Political Economy Analysis of Accountability for Resources and Results in Local Government Councils[1]

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Introduction

With the implementation of decentralisation, the amount of resources going to the local governments has progressively increased since July 2005 when District Commissioners were designated as Controlling Officers. Over the years media reports have been rife with stories suggesting serious accountability challenges and the prevalence of corruption in local governments in Malawi but the nature and extent of the problem was not fully known. This paper focuses on identifying key Political Economy Analysis issues relating to accountability of resources in local governments with a view towards strengthening citizen accountability for results and performance of local governments. It is based on a rapid Political Economy Analysis that was carried out in 2015 with the aim of examining the issue of accountability for resources and results in local governments. The aim was to generate insights for activities/interventions that could be carried out through a project to achieve the desired changes in line with Tilitonse's expected results. The study was mainly conducted through document and literature review and key informant interviews with relevant stakeholders.

Key Findings

The study found that despite the investment that the Ministry of Local Government and Rural Development in collaboration with Irish Aid and GIZ had put in strengthening the capacity and functionality of Financial Management system over the past five years, Councils are dogged with numerous queries that border on fraud and limited accountability of resources. The study found that there is loss of locally generated revenues due to lack of an effective oversight mechanism on the collection, receipting, banking and recording of locally generated revenues. As a result what is recorded in the accounting books is much less than what is actually collected and this has implications on service delivery capacity of the Councils. The withdrawal of direct budget support by most donors has aggravated the funding challenges of Local Governments. Strengthening local revenue collection mechanisms and accountability is an important area that has potential to enhance the financial capacity of the local governments, promote their autonomy in line with the Decentralisation Policy of 1998, and AU 2063 aspirations on domestic resource mobilisation.

The study also found the prevalence of an informal culture of 'Internal borrowing' and inappropriate procurement practices. The formal oversight and control powers of District Commissioners and that of Directors of Finance are not always exercised but are creating new value for money risks for the Malawi government and donors. Systems and procedures on paper are well known but are deliberately ignored and manipulated to create opportunities for exploitation and fraud. District Commissioners are also vulnerable to political pressure from influential MPs and Ministers because they are directly recruited by the Minister of Local Government and are subjected to frequent transfers. Due to this fear, the District Commissioners are not able to effectively exercise their roles as controlling officers in ensuring that correct procedures are followed. They would rather not take the MPs to task but depart from the provisions of the Public Procurement Act (2003) that appear to go against the wishes of MPs.

Accountability for resources is also compromised by non-production of financial reports and other supporting statements as well as limited attention towards review of internal audit reports. While backup skeleton tables are provided by Councils, they are limited in nature and cannot serve as accountability tools because they do not contain the necessary financial performance information. A key explanation that Council officers provide for non-production of financial reports is that they are usually pressed for time to do the reports manually because IFMIS features for the electronic generation of such reports are not functional. Consequently the non-availability of such important reports compromises the Council's accountability as relevant information is not provided to appropriate oversight bodies such as the Council finance committees for discussion and review.

The PEA also found that in Councils where internal auditors exist, they do prepare audit reports but the reports are not usually attended to by management especially on matters where management has vested interest. In some cases the reports are not shared with the Finance and Audit Committee of the Council. In cases where the reports are duly submitted to the Finance Committee, action is compromised by the divergent interests among voting members of the Council. Members of Parliament are reluctant to promote accountability in cases where the audit queries relate to the way they handle and manage the Constituency Development Fund. These practices illustrate that the control that Members of Parliament have on the Constituency Development Fund, combined with their status as voting members of the Council and Service Committees has potential to stifle and compromise accountability for resources in Local Governments.

