MALAWI GOVERNMENT

REPORT OF THE AUDITOR GENERAL

ON THE

SELECTED ACCOUNTS OF STATUTORY BODIES

OF THE

REPUBLIC OF MALAWI

For The Year Ended 30th June, 2018

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

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ACRONYMS

ADMARC	Agricultural Development and Marketing Corporation
BWB	Blantyre Water Board
SRWB	Southern Region Water Board
NRWB	Northern Region Water Board
LWB	Lilongwe Water Board
EGENCO	Electricity Generation Company of Malawi
MHC	Malawi Housing Corporation
NOCMA	National Oil Company of Malawi
ESCOM	Electricity Supply Commission of Malawi
EIB	European Investment Bank
IDA	International Development Association

VISION

To be an autonomous Supreme Audit Institution that effectively contributes to public accountability, transparency and good governance.

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

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11th July, 2019

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

Dear Madam,

Pursuant to the provision of Section184 (2) of the Constitution of the Republic of Malawi (1994) and the Public Audit Act Cap 37:01, I have the honour to submit my report on the results of the audit of the Accounts of the Statutory bodies of the Government of the Republic of Malawi for the year ended 30th June, 2018 for tabling in the National Assembly.

Yours faithfully,

THOMAS K. B. MAKIWA
Acting Auditor General

PREFACE

The Auditor General has over the years released Annual reports to Parliament pursuant to provision of Section 184 (2) of the Constitution of the Republic of Malawi (1964) and Section 6 of the Public Audit Act Cap 37:01 through the Minister of Finance to Parliament.

The reports of MDAs have included some reports of Statutory bodies and Treasury Funds. In a bid to enhance more accountability in the scope of Statutory bodies, it is now necessary to issue separate reports concerning these Statutory bodies.

This report is the first to be issued and going forward, my office will be increasing the coverage of reporting on these entities based on levels of risk and demand by the general public among other factors.

The report has also been a structural benchmark for the International Monetary Fund under the Extended Credit Facility (ECF) with goal of strengthening oversight of Statutory bodies. This report being the first of its kind, has considered some of the following reportable issues for each Statutory body:

- Overview of the Statutory body and its main activities including financial performance, profitability, going concern issues and some key accounting ratios;
- Highlighting through the presentation of the audited financial statements especially the level of long term liabilities reported by the statutory entity;
- Highlights of key tax issues; and
- Highlights on the level of risk in terms governance as well as operational.

LIMITATIONS

There has been some limitations in the course of producing this report as some activities have not been reported in the audited financial statements and these should be reviewed separately. These include;

- Donor funded projects that are reported separately and these should be obtained and reviewed by the Auditor General;
- Off- budget support to the Statutory bodies; these have to be monitored by the Auditor General;
- Bail out mechanism of some of the institutions. Treasury should ensure this information should be provided to the Auditor General for monitoring and auditing purposes;
- Loan/Debt servicing that is done through Debt and Aid should be separately reported to the Statutory body concerned and be disclosed in the final accounts as other financial information;

TABLE OF CONTENTS

EXECUTIVE SUMMARY

In accordance with Section 6 of Public Audit Act Cap 37.01 (Act No.6 of 2003), I have, on behalf the National Assembly, reviewed, examined and enquired into and audited the accounts of Statutory bodies.

The audits have been limited to the accounts for the year ended 30th June 2018, but where necessary, I have extended into the reviews of the preceding years wherever it has been considered due to its significance and materiality.

This report earmarked nine (9) Statutory bodies, representing a coverage of approximately 15% of all statutory bodies. However, I failed to incorporate Electricity Supply Commission of Malawi (ESCOM) in my report because its audit was still not completed at the time of producing my report. In the financial year ended 30th June 2018, the remaining eight (8) Statutory bodies had a combined total revenue of approximately K215.8 billion against K71.6 billion registered in the year ended 30 June 2017, thereby representing a 67% increase. NOCMA, Egenco and LWB alone have recorded revenue of K101.9 billion, K43 billion and K17.5 billion respectively in 2018 against K5.6 billion, K14.8 billion and K15.8 billion in 2017 respectively.

Combined operating expenses for the eight Statutory bodies was K203.4 billion in 2018 against K79.2 billion in 2017 representing an increase of 203.4%. NOCMA, Egenco and LWB alone have recorded operating expenses of K3.5 billion, K11.8 billion and K4.7 billion respectively in 2018 against K1.5 billion, K3.5 billion and K3.5 billion in 2017 respectively.

A combined sum of K37.7 billion total profit has been recorded reversing a total deficit of K11.5 billion (combined sum in 2017). Diagrammatic illustration of this performance is depicted in Figure 1 below.

Figure 1: Combined Operating Performance.

BWB and NOCMA registered losses of K2.4 billion and K1.2 billion respectively unlike the other six Statutory bodies. As for NOCMA, the adverse performance is mainly due to high cost of sales that was equal to almost its revenue of K100 billion. It is worthy reporting that ADMARC and MHC had achieved accounting profits mainly due to Government bailout and revaluation of investment properties respectively, otherwise we regard them as loss making institutions in the period under review. Some details for this discussion matter are as follows:

- ADMARC registered profit of K14.3 billion in 2018 after a Government cash bailout of K53 billion;

- MHC registered a profit of K12.5 billion after a sharp revaluation of its investment properties of K11.8 billion in 2018;

Figure 2 below shows the operating performance for MHC and ADMARC

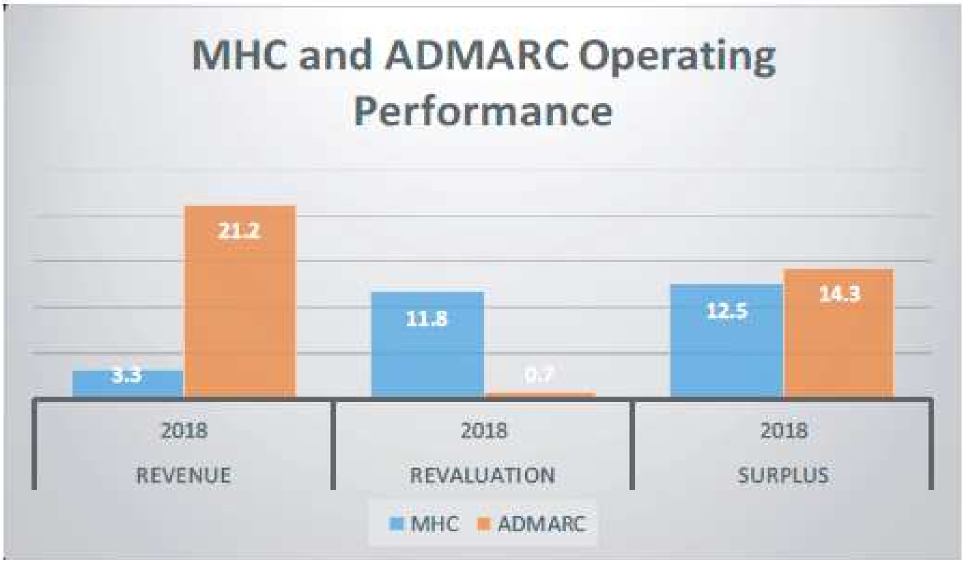

Figure 2: MHC and ADMARC Operating Performance.

We also noted that the four water boards used grants and loans to finance projects aimed at upgrading various infrastructure in order to expand its delivery of services. However, all these water boards are yet to achieve output targets as planned. Similarly, Lilongwe Water Board set aside part of its surplus to undertake capital projects and other corporate responsibility during the year.

From a financial reporting compliance perspective, during the year under review, seven Statutory bodies produced their reports in time except BWB and these were eventually audited as per requirement of Section 83 (1) of the Public Finance Management Act (2003). Although the audits were outsourced using Section (10) of the Public Audit Act (2003), my review agrees with the audit opinions basis and confirmed that indeed they were right application based on the financial reporting standards.

In this report, I have also highlighted the accounts that have been qualified alongside the justification and probably the recommendations moving forward.

It is important to note that although I have outsourced audit of 85% of the Statutory bodies, it is my considered decision that going forward, my office will be gradually be decreasing the level of outsourcing in future. Where outsourcing is done, we have embarked on a programme to enhance mid-term performance reviews of these Statutory bodies with the intention of enhancing compliance with Government regulations. We encourage Statutory bodies to enhance training of its accounting personnel into professional development in order to build capacity and improve quality of the financial statements. The objective of these trainings will enhance application of provisions of Public Audit Act (Cap 37.01), Public Finance Management Act (Cap 37.02), Public Procurement and Disposal of Public Assets (Cap 37.03), and other related Acts on public financial management.

PART I

INTRODUCTION

AUDIT OF PUBLIC ACCOUNTS OF PARASTATAL BODIES AND OTHER INSTITUTIONAL BODIES

1. I am required under Section 184 (1) of the Constitution of the Republic of Malawi to audit and report on the accounts of Statutory bodies as may be prescribed by an Act of Parliament, in so far as they are compatible with the principal duties of my office.

2. Section 184 (2) requires me to submit reports at least once a year to the National Assembly through the Minister responsible for Finance. Section 15 of the Public Audit Act (2003) requires me to report to the President and the Speaker of the National Assembly. Although the provision of Section 15 of the Public Audit Act is deemed inconsistent with the Constitution in a way, it gives me an opportunity to submit a copy of my report direct to the Speaker of National Assembly whilst respecting the Constitution as a supreme law by reporting through the Minister Responsible for Finance.

3. Consultations with the Ministry of Justice and Constitutional Affairs and the Law Commission have been initiated to have the deemed inconsistency cleared. Following the institutional review of the National Audit Office undertaken in year ended 30 June 2011, by the Department of Public Service Management in the Office of the President and Cabinet and this was confirmed in the 2015 Public Sector Reforms report. The review report, which was approved by the Government, has included a recommendation that I should be reporting directly to the National Assembly.

4. Recent developments are that a Constitutional Amendment Bill on Section 184 of the Constitution and Public Audit Bill were sent to National Assembly for possible amendment of the two inconsistencies. During the Parliament sitting of November 2016, these were tabled and deliberated. However, the plenary noted some gaps, referred to three committees for further scrutiny, and make some proposals on the amendments. The committees are: Legal and Constitutional Affairs, Public Accounts, and Budget and Finance Committees. The objective was to harmonise and comply with INTOSAI declarations of Lima, October 1977, Mexico, November 2007 and also UN resolutions 66/209 and 66/288 of 22 December 2011 and 20 November 2014 respectively which call for independence of SAIs as a way of fostering sound public financial management and administration. The bills were re-tabled in February 2018 Parliamentary Session, only Public Audit Amendment bill was passed leaving Constitutional Amendment Bill Section 184 at its second reading. This will be re-tabled in subsequent meetings

5. The Public Audit Act provides, inter alia, for the administration, control and audit of the public finances of Malawi. In discharging these duties, I am required in terms of *Section 6 (4) (d) to determine whether the procedures and systems of internal control of ....agency and public authority or body do ensure that;—*

   (a) Revenue is properly assessed and collected;

   (b) Expenditure is validly and correctly authorised;

   (c) Revenue, expenses, assets and liabilities are properly recorded and accounted for;

   (d) Resources are employed and managed in an economic, effective and efficient manner;

   (e) There has been no waste or extravagance;

   (f) Relevant government policies and legislation are being complied with;

   (g) The accounts and records have been properly kept.

6. Section 6 (2) of the Act requires me to undertake an audit programme to review and approve the audited accounts of statutory bodies and conduct audits of any statutory body that has not had its financial statements audited by a firm of auditors, this includes where I do not approve the audited financial statements.

7. Section 6 (3) of the Act also requires me to audit and examine transactions, books and accounts and other financial records associated with any project, programme, and any other activity receiving funding in whole or in part from money or public resources which in my opinion justifies further investigations.

8. In fulfilling my duties, powers and responsibilities lawfully conferred on me under Section 7 (1) of Public Audit Act (cap. 37.01), I am required and any person authorized by me to;

   (a) Have full access at all reasonable times to all documents, books and accounts, public funds, public securities, government contracts, and books and accounts relating thereof and subject to audit; and to any place where they are kept;

   (b) Request any person to supply any information or answer any questions relating to documents, books and accounts, money or operations subject to audit and examination by me;

(c) Give notice in writing, requiring any person having possession or control on any documents, books and accounts subject to audit and examination by my office to deliver all or any of them at a time and place and to such a person specified in the notice;

(d) Inspect, measure or test any real or personal property to which any Government contract relates; and

(e) Enter any land, building, or place, other than a dwelling house, where a government contract is being performed that is subject to audit and examination by me.

SUBMISSION OF FINANCIAL STATEMENTS

Section 83 (1) of the Public Finance Management Act requires Heads of entities to submit to me within a period of four (4) months, but not later than 31st October after the closure of each financial year. The form and content of the financial statements are as follows: -

(a) A consolidated Operating Statement showing revenue and expenditure and the surplus or deficit for the reporting period;

(b) A statement of Financial Position showing the assets, liabilities and net financial position as at statement of financial position's date of the reporting period;

(c) A Statement of Cash Flows showing the receipts and cash payments during the reporting period, and cash balance as at statement of financial position's date of the reporting period;

(d) A Statement of Cash Balance showing breakdown of the balance held by type of holding;

(e) A Statement of Statutory Expenditure showing details of domestic debt serving, external debt servicing, statutory remuneration and other material items of expenditure;

(f) A Statement of Investment showing the nature or type of investment and current and non-current investments;

(g) A Statement of Borrowings showing total debt and the breakdown of current and non-current debts; and for each showing the opening and closing balances for the reporting period and the nature of the movement during the period, the impact of exchange rate movements, average interest rate, and loan balances available for breakdown;

(h) A Statement of Ex-Gratia Payments approved under the provisions of an Act, budgets, actual performance and variations between actual and budget;

(i) A Statement showing for each account in the Trust Fund, balances at the beginning and end of the reporting period, and the nature of the movement in the reporting period; and

(j) A Statements of Accounting Policies setting out the significant accounting policies on which the financial statements are prepared; and other information specified by the Secretary to the Treasury in Treasury Instructions as required to provide more detailed information or explanations.

