



Photo from Zomba Mountain

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Special points of interest:

- Learn about audit sampling in the Education Corner
- Read what the AAG Blantyre tells us about his experiences from auditing the African Union

## Editorial from Deputy Auditor General

It gives me much pleasure to be associated with the launch of the first ever Newsletter for the National Audit Office (NAO). The Newsletter has come at an opportune time when issues of information and communication have increasingly become very relevant and important in our daily lives. Communication is more vital today than it has ever been in the history of the NAO since the organization is no longer in a cocoon.

The National Audit Office is witnessing a great mutation in the issue of communication. There is increasing interest in

the development of both external and internal communication which will ultimately improve knowledge about the NAO throughout the Malawian Society. The Newsletter will, therefore, play a pivotal role as a medium of disseminating information to members of staff of NAO and other stakeholders on the developments taking place in the organization.

It is our responsibility to nurture and jealously protect this newly “born baby” to enable it grow so that it serves us better. As the saying goes, “a

journey of a thousand miles starts with a single step”. But ours is a giant step that will take us into a real voyage of discovery.

Let me pay tribute to late Auditor General, Mr. H. B. Kalongonda for coming up with the idea of a Newsletter and also congratulate the management of the Institutional Cooperation Project for making things happen. Enjoy the reading and make your contributions in the next edition.

L. Sam Gomani

## Editorial from Project Management

We are pleased and proud to hereby present the first edition of the NAO Newsletter.

The idea of launching a NAO Newsletter as part of the project was in fact first proposed by our late Auditor General, Mr. H.B. Kalongonda. The Newsletter is mainly a medium for informing members of staff in the NAO on the development of the organization, but may also be supplied to other SAIs and stakeholders. To ensure that the Newsletter is sustainable, we urge all staff to submit articles to us which you would like to have.

The only way we can ensure sustainability is for all of you to continually submit your articles!!! Articles can be on the subject of auditing, but may also encompass other topics such as short stories, issues of importance to Malawi, etc. We will not publish any material that is of political nature or any material that may offend readers. All articles published express the views of the author (s) and do not necessarily represent the official view of the NAO.

In this first edition, we have a number of articles that we hope will be of interest to you.

They include an interview with the Assistant Auditor General Blantyre, a report from the recent NAO Workshop on the Review of the Public Audit Act, information on the support from EU as well as much more.

We hope you will enjoy the first edition of the NAO Newsletter!!!

Timothy, Einar, Alice

## *Information about the National Audit Office*

*Since this Newsletter also will be distributed to stakeholders outside the NAO, we feel it is appropriate to give a short introduction to the National Audit Office of Malawi in the first edition of the Newsletter.*

The NAO is the Supreme Audit Institution of Malawi, and is obliged to audit all accounts of Ministries, Departments, Statutory Offices, Agencies, Treasury Funds, Projects and Programs etc in Malawi. Furthermore, the NAO is involved in the audit of a number of donor funded projects.

So far the focus has been mainly on financial auditing and investigative auditing, but the NAO will increasingly be involved in other audit disciplines such as Performance and Information Technology Auditing.

The organization is to be headed by an Auditor General who is to be assisted by a Deputy Auditor General. We are accountable to the National Assembly and we re-

port to the National Assembly through the Annual Report, and to management of the audited entity through management letters. Instances of fraud, corruption and other types of crime are also reported to the responsible authorities.

The NAO is a key institution with regards to promoting good governance, transparency, accountability and sound financial management in the Malawi public sector. Through our audit activities, we continuously uncover and report on instances of fraud, corruption, poor financial management, errors, weaknesses in internal controls and in accounting records and make recommendations on how these shortcomings should be addressed. By doing so, we are contributing to a more effective, efficient and accountable public sector which in turn leads to better use of the taxpayer's money.

