments were either without the fuel pump receipt and/or no liquidation receipts. In the absence of these documents it was difficult for the audit team to ascertain whether the fuel purchased was put into official use. Table 79 below refers.

**Table 79: Fuel Not Accounted For**

<b>Account Name</b>	<b>Amount (K)</b>
Health sector	43,667,584.00
Agriculture Sector	1,713,140.70
Education Sector	1,569,976.00
Constituency Development Fund	465,000
<b>Total</b>	<b><u>47,415,700.70</u></b>

**(f) Stores Items Not Recorded: K19,496,523.04**

Treasury Instructions (2004) 11.6 requires that stores represent cash in other form and the same care and safeguards must be taken as is applied to cash management and recording. It is therefore a requirement that a ledger be maintained to record all items stores items should sign or thumb print for the items to acknowledge receipt.

A review of stores records revealed that stores items valued at K19,496,523.04 purchased during the period were not recorded in the stores ledger. In the absence of such record, accountability of stores items purchased could not be ascertained. Table 80 below are the details.

**Table 80: Stores Items Not Recorded**

<b>Account name</b>	<b>Amount (K)</b>
DHO	10,286,392.04
CDF	9,210,131.00
<b>Total</b>	<b><u>19,496,523.04</u></b>

**(g) Misprocurement of Goods And Services: K21,012,532.24**

Public Procurement act Section 8 among other things requires all public institutions and agencies to procure goods and services through the scrutiny and approval of the Internal Procurement Committee (IPC).

An audit review of procurement records during the period showed that a total of K21,012,532.24 was incurred for goods and services without prior approval by the IPC. In most cases the IPC minutes were signed by two members only while in other cases they were not signed at all. It caused doubts as to whether IPC was indeed meeting. Table 81 below refers.

**Table 81: Misprocurement of Goods and Services**

<b>Account name</b>	<b>Amount K</b>
Health sector	16,308,744.67
CDF	4,703,787.57
<b>Total</b>	<b>21,012,532.24</b>

**THYOLO DISTRICT COUNCIL**

60. An audit inspection of the financial and other information for Thyolo District Council for the year ended 30th June 2018 was completed on 6th October, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payment Vouchers Not Presented For Audit: K86,619,977.50**

Treasury Instructions (2004) 11.6.1 requires that the Auditor General and his staff are at all times entitled to have access to all books, records, or returns relating to accounts, and all Controlling Officers must give them every facility for inspecting such documents.

However, a cross-check of the expenditure cashbook against payment vouchers revealed that payment vouchers valued at K86,619,977.50 comprising K72,653,265.45 for Chiefs' expenses, K9,339,252.05 for Public utilities and K4,627,460 for Purchase of Plant, Furniture and Equipment were not presented for audit.

**(b) Payments Made Before Rendering Services: K72,576,000.00**

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

To the contrary, an examination of payment vouchers, invoices and contract agreement forms disclosed that Thyolo District Council entered into a contract with Blue Waters Company to drill 28 boreholes in all constituencies of the district at a price of K92,000,000.00. Out of this amount, on 30th June, 2018, the Council paid K72,576,000.00 to the contractor through Cheque number 26626 before the services were rendered.

**(c) Construction Materials Not Accounted For Through The Stores Ledger: K49,456,724.18**

Local Authorities Accounting and Financial Management Procedures Manual Revised 2009 Paragraph 2.1.8 requires that stores items should be properly kept, recorded and accounted for.

Contrary to the requirement, an inspection of payment vouchers and stores records pertaining to Constituency Development Fund revealed

that items amounting to K49,456,724.18 purchased during the period under review were not accounted for through the stores ledger.

**(d) Fuel Not Accounted For: K25,232,214.49**

Treasury Instructions (2004) 5.9 (b) as read together with Treasury Instructions 5.13.1(d) requires, that Controlling Officers should ensure that adequate internal controls exist within the entity such that transactions are properly recorded and accounted for.

A review of payment vouchers revealed that fuel amounting to K25,232,214.49 was not recorded in the fuel register and was not supported with corresponding recordings in motor vehicle log books.