BOARD OF DIRECTORS' RESPONSIBILITY

In terms of various Acts, it is the Board of Directors' responsibility to maintain proper financial management systems. This involves keeping appropriate financial records, and where applicable, following generally accepted accounting principles. Responsibilities of management also include ensuring that: -

(a) Public funds are only used to the extent, and for the purpose intended by the National Assembly;

(b) All necessary precautions are taken to safeguard the collection and custody of public money;

(c) All necessary precautions are taken to safeguard public resources;

(d) All expenditure is incurred with due regard to economy, efficiency and effectiveness and the avoidance of waste;

(e) There is no over-expenditure of over-commitment of funds and a review is undertaken each month to ensure that there is no such over-expenditure or over-commitment; and

(f) The collection of public moneys is according to approved plans and the estimates.

SCOPE OF AUDIT

In line with Section 13 (1) of the Public Audit Act (Cap. 37.01), I am required to use Generally Accepted Auditing Practice (GAAP). In order to comply with the GAAPs, the audit of Statutory bodies is performed in accordance with International Financial Reporting Standards (IFRS). The audit is intended to provide an overall assurance of the general accuracy and propriety of parastatal bodies and other Statutory bodies financial and accounting transactions. Although the audit is conducted in accordance with International Financial Reporting Standards (IFRS), it does not guarantee absolute accuracy of the accounts or detection of every error, financial irregularities and fraud. However, I provide an assurance in my accounts and audit opinion review as to whether or not the financial statements fairly present in all material respects the financial position of the statutory entities' as at 30th June, of each year, and of its annual financial performance for the year then ended.

The Public Audit Act Cap. 37:01 empowers me to use discretion and make tests in any particular case. The extent of audit examinations varied depending on the strength of internal control systems in operation and the nature of transactions involved. The audits have not been limited to the accounts for the year ended 30th June 2018, but have where necessary extended into the reviews of the preceding years.

AUDIT OPINION ON THE ACCOUNTS

I am required to carry a review on basis of audit opinion of the Statutory bodies accounts based on the audit conducted by the outsourced audit firms. My review on the basis of audit opinion gives clear endorsement and highlights key audit matter where relevant.

Review of the accounts and Audit Opinion

I have reviewed the audited accounts of the Statutory bodies for the year ended 30 June 2018 and notes, comprising a summary of significant accounting policies and other explanatory information.

In my review, I have confirmed that the audit opinion on the accounts of the Statutory bodies present fairly, in all material respects, the financial position of the Statutory bodies as at 30 June 2018 and of its financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Public Finance Management Act.

Basis for Audit Opinions

The following parastatals had their accounts qualified as follows;

Table 1: Selected Statutory Bodies and their audit opinions

BLANTYRE WATER BOARD	
	BASIS FOR ADVERSE AUDIT OPINION
1. Material Uncertainty- Going concern	• The Board's accumulated net losses stood at K2.5 Billion (2017: K3.7 Billion) • Current liabilities exceeded current assets by K12.2 Billion (2017: K13 Billion).
2. Valuation of reticulation	• No valuation has been carried out
ADMARC LIMITED	
1. Limitation of scope arising from comparative	• No evidence for the purchases amounting to K3 Billion • Write-off of an unexplained difference of K1.2 billion in the cost of sales class of transaction.
2. Material Uncertainty- Going concern	• The company registered a profit after tax of K14 Billion (2017: loss of K23 billion) after realising K20 Billion as revenue from the Government from 80,288 MT of maize which the Government took over through the National Food Reserve Agency (NFRA) • Government also made a loan bailout of K53 Billion worth of loans on behalf of ADMARC • A further K20 billion from the transaction was recognized as grant equity, being the excess of the amount paid for the loans over the value of the maize taken over.

PREPARATION AND AUDIT OF FINANCIAL STATEMENTS

The financial statements of the Statutory Bodies are prepared on a going concern basis. The International Financial Reporting Standards has been used throughout the years.

Where updates or changes are made to the IFRS, this is applied accordingly, however, the Statutory Bodies are encouraged to have early adoption if this will result in enhanced disclosure and greater accountability.

STATUTORY BODIES AND THE AUDIT FIRMS

Section 6 (2) of the Public Audit Act (2003) mandates me to undertake an audit programme to review and approve the audited accounts of statutory bodies and conduct audits of any statutory body that has not had its financial statements audited by a firm of auditors, this includes where I do not approve the audited financial statements

In this regard, the National Audit Office has sole responsibility of ensuring these bodies engage the private audit firms on its behalf. I have the mandate to commence a re-audit of these bodies if it comes to my attention that the audits were not done properly or was compromised.Table 2 below shows the Statutory Bodies and the corresponding audit firms.

Parastatal Name	**Audit Firm**
ADMARC	Deloitte
BWB	Deloitte
SRWB	AMG Global
NRWB	EY
LWB	Grant Thornton
EGENCO	Grant Thornton
MHC	Graham Carr
NOCMA	Crowe (Chartered Accountants)
ESCOM	Deloitte

Table 2: Statutory Bodies and the corresponding audit firms.

STATUTORY BODIES REVIEWS

AGRICULTURAL DEVELOPMENT AND MARKETING CORPORATION

BACKGROUND

ADMARC is a statutory entity established under Statutory Corporation Chapter 67:03 of the Laws of Malawi. ADMARC is currently incorporated as a limited liability company, with Government being a major shareholder with up to 99% shares. ADMARC has its head office in Limbe and is headed by Chief Executive Officer and has three regional administrative offices headed by regional managers.

The company operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the company under the provisions of the Companies Act and the Public Finance Management Act (2003). The Table 3 below shows names of the Director, their designation and period of service.

Table 3: Board of Directors of ADMARC

Name	**Designation**	**Period of Service**
James Masumbu	Chairperson	Served throughout the year
Paramount Chief Gomani	Member	Served throughout the year
Ken Ndanga	Member	Served throughout the year
Chancy Gondwe	Member	Served throughout the year
Erica Maganga	Ex-officio	Served throughout the year
Comptroller of Statutory corporations	Ex-officio	Served throughout the year
Stain Singo	Member	Served throughout the year
Milwald Nyangulu	Member	Served throughout the year
Jaffalie Mussa	Member	Served throughout the year
Umdelanji Mbandambanda	Member	Served throughout the year

MAIN ACTIVITIES

ADMARC has the following main activities;

- Primary Marketing

  ADMARC through its vast network of markets, buys agricultural produce from both traders and smallholder farmers

- **Value Addition**

  ADMARC has cotton ginneries, groundnuts grading machine, rice milling plant that enhances value addition

- **Warehousing**

  ADMARC owns the largest storage facilities and also provide commercial warehousing services that exceeds 300,000 square meters

REVIEW OF OPERATIONS

ADMARC apart from other agricultural produce sells ,through the Malawi Government it took over form National Food Reserve Agency amount of 80,288 MT which it sold and realized about K20 billion

ADMARC INCOME STATEMENT

	2018	2017
	K'000	K'000
		Restated
Revenue	21,171,341	7,777,125
Cost of Sales	(13,918,337)	(11,470,856)
Gross profit/(loss)	7,253,004	(3,693,731)
Other revenues	20,855,078	455,192
Fair value increase on investment property	682,133	456,115
Interest payable	(5,729,206)	(11,658,392)
Loss of foreign exchange	(60,422)	(92,488)
Marketing and administrative expenses	(8,676,630)	(8,825,610)
Profit/(loss) before share of profits of associates	14,323,957	(23,358,914)
Share of loss of associates		(2,739,150)
Profit/(loss) before tax	14,323,957	(26,098,064)
Income (charge) credit	(46,026)	2,715,455
Profit/(loss) for the year	14,277,931	(23,382,609)
Other Comprehensive income		
Revaluation of property plant and equipment		
Deferred tax on property revaluations	66,964	74,005
Total comprehensive income/(loss) for the year	14,344,895	(23,308,604)

FINANCIAL PERFORMANCE OVERVIEW

During the year under review, income generated by ADMARC from its normal operating activities amounted to **MK21.2 billion** compared to **MK7.8 billion** which was recorded in the year ended 30 June 2017. Thus, revenue increased by **172%** in the year ending 30 June 2018. This increase is one-off and was due to maize sales of K20 billion to Government to avert hunger in the country. Other income received were from; expense reimbursements from Malawi Government amounting to K19.7 billion relating to the excess amount paid for the loans over the value of maize taken over from the National Food Reserve Agency

A profit of **MK14.3 billion** was registered during the year ended 30 June 2018 as opposed to loss of MK23.4 Billion recorded in the financial year 2017. This represents a net loss of K9.1 Billion for the cumulative two comparable years and a healthy profit margin of 67.8 % in 2018 compared to negative margin of (300) % in 2017. The Return on Capital Employed for ADMARC declined during the year from 36.28 % to 30.16 % in the year ended 30 June 2018. As indicated earlier this healthy position is temporary as the buoyant performance has come about due to maize sales to Government. If these sales were not made, ADMARC would have registered a deficit of about **K5.9 billion** (K20.1 billion less K14.3 billion).

STATEMENT OF FINANCIAL POSITION

	2018	2017
	K'000	K'000
ASSETS		**Restated**
NON-CURRENTS ASSETS		
Property, plant and equipment	59,358,697	59,686,370
Investment Property	6,816,497	6,134,364
Associate company		
	66,175,194	**65,820,734**
CURRENT ASSETS		
Inventories	16,001,904	23,301,601
receivables	23,016,143	6,723,787
Funds at call and on deposit	4,547,375	583
Bank balances and cash	838,885	471,716
	44,404,307	**30,497,687**
TOTAL ASSETS	**110,579,501**	**96,318,421**
EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY		
Share capital	1,000	1,000
Advance contribution for capital	7,808,830	7,808,830
Revaluation reserve	42,117,980	42,051,016
Government Grant	20,077,293	
Accumulated loss	(15,016,774)	(29,294,705)
Tota shareholders' equity	**54,988,329**	**20,566,141**
NON CURRENT LIABILITIES		
Deferred tax liability	9,149,377	9,170,315
Government Grant	2,348,245	2,518,115
	11,497,622	**11,688,430**
CURRENT LIABILITIES		
Payables	32,525,878	16,651,508
Bank overdraft	69,317	2,700,584
Pension payable	272,054	250,510
Short-term borrowings	11,226,301	44,461,248
Total current liabilities	**44,093,550**	**64,063,850**
Total Liabilities	**55,591,172**	**75,752,280**
TOTAL EQUITY AND LIABILITIES	**110,579,501**	**96,318,421**

FINANCIAL POSITION ANALYSIS

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. ADMARC has a current ratio of 1.01:1, an improvement to the performance in 2017 which was 0.48:1. This means that in 2017, ADMARC had only 48 tambala as ready sources of cash to pay every K1 worth of immediate liabilities.

Working capital management

Inventory turnover days improved during financial year ended 30 June 2018. It took on average **420 days** to convert inventory into sales compared to **741 days** during previous financial year. Despite an improvement on inventory turnover days, this did not improve cashflow but rather an increase in receivables of about K16.3 billion (K23 billion for year 2018 and K6.7 billion for year 2017). ADMARC registered **397 Receivable days** on average to collect cash from its debtors as opposed to **316 days** in prior year. Further, evidence of non-improvement in cashflow is in increase in **payables days, ADMARC** was taking **907 days** in 2018 to make payments as opposed to **288 days** in 2017. Below is the Figure showing efficiency levels:

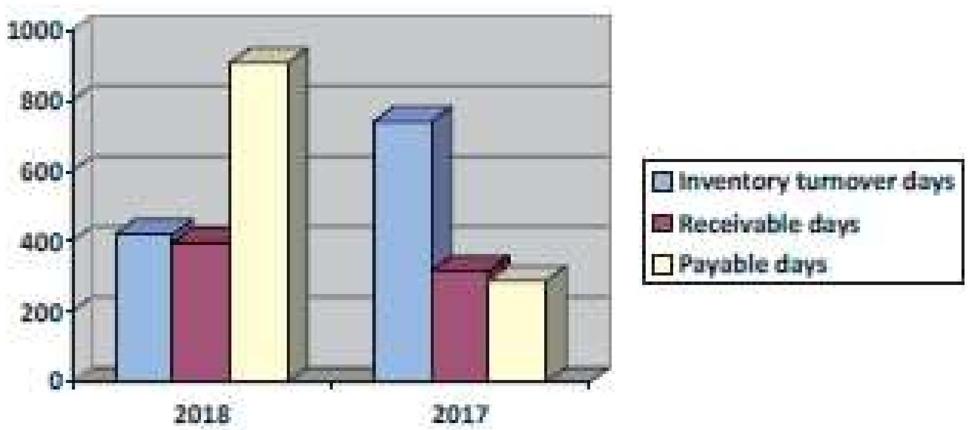

Figure 3: Working capital management for ADMARC

Due to cash available on the basis of maize sales through Government, ADMARC cash position improved compared to the previous financial year. ADMARC overturned a bank overdraft of **MK2.2 billion** in 2017 to a positive cash and cash equivalents of **MK5.3 billion** as at the end of the 2018 financial year.