The headquarters of the organization are located in Lilongwe and regional offices

have been established in Mzuzu (Northern Region), Zomba (Eastern Region) and Blantyre (Southern Region). We have several thousand audit clients throughout the country and currently have about 70 auditors and a number of support staff.

The mandate of the National Audit Office is mainly derived from Section 184 of the Constitution of the Republic of Malawi and the Public Audit Act of 2003.

The NAO is a member of the African Organization of English speaking Supreme Audit Institutions (AFROSAI-E) and the International Organization of Supreme Audit Institutions (INTOSAI). The NAO is part of an Institutional Cooperation Project with the Swedish National Audit Office (a project which is co-financed by Norway and Sweden) and has also developed close cooperation with the Office of the Auditor General of Norway.

*“The NAO is a key institution with regards to promoting good governance, transparency, accountability and sound financial management in the Malawi public sector”*



*Photo of NAO Headquarters in Lilongwe*

## Interview with Assistant Auditor General Blantyre



Assistant Auditor General Blantyre,  
Mr. Chiluži

**During the recent Workshop on the Review of the Public Audit Act of 2003, staff from Blantyre, Mzuzu and Zomba Office participated. Project Management used this opportunity to ask the Assistant Auditor General Blantyre about his thoughts on the development of our organization.**

What is your full name ? :  
Rexie Lyson Holliap Chiluzi

When did you join the NAO ? : I joined the NAO on 30<sup>th</sup> January 1986. At that time I just left the University of Malawi.

How do you look at the developments in the NAO over the last years? : Unfortunately we have lost a lot of staff, which has meant that the staffing levels now are much worse than previously. This is affecting NAO negatively particularly when taking into account that our audit responsibilities have increased over the last years. On the positive side I have noted that the qualifications of staff are much improved.

What are the biggest obstacles to making the NAO a more professional organization ? : There are several things that impair our progress. These do of course include such things as capacity constraints (lack of staff), insufficient funding and lack of knowledge among stakeholders about the important work we perform.

How can we overcome these obstacles to development of the NAO ? : One critical fac-

tor is to achieve organizational and financial independence in line with what is expected for Supreme Audit Institutions. In addition it is important that we work to create more publicity about our work. It would for instance be a very positive development to have our own public relations officer.

You are a Chartered Accountant, do you feel that this education has contributed to the quality of your work, and would you recommend it to other members of staff ? : Yes, I feel it has contributed greatly to my work. Particularly so with regards to the audit of some statutory cooperation's and donor funded projects which operate on commercial basis and who follow private sector accounting principles. I would certainly recommend this education to other members of staff.

Do you think education in the field of accounting is the only qualification staff should aim at if they want to be successful in their audit careers? No not at all. Apart from accounting we also need staff with good qualifications in other disciplines such as for instance management skills and law, particularly business law.

Could you give the readers some information about your current involvement in the audit of the African Union? Yes. The engagement as auditor of the African Union has really been an eye-opener for me and it is the biggest assignment I have been involved

in. It has also given me the opportunity to apply my knowledge from my education in a very big international organization. I have been appointed for a period of two years, which can be renewed once, and I am one of eight auditors appointed from eight different countries. The countries represented are: Benin, Burundi, Burkina Faso, Ivory Coast, Ethiopia, Malawi, Madagascar and Zambia. We are all auditors from different backgrounds and we are able to learn from each other. As the African Union has a large number of regional offices, each of us are sent by ourselves to audit the various offices without any assistance. Personally, I have done financial audits of the offices in Nairobi and Cairo.

Apart from yourself, do you feel that there are other members of staff who have the competence to be involved in similar assignments? Yes we do have several members of staff capable of being involved in similar assignments.

Finally, do you have any advice to other members of staff, in particular those who have just joined us? My advice is to be patient and wait for your chances. It is important to stay with an institution over a longer period of time to really develop your skills in a field, rather than moving frequently between different organizations seeking short term benefits. If you are patient, you have very good career opportunities in the NAO.