The PEA also noted that there is no formula guiding intradistrict allocation of development resources but District Development Plans exist in each Local Authority from which various funding agents can draw projects from. However, MPs push for equal distribution of resources between constituencies or wards. MPs ensure that investment is placed in areas of high support within their constituencies to reward their supporters and guarantee re-election. This is largely influenced by lack of knowledge and information among the rural poor about the rules of the game regulating the various development funds and the district development planning system. Evidence coming from the recent experience of the Development Funds that government provided in the 2015/16 budget shows that this politicised distribution and allocation of development resources may continue if it is not checked. There are a number of problems with the politically driven approach to intradistrict allocation of District Development Financing. First, it represents significant risks to the value for money provided by Government of Malawi and has potential to exacerbate systematic service delivery inequalities within the district. Secondly, by distributing limited resources evenly, the districts do not use local knowledge to tackle areas where poverty is highest – a key justification for decentralisation and for the production of Village Action Plans and District Development Plans. What this means is that without a strong oversight system that can check the excesses of political leaders in this case the MPs and even the newly elected councillors, resource allocation may not be pro-poor but may be geared towards serving the political interests of the leaders.

The study noted that these practices have prevailed because of weak external oversight mechanisms, a fledgling council oversight system, weak capacity of the Finance and Audit Committee to effectively perform oversight functions and limited effective oversight over resources by local institutions, CSOs, and citizens. The Accountant General and Treasury have limited direct engagement with the Councils and their roles are mainly exercised by the National Local Government Finance Committee (NLGFC). The main challenge with the NLGFC is that does not have its own Act which defines its powers and what to do in particular circumstances. In cases where Council staff have misappropriated funds, the NLGFC is powerless, and it operates as an agency of the Ministry of Local Government and Rural Development. The role of the Auditor General is limited because Local Government Council external audits are irregular and are usually in arrears. A key explanation for this provided by the key informants has been lack of resources to conduct regular audits as and when they are due. As a result audit reports are ready several years after the end of the fiscal year making it very difficult to hold Controlling Officers responsible for mismanagement. The Ministry of Local Government and Rural Development plays a limited inspectorate and monitoring role and rarely provides feedback to the Councils. Similarly there is limited attention by the Public Accounts Committee and Anticorruption Bureau on matters of Local Government Councils.

With the coming in of Councillors and the establishment of Legal Local Councils in 2014, the situation is slowly changing but much remains the same because of two main reasons: most Councillors are new and inexperienced and have limited knowledge about how the Council works, what information to ask for, and what they are supposed to do to ensure the accountability of Council officers; and the preponderant power and influence of District Council staff. The Council's accountability role is also compromised by its limited power over human resources who engage in financial malpractices. The Council can reprimand errant senior officers but it has no power to transfer, fire, or discipline senior Council officers who answer to distant service commissions and ministries that have very little direct oversight. The low knowledge levels on financial matters, combined with the power tactics of key Council officers have contributed towards the slow emergence of a strong Council oversight system. To date the Council has not fully gained the necessary leverage to monitor and control financial management activities in such a manner as to contribute to improved results and performance of the Councils.

In the same way members of the Finance and Audit Committees are not fully aware of their terms of reference, what they are supposed to do to ensure the accountability of Council Officers. The study also noted that in some cases even those chairing finance and other committees do not know what to do and what information to demand from the officers. This is more pronounced in cases where the chairperson does not have any background experience in finance matters. Further, even when guiding documents and other materials are provided, the Councillors rarely take time to read and understand the materials. The effect is that Finance and Audit Committee chairpersons, particularly those without a finance background usually have to wait to receive direction from the Directors of Finance unless the committee has experienced Members of Parliament to support the newly elected councillors. Council Officers are exploiting this lack of knowledge to disable the accountability system by not providing the correct and relevant financial information at the right time.

With respect to citizens, they are generally poorly informed about Council processes and finances. Civil Society accountability related projects have largely focused on building citizen voice to demand services and explanations from duty bearers and facilitating dialogue between citizens and duty bearers. Consequently most locally based CSOs and local level committees such as VDCs and ADCs are preoccupied with demanding and following up on completion of localised development projects but do not have meaningful control over Council finance, procurement processes and even establishing linkages with budget expenditures at the local level.

