



*Knowledge Innovation Excellence*

## **Internal Audit Department**

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Strictly Private and Confidential

### **Internal Audit Report**

**For**

**Africa Centre of Excellence in Aquaculture and Fisheries Science**

**(AquaFish, ACE II Project)**

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**July 2020– June 2021**

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## EXECUTIVE SUMMARY

### Objectives

The examination was carried out in accordance with the annual program of internal audits scheduled by the Internal Audit Department of the University.

The audit was conducted in terms of the Institute of Internal Auditors (IIA) 'Standards for professional Practice of Internal Auditing'. It was directed towards evaluating and improving the adequacy and effectiveness of the risk management, control and governance process to ensure that the objectives /goals of the Project are met.

Audit procedures involved discussions with staff and Management involved in the implementation of the project, enquiry and review of documentation.

### Scope

The audit effort was focused on the significant risks as determined during the preliminary survey phase. The exercise began with system documentation after which control risk assessment and the testing of internal controls was performed.

The audit covered a period of **12 months** from **1<sup>st</sup> July 2020 to 30<sup>th</sup> June 2021** and focused on the following areas of risk:

- Corporate governance
- Project implementation.
- Financial management
- Compliance with donor requirements and University policies.
- Human resources management.
- Property management.
- Procurement of goods and services.

### Project and Management Details

The Aqua Fish ACE project agreement with LUANAR was being implemented through the department of Aquaculture and Fisheries Sciences in the Faculty of Natural Resources; the project was being funded by a grant from the Government of Malawi's Ministry of Finance, Economic Planning and Development obtained from the World Bank.

The project had the following overall objectives:

1. To enhance capacity to produce graduates that are relevant to industrial needs in aquaculture and fisheries sector in the region.
2. To produce fit – for purpose proactive graduates to support aquaculture and natural resource management and nutrition.
3. To strengthen partnerships with industry, research and academia in the production of quality graduate students in the aquaculture and fisheries value chain, relevant for economic development.



ACE planned to achieve its goal through four (4) key Disbursement Linked Indicators (DLIs) detailed below:

DLI	Description and Action Completed
DLI 1	LUANAR meets all conditions for effectiveness outlined in the legal agreements and timely develops implementation plan.
DLI 2	LUANAR achieves its planned activities in time and increases students' enrolment both local and at regional level.
DLI 3	Timely, transparent and institutionally reviewed Financial Management: <ul style="list-style-type: none"> <li>● LUANAR timely Withdrawals Application supported by financial reporting on the ACE account for the period</li> <li>● LUANAR has a Functioning Audit Committee under the University Council</li> <li>● LUANAR has a Functioning internal audit unit for the University,</li> <li>● LUANAR achieves transparency of financial management (audit reports, interim financial reports, budgets and annual work plans are all web accessible)</li> </ul>
DLI 4	LUANAR provides timely procurement audit report and a satisfactory procurement progress report.

ACE received its funding in phases as illustrated below:

Date	Description	Amount(US\$)	Total
	Total project funding		6,000,000.00
10/31/2017	First-year funding	1,089,476.00	
03/31/2019	Second year funding	2,106,770.00	
11/08/2019	Third year funding	293,732.00	
23/10/2020	Fourth year funding	599,885.00	
17/12/2020	Fourth year Funding	755,403.61	
18/2/2021	Fourth year funding	48,166.71	
	Total funding at 30/6/2021		4,893,533.32
	Bank balance 30/6/2021		1,922,375.83
<b>Amount used for implementation of activities</b>			<b>2,971,157.49</b>

The Centre had signed eleven partnership agreements with Universities, research institutions and private sector across the globe as follows:

Category of Partnership	Name of Partner	Type of Partnership
Private Sector National	MALDECO	Key Partner
Peer Universities National	Mzuzu University	Partner
	University of Malawi (COM)	Partner
	Malawi University of Science and Technology	Partner
Peer Universities Regional	University of ELDORET	Key Partner
	Catholic University of Mozambique	Partner
Peer Universities International	The University of ILLINOIS	Partner
Research Institutions National	The Innovative Fish Farmers Network Trust (IFFNT)	Associate Partner