**(e) General Resource Fund Materials Not Accounted For: K12,729,450.00**

Local Authorities Accounting and Financial Management Procedures Manual, Revised 2009 Paragraph 2.1.8(b) requires stores items to be properly kept, recorded and accounted for.

Contrary to the requirement, an examination of payment vouchers and delivery notes pertaining to General Resource Fund revealed that items amounting to K12,729,450.00 purchased during the period under review were not accounted for through the stores ledger.

**(f) Payments Made Without Supporting Documents: K7,717,629.43**

Treasury Instructions (2004) 5.9(a), requires Controlling Officers to ensure that proper accounting records are maintained to support all financial and related transactions. It also requires 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 request by of Ministry of Finance and National Audit Office

An examination of payment vouchers disclosed that payments amounting to K7,717,629.43 comprising K6,583,233.43 for subsistence allowances and K1,134,396.00 for fuel and lubricants were made with no evidence of supporting documents.

**(g) GRF-Under-Delivery Of Building Materials: K3,859,800.00**

Treasury Instructions 5.19.1 of 2004 requires that payment for goods and services received be effected upon verification and confirmation that goods were received or that services were rendered.

Contrary to the requirement, an examination of payment vouchers, invoices, delivery notes and stores ledgers together with hand over notes with physical verification of the project, disclosed that out of materials and Labour costs of K5,740,500.00 which were quoted, invoiced and paid for, only K1,880,800.00 worth of materials were delivered and apportioned to the project resulting into under delivery of materials of K3,859,500.00.

## ZOMBA CITY COUNCIL

61. An audit of Zomba City Council for the year ended 30th June, 2018 was completed on 28th September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Payments Not Processed Through The IFMIS: K11,705,740.67**

Treasury Instructions (2004) 5.10 requires that all payments, receipts and other accounting transactions must be entered and processed through the financial management information system approved by the Secretary to the Treasury.

Examination of Payment vouchers for Headquarters for the period under review disclosed that Payments amounting to K11,705,740.67 were not processed through the IFMIS.

**(b) Payment Vouchers Not Presented For Audit: K192,365,214.95**

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

An examination of Expenditure returns and Payment vouchers disclosed that payment vouchers amounting to K192,365,214.95 were not presented for audit review. Details in Table 82 below refers.

**Table 82: Payment Vouchers Not Presented For Audit**

<b>Name Of Office/Project</b>	<b>AMOUNT</b>
Headquarters	83,694,677.83
Education	8,432,214.66
LDF	49,752,662.20
	50,485,660.26
<b>Total</b>	<b>192,365,214.95</b>

**(c) Misapplication of Funds: K3,178,466.34**

Treasury Instruction 4.14 of 2004 requires 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 are no over expenditures.

Examination of payment vouchers for the year under review revealed that the office charged K3,178,466.34 to budget lines which were contrary to the budgetary provision according to the estimates.

**(d) Payments Not Authorized and Countersigned: K65,768,242.58**

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

A review of payment vouchers for the period under review revealed that payment vouchers amounting to K65,768,242.58 were not authorized nor countersigned by the responsible officers. In the circumstance the audit team could not establish whether the expenditure was proper charge to public funds. Details Table 83 below.

**Table 83: Payments Not Authorized and Countersigned**

<b>Name Of Office/ Project</b>	<b><u>Amount(K)</u></b>
Headquarters	5,393,094.30
Education	11,100,070.75
Constituency Development Fund	9,784,607.33
Infrastructure Development Fund	33,515,670.75
Local Development Fund	<u>5,974,799.45</u>
<b>Total</b>	<b><u>65,768,242.58</u></b>

**(e) Deposits Not Traced On Bank Statement: K13,448, 964.83**

The Local Assembly Financial Procedures Manual Chapter 2.1.2 (c) requires that all monies collected from any source should be deposited intact into the Local Authorities' bank account(s).

Inspection of the deposit slips against the bank statement for the period under review disclosed that some deposit made during the period under review were not appearing on the bank statement.