The study further noted that key actors in ensuring accountability for resources have diverse interests. Formally District Commissioners (DCs)/Chief Executives (CEs) are the controlling officers of the Local Authorities, making them responsible for managing all funds generated within and transferred to the Local Authorities. Some DCs are interested in ensuring financial discipline while others are interested in exploiting the system for personal enrichment. Those that have an interest to exploit the system have an incentive to maintain the status quo. They do not strictly comply with accounting and financial management guidelines and their main interest is to circumvent and bypass the rules to fulfill their selfish interests. Similarly, Directors of Finance are there to perform the daily management function of public funds. Just like DCs, their interests are also diverse. Those that are interested in ensuring financial discipline in the Council are able to advise management on correct procedures and they can stand up to DCs who have fraudulent intentions and issue instructions that are not in line with Council financial management guidelines. Those that have personal enrichment interests collude with the DCs to subvert accountability mechanisms and controls for their own gain.

The Finance Committee has a responsibility over all matters relating to the raising of revenue, the expenditure of money, the general supervision and control of all financial matters and implementation of financial policy as set by the full Council. As a collective, their main interest is to ensure that Councils are not prone to corruption and other fraudulent practices, are able to generate adequate resources and effectively utilise the resources in order to promote service delivery. However individual councillors have diverse interests. While others are interested in ensuring effective oversight so that the Council performs effectively, others are interested in opportunities that will give them some cash and access to development projects in order to advance their political interests and chances of re-election. Such Councillors usually press for more Council and service committee meetings, usually talk about money but have limited attention to interrogating Council Officers and performing effective Council oversight roles to ensure that the Council performs. As for most MPs, they are interested in accessing development projects through the Council and they pay little attention to enhancing Council officers' oversight and accountability. They are the main culprits in flouting Public Finance Management and Procurement procedures in relation to the Constituency Development Fund. This leads to conflict of interest especially when serving as members of the Finance Committee. They control the committee so that it should not discuss any audits or queries relating to the Constituency Development Fund.

CSOs are interested in ensuring Council accountability and transparency in matters of finance. While many CSOs claim to be working on strengthening the accountability of Local Government Councils in matters of financial oversight, very few CSOs have solid capacity to support citizens and Councils in public expenditure tracking and Council financial oversight. There is a major gap among many CSOs on Budget Tracking and Local Government Financial Oversight and how they can support local structures and communities to understand Council budgets, development plans and other financial material in order to effectively follow on Council resources and their results on the ground. Citizens are generally interested in improved service delivery by their Councils. They are keen to see that Councils are utilizing public funds effectively and efficiently in order to provide the needed services. However, most citizens understand bottom up participatory planning processes, but have limited access to relevant Council financial information with which to make any meaningful judgments. They also have limited understanding of how the Council works in matters of financial management and are not able to follow the complex Council budgets, Development Plans, and financial reports. Donors have an interest in ensuring prudent financial management in the Councils and they have been supporting the MLGRD in strengthening the financial capacity of Councils. Others have supported CSOs initiatives aimed at improved financial management, budget transparency and accountability.

Proposed Interventions for Tilitonse Fund Thematic Call

The paper acknowledges that while the resource accountability challenges facing Local Government are many, Tilitonse should focus only in those areas where it can consolidate gains made in previous Tilitonse supported projects; those that can be effectively implemented with potential to demonstrate results within the next years, those where CSOs have capacity to implement and those that seek to enhance the local governance initiatives that are part of the Public Sector Reform Programme. Tilitonse should also seek to build on other existing initiatives whose focus is on strengthening the capacity of CSOs in matters of resource accountability for local governments.