Research Institutions	Fresh Fisheries Research Centre, Chinese Academy of Fisheries Science (FFRC)	Associate Partner
Public Researchers	World Fish Centre (WFC)	Partner
Public Researchers and Partner	Addis Ababa University- ACEWM	Partner

Other achievements of the project for the period under review were as follows:

- a. The project had generated income from other projects amounting to US\$1,447,244 as at 30<sup>th</sup> June 2021 as follows:

Project Name	2016/2017		2017/2018		2018/2019		2019/2020		2020/2021	
	US\$	MK'000	US\$	MK'000	US\$	MK'000	US\$	MK'000	US\$	MK'000
Ich Liebe fish	177,613	127,881	52,383	37,135	77,652	60,612	103,634	75,834	51,019	40,233
BIOFIS A	-	-	182,996	131,571	57,798	41,913	4,061	2,963	-	-
DAAD	-	-	64,469	46,751	122,377	88,743	124,345	92,052	150,029	172,768
PFAP II	-	-	-	-	62,726	46,126	53,646	39,158	30,221	24,332
RFU	-	-	-	-	19,374	14,428	38,360	28,069	19,835	15,970
Spait/Icl arm	-	-	-	-	2,619	2,133	11,648	84,496	8,054	6,841
SFAD-MW Project									32,385	25,682
<b>Totals</b>	<b>177,613</b>	<b>127,881</b>	<b>299,848</b>	<b>215,456</b>	<b>342,546</b>	<b>253,955</b>	<b>335,694</b>	<b>246,273</b>	<b>291,543</b>	<b>285,826</b>

- b. The project contributed US\$1,370,224.32 as income for the University through tuition fees from students studying at the Centre.
- c. The Centre paid a total of USD\$457,842.58 to the University in respect of grants on tuition fees for students which were provided grants by the project.
- d. The project had published a total of 69 research papers.
- e. The project had enrolled a total number of 252 MSc and 39 PhD students.

The project was planned to end on 30<sup>th</sup> June 2022 but was granted a no-cost extension by the World Bank to run up to 31<sup>st</sup> December 2023.

The following are project personnel:

Staff	Role
Prof. E. Kaunda	Director
Prof. D. Kassam	Deputy Director/Principal Investigator
Dr. J. Dzanja	Monitoring and Evaluation Specialist
Mr. B. Kondowe	Project Accountant

Mr. A. Tambala	Acting Procurement Manager
Dr. W. Jere	Scholarships and Research Specialist
Prof. J. Kang'ombe	Resource Mobilization Specialist
Dr. H. Phiri	Quality Assurance Specialist
Mr. Y. Ngongonda	Project Officer
Mr. K. Kapaula	Marketing Officer
Mrs. M. Chamanza	Administrative Secretary

#### Key Subsequent Event

The Centre Director was appointed Vice Chancellor of the University effective 1<sup>st</sup> September 2021. This implied a significant shift in the oversight structure at the Project level as he became responsible for overseeing his own decisions at the Center.

Management should look into this potential risk of collapsed segregation of responsibilities at the Project level.

Management explained that this condition existed at the project inception in 2015 when the Director was the Deputy Vice Chancellor (for two years) and the risk noted above was adequately managed since the Deputy Director of the project is the Principal Investigator and controls all operations. These matters were discussed both at Government level and World Bank and the matter was resolved. The Director plays an advisory role and this will continue until when the Centre has been fully institutionalized in which case the Vice Chancellor will cease to be part of Aqua Fish. World Bank will be informed of this arrangement at the appropriate time.

#### Summary of Significant Findings

The prior audit report highlighted a number of internal control weaknesses on which recommendations were made. Management started implementing the audit recommendations. During the current review, implementation was confirmed against action on the ground.