LIABILITIES

ADMARC Non-Current Liabilities is K11.5 billion made of K9.1 billion being deferred tax liability and K2.3 billion being government grant for ginneries received. K20 billion part of bail out was recognized as part of Equity. The debt ratio of ADMARC is 0.5 which is considered less risky due to the bail out.

AUDIT OPINION

I reviewed and agreed with the basis for which the qualified opinion of ADMARC was issued. Being a qualified opinion with limitation of scope, I therefore, categorized ADMARC as high risk and requires immediate review and enhancement. I therefore, recommend that a forensic audit of the high risk areas be conducted as soon as possible. Additionally, Government should review the current business model of giving ADMARC a status of a commercial parastatal and still providing subsidy services. The Governance arrangement, roles of top management and their performance should be assessed especially for the period under review or before to ascertain their contribution to the going concern problems that ADMARC is facing today.

WEAKNESSES IN FINANCIAL CONTROL AND OPERATIONS

The audit of financial statements of the Agricultural Development and Marketing Corporation for the financial year ended 30 June, 2018 was done by Deloitte (Audit firm) on behalf of the Auditor General using section 10 of the Public Audit Act No 6 of 2003. We highlight some of the weaknesses in financial and internal controls as follows;

(i) Recovery of Salary Advancement: K16,368,873.00

The rate of recovery for salary advances made to employees appear to be unrealistic. Examples of salary advances for a selected number of employees, the related monthly deductions and estimated recovery periods are shown below.

Table 4: Recovery of Salary Advancement

Employee	Balance as 30 June 2018 (K)	Monthly Deduction (K)	Estimated recovery Period
Employee 1	11,604 623	75 000	12.8 years
Employee 2	4,764 250	35 000	11.3 years
Employee 3	15,000,000	0	

There is a risk that the amount may not be recovered in full since the repayment period is too long and records may not be traceable over time. Normally salary advances are recovered within three months but in this report we noted that advances were going beyond a recoverable period of a decade and some not deductible at all. Recovery periods of more than three months would suggest that these may actually be loans/benefits which should be subject to fringe benefits tax. The company therefore risks being charged with penalties for unpaid fringe benefits tax on these amounts.

(ii) Lack of overdraft agreement with Ecobank

During our test of loans, we noted that after expiry of the Ecobank loan facility on 30 June 2017, the loan was converted into an overdraft but there was no overdraft agreement between the parties.

This exposes the entity to higher costs as interest on overdrafts is higher. This can also have significant negative impact on the entity's cash flows as overdrafts are payable on demand.

(iii) Contracts with Farmers without specific recovery period

Contracts with customers (farmers) act as performance measure as well as creating legal obligations under the contract among the parties. Contracts should always stipulate time frame on performance obligations to ensure that both parties execute their duties within specified period.

However, we noted that the entity entered into contracts where farmers on the other party to the contract were getting bean seeds from ADMARC of which in return the farmers are obliged to sell their produce to ADMARC. We reviewed such contracts (Tikondane and Ndaonazino Club) and noted that there were no specifications as to when the entity will recover its funds committed under the contract.

Failure to specify timelines may increase chances of default by farmers and it is hard for ADMARC to measure progress within the contract performance obligations.

(iv) Preparation of Bank Reconciliations

The entity does not prepare bank reconciliations on a regular basis. Best practice requires bank reconciliations to be prepared on a monthly basis at a minimum.

The entity could not provide us with bank reconciliations for the months of July 2017 to May 2018 for several bank accounts held at different banks. It appears that in the entire year ended 30 June 2018, the entity only prepared bank reconciliations for the month of June 2018 for external audit purposes.

(v) Omission of Bank Accounts in the General Ledger

Two bank accounts owned by the entity were not recorded in the general ledger as at 30 June 2018. We only came to know about the bank accounts through bank balances confirmation letters which we received for audit purposes from the banks where the accounts are being held. The following were the bank accounts which were omitted in the general ledger:

- FDH Bank – ACC. No.1070000017258 : MK59,666.40
- ECO Bank – savings account : $ 2,263.29

(vi) Noncompliance with Procurement Procedures

The Company's procurement activities are regulated by the Public Procurement and Disposal of Assets Act and the Public Procurement regulations. The Office of the Public Procurement and Disposal of Assets (PPDA) enforces these regulations by among other things issuing the applicable procurement thresholds. The latest thresholds issued by the PPDA in October 2017 require that for procurement of goods above MK10 million, the Company should carry out an open tender using National Competitive Bidding (NCB) subject to prior review by PPDA.

However, during the audit, we noted that the entity did not comply with these provisions in the purchase of Hessia Cloth from Jordan Investments amounting to MK12.8 million on 22 September 2017 by both not engaging PPDA nor conducting a National Competitive Bidding process. The entity just obtained three quotations from suppliers and approved Jordan Investment based on their assessment.

(vii) Non Remittance of Pension Contributions

According to Section 61(1) of the Pension Act 2010, an employer is required to remit pension contributions not later than fourteen (14) days of the end of the month to which the contribution relates.

However, we noted that as at 30 June 2018 the company had accumulated outstanding pension contributions not yet remitted for several months of MK1.1 billion. We further noted that the entity remitted late pension contributions for the months of October 2017, May and June 2018. This is contrary to the requirements of the Pensions Act.

Section 61(2) of the Pension Act 2011 stipulates that contravention of the obligations relating to remittance of pension contributions may lead to administrative penalties under the Financial Services Act 2010.

We also bring to the attention the Government Gazette Notice No. 33 of 26 August 2011 on pension arrears which stipulates that overdue pensions will attract interest.

(viii) Non Remittance of PAYE, FBT and Withholding Tax

The entity did not remit PAYE relating to 4 months of the year and PAYE relating to 5 months of the year was remitted after due date. This is contrary to the provisions of the Taxation Act which require that PAYE should be remitted not later than 14 days of the end of the month which the PAYE relates to. As at 30 June 2018, the entity had accumulated outstanding PAYE liability of K385 million.

We further noted that as at 30 June 2018, the company had an outstanding accumulated fringe benefit tax (FBT) liability of MK46 million. The entity did not make any FBT payments during the year.

In addition, we noted that the Company has not been remitting withholding tax for a few years and as at 30 June 2018 , the balance outstanding was K182 million.

Late remittance of P.A.Y.E, FBT and WHT attracts a penalty of 20% of the tax due for the first month and a further sum of 5% per month or part thereof for the period during which the amount remains unpaid.

BLANTYRE WATER BOARD

BACKGROUND

Blantyre Water Board is a parastatal organization established under its own Act of Parliament and subsequently reconstituted under the Malawi Water Works Act No. 17 of 1995 to supply portable water for commercial, industrial, institutional and domestic use in the supply area of Blantyre City and surrounding areas. Its mission is to provide reliable and affordable water supply services to customers whilst contributing to the development of the national economy and sustenance of the environment. Apart from Blantyre City, BWB supplies water to surrounding areas such as Bvumbwe and Chiradzulu.

The company operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Malawi Water Works Act No. 17 of 1995 and the Public Finance Management Act.

Table 5 Director, their designation and period of service.

Name	Designation	Period of Service
J. Naphambo	Chairman	Throughout the year
Mrs. M. Kachingwe	Member	Throughout the year
Mr. F. Maele	Member	Throughout the year
Mrs. A. Chipaka	Member	Throughout the year
Mr. M. Saidi	Member	Throughout the year
Mr. L. Phekani	Member	Throughout the year
Mrs. C. Nchoma Makoka	Member	Throughout the year
Senior Chief Chikumbu (Mrs. Aids Deleza)	Member	Throughout the year
Secretary for Irrigation & Water Development	Ex-Officio Member	Throughout the year
Controller of Statutory corporations	Ex-Officio Member	Throughout the year
Secretary to Treasury	Ex-Officio Member	Throughout the year
Chief Executive, Blantyre City Council	Ex-Officio Member	Throughout the year
Mr. H. Bakuwa	Secretary	Throughout the year

MAIN ACTIVITIES

BWB operates through three zones namely Kabula, Soche and Limbe. The zones provides the following:

- **New water connections**

  The process is as follows;- Once an application is received with all necessary attachments, BWB conducts an assessment of the location. Once assessment is done, a quotation is issued within two weeks. Once payment is done connection is made within four weeks.

- **Customer services**

  This include bill enquiry, general supplying of the water and of course water disconnection if the case of defaulters.

- **Fault repairing**

  Any faults can be reported through phone call, visiting the office or online reporting.

- **Meter reading**

  BWB has recruited meter readers who visit the supplied premises and gets meter reading for billing. This is exception to prepaid services.

MAIN PROJECT

Currently, BWB is implementing the Likhubula Water Supply Project. The project has a bearing on future cash flows of the Blantyre Water Board and delivery of its services. However, the project will have a bearing on BWB performance from 2019 financial year.

REVIEW OF OPERATIONS

Non-revenue water and high electricity bills continue to pose a challenge to the Board taking up almost 40% of Boards monthly operating expenses. The reticulation also is a challenge as most pipes are old posing inefficiency and needs to be replaced.

BWB INCOME STATEMENT

	2018	2017
	K'000	**K'000**
Revenue	14,844,521	12,134,700
Cost of Sales	(7,514,386)	(6,683,761)
Gross profit/(loss)	**7,330,135**	**5,450,939**
Other revenues	870,209	883 261
Selling and distribution costs	(2,270,490)	(2 392 097)
Administrative expenses	(6,660,405)	(6 295 355)
Finance costs	(2,057,891)	(1,758,597)
Total operating cost	(10,988,786)	(10,466,049)
Loss before tax	(2,788,442)	(4,111,849)
Income tax credit	232 566	373,057
Loss for thhe year	**(2,555,876)**	**(3,738,792)**
Other comprehensive income		
Revaluation surplus		4,795,941
Deferred tax on revaluation surplus	196,298	(6,507,755)
Total other comprehensive income	196,298	(1,711,814)
Total comprehensive loss for the year	**(2,359,578)**	**(5,450,606)**

FINANCIAL PERFORMANCE OVERVIEW

During the financial year ended 30 June 2018, income generated by Blantyre Water Board from its normal operating activities amounted to **K14.8 billion** compared to **K12.1 billion** that was recorded in the year ended 30 June 2017. Thus, revenue increased by **22.3%** in the year ending 30 June 2018.

A total loss of **K2.4 billion** was registered during the year ended 30 June 2018 as opposed to loss of **K5.5 Billion** recorded in the financial year ending 30 June 2017. BWB has not valued its reticulations since 30 June 2011. This non-valuation combined with old infrastructure has constantly affected BWB efficiency resulting in performance below capacity. BWB has registered a two year comparable decrease in total loss of **K3.1 billion.**

STATEMENT OF FINANCIAL POSITION

	2018	2017
	K'000	**K'000**
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	32,773,742	32,063,772
Intangible assets	75,454	70,423
Home ownership loans	8,412	16,938
	32,857,608	**32,151,133**
CURRENT ASSETS		
Home ownership loans	5,544	4,575
Inventories	405,659	800,795
Related party receivables	4,922,063	1,712,718
Trade and other receivable	1,963,688	1,730,176
Cash and bank balances	189,861	204,213
Tax recoverable	112,952	112,952
Total current assets	**7,599,767**	**4,565,429**
TOTAL ASSETS	**40,457,375**	**36,716,562**
EQUITY AND LIABILITIES		
Capital contribution	1,433,961	1,433,961
Revaluation reserve	5,509,331	5,388,758
Accumulated loss	(11,688,960)	(9,141,650)
Total (deficit)/equity	(4,745,668)	(2,318,931)
NON CURRENT LIABILITIES		
Deferred tax liability	8,207,721	8,636,585
Long term borrowings	13,623,912	9,114,900
Deferred income	2,914,538	3,074,254
Employee benefits	17,998	14,161
	24,764,169	**20,839,900**
CURRENT LIABILITIES		
Related party payables	4,073,467	2,947,607
Bank overdraft	670,130	1,305,785
Current portion of borrowings	6,777,474	6,339,782
Deferred income	591,920	590,018
Recalled grant payables	1,863,610	1,917,488
Trade and other payables	3,830,651	2,574,795
Accruals and provisions	2,631,622	2,520,118
Total current liabilities	**20,438,874**	**18,195,593**
TOTAL EQUITY AND LIABILITIES	**40,457,375**	**36,716,562**

FINANCIAL POSITION ANALYSIS

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. BWB has a current ratio of 0.37:1, an improvement to the performance in 2017 which was 0.25:1. This means that in 2018, BWB had only 37tambala as ready sources of cash to pay every K1 worth of immediate liabilities.

Working capital management

It took Blantyre Water Board **48 days** on average to collect cash from its debtors as opposed to **52 days** in prior year. Further, Blantyre Water Board did not improve in **paying its creditors** in 2018, as it is taking on average **186 days** as opposed to **141 days** in 2017.