*"My advice is to be patient and wait for your chances. It is important to stay with an institution over a longer period of time to really develop your skills in a field, rather than moving frequently between different organizations seeking short term benefits. If you are patient, you have very good career opportunities in the NAO."*

## Support from the European Union to NAO

*Authored by: Mr. C. Njala*

The European Commission, having had consultations with management of the NAO over the last year or so, have agreed to assist the NAO with a grant of 450 000 EURO. The support project is to run for two years and the major activities are as follows:

- 1) Construction of a training centre within Headquarter premises. This will comprise an auditorium, training managers office, secretaries office, a store room,
- 2) Procurement of 30 laptop computers
- 3) Procurement of CAATs Software and training of auditors in its use
- 4) Training of staff (both audit and support staff) in areas such as investigative auditing, advanced courses in auditing, Human Resource Management, and advanced courses in development of executive assistants.

The European Commission will be routing their funds through FIMTAP, a project-management unit sponsored under the World Bank. It is expected that after two years, a minimum of 15 NAO auditors will be capable to use the new CAATs on the then computerized Government accounting system.

Project activities for the European Commission support are being coordinated by CRA. Njala who is based at the NAO Headquarters.



*Assistant Auditor General two, Mr. Njala, and other members of NAO Staff at work*

## Report from workshop on review of Public Audit Act

In the period 19-23 June, a Workshop was arranged in Zomba to start the process pertaining to the review of the Public Audit Act.

The participants at the workshop were Mr. Gomani (Deputy Auditor General), Mr. Chiluzi (Assistant Auditor General Blantyre), Mr. Njala (Assistant Auditor General 2), Mr. Wavikondo, Mr. Pute, Mrs. Perekamoyo, Mr. Chinkhunda, Mr. Khoza, Mr. Mponela and Mr. Gorrisen.

The current Public Audit Act, together with the Constitution, governs the mandate and duties of the NAO. The Act was only introduced in 2003, but already it is apparent that it has a number of shortcomings. These refer to among other things issues such as organizational and financial

independence from the Executive, the mandate of the NAO to carry out Performance and IT Auditing, reporting of fraud and corruption etc. In order to create a legal framework that is suitable for the development of a more effective and efficient NAO, it was thus deemed important to develop a new Public Audit Act.

The goal of the first workshop was to identify weaknesses in the current Public Audit Act of 2003. Various documents from INTOSAI (such as the Lima Declaration and the INTOSAI Core Principles of SAI independence) as well as Acts pertaining to other Supreme Audit Institutions (SAIs) were distributed prior to the workshop as background information which could give the participants

additional input to the discussions. During the workshop, a number of recommended amendments to the Act were put forward and discussed at length, and a first draft of a new Public Audit Act was also developed. It is the opinion of the Project Management that the discussions were very fruitful and touched upon a number of areas that are important in order to develop our organizations. A report from the workshop is currently being developed and will be forwarded to Top Management for their comments.

The participants will meet again within the next couple of months to finalize the draft Act, before presenting it to other stakeholders such as the Public Accounts Committee, Ministry of Justice etc.

*“In order to create a legal framework that is suitable for the development of a more effective and efficient NAO, it was thus deemed important to develop a new Public Audit Act. “*



*Participants at the workshop*

## *Education Corner: Auditing and Sampling*

*By: Lawrence Chinkhunda and Gerald Pute (Blantyre Office)*

“*Sampling* means the subjection of audit or review procedures to less than hundred percent of items or transactions in such a way that all sampling units have a chance of selection and that a conclusion drawn on the sample is representative of the whole population.”

The relationship that exists between auditing and sampling cannot be over emphasised hence the need to critically look at the two terms together. Auditing goes together with stewardship and is simply an exercise whose objective is to express an opinion whether the financial statements give a true and fair view (or equivalent) of the entity’s affairs at the period end and its profit or loss (or income and expenditure) for the period then ended and have been properly prepared in accordance with the applicable reporting framework (for example relevant legislation and applicable accounting standards) or where statutory or other specific requirements prescribe the term, whether the financial statements “present fairly”.