List of Acronyms and Abbreviations

ADCs	Area Development Committees
CBO	Community Based Organization
CDF	Constituency Development Fund
CE	Chief Executive
CDF	Constituency Development Fund
CSOs	Civil Society Organisations
DC	District Commissioner
DDF	District Development Fund
IFMIS	Integrated Financial Management Information System.
LDF	Local Development Fund
MEJN	Malawi Economic Justice Network
MLGRD	Ministry of Local Government and Rural Development
MPs	Members of Parliament
NDI	National Democratic Institute
NGOs	Non-Government Organisations
NLGFC	National Local Government Finance Committee
PEA	Political Economy Analysis
VDCs	Village Development Committees
WOLREC	Women's Legal Rights and Education Centre

1.0 Introduction

In Malawi the adoption of a democratic decentralisation policy in 1990s was largely viewed by Malawi's international donors and policy makers as a logical conclusion to the transition to the national democratic agenda that started in 1994. This was also viewed as a way of concretising constitutional provisions of strengthening local government authorities to deliver development and public services that are responsive to the needs of Malawians. Not surprisingly, the democratic decentralisation policy enacted in 1998 link the agenda of decentralisation to Local Government Authorities with creation of a democratic environment and institutions in Malawi for governance and development at the level that is meant to facilitate the participation of grassroots in decision-making; the promotion of accountability and good governance at the local level in order to help government reduce poverty; and mobilising the masses for socioeconomic development at the local level (Malawi Government, 1998). Decentralization will improve outcomes to the extent that physical proximity increases voter information, participation and monitoring of performance (Ahmad et al., 2006). There are two ways in which this can manifest itself: The first is through budgetary allocations and public services provided by governments in localities that are better matched to the preferences of the residents of those localities, also widely known as the '*preference-matching argument'* (Lockwood, 2006: 33). The second is through an increase in the accountability of government officers and elected representatives over their service delivery decisions and actions because local citizens are better able to monitor local activities and demand accountability (Bardhan and Mookherjee, 2000). Accountability is an important means of understanding how local government programs may fail and finding mechanisms that can make programs perform better.

2.0 Understanding Accountability

The term *accountability* can be used in a number of different ways, each with different implications for governing (Thomas 2004)). Narayan (2002) defines accountability as the ability to call public officials, or service providers to account, requiring that they be answerable for their policies, actions, and use of funds. It implies both a measure of answerability for actions undertaken, the obligation of public officials to inform and explain what they are doing, and enforceability, the capacity of individuals or organisations to impose sanctions for poor performance (Goetz and Gaventa, 2001). Central to all definitions of accountability is the idea that one person or institution is obliged to give an account of his, her, or its activities to another (Jenkins, 2007).

There are various forms of accountability in any local government system: upward, horizontal and downward accountability (Blair, 2000). Upward accountability relates to the answerability of the Council to Central Government agencies, sectoral ministries and other regulatory and oversight bodies such as Audit agencies, accounting ministries through financial and programme reports, external audits, performance management systems and various other mechanisms. Horizontal accountability links the local Council employees to the citizens through their elected representatives. It entails the bureaucratic answerability of the local Council staff who are responsible for executing local budgets to the body of elected representatives. It also relates to the capacity of the elected Council and its service committees to oversee the work of the officers and hold them accountable for ensuring that the work of the different directorates is coordinated, making sure that the Council runs efficiently and that funds are put to proper use. This is achieved through a variety of accountability mechanisms put in place in local government institutions such as financial and budgetary control measures, internal and external audits, or staff supervisory and other disciplinary arrangements.