As at the year end the Blantyre Water Board cash position increased as compared to the previous financial year. As at the end of the 2017-2018 financial year, Blantyre Water Board had a cash and cash equivalents balance amounting to **–K0.48 billion.** For the 2016-2017 financial year Blantyre Water Board had cash and cash equivalents of **–K1.1 billion** representing a decrease of **56%**. Below is Figure 4 showing efficiency levels:

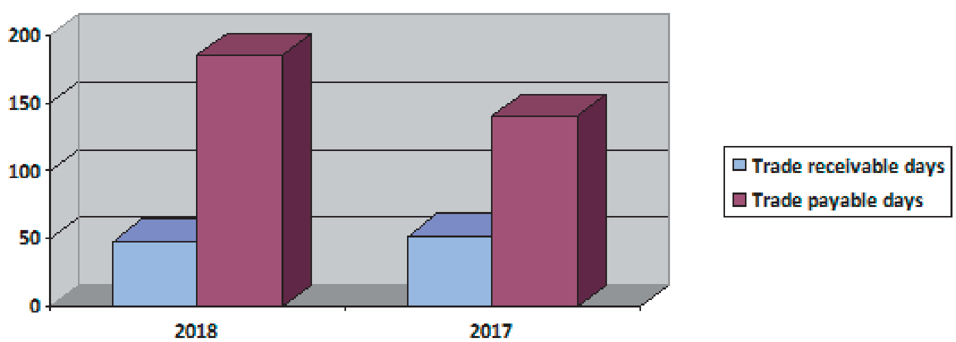

Figure 4: Working capital management for BWB

LIABILITIES

BWB Total liabilities is K45.1 billion against Total Assets of K40.5 billion. This provide debt ratio of 1 which is considered less risky.

Out of K45.1 billion, amount of K13.6 billion loan relates to the loans awarded by International Development Agency (IDA), European Investment Bank (EIB) and Exim Bank of India through the Malawi Government. The current portion of these loan due payable is K6.8 billion.

During the year, the grant relating to construction of kiosks amounting to K1.9 billion was recalled by EIB due to breach of conditions, thus procurement procedures not followed as stipulated in the grant agreement, and this is being repaid. This follows the compliance review done by EIB in 2016

AUDIT OPINION

I reviewed and agreed with the basis for which the qualified opinion of BWB was issued. Being an Adverse opinion, I therefore, categorized BWB as high risk and requires immediate review and enhancement. I therefore, recommend that a forensic audit of the high risk areas be conducted as soon as possible. Additionally, The Governance arrangement, roles of top management and their performance should be assessed especially for the period under review or before to ascertain their contribution to the going concern problems of BWB.

Some of the key management operational challenges are as follows:

WEAKNESSES IN FINANCIAL CONTROL AND OPERATIONS

Sustainability of electricity costs

The cost of sales and payables' balances that the Board's electricity expenses accounts for over 80% of the cost of sales and the Board has challenges in settling the same when it falls due. As at 30 June 2018 the Board had electricity arrears of K4 billion (2017 K3 billion).

Non Compliance with loan covenants

The Board has not been repaying Government loans (advanced by European Investment Bank) which fell due for initial repayment on 30 May 2014 as per the on-lending agreement between the Board and Government. As at 30 June 2018, the Board had loan repayment arrears amounting to K1.5 billion (2017: K2.7 billion).

Non Compliance with Pensions Act

According to Section 61(1) of the Pension Act 2011, an employer is required to remit pension contributions to Pension Fund Administrators not later than fourteen (14) days of the end of the month to which the contribution liability arose. However, during our audit of pension contributions, we noted that management had not yet remitted pension contributions totaling K775 million as at 30 June 2018. This is contrary to the requirements of the Pension Act. The accrued pension arrears as at 30 June 2018, represents employer and employees' contribution.

Non Compliance with Taxation Act

It was noted during the audit of accrued expenses that the Board is not able to timely remit Pay as you Earn (PAYE) tax to the Malawi Revenue Authority. This has resulted in the outstanding balance of K1.4 billion as at 30 June 2018 (2017: K0.611 billion). As per Section 102 of the Taxation Act, PAYE becomes due on the 14th of the following month. This is therefore contrary to the requirements of the Taxation Act.

Non Compliance with VAT Act

The Board has not been remitting Value Added Tax (VAT) to the Malawi Revenue Authority for several months during the year. This has resulted in arrears of K1.15 billion payable to Malawi Revenue Authority as of 30 June 2018 (2017: K0.1 billion).

SOUTHERN REGION WATER BOARD

The Southern Region Water Board (SRWB) was established as a body corporate under the Water Works Act No. 17 of 1995. The Board took over infrastructure from the then District Water Supply Fund of the Ministry of Works, Supplies and Water Development in the region

Main Activity of the Board

SRWB is aimed at supplying quality and safe water to urban and peri-urban areas of the southern region with the exception of Blantyre City. The board has over 50,000 customers spread **across the region**.

The Board operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Malawi Water Works Act No. 17 of 1995 and the Public Finance Management Act. The Table 6 below shows names of the Director, their designation and period of service.

Name	Designation	Period of Service
Mr. L. Mambala	Chairman	Throughout the year
Mr. G. Namatumbo	Member	Throughout the year
Mr Y. Mlotha	Member	Throughout the year
Eng W. Mandowa	Member	Throughout the year
Mrs. J. Z Chikukula	Member	Throughout the year
Mr. J. Mwase (T/A Kalembo)	Member	Throughout the year
Mr. K. Chilewe	Member	Throughout the year
Rev. B. Maulidi	Member	Throughout the year
Rev. P. Nasiyaya	Member	Throughout the year
Secreatry to Treasury	Ex-Officio Member	Throughout the year
Secretary for Local Government & Rural Development	Ex-Officio Member	Throughout the year
Comptroller of Statutory Corporations	Ex-Officio Member	Throughout the year
Secretary for Agriculture, Irrigation and Water Development	Ex-Officio Member	Throughout the year

Table 6: Board of Directors of SRWB.

REVIEW OF OPERATIONS

SRWB is having challenges to sustain its water supply due to practices around its catchment area of Zomba Mountain that affects Mulunguzi River-which is the source of water for Mulunguzi Dam.

SOUTHERN REGION INCOME STATEMENT

	2018	2017
	K'000	K'000
Revenue	7,123,548	7,005,597
Operating expenses	(1,734,615)	(1,314,188)
Employee costs	(1,950,834)	(1,650,215)
Plant and vehicle operating costs	(902,070)	(1,408,297)
Operating profit	**2,536,029**	**2,632,897**
Sundry income	57,966	166,541
Depreciation	(1,107,933)	(982,352)
Finance costs	(677,133)	(1,245,320)
Profit before amortisation of subsriber contributions	**808,929**	**571,766**
Amortisation of subsriber contributions	28,683	24,944
Profit for the year	**837,612**	**596,710**
Other Comprehensive Income	-	-
Total comprehensive Income for the year	**837,612**	**596,710**

FINANCIAL PERFORMANCE OVERVIEW

Financial performance for the year ended June 30, 2018. Operating profit for the year was down by 4% on year to year basis, to over MK2.5 billion from MK2.6 billion, in 2017.

The underperformance was on account of revenue growing dismally by 1.7%, largely due to drying up and dwindling of water sources in our supply areas, which affected negatively the capacity of the Board to optimally supply potable water. In addition, the intermittent and prolonged power outages exacerbated the situation.

Operating expenses grew by 5%, on year to year basis, to almost MK4.6 billion from MK4.4 billion in 2017. This was as a result of prudent financial management and cost containment strategies the Board pursued during the year.

The Board registered a net surplus of MK837.6 million compared to the net surplus of MK596.7 million in 2017. This is attributed to finance costs, an indication of prudent liquidity risk. The figure 5 below highlights the operating performance of SRWB;

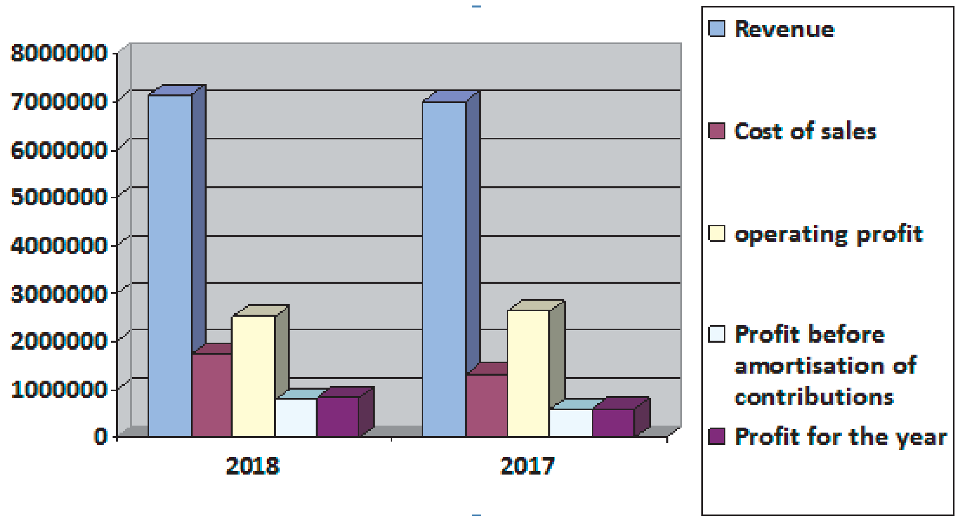

Figure 5: Financial Performance Overview

Capital projects

During the year, the Board continued implementing a number of internally financed projects which included Thondwe Water Supply Project, drilling and equipping of 8 boreholes, extension of distribution networks in all schemes and various projects' feasibility studies. The Board also replaced its ageing fleet of motor vehicles by acquiring 20 motor vehicles using a finance lease facility. The ongoing projects were at different levels of construction by the end of the financial year.

STATEMENT OF FINANCIAL POSITION

	2018	2017
	K'000	**K'000**
ASSETS		
NON-CURRENTS ASSETS		
Property, plant and equipment	21,082,537	21,026,391
Intangible assets	250,715	201,256
	21,333,252	**21,227,647**
CURRENT ASSETS		
Inventories	442,880	355,529
Current tax recivable	29,914	29,900
Trade and other receivable	8,260,544	5,663,801
Cash and cash equivalents	153,610	77,978
Total current assets	**8,886,948**	**6,127,208**
TOTAL ASSETS	**30,220,200**	**27,354,855**
FUNDS AND LIABILITIES		
Funds		
Government grants and contributions	8,188,966	8,188,966
Reserves	7,544,365	7,736,258
Accumulated surplus	3,098,316	2,108,811
Capital contributions from subscribers	547,885	473,944
	19,379,532	**18,507,979**
LIABILITIES		
Non-Liabilities		
Finance lease obligation	563,709	-
Retirement benefit obligation	125,727	125,727
Long term loans	4,693,400	4,693,400
	5,382,836	**4,819,127**
CURRENT LIABILITIES		
Finance lease obligation	88,132	53,029
Trade and other payables	5,000,200	3,412,685
Bank overdraft	369,500	562,035
	5,457,832	**4,027,749**
Total Liabilities	**10,840,668**	**8,846,876**
TOTAL FUNDS AND LIABILITIES	**30,220,200**	**27,354,855**

FINANCIAL POSITION

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. SRWB has a current ratio of 1.63:1, an improvement to the performance in 2017 which was 1.52:1. This means that in 2018, SRWB had K1.63 tambala as ready sources of cash to pay every K1 worth of immediate liabilities.

Working capital management

On Average SRWB was taking **423 days** in the year 2018 to convert receivables into cash and cash equivalent compared to **295 days** during previous financial year. Debt collection process was getting poor by 128 days more compared to previous year. There was no improvement either on payable days. Thus, **SRWB** was taking **1052 days in 2018** to make payments as opposed to **948 days** in 2017. SRWB is underperforming on both receivables days and payables days. Standard receivable days is 30 to 90days whilst on payables it is 90 to 120 days.

SRWB cash position improved compared to the previous financial year. Despite registering growth in profit margin SRWB was unable to convert a bank overdraft of **K.06 million** in 2017 to a positive cash and cash equivalents. As at the end of the 2018 financial year SRWB had a bank overdraft of MK 216 million. SRWB cash-flow ratio declined by 2.5%, from 14.8% in the year ended June 2017 to 12.3% in 2018.

LIABILITIES

The debt ratio is 3:1 which is less risky. However huge chunk of long term loan related to World Bank (IDA) which is K4.7 billion.

AUDIT OPINION

I reviewed and agreed with the basis for which the opinion of SRWB was issued. Being a clean audit opinion, I have categorized SRWB as medium risk and therefore, its operations will be monitored whenever necessary.

WEAKNESSES IN FINANCIAL CONTROL AND OPERATIONS

1. **Receivables collection**

   During the year it was noted that debtors grew to K8.2 billion in June 2018 from K5.6 billion in June 2017. Government Institutions debtors had increased significantly by 77%.

   The Board’s by-Laws of 2005, Part XIII; Section 104, stipulates that customers with outstanding bills of over 30 days should be disconnected from the supply of water until when the customer settles all the outstanding bills and any related charges. However, there is a significant proportion of receivables which are over 30 days. As at 30 June 2018 water receivables amounting MK7.4 billion, representing 91% of gross water receivables were older than 30 days.

We recommend that SRWB should expand installation of prepaid water meters in order to manage the level of its trade receivables.

2. Quick water system

(a) unreliable aged receivables listing report

We noted that the Board is using a Quick water system which was developed by the Consultant. The system was upgraded around 2013/14 for billing of water. The Board is experiencing persistent problems on producing receivables listing report. The system cannot produce a full report of debtors aged list analysis.

(b) billing and receipting system not integrated

We noted that the billing and receipting systems are not integrated. The system has created the following problems:

(i) Delays in updating receipts of customers.

We also observed that all receipts from customers who paid in the month of August, September and October had their accounts/bill statements not updated up to the audit month (October 2018

(ii) The system cannot produce receipts to acknowledge receipt from customers.

(iii) Receipts are posted into the system manually.