The audit is done by independent, professional, trustworthy, objective, reliable examiners who abide to the auditors strict code of ethics and are seen to be independent and avoid conflict of interest. The audit opinion (report) is only a product of the audit which has three phases namely; planning, execution and reporting. An auditor is required to obtain *sufficient*,

*appropriate and reliable evidence* to be able to draw a reasonable conclusion.

Due to the volume of work, time factors, number of staff and level of audit risk the auditor is bound not to test hundred percent of the transactions and hence sampling techniques are deployed by the auditor in the evidence gathering execution phase of the audit process.

*Sampling* means the subjection of audit or review procedures to less than hundred percent of items or transactions in such a way that all sampling units have a chance of selection and that a conclusion drawn on the sample is representative of the whole population.

When designing the sample, an auditor has to consider the objective of the test and attributes of the population. In addition consideration should also be extended to the nature and characteristics of the audit evidence sought, possible error conditions and the rate of error expected. The population to which the sample is drawn should be appropriate and complete for the specific audit objective. The sample

size should be representative.

Some definitions that are to be known in the sampling situation are:

- a) **Error;** either control deviations or mis-statements when performing tests of control or substantive procedures respectively.
- b) **Expected error;** this is the error expected by the auditor to be present in the population subject to audit or review
- c) **Sampling units;** individual items constituting a population

The use of sampling techniques have the following advantages:

- a) Saves time and resources thereby reducing operational costs
- b) Efficiency, effectiveness and economy is enhanced and audit reports are timely produces

In this article we have introduced the concept of sampling in auditing. In our next article the different sampling techniques will be discussed.



*One of the authors, Mr. Pute*



*The other author, Mr. Chinkhunda*

## *Developments in the NAO*

### **NAO Library**

Over the last months a lot of work has gone into developing and preparing the NAO Library in Headquarters for reopening. The library, which was once fully operational, had been left to deteriorate for a long period of time, resulting in it only having old and out of date publications and being a total mess. With the very good assistance from a number of staff, and in particular the Office Assistants in Headquarters, the Library has now been cleaned up, and is almost ready to be officially reopened.

In order to ensure that we stock updated material, a number of SAIs around the world were contacted by the Project where we asked for donations of books, journals and reports. The response has been overwhelming and we have received publications from across the world. We must here make a particular mention of the Office of the Auditor General of Norway. Upon receiving our request, they started a collection campaign in their office asking members of staff for donations of English speaking literature (both subject specific material and recreational reading). As a result of these they have collected a very large collection of books which now is being sent to us by air.

In addition to this, the Project has received the go-ahead to purchase books at a value of equivalent MK 1 100 000.

Suggestions for books have been sourced from staff, and we are now in the process of initiating the purchases.

The concept of rotations of library books will be introduced in order to benefit the Regional Offices as well. This means that collections from the Headquarters will be rotated to the various regional offices in Blantyre, Mzuzu and Zomba.

The library will contain a large collection of books, periodicals and reports. A large proportion of the publications will of course relate to the auditing profession, but it will also include a lot of literature pertaining to other fields such as IT, Human Resource Management, education and recreational reading. Mrs. Makono will be responsible for running the library.

### ***Appointment of new Assistant Auditor General 2***

We are pleased to repeat the announcement that Mr. Njala has been appointed as the new Assistant Auditor General 2 in Headquarters. At the same time, Mr. Kayanula has been designated as Assistant Auditor General 1.

We would like to take this opportunity to congratulate them on their promotion and designation respectively!