Downward accountability relates to how elected representatives such as Ward Councilors and MPs are accountable to the citizens who elected them for ensuring that local government delivers services effectively and that public funds received and generated in the Council are put to intended use. Downward accountability is a core aspect of democratic decentralisation initiatives because of the emphasis such initiatives place on transferring power to the people. However, it is important to know that the thrust of this form of accountability is not meant to replace upward or horizontal forms of accountability, but to complement and strengthen the accountability of the Councils. Indeed, the failure of upward, horizontal and other internal accountability arrangements is premised as one of the most important grounds for reform of local government (Olowu, 2003). Boachi-Danquah (2001)notes that while internal legislated accountability mechanisms play an important role, they can be abused and are not sufficient to ensure good governance when they are not subject to appropriate citizen accountability mechanisms. The ability and understanding of citizens to hold their local leaders accountable is a profound step in building a culture of democratic participation in a society that has largely been oriented to receive instructions and not to question authorities. It also depends on the mechanisms through which such accountability is exercised. Traditionally elections have been one of the most conventional means of downward accountability. The logic of much of conventional accountability is political punishment of non-performing political leaders through the ballot box rather than the identification of problems in order to rectify them and find better means of improving service delivery (Peters, 2007).

While elections are an important element of downward accountability, over the years as demand for better services has increased there has been shift from a preoccupation with just answerability and political sanctions towards accountability for results and performance based on quality of services rendered by governments and value for money. Accountability that focuses on improved results and performance rather than political punishment, is considered to be a means of institutionalizing learning and steering approach to governance. It allows citizens to interact more regularly and meaningfully with local governments. This has become an increasingly important expectation of public bodies in the current era of resource scarcity. The expectation is that the sum of the decisions made by an accountable body, such as local government, should add up to delivery of improved performance in terms of service delivery outcomes and in terms of value for money (Chasukwa and Chinsinga, 2013). This paper focuses on identifying key Political Economy Analysis issues relating to accountability of resources in local governments with a view towards strengthening citizen accountability for results and performance of local governments.

3.0 Problem Statement

With the implementation of decentralisation, the amount of resources going to the local governments has progressively increased since July 2005 when District Commissioners were designated as Controlling Officers. For example, Central Government transfers have increased from 3 billion in 2005/06 financial year to approved budget of MK34.2 billion in the 2015/16 financial year. Media reports are rife with stories suggesting serious accountability challenges and the prevalence of corruption in local governments in Malawi but the nature and extent of the problem is not fully known. An emphasis on accountability in local government is one aspect of the growing emphasis on eliminating corruption and promoting transparency in government (Kaufman 2005). Several writers have raised issues relating to accountability challenges and loopholes that can potentially facilitate corruption at the local level. For example, Tambulasi and Kayuni (2007) points out that the creation of new political positions of elected councillors in the name of decentralized local governance provides a new window for corruption because of the interests that they may have to extract rents and other resources for their personal gains. Cammack and O'Neil (2014) also note that Malawi's local authorities are dysfunctional, financial controls are inadequate, procedures are inefficient, and local accountability exists mostly in name only. There have also been other sector specific studies that have also alluded to the existence of financial mismanagement in local Councils[2]. The absence of any detailed examination of accountability for resources and results at the local level prevents the development of well-informed strategies of enhancing resource accountability hence curbing the potential for corruption at the local level.

3.0 Objectives of the study

In light of this background, the main objective of the study was to conduct a rapid Political Economy Analysis aimed at examining the issue of accountability for resources and results in local governments. The aim was to generate insights for activities/interventions that could be carried out through a project to achieve the desired changes in line with Tilitonse's expected results. The analysis specifically focused on the following:

1. The nature of the problem, how it is manifesting, the key factors underlying the problem, and previous efforts to address the problem and their successes and challenges.
2. The institutions governing fiscal allocation decisions, financial management, and regulating actor behaviour in local governments.
3. Stakeholder analysis.
4. The specific institutional changes (i.e. changes in the formal and informal rules and practices) required to address the problem identified.
5. Mapping/identification of CSOs working on issues of accountability for resources and results in the local councils.
6. The activities/interventions that could be carried out through a project to achieve the desired changes in line with Tilitonse's expected results.

[2] This includes the study by Cindy Carlson, Wiseman Chijere Chirwa and Nick Hall (2015) on Health Sector Efficiency in Malawi.