Therefore, from (a) and (b) above, it is clear that the system is not efficient and effective and undoubtedly, there is no value for money in keeping such a system

3. Non-compliance with the Taxation Act

We observed the following non-compliances with the Taxation Act:

(a) VAT not paid in time: Table 7a below shows the details

Month	VAT	Due date	Date paid	Days delayed
Jul-17	26,918,429	25/08/2017	19/02/2018	178
Aug-17	61,027,093	25/09/2017	19/02/2018	147
Sep-17	60,134,596	25/10/2017	19/02/2018	117
Oct-17	63,240,981	25/11/2017	19/02/2018	86
Nov-17	68,302,727	25/12/2017	19/02/2018	56
Dec-17	73,680,063	25/01/2018	19/02/2018	25
Jan-18	(6,083,516)	25/02/2018	27/04/2018	61
Feb-18	73,937,182	25/03/2018	27/04/2018	33
Mar-18	82,644,828	25/04/2018	27/04/2018	2
Apr-18	72,032,541	25/05/2018	20/07/2018	56
May-18	89,233,406	25/06/2018	20/07/2018	25
Jun-18	93,578,994	25/07/2018	25/09/2018	62

Table 7a: VAT not paid in time

(b) Table 7b shows Late remittance of PAYE as follows:

Month	PAYE	Due date	Date paid	Days delayed
Sep-17	28,210,288.04	14/10/2017	28,210,288.04	101
Oct-17	28,327,783.41	14/11/2017	28,327,783.41	71
Nov-17	29,247,098.00	14/12/2017	29,247,098.00	41
Dec-17	29,130,267.88	14/01/2018	29,130,267.88	79
Jan-18	30,566,938.00	14/02/2018	30,566,938.00	68
Feb-18	29,312,468.12	14/03/2018	29,312,468.12	65
Mar-18	29,597,617.00	14/04/2018	29,597,617.00	65
Apr-18	30,212,441.91	14/05/2018	30,212,441.91	94
May-18	29,569,860.72	14/06/2018	29,569,860.72	126
Jun-18	31,053,494.02	14/07/2018	31,053,494.02	97

Table 7b: Late remittance of PAYE

4. Stuck meters

We noted that Southern Region Water Board has a significant number of customer meters which have been stuck for a long period without maintenance or replacement. When a meter is stuck, the customer is billed an average amount based on consumption for the past three months.

Table 8 below shows a sample of stuck meter details;

SCHEME	ROUTE	CUSTOMER NAME	ACCOUNT NUMBER
Zomba	Namalaka	Hon. Roy Chizimba	ZZA01980
Zomba	Namalaka	G. Mlelema	ZZA01986
Zomba	Namalaka	State House	ZZA01987
Zomba	Namalaka	James Banda	ZZA02502
Zomba	Namalaka	Y. Kumagai	ZZA02519
Zomba	Namalaka	D. B. F. Kamwendo	ZZA02524
Zomba	Namalaka	J. S. Damalekani	ZZA02525
Zomba	Namalaka	G. Banda	ZZA02539
Zomba	Namalaka	J. E. A. Ngochera	ZZA02541
Zomba	Namalaka	Mr. P. D. Chamba	ZZA02544
Zomba	Namalaka	H. Nankhwere	ZZA02546
Zomba	Namalaka	Agriculture [R.T.C	ZZA02551
Zomba	Namalaka	P. Chipatala	ZZA02634
Zomba	Namalaka	Mr. W. H. Kamwendo	ZZA02701
Zomba	Namalaka	Communal Water Poi	ZZA02971
Zomba	Namalaka	Mr. D. P. Chagunda	ZZA03082
Zomba	Namalaka	Mr. B. I. Mwalabu	ZZA03320
Zomba	Namalaka	Mr. J. M. Mkwamba	ZZA03545
Zomba	Namalaka	Mr. M. Malimba	ZZA03661
Zomba	Namalaka	Miss R. Nkhuza	ZZA03798
Zomba	Namalaka	Miss S. Chagunda	ZZA03992
Zomba	Namalaka	Mr. M. J. Nkhata	ZZA04279
Zomba	Namalaka	Mrs. R. Banda	ZZA04614
Zomba	Namalaka	Mr. Julio Ngozo	ZZA04861
Zomba	Namalaka	E. T. Kalambula	ZZA04932
Zomba	Namalaka	Mr. Gama	ZZA05070
Zomba	Namalaka	Mr. Masaka	ZZA05085
Zomba	Namalaka	J. Kayesa	ZZA05331

Zomba	Namalaka	P. C. Kanjinga	ZZA05423
Zomba	Chinamwali	Evance Phiri	ZZA16130
Zomba	Chinamwali	Zikani Kaunda	ZZA17869
Zomba	Chinamwali	M. M. J. Gochi	ZZA17882
Zomba	Malemia	Dr. J. G. M. Wilson	ZZA00859
Zomba	Malemia	Annie Fletcher	ZZA00862
Zomba	Malemia	S. M. B. Msusa	ZZA00867
Zomba	Malemia	Dr. A. C. Munthali	ZZA00876
Zomba	Malemia	Mr. Masiku	ZZA00883
Zomba	Malemia	Chancellor College	ZZA00884
Zomba	Malemia	Herbarium Office	ZZA00889
Zomba	Malemia	Chief Resident Magistrate East	ZZA00893
Zomba	Malemia	Maneb	ZZA00896
Zomba	Malemia	Government Press	ZZA00946
Zomba	Malemia	National Herbarium	ZZA05412

Table 8: stuck meters

5. Late remittance of pension

We noted that pension was not remitted on time. Pension for May and June 2018 has not yet been remitted.

Table 9: Details for late remittance of pension

Month	Amount Due (MK)	Amount Remitted (MK)	Due date	Date remitted	Days delayed
	MK	MK			
Jul-17	29,168,430.04	29,168,430.04	14.08.2017	20.09.2017	6
Oct-17	29,147,144.64	29,147,144.64	14.11.2017	06.12.2017	22
Dec-17	29,517,563.68	29,517,563.68	14.01.2018	06.02.2018	23
Jan-18	29,861,356.00	29,861,356.00	14.02.2018	13.06.2018	27
Feb-18	30,247,572.20	30,247,572.20	14.03.2018	16.10.2018	216
Mar-18	30,247,572.20	30,247,572.20	14.04.2018	16.10.2018	185
Apr-18	30,247,572.20	30,247,572.20	14.05.2018	16.10.2018	155
May-18	30,247,572.20	-	14.06.2018		Not yet remitted
Jun-18	30,247,572.20	-	14.07.2018		Not yet remitted

Table 9: Late remittance of pension

NORTHERN REGION WATER BOARD (NRWB)

BACKGROUND

NRWB is wholly owned by the Government of Malawi under the Water Works Act No. 17 of 1995. The mandate of NRWB is to supply portable water and waste borne sanitation services to urban and peri-urban areas of Northern Region of Malawi. NRWB is currently supplying portable water to the following areas; Mzuzu, Ekwendeni, Chintheche, Nkhata-bay, Mzimba, Rumphi, Chilumba, Karonga, Songwe and Chitipa. The water borne sanitation is in the process of being transferred to NRWB.

The Board operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Malawi Water Works Act No. 17 of 1995 and the Public Finance Management Act.

The Table 10 below shows names of the Director, their designation and period of service.

Name	Designation	Period of Service
Rev. Howard Matiya Nkhoma	Chairman	Throughout the year
Mrs. Costance Mwanyongo	Member	Throughout the year
Paramount Chief Chikulamayembe	Member	Throughout the year
Mr. George Chembe Munthali	Member	Partial
Pastor Frackson Kuyama	Member	Partial
Mr. Dyton Mussa	Member	Throughout the year
Mr. George Ambali	Member	Throughout the year
Mr. Richard Kamanga NRWB	Member	Throughout the year
Mr. Patrick Bwanali	Member	Throughout the year
Mr. Zacheus Meke	Member	Throughout the year
Rev. Austin Chimenya	Member	Partial
The Comptroller of Statutory Corporations	Ex-Officio Member	Throughout the year
The Secretary for Agriculture, Irrigation & Water Development Ex officio	Ex-Officio Member	Throughout the year
The Secretary for Local Government & Rural Development	Ex-Officio Member	Throughout the year
The Secretary to Treasury	Ex-Officio Member	Throughout the year

Table 10: Board of Directors.

MAIN ACTIVITIES

- Supply of portable water
- Meter reading
- Bill payment
- New water connections
- Faults reporting and maintenance

MAIN PROJECTS UNDERTAKEN BY NRWB

Currently the NWB is implementing the following projects;

- Mzimba Intergrated Urban Water and Sanitation Project financed by Opec Fund for International Development, African Development Bank and Malawi Government to the tune of K16.7 billion;
- Malawi NRWB Water Efficiency Project financed by EIB to the tune of K15.8 billion

REVIEW OF OPERATIONS

NRWB operations are favourable, however this can be attributed to the huge amount of loan that Government continues to guarantee on its behalf.

NRWB INCOME STATEMENT

	2018	2017
	K'000	K'000
Revenue	6,875,486	6,120,593
Cost of sales	(3,065,019)	(2,827,397)
Gross profit	**3,810,467**	**3,293,196**
Other Income	292,267	394,385
Grant Income	278,572	172,392
Administrative expenses	(3,294,178)	(2,621,088)
Operating profit	**1,087,128**	**1,238,885**
Finance income	16,771	3,138
Finance costs	(855,983)	(902,131)
Profit before tax	**247,916**	**339,892**
Income tax expense	76,777	221,616
Profit for the year	**171,139**	**118,276**
Other Comprehensive Income	-	-
Total comprehensive Income for the year	**171,139**	**118,276**

FINANCIAL PERFORMANCE OVERVIEW

During the financial year ended 30 June 2018, income generated by Northern Region Water Board from its normal operating activities amounted to **K6.9 billion** compared to **K6.1 billion** that was recorded in the year ended 30 June 2017. Thus, revenue increased by **12.3%** in the year ending 30 June 2018.

A profit of **K171.1 million** was registered during the year ended 30 June 2018 as opposed to **K118.3 million** recorded in the financial year ended 30 June 2017. This represents an increase in the profit of **K52.9 million**. Profit margin decreased from previous year (**4%** in 2018 and **5.5%** in 2017). The Return on Capital Employed for the NRWB declined during the year from 11.5 % to 3.3 % in the year ended 30 June 2018 despite the board investing of over **MK11 billion**.

STATEMENT OF FINANCIAL POSITION

	2018	2017
	K'000	K'000
ASSETS		**Restated**
NON-CURRENTS ASSETS		
Property, plant and equipment	33,300,735	21,761,924
	33,300,735	**21,761,924**
CURRENT ASSETS		
Inventories	1,069,511	904,683
Trade and other receivables	3,911,803	2,510,153
Prepayments	638,870	2,122,727
Cash and short-term deposits	111,576	121,999
Total current assets	**5,731,760**	**5,659,562**
TOTAL ASSETS	**39,032,495**	**27,421,486**
Capital and Liabilities		
Government capital contribution	3,925,268	3,925,268
Revaluation reserve	4,795,445	5,027,090
Accumulated loss	(1,185,974)	(1,588,758)
	7,534,739	**7,363,600**
NON CURRENT LIABILITIES		
Grants	3,631,120	2,597,720
Interest bearing loans and borrowings	18,340,120	6,243,392
Interest bearing finance leases	-	184,099
Project liabilities	176,394	3,589,046
Deferred tax liability	2,833,071	2,756,294
Employee benefits	133,609	139,998
	25,114,314	**15,510,549**
CURRENT LIABILITIES		
Trade and other payables	4,792,713	3,058,209
Interest bearing loans and borrowings	707,716	367,913
Interest bearing finance lease	-	84,641
Grants	247,461	122,948
Income tax payable	26,517	26,517
Bank overdrafts	609,035	887,109
Total Current Liabilities	**6,383,442**	**4,547,337**
Total Liabilities	**31,497,756**	**20,057,886**
TOTAL EQUITY AND LIABILITIES	**39,032,495**	**27,421,486**

FINANCIAL POSITION ANALYSIS

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. NRWB has a current ratio of 0.9:1, a decrease from previous year which was 1.24:1. This means that in 2018, NRWB had only 90 tambala as ready sources of cash to pay every K1 worth of immediate liabilities.

Furthermore, the acid test ratio of NRWB of 0.73:1 was recorded compared to 1.05:1 from previous financial year.

Working capital management

It took NRWB **194 days** on average to collect cash from its debtors as opposed to **141 days** in prior year. Further, evidence to show that NRWB's cashflow did not improve points to increased **Payables days, 187 days in 2018** as opposed to **141 days** in 2017.

NRWB cash position improved compared to the previous financial year. NRWB recorded cash and equivalent deficit of **K497.5** million for the year ended 30 June 2018 compared to a cash and equivalent deficit of **K765.1** million for the previous year ended 30 June 2017

LIABILITIES

Total liabilities of K31 billion include loans amounting to K18 billion from OFID, IDA, BADEA, ADB and National Bank of which amount due payable was K0.7 billion during the year. The debt ratio is 1:0.79. This has improved due to investment of the debt in Assets coupled with related revaluation.

AUDIT OPINION

I reviewed and agreed with the basis for which the opinion of NRWB was issued. Being a clean audit opinion, I have categorized NRWB as low risk and therefore, its operations will be monitored whenever necessary.

WEAKNESSES IN FINANCIAL CONTROL AND OPERATIONS

1. Working capital deficiencies

The Board's current liabilities as at 30 June 2018 exceeded current assets by over K589 million. The Board is experiencing negative working capital pressures and relies on borrowings to finance its operations.