**(f) Fuel Not Accounted For: K16,463,460.10**

Regulation 20.3 of Local Government Accounting and Financial Regulation requires that Local Authorities shall maintain a stores ledger that shall record all stores movements and values.

A review of Payment vouchers for purchase of fuel and the related fuel registers disclosed that fuel worth K16,463,460.10 had no evidence that it was recorded in the fuel register. In the absence of the record, the audit team could not ascertain how the fuel was accounted for. Table 84 refers.

**Table 84: Fuel Not Accounted For**

<b>Name Of Office/Project</b>	<b><u>Amount(K)</u></b>
Headquarters	15,150,200.50
Education	<u>1,313,259.60</u>
<b>Total</b>	<b><u>16,463,460.10</u></b>

**(g) Stores Not Accounted For: K7,145,750.33**

Treasury Instruction (2004) 11.7.1.2 requires that where consumable stores are received in bulk for subsequent issue on small lots, transactions will be entered in a Consumable Stores Ledger.

An examination of payment vouchers and verification of the actual stock of stores and the ledger at the project sites disclosed that K7,145,750.33 worth of stores items were not recorded in the stores ledgers. As such it was difficult to ascertain how the stores items were accounted for. Details Table 85 are as follows;

**Table 85: Stores Not Accounted For Through Stores Ledgers**

<b>Name Of Office/Project</b>	<b>Amount(K)</b>
Headquarters	460,135.00
Education (Urban)	<u>6,685,615.73</u>
<b>Total</b>	<b><u>7,145,750.73</u></b>

**ZOMBA DISTRICT COUNCIL**

62. An audit of Zomba District Council for the year ended 30th June, 2018 was completed on 27th September, 2018. The audit disclosed some weaknesses in the financial controls as highlighted in the following observations:

**(a) Suppliers Engaged Without Contract Agreements: K84,410,697.20**

Public Procurement and Disposal of Public Assets Act Section 49 (2) require that all contracts be prepared in the manner prescribed in the appropriate standard bidding document issued by the Director General or any other document approved by the Director General.

It was observed that the Council engaged and made payments amounting to K84,410,697.20 to some contractors to drill boreholes without formal contract agreements. As such, the validity of the transactions in terms of the contract sum and the payments made could not be ascertained.

**(b) Un-Approved Contract Variations: K30,735,347.63**

Public Procurement and Disposal of Public Assets Act Section 50.1 require that each and every contract amendment be approved by designated authorities and be effected as prescribed in the regulations.

An examination of contracts entered into by the Council during the period under review revealed that some contract variations were made on contract sums for two contracts amounting to K30,725,347.63 without the approval of management which led to over payments. Details of the variations in Table 86 below.



**Table 86: Un-Approved Contract Variations**

<u>Date</u>	<u>Contractor</u>	<u>Description</u>	<u>Initial Contract Sum (K)</u>	<u>Total Contract Amount (K)</u>	<u>Variation Amount (K)</u>
27/07/2018	Blue Water Drilling Limited	Drilling 12 boreholes	31,434,442.88	41,912,590.00	10,478,147.63
MFT Civil 27/07/2018	Drilling 15 Engineers	Drilling 15 boreholes	30,385,800.00	50,643,000.00	20,257,200.00
					<b><u>30,735,347.63</u></b>

**(c) Over-Paid Contracts: K30,735,347.63**

Treasury Instruction 2.6.1(h) requires that all expenditures incurred should be with regard to economy, efficiency and effectiveness and the avoidance of waste.

It is the normal practice for Councils, just as any Government entity, to implement projects according to plan and to pay contractors only as agreed in the contract.

An examination of procurement records revealed that, during the period under review, the Council over paid two contractors who were engaged to drill boreholes in the district by a total sum of K30,735,347.63. The details in Table 87 below.