The following issues were observed in the prior year audits but still outstanding during the current audit:

1. Institutionalization of the Centre: The Centre was yet to be formalized as a LUANAR Centre in line with LUANAR Act.
2. Over expenditure on budget lines: Some budget lines were exceeded.

The following weaknesses in internal controls were observed from the current audit:

##### 1. Financial Management

- a. Irregularities on payment vouchers.
- b. Non remittance of Withholding Tax

Details of these findings are contained in the "*Detailed Findings*" section.



**Conclusion**

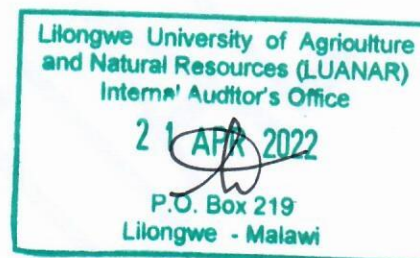
ACE II project has been accorded an overall rating of “**I**” which reflects “**Excellent**” results of key performance indicators (*prior audit rating: 2 – Very Good*)

Based on the results of our audit work undertaken in the key performance areas listed under ‘Scope’ above, we can provide reasonable assurance regarding the adequacy and effectiveness of the risk management, control and governance processes. The control environment appears “**Excellent**” however, some control issues were identified during the course of the audit. Management has been urged to prepare and prioritize an action plan in order to address the shortcomings. The University Internal Auditor will monitor the implementation.

Issued and authorized by:



**G. F. Andrew, FCCA, CA (Mw), BAcc**  
**UNIVERSITY INTERNAL AUDITOR**



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### Implementation Status for Prior Year Audit Recommendations

S/N	Observation and Recommendation from prior Audit	Internal Audit Update from Prior Audit	Management Update from Prior Audit
1.	<p><b>Observation</b> The University had not yet started the process of institutionalizing the Africa Centre of Excellence in Aquaculture and Fisheries Science (AquaFish ACE) in line with requirements of LUANAR Act.</p> <p><b>Recommendation</b> Management should expedite the process of institutionalizing the Centre to ensure its going concern.</p>	In Progress	<i>The process was initiated as observed by the Internal Audit. Currently we are awaiting Senate's approval after we had gotten approvals from department, Faculty and Heads and Deans committee. Senate's APPC approved the institutionalization document on April 6<sup>th</sup> 2022 and the APFC approved it on 7<sup>th</sup> April, 2022. Now what remains is full Senate meeting to approve.</i>
2.	<p><b>Observation</b> The Project had delayed implementation of certain key activities.</p> <p><b>Recommendation</b> Management should review the project activities and assess their relevance to the overall achievement of project goals. All-important activities should be prioritized and implemented accordingly.</p>	Resolved	<i>Not Applicable</i>
3.	<p><b>Observation</b> Budgets are a key element in financial management. ACE II operates using an approved financial budget which is reviewed on an annual basis. We observed that the project mostly operated within the budget except for a few items.</p> <p><b>Recommendation</b> Management should ensure expenditure is within budget lines</p>	Not resolved. See <b>Appendix 5.</b>	<i>The observation is correct though this is on overall five years' budget and expenditure, not on the year under review. This could be due to the fact that in the first 2.5 years, the support of the same were split into more budgets items under different DLIs and during the midterm review most the budget items were collapsed and this could result into adding with other expenditures of other budget items not falling on this budget line item. Unfortunately, since audits for previous years</i>