The Board's receivables as at 30 June 2018 amounted to K3.9 billion whilst current payables including bank overdraft amounted to K5.7 billion. The Board's biggest customers are Government owned institutions which owed the Board K2.3 billion of which K1.9 billion is from prior years (over 90 days) as at 30 June 2018.

Whilst the Board is generating revenue on monthly basis at average of over K600 million, recoveries from customers are only K350 million subjecting the Board to serious working capital challenges. There is need to have a debt management policy which enforceable. As for regular defaulters (Government institutions), the Secretary to the Treasury should immediately address this matter and provide a way forward

2. Stale, unpresented, refer to drawer cheques and long outstanding cash deposits

During the audit, we noted that the Board had unpresented cheques (also stale) and Refer to Drawer (RD) cheques on the bank reconciliation. Table 11 below shows the details of FDH Nkhatabay unpresented, stale cheques:-

Date	Details	Chq. No.	Amount K
22/12/2017	NKHATA BAY Private Clinic	509	110,089.00
21/12/2017	GAGA001 M. GAGA (Mrs.)	27402	660,898.00
5/11/2017	Promat Limited	107	312,111.97
6/12/2017	MALAWI REVENUE AUTHORITY Domes	118	25,000.00
6/12/2017	MALAWI REVENUE AUTHORITY Domes	121	25,000.00
Total			**1,133,098.97**

3. Accounts on trial balance but not on the bank confirmation, account on trial balance and not confirmed and bank accounts not on bank confirmation but on the trial balance.

The Board had Bank accounts on the trial balance that were not confirmed by the bank; Bank accounts reflecting on bank confirmation but not on the trial balance; and Bank accounts on the trial balance which were not reconciled as follows:-

Bank accounts on trial balance but not on the bank confirmations

Account	GL Code	Amount (MK)
National Bank–Mzimba	11000	-68,800.00
NBS Bank–Chitipa	11030	400,000.00
NBS Bank–Rumphi	11034	-51,236.09
National Bank of Malawi Badea	11075	331,225.12
Standard Bank–Karonga	11038	-297,407.85
FDH Bank Account	11079	-18,008.17

Bank accounts on bank confirmation and not on the trial balance

Account Name	Account type	Bank	Amount (MK)
FMB 1012072405015	Savings account	FMB	1,052.38
FDH NRWB MZ EIB	Current account	FDH	280,806.00
FDH NRWB NWDP	Current account	FDH	469,127.89

Bank accounts without a reconciliation

Account Name	Bank A/C No.	Account type	Bank name	Account balance (USD)	Account balance (MK)
NRWB FCD (USD) (for Chitipa Water Supply Project)	1001583871	FCDA	NBM	-24.99	(17,926.86)
FDH Bank Account (11079)	1530000115714	Local	FDH	N/A	(18,008.17)

4. Creditors Reconciliations

Procedures carried on creditors' reconciliations revealed that the following suppliers' balances were not reconciled to supplier statements:

Creditor	K
McPheasant Kondowe	4,522,800.00
Intersaf Limited	3,698,866.20
Classical Hardware Centre	24,534,613.81
ALTA VISTA TRADING	23,959,213.80
Memory Business Solutions	16,398,143.96
BUSINESS MACHINES (2007) LTD	6,196,002.99
KALAMBO J.	5,724,366.49
Total	**85,034,007.25**

5. Pension remittance

We noted that pension was not remitted on time. The board has not remitted pension obligation amounting to **K436 million**.

LILONGWE WATER BOARD (LWB)

BACKGROUND

Lilongwe Water Board (LWB) is a Statutory Corporation established in 1947 and reconstituted by the Act of Parliament Water Works Act No. 17 of 1995. As utility service provider, LWB is responsible for the provision of water supply services to the City of Lilongwe and surrounding areas designated as its supply area.

The Board operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Malawi Water Works Act No. 17 of 1995 and the Public Finance Management Act. The Table 12 below shows names of the Director, their designation and period of service.

Name	**Designation**	**Period of Service**
Rev. Dr. E. Chitsonga	Chairman	Seven Months
Mr. Kaisi Sadala	Member	Six Months
Bishop C. J. Tsukuluza	Member	Throughout the year
Mr. B. Meke	Member	Throughout the year
Mrs. H. Mtila	Member	Throughout the year
Sheikh Imra	Member	Throughout the year
Mr. D. Magomelo	Member	Throughout the year
Senior Chief Kanduku	Member	Throughout the year
Ms. S. N. Moto	Member	Throughout the year
Secretary for Agriculture, Irrigation and Water Development	Ex-Officio Member	Throughout the year
Comptroller of Statutory Corporations	Ex-Officio Member	Throughout the year
Secretary to Treasury	Ex-Officio Member	Throughout the year

Challenges

The challenges that are being faced by Lilongwe Water board among others includes:

- Increased human activities and settlements along Lilongwe river which are leading to deterioration of water quality;
- Graphite mining around Malingunde catchment area that would impact negatively on supply of quality water

REVIEW OF OPERATIONS

LWB realized revenue from water sales of 87% failing to beat their target. The number of billed customers was 79,538 a movement of 18% from 67,581 billed customers in the prior year. Figure 6 below shows financial performance of LWB:

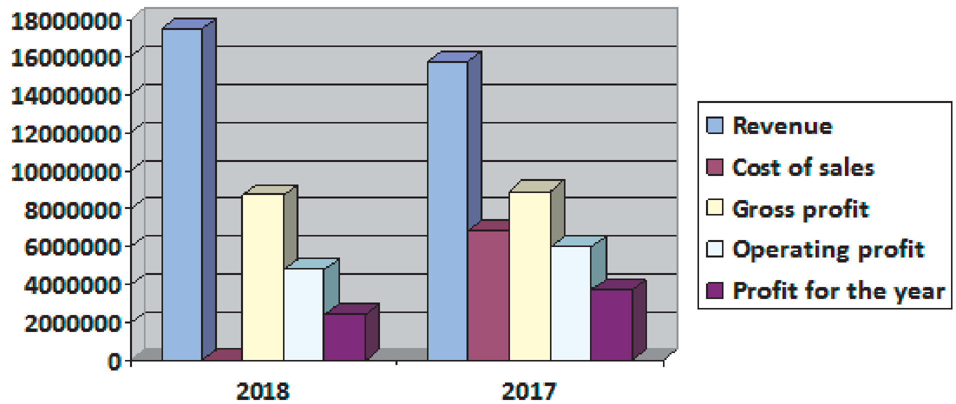

Figure 6: Review of Operations

LWB INCOME STATEMENT

	2018	2017
		Restated
	K'000	K'000
Revenue	17,474,617	15,771,635
Cost of Sales	(8,716,577)	(6820371))
Gross profit/(loss)	8,758,040	8,951,264
Administrative expenses	(4,678,153)	(3,539,167)
Other income	735,699	585,052
Operating Profit	4,815,586	5,997,149
Finance income	193,678	262,855
Finance cost	(590,193)	(1,044,162)
Profit before income tax	4,419,071	5,215,842
Income tax expenses	(1,960,785)	(1,497,533)
Profit for the year	2,458,286	3,718,309

FINANCIAL PERFORMANCE OVERVIEW

Revenue Performance

During the period under review, the financial performance of LWB was satisfactory. LWB recorded a good financial performance with a profit after tax of K2.5 billion (2017: K3.7 billion) registered at the end of the financial year.

The main source of revenue for LWB is water sales. Revenue realized from water sales in the year ended 30 June 2018 was K17.5 billion. This represented 11% revenue growth relative to the prior year's water sales revenue of K15.8 billion.

Government reversed the approved water tariffs in the year which culminated into LWB effecting a refund to customer water accounts of K1.6 billion. There were 79,538 billed customers as at 30th June, 2018. This represented a movement of 7,031(18%) from 67,581 billed customers as at 30th June, 2017.

Expenditure performance

The total recurrent expenditure for the year was K13.9 billion against a corresponding budget allocation of K16.1 billion. The recurrent expenditure was therefore within the budget provision at 86% of the total budget allocation and was consistent with the cash-based management system implemented by the Board which links expenditure to both the budget and actual collected revenue. For the year ended 30 June 2018, the recurrent expenditure represents a 22% movement over the prior year's expenditure of K11.4 billion and the movement was within prevailing macro-economic factors and reflected implementation of an Output/Activity based budget by the Board.

Capital Projects

- Non Revenue Water reduction programmes under the EIB financing.
- Reticulation of water mains in Area 17.
- Implementation of pipe lowering program.
- Airwing ground water development project.
- Implementation of Resettlement Action Plan (RAP) under the Kamuzu Dam 1 Raising Project.

STATEMENT OF FINANCIAL POSITION

	2018	2017
	K'000	K'000
ASSETS		**Restated**
NON-CURRENTS ASSETS		
Property, plant and equipment	40,638,297.00	38,140,776.00
	40,638,297.00	**38,140,776.00**
CURRENT ASSETS		
Inventories	1,245,137.00	1,358,468.00
Trade and other receivables	9,961,187.00	7,491,895.00
Cash and cash equivalents	2,418,802.00	1,923,175.00
Total current assets	**13,625,126.00**	**10,773,538.00**
TOTAL ASSETS	**54,263,423.00**	**48,914,314.00**
EQUITY AND LIABILITIES		
Equity		
Capital reserve	3,103,413.00	3,103,413.00
Revaluation reserve	12,693,254.00	12,970,522.00
Home ownership fund	147,080.00	144,979.00
Retained earnings	11,530,216.00	8,677,935.00
Tota shareholders' equity	**27,473,963.00**	**24,896,849.00**
NON CURRENT LIABILITIES		
Deferred tax liability	6,842,647.00	6,194,689.00
Capital contributions	2,227,654.00	2,088,059.00
Borrowings	9,236,864.00	8,073,143.00
Deferred income	4,517,230.00	4,158,922.00
	22,824,395.00	**20,514,813.00**
CURRENT LIABILITIES		
Borrowings	1,134,661.00	1,101,544.00
Bank overdraft	46.00	105.00
Trade and other payables	1,786,091.00	960,025.00
Income tax liability	1,044,267.00	1,440,978.00
Total current liabilities	**3,965,065.00**	**3,502,652.00**
Total Liabilities	**26,789,460.00**	**24,017,465.00**
TOTAL EQUITY AND LIABILITIES	**54,263,423.00**	**48,914,314.00**

LIABILITIES

The debt ratio of LWB is 2.0:1 giving assurance that LWB can pay its debt with assets when its due. The long term loans are mainly from IDA, EIB totaling K12.5 billion.

AUDIT OPINION

I reviewed and agreed with the basis for which the opinion of LWB was issued. Being a clean audit opinion, I have categorized LWB as low risk and therefore, its operations will be monitored whenever necessary.

WEAKNESSES IN FINANCIAL CONTROL AND OPERATIONS

1.0 Non repayment of long term loans

Article II, Subsection 2.04 of the loan lending agreement for the Malawi Peri-urban Water Supply and Sanitation Projects stipulates that Lilongwe Water Board shall repay the sub loan over a period of 20 years after 5 years of grace period commencing on the date of the on lending agreement; and

The financing agreement of the Second National Water Development Project under Schedule 3 stipulates that repayment to commence October 15, 2017 to and including April 2027 at 1 %; and from October 2017 to and April 2047 at 2 %, principal amount of the credit repayable.

However, during the audit, we noted that the Board did not make repayment of the two long term loans in the year in accordance with the loan lending agreement and the finance agreement respectively.

1.1 Stale cheques

It is good accounting practice that once drawn cheques become stale after a period of six months, these must be reversed and balances in the accounts adjusted accordingly.

It was however, noted during the audit of cash and bank that there were stale checks on FMB and FDH reconciliations dating back to 2016. The total amount of the stale cheques was K212,743,702.21.

1.2 Long outstanding uncleared deposits

The main aim of a bank reconciliation is to detect and correct errors or fraudulent practices on cash and bank and that all long outstanding uncleared deposits are investigated and acted upon as soon as possible.

However, during our audit, we noted that there are long outstanding uncleared bank deposits from 2016, with the FMB, FDH and National Bank. The total amount for the uncleared deposits was K955,780,201.36.

ELECTRICITY GENERATION COMPANY OF MALAWI (EGENCO)

Electricity Generation Company (Malawi) Limited (EGENCO) is a limited liability company incorporated under the Companies Act (Cap 46:03) of the Laws of Malawi on 7th September 2016. The company was established with the mandate of generating electricity in Malawi. The company was formed following the unbundling of the Electricity Supply Corporation of Malawi (ESCOM) Limited into two separate institutions; one for generating electricity (thus EGENCO) and another one for transmission and distribution (thus ESCOM).

The Board operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Companies Act (Cap 46:03) of the Laws of Malawi on 7th September 2016 and the Public Finance Management Act. The Table 13 below shows names of the Director, their designation and period of service.

Name	**Designation**	**Period of Service**
Justice Lloyd Muhara	Chairman	Throughout the year
Mr. Arthur Mandambwe	Member	Throughout the year
Ms. Mary Nkando	Member	Throughout the year
Mrs. Gloria Chawinga	Member	Throughout the year
Rev. Fr. Noel Gama	Member	Throughout the year
Secretary for Energy, Mining and Natural Resources	Member	Throughout the year
Secretary to Treasury	Ex-Officio Member	Throughout the year
Comptroller of Statutory Corporations	Ex-Officio Member	Throughout the year
Secretary for Justice and Constitutional Affairs	Ex-Officio Member	Throughout the year

Table 13: Board of Directors

Main Activity

The main activity of the Company is generation of electricity. Currently EGENCO operated four hydro power stations namely: Nkula, Tedzani, Kapichira and Wovwe. The company also operates power thermal power plants in Lilongwe, Mzuzu and Mapanga, Blantyre. EGENCO has a total generation capacity of 372.64MW of which 21.7MW is from standby diesel power plants.