**Table 87: Overpaid Contracts**

<u>Payee</u>	<u>Cheque</u>	<u>Contract Amount (K)</u>	<u>Paid Total (K)</u>	<u>Overpayment (K)</u>
Blue Water Drilling Limited	025690	27,941,625.00	38,419,772.63	10,478,147.63
MFT Civil Engineers	025689	28,182,600.00	48,439,800.00	20,257,200.00
<b>Total</b>				<b><u>30,735,347.63</u></b>

## PART IV

### CONCLUSIONS AND RECOMMENDATION

#### CONCLUSION

- (a) There are a number of challenges in the Local Councils that will need urgent attention if the decentralization process is to continue achieving its intended purpose. The major challenge continues to be lack of qualified personnel to maintain accounting books and records and timely production of financial requirement.

Another deficiency that will need immediate attention is preparation and maintaining of fixed asset registers in the Councils.

The following observations were noted during the audit:—

- Documents not provided for audit inspection
- Payments without supporting documents
- Failure to maintain a Fixed Asset Register
- Poor Fuel Management
- Poor Stores Management
- Failure to record transactions in the cashbook
- Unauthorised Payments
- Breach of the provisions of the Public Procurement Act and its related Regulations.
- Failure to Prepare Bank Reconciliation Requirement
- Non-remittance of PAYE and other tax to Malawi Revenue Authority
- Construction materials for projects not delivered
- Payment for no work done or Non Existent CDF Projects
- Failure to produce financial requirement

It is my view that Government should immediately do a review initiative to establish the cause of the recurring problems like fuel mismanagement, stores mismanagement, project mismanagement (CDF, DDF, and LDF) and also persistent absence of primary accounting documents during the time of audit.

- (b) Although Government introduced Integrated Financial Management Information System (IFMIS) in the endeavor to improve financial management and expenditure control, it has not fully been rolled out to Councils such that most Councils were still using manual systems in processing financial transactions. This has continued to pose a big challenge in as far as processing financial transactions and reporting is concerned. It is my hope that once the IFMIS is rolled out including full implementation of the Public Finance Management Act, Public Audit Act and Public Procurement Act, City and District Councils will experience improved public expenditure management and control.

## **RECOMMENDATION**

In the course of my audit of the financial requirement of Local Councils, each District Commissioner and Chief Executive was sent appropriate management letter with recommendations; regrettably, few have submitted their responses within the required period required under section 14 of the Public Audit Act.

A summary of my recommendations include:—

- The Councils should be staffed with qualified personnel, who will be able to adequately maintain accounting books.
- Councils should ensure that the Fixed Asset Register is maintained for accountability of Non-Current assets.
- There is need to develop an effective system of accounting and internal control to institute measures to ensure that the system is operating effectively.
- There is need to for Councils to adhere to procurement procedures and systems Council and the Office of the Director of Public Procurement should be requested to assist in training of personnel in procurement procedures in the Councils.
- Management in the Councils should strengthen the systems of internal control and supervision;
- All payments should be properly approved, countersigned and supported by relevant documentation;
- Management of the Councils should ensure that proper records management is in place to avoid loss of supporting documents and failure to account for fuel and stores.
- The Councils should ensure proper coordination with Members of Parliament (especially on CDF project management) to ensure that there is adherence to laws and regulations
- The Councils should ensure that the statutory deadline for the production of financial requirement should be adhered to at all times
- The Ministry of Local Government and Rural Development should ensure that there is no frequent rotation and turnover of accounting staff which has greatly impacted on the performance of Councils

December, 2018

LILONGWE

## **GLOSSARY**

### **Unqualified Opinion**

An unqualified opinion is expressed when the auditor concludes that the financial requirement give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. (ISSAI 1700.16).

When expressing an unqualified opinion, the opinion paragraph of the Auditor General's report requires that the financial requirement give a true and fair view or present fairly, in all material respects, in accordance with the applicable financial reporting framework.