### ***Visit from Performance Audit Consultants***

The NAO will in end of July

and early August receive a visit from two consultants on the issue of Performance Auditing. One of the consultants, Mr. Frank Knight will be familiar to many of the staff as he also was involved in Phase I of the NAO-SNAO Institutional Cooperation Project. The second consultant is Mrs. Ingvild Gullbrandsen who is an experienced performance auditor from the Office of the Auditor General of Norway. During their visit to the NAO, they will cooperate with NAO staff on three specific activities:

- 1) Develop Performance Audit Guidelines which give our performance auditors detailed information on how to choose, plan, execute and report on performance audits
- 2) Develop an information brochure on Performance Auditing which will be distributed to staff and stakeholders
- 3) Arrange a seminar on the prerequisites for establishing successful performance auditing in the NAO

If you are curious about learning more about Performance Auditing we would like to refer you to the "Focus on" column in this edition. In addition we would like to advise you that a large number of performance audit reports and also literature on the subject is available in the NAO library.

*"The library will contain a large collection of books, periodicals and reports. A large proportion of the publications will of course relate to the auditing profession, but it will also include a lot of literature pertaining to other fields such as IT, Human Resource Management, education and recreational reading. "*

# Focus on: Performance Auditing

In this column we will in each edition focus on a subject specific issues related to our profession. In this first edition we will look at **Performance Auditing**.

Traditionally the NAO has conducted financial audit which implies looking at financial information, financial controls and accounting policies and procedures. It usually includes compliance audit, determining whether transactions comply with relevant laws, regulations, policies and administrative directives.

Performance audit, also known as “Value for Money Audit” is a broader based form of audit, concerned with the efficiency and effectiveness of operations and the achievement of corporate / government objectives. Sometimes, performance audit is referred to as the consideration of the three “E”s: economy, efficiency and effectiveness. More recently, the emphasis of performance audit has been extended to also include:

- Accountability;
- Environment.

When talking about the three E”s it can be useful to describe them:

**Economy.** Economy is the acquisition of the appropriate quality and quantity of inputs (financial, human and/or physical resources) at the appropriate time and place and at the lowest cost.

**Efficiency.** Efficiency is the relationship

between goods or services produced (outputs) of a given quality, and the resources (inputs) that are used to produce them. Efficiency is measured in terms of outputs divided by inputs.

**Effectiveness.** Effectiveness is the extent to which objectives are achieved and concerns the result, outcome or impact of a government programme; and the relationship between an activity’s desired impacts and actual impacts. There can be both intended and unintended effects and both positive and negative effects.

Performance Auditing seeks to measure the success of how the Executive (ministries and departments) are implementing the policy decisions of the National Assembly. It is important to note that it does not seek to evaluate the policies of the Executive, but the implementation of the decisions and intentions of the National Assembly.

A performance audit can be separated into 4 phases: 1) Selection of audit topic , 2) Planning phase, 3) Execution phase, 4) Reporting phase It is worth noting that Performance Audits take long to complete (an audit often takes 6-12 months) and that the skills needed for performance auditors are different from those of financial auditors. Perform-

ance auditors need great analytical skills and often have a background from social sciences. They also need to have an exceptional command of the English language and exceptional report writing skills. Most SAIs in the world are increasingly focusing on performance auditing, and in many there are now more performance auditors than financial auditors.



*One of the NAO Performance Auditors, Mr. Wavikondo from Mzuzu Office*

## Useful internet links

Members of staff at the NAO are increasingly accessing the internet and using e-mails as a form of communication. The internet is the gateway to a world of information and e-mail is a quick, efficient, cheap and reliable way of communicating. Even though not all staff at the NAO yet have access to the internet, efforts are under way to secure this.

In order to use the internet effectively, we will in each edition of the Newsletter give you a useful internet link.

In this issue the link is: [www.intosai.org](http://www.intosai.org)

This is the webpage of the International Organization of Supreme Audit Institutions where also NAO Malawi is a member. The web page has a lot of useful information on among other things all the INTOSAI Committees and INTO-SAI publications as well as including contact information of all member SAIs.