REVIEW OF OPERATIONS

EGENCO being a new company born out of the unbundling is facing challenges to receive sale proceeds from ESCOM relating to the electricity generated due to cash constraints of ESCOM.

STATEMENT OF COMPREHENSIVE INCOME

	30-Jun-18	6 months to 30 June,2017
INCOME		
Revenue	43,080,453	14,835,408
cost of sales	(17,345,225)	(7,133,323)
Gross profit	**25,735,228**	**7,702,085**
Other income	513,039	53,901
Administration costs	(11,809,378)	(3,549,739)
Operating profit	**14,438,889**	**4,206,247**
Net finance income	1,123,313	133,088
Profit before income tax expense	15,562,202	4,339,335
Income tax expense	(4,527,524)	(1,514,692)
Profit for the year	**11,034,678**	**2,824,643**
Other comprehensive income	-	-
Total comprehensive income for the period	**11,034,678**	**2,824,643**

FINANCIAL PERFORMANCE ANALYSIS

During the year ended 30 June 2018, revenue income generated from sale of generated electricity of **MK43.08 billion** was recorded by the EGENCO. This was **190.4%** increase as compared to six months of 2017 revenue. EGENCO in achieving the above sale incurred expenditure of M**K17.3 billion** full year compared to MK7.1 billion that was recorded during the last six months to year ending 30 June 2017. Thus, expenditure increased by 143%. During the same period administration, costs increased by 232.7% from MK3.5 billion to 11.8 billion this was mostly due to the provision for doubtful debt of MK 5.5 billion that was recognized during the year ended 30 June 2018. Following the amendment of IFRS 9 which was adopted by EGENCO from annual periods beginning 1 January 2018 this partly resulted in sharp increase in provision of doubtful debts.

EGENCO registered a total profit of **K11 billion** full year during year ended 30 June 2018 compared to K2.8 billion that was recorded in the six months to 30 June 2017. This represented a **290.6%** increase in profit for the year. Further to this, profit margin for EGENCO improved from 28.6% to 33.5%. The **Return On Capital Employed (ROCE)** for EGENCO improved by 15.8% during the year ended 30 June 2018 (i.e. ROCE was 27.6% in 2018 compared to 11.8%).

The comparative for EGENCO is limited due to the fact that the 2017 financial statements are for six months.

There was a change in how revenue is earned. Up to 30 June, 2017, there was an arrangement between ESCOM and EGENCO where EGENCO share was 33.68% of the billed electricity to the end user. However this was changed in 2017/18 financial year. This arrangement could not be appreciated when the accounts of ESCOM are also subjected to the same analysis as the case is in this report.

FINANCIAL POSITION OF EGENCO

	2018	2017
	K'000	K'000
ASSETS		
Non-current assets		
Property,plant and equipment	23,967,131	21,520,039
Capital work-in-progress	15,894,139	4,940,654
Total non-current assets	**39,861,270**	**26,460,693**
Current assets		
Inventories	2,432,526	1,945,823
Trade and other receivables	25,693,143	7,917,612
Advance payments	2,757,259	668,534
Cash and cash equivalents	2,448,955	8,016,386
Total current assets	**33,331,883**	**18,548,355**
Total assets	**73,193,153**	**45,009,048**
EQUIT AND LIABILITIES		
Shareholders' equity		
Share capital	100,000	100,000
Capital reserve	30,004,034	32,431,180
Retained earnings	13,859,321	2,824,643
Total shareholders' equity	**43,963,355**	**35,355,823**
Non-current liabilities		
Borrowings	5,408,545	-
Deferred income	2,227,176	-
Defarred tax liability	706,851	328,255
Total non-current liabilities	**8,342,572**	**328,255**
Current liability		
Borrowings	2,327,840	-
Trade and other payables	5,813,266	5,216,016
Income tax payable	4,039,439	1,165,005
Concession fees payable	8,706,681	2,943,949
Total Current liabilities	**20,887,226**	**9,324,970**
Total equity and liability	**73,193,153**	**45,009,048**

LIQUIDITY

The current ratio, also known as the working capital ratio, as it is based on working capital or net current assets. It is a measure of the liquidity for EGENCO that compares its current assets with those creditors due to be paid within one year of the financial position date (otherwise known as current liabilities). The chart below shows the relationship between current assets and liabilities for the two financial years ending 30 June 2017 and 30 June 2018. The figure 7 below highlights the liquidity of EGENCO;

Source: EGENCO financial statement

Figure 7: Liquidity of EGENCO

The financial statements indicate that EGENCO is in better position in terms of liquidity as the current ratio for the financial years ending 2017 and 2018 are 1.99 and 1.6 times respectively.

As at the year ended 30 June 2018 EGENCO net worth increased by **MK28.1 billion** from the previous financial year representing a 62.6% increase.

WORKING CAPITAL MANAGEMENT

Inventory days have decreased by 48 days or 48.6%, moving from 99.6 days above the sector average to 51.2 days less than it. Given the rapid increase in revenue (190%) in 2018, EGENCO Co may be expecting a continuing increase in the future and may have built up inventories in preparation for this, ie inventory levels reflect future sales rather than past sales. Accounting statements from several previous years and sales forecasts for the next period would help to clarify this point

Accounts receivable collection period for EGENCO have increased. It took on average 23 more days to collect what EGENCO customers owed the company than the previous financial year i.e it took on average **217.69 days** in the year ended 2018 and **194.8 days** in 2017. Considering the nature of EGENCO business and the Government environment in which it operates, the proposed feasible collection period should be 30 days. The receivable collection period gives us a clear view of the financial position of EGENCO in terms of how long, on average, it takes the clients to pay what they owe. This in other words shows us the efficiency of the EGENCO in collecting its debts. The analysis also indicates EGENCO trade receivables increased by K23 billion, from **K7.6 billion** to **K30.6 billion**. The ESCOM debt has increased significantly in comparison to the prior year of which is more than 90 days. On the other hand, **Accounts Payable Payment Period** for EGENCO improved in the just ended 30 June 2018. The number of days for EGENCO in settling its liabilities had decreased from **266.9 days** in the 2017 financial year to **122.3 days**, EGENCO reduced the number of days by **144.6 days** in paying off suppliers. An indication of improved efficiency. The **Cash Operating Cycle (Days)** for **EGENCO** increased from **27.5 days** to **146.54 days** indicating that a lot of cash has been tied in trade receivables which pose a risk of being unrecovered.

LIABILITIES

Debt ratio is 1.1:1 which is less risky to lenders to borrow EGENCO funds. Included in the long term borrowings of K21.1 billion is K7.7 billion from National Bank to support purchase of 30MW Diesel generators whose payable due amount now is K2.2 billion .Also there is concession fee payable of K8.7 billion which was transferred from ESCOM after unbundling process.

AUDIT OPINION

I reviewed and agreed with the basis for which the opinion of EGENCO was issued. Being a clean audit opinion, I have categorized EGENCO as low risk and therefore, its operations will be monitored whenever necessary.

WEAKNESSES IN FINANCIAL CONTROLS AND PERFORMANCE

1. Lack of Power Purchase Agreement

As per the financial reporting standards, the company shall adopt accounting policies that shall be applied consistently.

During our review of the company's revenue, we noted that there is no consistency on how revenue from electricity generation is accounted for.

This is mainly due to the absence of the Power Purchase Agreement between Electricity Supply Corporation Of Malawi - ESCOM (the bulk buyer) and Electricity Generation Company (Malawi) Limited - EGENCO (the power producer). As such, the company adopted different revenue recognition criteria for the two comparable financial years.

2. Assets disposed still in asset register

It is considered best practice that asset register is properly updated for any movements of assets in form of disposals or additions.

However, during our review of the company's assets, we noted that some of the items that were disposed during the period were still appearing in the company's asset register as detailed in Table 14 below:

Asset ID	Asset description	Net Book Values
ESC033486	BS 3702 NISSAN NAVARA-O CHISASA	6,450,984.97
ESC032464	BS 3706 NISSAN NAVARA	6,450,984.97
ESC033985	BS 3145 NISSAN NAVARA-H MSOSA	4,786,394.18
ESC032156	BS 8588 TOYOTA FORTURNER 4WD	9,605,106.60
ESC032178	BS 8681 TOYOTA FORTURNER 4WD	9,605,106.60
ESC032144	BS 8696 TOYOTA FORTURNER 4WD-L. SONDHI	9,605,106.60
	Totals	**46,503,683.94**

Table 14: Assets disposed still in asset register

3. Tax Issues

It was observed that the Company was submitting VAT returns late thereby contravening the VAT Act section 34 (4) which states that "A return shall be submitted to the Commissioner General not later than the twenty-fifth day of the month immediately following the month to which the return relates. Table 15 below provides the details:

Period	Date of Payment of VAT	Date of Submission of VAT Return
May 2018	25 June 2018	5 July 2018
June 2018	25 July 2018	31 July 2018

Table 15: Late payment of tax

MALAWI HOUSING CORPORATION (MHC)

BACKGROUND

Malawi Housing Corporation (MHC) is a statutory body which was established in 1964 by an Act of Parliament and is wholly owned by the Government. The corporation draws its mandate from the Malawi Housing Corporation Act of 1964 (Chapter 32:02 of the Laws of Malawi.

The Board operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Malawi Housing Act of 1964 and the Public Finance Management Act. Table 16: Names for Board of Directors for MHC.

Name	**Designation**	**Period of Service**
Mr. Andrew Gadama	Board Chair	Throughout the year
Mrs. Mary Magombo	Board Member	Throughout the year
Mrs. Mariam Chimbalanga	Board Member	Throughout the year
Pastor Peter Banda	Chairperson for Staff Committee	Throughout the year
Dr. Evans Mathunga	Chairperson for Technical Committee	Throughout the year
Mrs. Joyce Tambala	Ex-Officio (Comptroller of Statutory Corporation)	Throughout the year
Dr. Janet Banda SC	Ex-Officio Member (Principal Secretary for Lands and Housing	Throughout the year
Mr. Chifundo Kapulula	Ex-Officio Member Secretary to the Treasury	Throughout the year

Table 16: Board of Directors.

Main Activities

The Act empowers the corporation to construct houses, develop plots and maintain existing houses and plots. It is also within the corporation's mandate to put up buildings other than dwelling houses and also to dispose of any structure which it has either built or procured.

REVIEW OF OPERATIONS

MHC recorded an increase in trading revenue from its operating activities amounted to **K3.3 billion** during the financial year ended 30 June 2018 compared to **K2.4 billion** which was recorded in the year ended 30 June 2017, representing a revenue increase of **40.34%**. However, MHC incurred a lot more trading expenses in both years of 2018 and 2017 amounting to K4.7 billion and K3.7 billion respectively. This has resulted in operating loss of K1.1 billion for 2018 and K1.1 billion for 2017. This should be a cause for going concern problems. MHC reported a surplus as result of revaluation on investment properties, despite registering an operating loss.

MHC INCOME STATEMENT

	2018	2017
	K'000	**K'000**
Revenue	3,348,342	2,385,582
Other income	214,140	187,396
Adminstration and operating expenses	(4,698,308)	(3,684,168)
Operating Loss	(1,135,826)	(1,110,940)
Surplus on sale of houses and plots	1,539,005	1,524,566
Revaluation surplus on investment properties	11,774,031	9,991,000
Disponsal of investment properties		(53,100)
Operating surplus before taxation	12,177,209	10,351,527
Taxation	(145,789)	(149,871)
Surplus for the year	12,031,420	10,201,656
Other comprehensive income		
Gains on property revaluation	502,815	356,465
Total comprehensive income	12,534,235	10,558,121

FINANCIAL PERFORMANCE OVERVIEW

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. MHC has a current ratio of 0.65:1, a decrease from previous year which was 0.87:1. This means that in 2018, MHC had only 65 tambala as ready sources of cash to pay every K1 worth of immediate liabilities.

MHC has been having less current assets to settle its current liabilities. For two years running; MHC current assets were valued at K3.1 billion compared to K4.7 billion liabilities for 2018 and K4.1 billion assets compared to K4.7 billion liabilities for 2017.

Working capital management

On Average MHC was taking **193 days** in the year 2018 to convert receivables into cash and cash equivalent compared to **223 days** during previous financial year. **MHC** was taking **123 days in 2018** to make payments as opposed to **145 days** in 2017.

Working capital management stipulate that receivable days should be shorter than payable days, this is to make sure that MHC has cashflow before making any payment. MHC was failing on this principle.

MHC cashflow moved by K160 million which is 62% (MK97 million for 2018 from K257 million for 2017). This can be attributed to an increase in operating costs, failing to comply with receivable and payables principle and lastly loan repayments.

Overall, MHC short term position is okay but if some improvements are not made on trading activities, operating costs, receivables and payables, it will start to show some worrying signs on going concern.