### **Adverse Opinion**

Adverse Opinion is expressed when the effects of a disagreement is so material and pervasive to the financial requirement that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial requirement; and (ISSAI 1705.8)

### **Qualified Opinion**

Qualified Opinion is expressed when the auditor having obtained sufficient appropriate audit evidence concludes that there are material misrequirement in the financial requirement or if the auditor cannot obtain adequate evidence on aspects of the audit. Qualified opinion is issued when the mis Statement or limitation on scope is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. It is expressed as being 'except for' the effects of the matter to which the qualification relates. (ISSAI 1705.7)

### **Disclaimer of Opinion**

Disclaimer of Opinion is expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial requirement. A disclaimer opinion may also be issued considering the potential cumulative effect of uncertainties even when all audit evidence is received. (ISSAI 1705.9; 10) (ISSAI 1705 P10)

### **Emphasis of Matter Paragraph**

Emphasis of Matter paragraph refers to a matter appropriately presented or disclosed in the financial requirement that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial requirement. (ISSAI 1706.5)

### **Modified Audit Opinions**

The auditor appropriately modifies the opinion in the Auditor's report when the auditor:

- Concludes that, based on the audit evidence obtained, the financial requirement as a whole are not free from material mis Statement; or
- Is unable to obtain sufficient appropriate audit evidence. (ISSAI 1700.4;6;17) (ISSAI 1705.6)
- Determines that the auditee did not comply with responsibilities prescribed by the financial reporting framework to:
- Achieve fair presentation of financial information when it is a it is a fair presentation framework;
- Fulfil all requirements of the financial reporting framework when it is a compliance framework. (ISSAI 1700.18;19)
- Any additional audit requirements, such as non-compliance with legislation or internal control weakness which has a material or pervasive effect on the financial requirement as it is not adequately disclosed or accounted for. (ISSAI 1705 P4;P5;P6)

### **Other Matter paragraph**

Other Matter paragraph includes findings relating to matters relevant to the users of the report as under the Emphasis of Matters paragraph but not presented or disclosed in the financial requirement. The auditor includes this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the report (ISSAI 1706.5; 8; P5)

Other matter paragraphs normally include control weaknesses, non-compliance with laws and regulations as applicable.

### **Pervasive**

Pervasive is a term used to describe the effects on the financial requirement of misrequirement or possible effects if any that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasiveness of the finding will determine the kind of modified audit opinion which will be issued.

Pervasive effects on the financial requirement are those that, in the auditor's judgment:

- Are not confined to specific elements, accounts or items of the financial requirement;
- Represent or could represent a substantial proportion of the financial requirement; or
- Fundamental to users' understanding of the financial requirement. (ISSAI 1705.5)

The auditor selects the most appropriate modified opinion from the 3 options described below:

### **National Local Government Finance Committee**

The National Local Government Finance Committee (NLGFC) is a body established under the provisions of Section 149 of the Constitution and regulates the Local Authority accounting and financial management system. Among others, the roles of the NLGFC include the following:

- (a) Providing policy guidelines regarding the Local Authority accounting and financial management system;
- (b) receive all estimates of revenue and all projected budgets of all local government authorities;
- (c) make recommendations relating to the distribution of funds allocated to local government authorities, and vary the amount payable from time to time and area to area according to, and with sole consideration of, economic, geographic and demographic variables;
- (d) Ensuring that Council budgets are prepared in accordance with policy guidelines and set procedures and that development programmes are in line with national priorities;
- (e) prepare a consolidated budget for all local government authorities and estimates after consultation with the Treasury, which shall be presented to the National Assembly by the Minister responsible for Local Government before the commencement of each financial year;
- (f) Providing technical support and supervision in the preparation of Local Authority final accounts;
- (g) Facilitating the external audit of Local Authority final accounts by the Auditor General;
- (h) Following up on audit queries arising from the audit of Local Authorities and imposing surcharges on officers responsible for financial mismanagement:

### **Constituency Development Fund**

Constituency Development Fund (CDF) is a fund which was established in 2006/2007 financial year to cater for immediate to short term projects as initiated by Members of Parliament.

### **General Resource Fund**

The General Resource Fund (GRF) represents unconditional grant by Central Government to the Local Authorities in line with Decentralization Policy.

### **Sector funds**

Sector funds represent conditional grants from Central Government to the Local Authorities in support of the devolved (Other Recurrent Transactions) functions.

**Sources of Revenue**

The major sources of locally generated revenue for the Local Authorities include property rates, market fees, collections from commercial undertakings, user fees and charges and business permits.