			<p>were already done, we cannot go and change the figure there.</p> <p>Immediate and on future projects management will ensure that during the budgeting processes all budget line items of the same activity will be consolidated for easy tracking the expenditures vs budgets, annual consolidation processes for years implemented feeding into final report. On a lighter note, since the expenditure was on building capacity of technical staff in different areas, it was a worthy expenditure for the value gained.</p>
4.	<p><b>Observation</b></p> <p>One of the objectives of ACE is to mobilize resources. In this regard, ACE II collaborated with other projects to achieve this goal. Financial resources from these projects were put together in ACE II accounts and expenditure for each was being drawn from the ACE II account which acted like a pool account. Best accounting standards require regular reconciliation of the account to determine funds available for each project from time to time.</p> <p>We observed instances of over-drawings in subsidiary projects.</p> <p><b>Recommendation</b></p> <p>Management should ensure that overdrawn projects balances are settled accordingly and ensure a robust subsidiary project expenditure monitoring.</p>	Resolved.	Not Applicable
5.	<p><b>Observation</b></p> <p>Bank reconciliations are very important because fraud, errors and mistakes can easily be detected in a timely manner. The review of the bank reconciliations by an independent senior officer has to be</p>	Resolved	Not Applicable

	<p>done timely and bear evidence of the same However, it was observed that:</p> <ol style="list-style-type: none"> <li>There were delays in the review of the reconciliations by an independent senior officer.</li> <li>All the reconciliations did not indicate the date on which the review was done.</li> </ol> <p><b>Recommendation</b> Management should ensure that bank reconciliations are reviewed on time and that bank reconciliations have evidence of date on which they were reviewed.</p>		
6.	<p><b>Observation</b> Section 3(1) of the Public Procurement and Disposal of Public Assets Act stipulates that the 'Act' <i>"applies to all procurement involving public funds and disposal of public assets"</i>.</p> <p>The Act defines <i>"public funds"</i> as <i>"any monetary resources appropriated to procuring and disposing entities through budgetary processes, grants and credits, put at the disposal of procuring and disposing entities by donor organizations or revenues of procuring and disposal entities"</i></p> <p>It was observed that cash imprest was used to procure some goods without following procurement procedures.</p> <p><b>Recommendation</b> Management should ensure that procurement regulations are complied with at all times.</p>	Resolved	<i>Not Applicable</i>



## DETAILED FINDINGS – CURRENT YEAR AUDIT

### 1. Financial Management – Irregularities on Payment Vouchers

<b>Observation</b>	<p><b>a.</b> University introduced a new payment voucher which was implemented in February 2020. The following were the requirements on the payment voucher:</p> <ul style="list-style-type: none"> <li>i. All three signatories who sign cheque must also sign on the voucher.</li> <li>ii. The Compliance Officer must certify that the transactions on the voucher were correct and comply with various internal policies and budgets as approved by the relevant authorities.</li> </ul> <p>However, the following were observed during the review:</p> <ul style="list-style-type: none"> <li>i. Some of the signatories did not sign on the payment voucher. See <b>Appendix 2</b>.</li> <li>ii. Some payments were processed without certification of a Compliance Officer. See <b>Appendix 3</b>.</li> </ul>
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<b>Effect</b>	Possibility of making payments that do not comply with University Policies and Malawi laws.
<b>Agreed Action</b>	Management should ensure all payments pass through Compliance Office for verification.

<b>Implementation Date</b>	Immediate and ongoing
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<b>Responsibility</b>	Head of Finance- Bunda College
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<b>Management Response</b>	<i>The observation might be correct only that the vouchers goes in duplicate and mostly the first could be authorized and this accompanies the cheque to service providers and the one in file could have been missed to be authorized. Management has requested HOF to write the signatories not to sign the cheques where one of the vouchers haven't been authorized to avoid recurrence of same avoidable mistakes.</i>
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### 2. Financial Management– Delays in Remitting Withholding Tax