STATEMENT OF FINANCIAL POSITION

	2018	2017
	MK'000	**MK'000**
ASSETS		
Non current assets		
Investments property	82,096,983	70,085,744
Property plant and equipment	8,279,690	6,707,930
Total non-current assets	90,376,673	76,793,674
Current assets		
MHC Henan Development Co.	-	838,800
Inventory of materials	208,960	203,169
Development expenditure	1,000,791	1,335,245
Receivables	1,768,572	1,459,268
Cash and cash equivalents	101,399	268,955
Total current assets	3,079,721	4,105,437
Total assets	93,456,394	80,899,111
EQUITY AND LIABILITIES		
Equity		
Share capital	10,336	10,336
Revaluation reserves	8,681,030	8,178,215
Reatain income	79,978,286	67,956,866
Total shareholders' funds	**88,669,652**	**76,145,417**
Non current liabilities		
Longterm loans	59,485	90,530
Total non-current liabilities	**59,485**	**90,530**
Current liabilities		
Taxation	205,565	135,654
Bank overdraft	4,630	12,306
Current portion of longterm loans	48,499	40,886
Payables	1,582,706	1,466,179
Advance rentals	94,736	77,464
Deposits for house and plots	2,728,416	2,908,292
Other liabilities	62,703	22,383
Total current liabilities	**4,727,257**	**4,663,164**
Total equity and liabilities	**93,456,394**	**80,899,111**

LIABILITIES

MHC has total liabilities of K4.8 billion against assets of K93 billion giving debt ratio of 0.05: 1 which is too high for an entity in such an Industry. MHC should utilize this favourable ratio to finance its expansion by borrowing.

AUDIT OPINION

I reviewed and agreed with the basis for which the opinion of MHC was issued. Being a clean audit opinion, I have categorized MHC as low risk and therefore, its operations will be monitored whenever necessary and subjected to normal annual reviews.

WEAKNESSES IN FINANCIAL CONTROL AND OPERATIONS

1.0. Land under dispute

We noted that the Corporation made payments towards purchase of land which is currently being disputed as follows:

The Corporation may not be able to use the land in dispute until the issue has been resolved which means that it has tied up its funds in receivables.

Freehold Land and Buildings				
			Cost	**Comments**
Year	**Details**	**Details of supplier**	**MK**	
2017/18	Central Region	Ministry of Lands	12,489,606.50	The land is encroached and also used as dumping site
2017/18	Eastern Region	Machinga District Council	8,000,000.00	MHC found that it is its own land
		Total	**20,489,606.50**	

2.0. Taxation

(a) We noted the following:-

- Withholding tax was not remitted. There was a balance of K47.6m at year end.

- Pay As You Earn was not paid and there was a balance of K678m at year end.
- Fringe benefit tax was not paid and there was a balance of K62.6m at year end.
- Tevet levy was not paid and there was a balance of K15m at the year end.

Following tax assessment conducted by Malawi Revenue Authority on the Corporation taxes and Tevet levy for the period July 2013 to February 2018 penalties amounting to K1,246,138,587 for taxes and K16,987,475 for Tevet levy were charged against the Corporation. The penalties have not been included in the financial statements.

	PRINCIPAL	PENALTIES	TOTAL
	K	K	K
WHT	46 277 176,39	9 255 436,28	55 532 612,67
FBT	62 593 381,83	12 518 676,37	75 112 058,20
PAYE	550 324 271,39	1 201 066 316,64	1 751 390 588,03
VAT	30 381 436,88	23 298 158,39	53 679 595,27
	689 576 266,49	1 246 138 587,68	1 935 714 854,17
Tevet levy	15 073 076,81	16 987 475,69	32 060 552,50

3.0. Legal cases

We noted that the legal and professional expenses decreased by 20% during the year under review. However, most of the cases handled were relating to offering plots to customers without following proper procedures.

The contingent liabilities arising from litigations against the Corporation as at 30 June 2018 amounted to MK40m.

4.0 Recoverability of debts

We noted that recoverability of Government debts continued to improve during the periods of 2016/2017 and 2017/2018 following the issuance of promissory notes for the settlement of arrears, however a balance of MK57m remains outstanding.

5.0 Segregation of duties

We observed that signed cheques are returned to the officer who had prepared them after being signed. The staff writes a lot of cheques daily and also has to file payments vouchers.

6.0 Post year end transactions

We noted that all transactions from July 2018 to date have not been posted into the accounting system

6.1 Deductions

We observed that total deductions on the payroll for some employees exceeded 50% of their gross pay. From the sample of 32 employees, 7 exceeded the limit representing 22%.

NATIONAL OIL COMPANY OF MALAWI (NOCMA)

BACKGROUND

National Oil Company of Malawi (NOCMA) Limited is a Government wholly owned company registered on 14th December, 2010 under the Companies Act of 1984. The Company was formed in line with the National energy policy of January, 2003. The Company head office is in Kang’ombe House in City Centre, Malawi’s capital and has an office in Mwanza border post and have operations through an agent at Songwe Boarder to handle incoming fuel tankers.

The Board operations are overseen by Board of Directors that are appointed by the Government. The Directors are responsible for the affairs of the organization under the Companies Act of 1984 and the Public Finance Management Act. The Table 17 below shows names of the Director, their designation and period of service.

Name	**Designation**	**Period of Service**
Justice Lloyd Muhara	Chairman	Throughout the year
Dr. Kingdom Kwapata	Member	Throughout the year
Mrs. Pilirani Midaya	Member	Throughout the year
Mr. Osward Chirwa	Member	Throughout the year
Mr. Dumisani Lindani	Member	Throughout the year
Secretary to Treasury	Ex-Officio Member	Throughout the year
Secretary of Energy	Ex-Officio Member	Throughout the year
Comptroller of Statutory Corporations	Ex-Officio Member	Throughout the year
Mr. Richard Milanzi	Secretary	Throughout the year

Table 17: Board of Directors

Capital projects

With loan from PTA bank the Government of Malawi through the Company has constructed Strategic fuel reserves in Blantyre, Lilongwe and Mzuzu with combined fuel reserves of 60 million litres enough for two months fuel import cover.

Main Activity

To manage the country's strategic fuel reserve facilities, promote competition in the oil and gas industry and to promote oil and gas exploration activities in order to ensure stability and security of supply of liquid fuel and gas products.

REVIEW OF OPERATIONS

Sales revenue generated from its normal operating activities i.e. sale of liquid fuel and gas products increased rapidly to **K101.9 billion** during the financial year ended June 2018 compared to **K5.7 billion** that was recorded in the year ended 30 June 2017. Thus revenue increased by 1**685.3%** in the year ending 30 June 2018. Cost of sales to support the rapid increase in sales amounted to K100.7 billion compared to K 5.6 billion recorded during financial ended 30 June 2017. Thus cost of sales increased by 1668.3%.

A loss of **K1.2 billion** was registered during the year ended 30 June 2018 as opposed to loss of K 0.38 Billion recorded in the financial year 2016-2017. This represents an increase in the loss of **K0.825 billion**. However, Loss margin improved from previous year by 14.16% (-1.54 % in 2018 and -15.65% in 2017). The Return on Capital Employed for NOCMA increased during the year from -18.44 % to -5.38 % in the year ended 30 June 2018. Further, the asset turnover of NOCMA increased during the year ended 30 June 2018 due to additional Strategic Fuel Reserves tanks that were completed and handed over to NOCMA which led to increased revenue of liquid fuel and gas products. The asset turnover of NOCMA was 3.51 times in the year ended June 2018 and 1.25 in 2017.

NOCMA INCOME STATEMENT

	2018	**2017**
	K'000	**K'000**
Revenue	101,929,723	5,709,326
Cost of sales	(100,684,275)	(5,693,749)
Import and wholesale margin	1,245,448	15,577
Other income	219,487	172,636
Grant income	424,977	431,805
Administration and other operating expenses	(3,457,240)	(1,513,449)
Operating loss	1,567,328	893,431
Finance income	361,299	512,550
Loss before tax	(1,206,029)	(380,881)
Income tax	-	-
Loss for the year	(1,206,029)	(380,881)

FINANCIAL PERFORMANCE OVERVIEW

Liquidity

The current ratio measures the ability of a company to settle current liabilities through disposal of its current assets. NOCMA has a current ratio of 1:1, which is constant against prior year ratio. This means that in 2018, NOCMA had only K1 as ready sources of cash to pay every K1 worth of immediate liabilities.

However, the acid test ratio of NOCMA improved from 0.27:1 in 2017 compared to 0.69:1 in 2018.

STATEMENT OF FINANCIAL POSITION

	2018	2017
	K'000	**K'000**
ASSETS		**Restated**
NON-CURRENTS ASSETS		
Property, plant and equipment	29,062,845	4,575,719
	29,062,845	**4,575,719**
CURRENT ASSETS		
Inventories	17,052,740	9,000,479
Trade and other receivables	33,655,303	1,452,236
Cash and cash equivalents	3,037,870	1,488,090
Tax receivable	565,222	361,290
	54,311,135	12,302,095
Total Assets	**83,373,980**	**16,877,814**
EQUITY AND LIABILITIES		
EQUITY		
Share capital	-	-
Advance contribution for capital	570,917	570,917
Revenue reserve	(936,662)	269,367
Capital Grant	3,551,844	261,341
Deferred grant	3,742,526	3,742,526
Total equity	**6,928,625**	**4,844,151**
NON CURRENT LIABILITIES		
Long term loan	22,222,064	-
	22,222,064	**-**
CURRENT LIABILITIES		
Short-term loan	2,484,151	-
Trade and other payables	51,739,140	12,033,663
	54,223,291	**12,033,663**
Total liabilities	**76,445,355**	**12,033,663**
TOTAL EQUITY AND LIABILITIES	**83,373,980**	**16,877,814**

LIABILITIES

The debt ratio of NOCMA is 1.09:1 which is giving assurance of the Company ability to pay off the debt in future, in uncertain economic times

AUDIT OPINION

I reviewed and agreed with the basis for which the opinion of NOCMA was issued. Being a clean audit opinion, I have categorized NOCMA as low risk and therefore, its operations will be monitored whenever necessary and subjected to normal annual reviews.

WEAKNESSES IN FINANCIAL CONTROL AND OPERATIONS

(1) None availability of reconciliations

We noted that there are no reconciliations prepared and reviewed on monthly basis and at year end except for bank reconciliation. The following are reconciliations not prepared: -

i. Supplier reconciliations (foreign creditors and major local creditors)

ii. Debtors reconciliation

iii. Payroll reconciliation (between the payroll module and the salary ledger)

iv. Salary related contribution (Medical Aid and Pension reconciliations)

(2) No coding of fixed assets

We have observed that fixed assets owned by NOCMA do not have an identification code with a sequential numerical number, as these assets are not assigned with a unique number that is affixed to the item with a permanent label and that the corresponding code is not entered into a fixed asset management register or an excel schedule. Further the asset register has significant deficiencies as other key identifications are not mandatory configured i.e. physical locations of the asset.

(3) No password security policy

We noted that there is no password policy for the system and as such no policy was configured. The system is using standard password configuration that has inadequate security.

RECOMMENDATIONS AND ACKNOWLEDGEMENT

RECOMMENDATIONS

In the course of my reviews, regrettably, evidence has shown that in certain cases the recommendations have not been given due consideration by the statutory entities

A summary of recommendations includes: -

a. It is very clear that the Governance set up of many Statutory Entities should take the blame especially on institutions that are not doing well;

b. The Board of Directors especially the Chairpersons should be held accountable if the institutions have dismay performance. This shall mean the Chairperson signing an enforceable performance contract with the appointing authority;

c. In some institutions, they have operated abnormally long enough without a Board and this should be avoided moving forward. At least a Statutory Board should operate without a Board for not more than two months and Government should make this a policy;

d. The tenure of office of the Boards should be reviewed so that they are long enough to achieve strategic outputs and turnover of members should be minimized;

e. Similarly, proper background check should be done when appointing Board of Directors in terms their background academic, experience and professional qualification vis-a-vis the nature of the Statutory Entity

f. At least the Chairperson of the Board should be subjected to independent and professional interview;

g. On the Statutory Bodies that are not doing well, review of the machinery (human resources and systems) managing such systems should be assessed and appropriate action taken;

h. On the issue of ESCOM, Government should probe on what happened that the financial statements should not be produced as at the date of writing this report and appropriate action taken;

i. The role, mandate, authority and responsibilities of the Department of Statutory Corporation should be reviewed so that some of the issues happening within the Statutory Bodies can be avoided from an executive oversight level;

j. The Statutory Bodies appearing in this report especially those performing badly, should be monitored and committed to turn around the status quo;

k. The mandate, role and financial as well operational independence of the commercial Statutory Bodies should be reviewed as a matter of urgency;

l. There is immediate need to strengthen Audit Committees in all statutory bodies to facilitate speedy responses to audit reports and to ensure implementation of audit recommendations;

m. Procurement of goods and services should be executed within set processes and regulations and procedures to ensure that maximum value of money is obtained;

n. Knowledge and skills of accounting personnel should be regularly enhanced through continuing professional development for the qualified accounts and the rest through generic training, including refresher courses and workshops;

o. In compliance with Government financial rules and regulations, bank reconciliations should regularly be prepared for all bank accounts;

p. Strict compliance with financial provisions should be enforced in the statutory entities in order to improve public financial management and control;

q. The systems requirements and procedures should be reinforced with capable supervision;

r. Further investigations should be conducted by special teams on the areas suspected that public resources may have been lost or mismanaged;

s. The Secretary to the Treasury should ensure that Statutory bodies submit reports that are properly completed, checked and approved in a timely manner; and

t. Statutory bodies should be subjected to annual checking/compliance assessment by the Auditor General annually and this activity should be incorporated in the entity calendar.

ACKNOWLEDGEMENTS

I wish to place on record my profound gratitude and appreciation to Board of Directors and heads of the statutory entities for providing the necessary information to assist in the compiling of this report. The cooperation enabled me to obtain information and documentation for my review.

LILONGWE, MALAWI

11th July, 2019.