4.0 Methodology

The Political Economy Analysis was mainly conducted as a rapid study through document and literature review, key informant interviews with the National Local Government Finance Committee staff, Ministry of Local Government and Rural Development, National Audit Office and Anti-Corruption Bureau. Information was also collected from Malawi Economic Justice Network, Kalondolondo Project and National Democratic Institute. In-depth discussions were held with the Chairpersons of the Finance and Audit Committee, Internal Auditors, Directors of Finance in Lilongwe District and Lilongwe City Council representing both rural and Urban Councils. A Research assistant was engaged to compile key Council literature on some important statistics such as production and submission of monthly financial reports to National Local Government Finance Committee, review of financial reports by Finance Committee, check whether Finance Committee was trained, check availability of Internal Auditor, whether management meets to discuss monthly financial report, functionality of Audit committee and decision making criteria on allocation of the recent development funding. Given the rapid nature of the study, these findings are not meant to generalise, but to illustrate the accountability challenges relating to resources that one is likely to find in other similar Councils.

5.0 Key findings of the Study

The study found that despite the investment that the MLGRD in collaboration with Irish Aid and GIZ has put in strengthening the capacity and functionality of Financial Management system over the past five years, Councils are dogged with numerous queries that border on fraud. There is limited production of financial reports and attention to audit reports, abuse of locally generated revenues, and politicised intra district allocation of development resources. These practices have been prevailing because of weak external oversight mechanisms, a fledgling council oversight system, weak functionality and capacity of the Finance and Audit Committee to effectively perform oversight functions and limited effective oversight over resources by local institutions, CSOs, and citizens. The issue of limited oversight was also raised in the report of the Auditor General on the accounts of City, Town, and District Councils dating as far back as 2012. The Auditor General's report noted that laxity in financial management in Local Government Councils has persisted because Council officers took advantage of the absence of an effective Council oversight system that came about because of the postponement of local elections.

5.1 Key PEA Issues relating to Accountability for Resources in Local Government Councils

5.1.1 Key Issue 1: Loss of Locally Generated Revenues through Fraud

Domestic resource mobilisation is a key element of the financing of the African Union 2063 agenda for each country. In Local Governments, locally generated revenues are an important source of revenue for financial autonomy of Councils and improved service delivery in Councils. Capacity for service delivery and accountability of lower-level governments to local clients is enhanced if Local Governments have access to own revenues (Ahmad et al., 2006). Reasons why the revenues of local governments should come from local sources include the following (FAO, 2004):

- Local taxes are necessary to enable a local government to vary the quantity and quality of its services in respect of local preferences.

- If a local government relies on grants there is a danger that local politicians can spend the money inefficiently.

- There tends to be greater accountability for money raised locally than with fiscal transfers from the centre.

- Grants from the central government often come with pre-conditions attached and constrain the way the grant is spent.

However, locally generated revenues have been insignificant in District Councils. Locally generated revenues can barely sustain Council operational day to day activities. Table 1 shows that on average, locally generated revenues can finance only 5% of Council recurrent expenditures such as salaries of direct employees, payment of utility bills, including supplies and services with little or nothing left for any developmental or service delivery activities.

Table 1: Local Government Revenues and Recurrent Expenditure for District Councils: 2005-2014

Year	Locally Generated Revenues	Central Government Recurrent Transfers	Gross Recurrent Expenditure	Locally Generated Revenue as a % of Gross Recurrent Expenditure	Central Government Transfers as a % of Gross Recurrent Expenditure
2005/06	193,958,740	3,266,940,347	3,460,899,087	6%	94%
2006/07	254,764,832	6,542,279,636	6,797,044,468	4%	96%
2007/08	245,676,934	8,081,670,692	8,327,347,626	3%	97%
2008/09	362,896,733	9,439,759,192	9,802,655,925	4%	96%
2009/10	352,715,543	11,338,259,406	11,690,974,949	3%	97%
2010/11	602,705,885	11,979,433,904	12,582,139,789	5%	95%
2011/12	897,599,549	14,127,098,320	15,024,697,869	6%	94%
2012/13	1,147,161,865	16,673,834,172	17,820,996,037	6%	94%
2013/14	1,315,262,377	13,920,977,969	15,236,240,346	9%	91%