<b>Observation</b>	Section 102A (1) of Taxation Act states that “every person who makes any payment specified in the fourteenth schedule to any other person shall before making such payment pay withholding tax in accordance with the rates
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	<i>specified in that schedule which shall be remitted to Malawi Revenue Authority within 14 days from the end of the month in which the deduction was made.” However, there was no evidence that some of the deductions made from the suppliers were remitted to MRA within the specified period as per the requirements of the Act. <b>See appendix 4.</b></i>
<b>Effect</b>	Non-compliance with the Taxation Act
<b>Agreed Action</b>	Management should ensure that withholding tax deducted is remitted to MRA with the specified time
<b>Implementation Date</b>	Immediate and on-going
<b>Responsibility</b>	Director of Finance
<b>Management Response</b>	<p><i>The tax deducted were remitted to MRA through cheque numbers 672, 783 payment voucher attached though after 14days as stipulated by law. This was done due to economic challenges on finances as MRA was requesting bank certified cheques which was attracting MK48,000 for each bank certified cheque and looking on amounts involved we tried to combine the deductions into one substantial amount hence these delays. But to improve on remitting them on time the Compliance office has been requested to check that by 10<sup>th</sup> day of the following month all taxes deducted have been remitted though this will still cost the project heavily and this is not only for the Centre but all other involved offices.</i></p> <p><i>Again, to evade the MK48,000 payments which isn't in any project budget, the best option is for the Director of Finance (DOF) to explore and implement e-based mode of payment to MRA of such taxes. Such switch will reduce the cost of transaction.</i></p>



**Appendix 1 – Score Sheet**

		Maximum Possible Score	Total	Actual Score	Total
<b>1</b>	<b>Finance Management and Control</b>		<b>40</b>		<b>33</b>
a)	Budgeting and Budgetary Control	8		5	
b)	Financial Reporting	7		7	
c)	Record keeping	8		8	
d)	Cash Management	7		5	
e)	Payments processing	10		8	
<b>2</b>	<b>Procurement process</b>		<b>15</b>		<b>15</b>
a)	Compliance with public procurement Act.	8		8	
b)	Procuring in line with revenue and capital expenditure budget.	7		7	
<b>3</b>	<b>Property Management</b>		<b>10</b>		<b>10</b>
a)	Ownership & Security of assets	5		5	
b)	Assets record keeping	5		5	
<b>5</b>	<b>Statutory, Regulatory and Internal Compliance</b>		<b>10</b>		<b>8</b>
	General compliance	10		8	
<b>6</b>	<b>Human Resources Management</b>		<b>10</b>		<b>9</b>
a)	Recruitment process	6		6	
b)	Performance Management	4		3	
<b>7</b>	<b>Governance and Management</b>		<b>15</b>		<b>11</b>
a)	Segregation of duties	5		5	
b)	Monitoring and Control of operations	10		6	
			<b>100</b>		<b>86</b>
		Rating: <b>"1" "Excellent"</b>			

**Notes on Ratings**

80% and above -Excellent (1)

50%-59% - Satisfactory (4)

70%-79% - Very Good (2)

40%-49% - Unsatisfactory (5)

60%-69% - Good (3)

Below 40% - Unsatisfactory (6)

**Appendix 2- Cheque Signatories Not Endorsing on Payment Vouchers**

<b>Date</b>	<b>Cheque #</b>	<b>Payee</b>	<b>Description</b>	<b>Amount</b>	<b># of Cheque Signatories on Payment Voucher</b>
07/09/2020	364	Madalo Chamanza	Cash imprest	1,260,000.00	1
07/21/2020	375	Kingsdale Mkwende	Cash imprest	6,205,000.00	1
07/23/2020	382	UNIMED	Medical contribution	40,000.00	1
08/05/2020	387	Milca Saidi	Cash imprest	1,660,000.00	1
08/10/2020	390	The New Dawn loge	Conference package	405,365.25	1
08/14/2020	394	Milca Saidi	Cash imprest	2,405,000.00	1
08/21/2020	399	NBM	Staff salaries	2,022,852.89	1
08/21/2020	400	NBM	Payee	971,068.20	1
08/21/2020	401	NICO Pensions	Pension contribution	1,087,189.24	1
08/21/2020	402	UNIMED	Medical contribution	40,000.00	1
08/21/2020	403	Bunda College	Loan deduction	114,236.00	1
08/27/2020	406	The New Dawn loge	Conference package	536,318.00	1
08/27/2020	407	Milca Saidi	Cash imprest	1,485,000.00	1
08/31/2020	408	Alice Chalemba	Cash imprest	2,018,800.00	0
11/11/2020	520	B. Kondowe	Cash imprest	2,133,300.00	0
09/22/2020	1201	Apatsa Chelewani	DSA & Fuel	270,800.00	1
10/30/2020	1206	Apatsa Chelewani	Refund	443,486.89	1
01/20/2021	1220	Apatsa Chelewani	Cash imprest	1,500,000.00	1

**Appendix 3- Payments without Certification of Compliance Officer**

<b>Date</b>	<b>Cheque</b>	<b>Payee</b>	<b>Description</b>	<b>Amount (MK)</b>	<b>Compliance Certification</b>
01/18/2021	610	Kumudzi Centre	Refreshments	134,151.00	No
01/18/2021	612	NBM	Leave grant	175,000.00	No
01/20/2021	614	Festone Likatho	Stipend	154,544.00	No
01/20/2021	615	Madalo Chamanza	Cash Imprest	1,485,000.00	No
01/22/2021	618	Lucka Mgwena	Upkeep	652,590.43	No
03/24/2021	659	H.H Wholesalers	Building Materials	2,745,670.36	No
03/24/2021	660	H.H. Builders	Building Materials	858,385.98	No
10/09/2020	1183	Apatsa Chelewani	Funds reimbursement	514,771.63	No



**Appendix 4 –Delays in Remitting Withholding Tax**

PAYEE	Description	Cheque #	Amount	WHT	Date	Date Due	Delay in Days as at Audit Date
Actor Safety Products	Gumboots	416	1,220,000.00	36,000.00	31-08-20	14-09-20	289
Lafarge	Building	414	2,041,365.00	63,135.00	31-08-20	14-09-20	289
Industrial wear	First Aid Box	413	194,933.11	6,028.89	31-08-20	14-09-20	289
Tamara Safety Products	Safety box	412	406,818.00	12,582.00	01-09-20	14-10-20	259
New Dawn lodges	Conference	406	468,400.00	14,052.00	27-08-20	14-09-20	289
New Dawn lodges	Conference	390	357,150.00	10,714.50	05-08-20	14-09-20	289
New Dawn lodges	Conference	374	176,000.00	5,280.00	16-07-20	14-08-20	320
Kumudzi Centre	Conference	373	212,200.00	6,366.00	16-07-20	14-08-20	320
Kumudzi Centre	Conference	370	92,300.00	2,769.00	09-07-20	14-08-20	320
Electronics 4U	Furniture	506	629,100.00	16,200.00	05-11-20	14-12-20	198
Block buster	furniture	503	937,592.00	24,144.00	05-11-20	14-12-20	198
Blue waters	refreshments	252	3,063,830.00	91,914.90	05-10-20	14-11-20	228
Sigelege	Conference	679	1,310,000.00	33,781.28	23-04-21	14-05-21	47
Mortech solutions	Desktop	733	4,622,720.00	119,040.00	28-05-21	14-06-21	16
New dawn lodge	Conference	703	1,068,545.00	27,554.82	06-05-21	14-06-21	16
Nox interior	Furniture	579	2,832,560.00	84,976.80	15-12-20	14-01-21	167
Lusekelo Stationery	Stationery	570	202,000.00	6,060.00	07-12-20	14-01-21	167
Mpatsa lodge	Conference	562	360,170.21	10,805.00	02-12-20	14-01-21	167
			Total	744,621.70			

**Appendix 5: Over-expenditure on Budget Lines**

Budget Line	5 Years Plan US\$	Actual US\$	Variance US\$	%Age
5.1.3.6. Send 10 Technical staff to attend Short courses/ retooling	190,000	234,637	(44,637)	-23%