Source: Computed from data from National Local Government Finance Committee

These Local governments, which constitute 80% of all the Councils in Malawi, receive the majority of their funding through central transfers but the amounts are insufficient to address service delivery needs of the localities. City Councils on the other hand rely very much on locally generated revenues for their service delivery expenditures but they are not able to collect as expected due to poor local revenue mobilization combined with lack of political and administrative will to enforce significant amounts of revenue (Kutengule et al., 2014). The PEA found that another challenge is loss of locally generated revenues due to lack of an effective oversight mechanism on the collection, receipting, banking and recording of locally generated revenues as one informant pointed out:

> There is too much stealing by revenue collectors. They get as much as half of the revenue they collect. Some of it is lost on the way to the bank. Monitoring revenue from the markets has been very difficult for the Council (Interview with key member of the Finance Committee, Lilongwe City Council, 23rd September, 2015).

In support of this assertion, the study noted that in a variety of spot checks carried out by Lilongwe City Council service committee members in 2015 it was found that Council had been losing about 2.1 million per month as a result of under declaration of revenue due to lack of proper supervision by management[3]. Similarly, an Internal Audit Report on Local Revenue Mobilisation for Lilongwe District Council for 2014/15 revealed that the council was losing a lot of revenue due to pilferage, theft, teeming and lading by the revenue collectors as the system was not able to check on these malpractices (Lilongwe District Council Internal Audit Section, 2015). The report noted that the key problem was limited supervision and follow up of the revenue collectors and lack of a proper systematic process of ensuring that the Council can check all issued market fee books to ensure that they are fully accounted for.

The formal process of receipting locally generated revenues starts with the issuing of receipt books to revenue collectors by the Director of Finance. The Local Government accounting and financial management procedures require that all revenue collected should either be remitted directly to the Council cashier or banked intact and records of banked revenue and receipt books should be submitted to the Council office cashier for checking and reconciliation. In practice internal audit reports have shown that most revenue collectors do not remit or bank all the revenues they collect as required. Other collectors borrow with the hope of returning the money later. Others underreport on the daily collections and alter duplicate receipts. Others falsify the cancellation of original receipts and remove duplicate receipts. Yet others issue scrupulous or counterfeit receipts instead of the Council authorised receipts. In some cases it was suspected that senior Council officers such as District Commissioners (DCs)/Chief Executives (CEs) and Directors of Finance were part of the syndicate as one key informant put it:

> This problem is rampant because locally generated revenues are easy monies which senior Council officers such as District Commissioners access when they are short of cash. They connive with the revenue collectors so that they can access the cash for their personal needs (Key Informant Interview, Ministry of Local Government and Rural Development, 1st September, 2015).

Where this is the case the senior Council officers would not have the incentive to exercise their oversight functions and address the observed malpractices. Corruption and Governance Surveys in Malawi have also noted that generally where theft is involved there are powerful syndicates and gratification is usually shared with supervisors. '*So when the culprits are caught, limited action is taken to bring them to book or the persons are simply transferred from one duty station to the other'* (Key informant Interview, Anti-Corruption Bureau, 8th September, 2015). This represents a failure of accountability over locally generated revenues. As a result what is recorded in the accounting books is much less than what is actually collected and this has implications on the service delivery capacity of the Councils. The withdrawal of direct budget

[3] Thom, Macdonald (2015), *Councillors hit at Lilongwe City Council Officials.* The Daily Times, Thursday, April 2

support by most donors has aggravated the funding challenges of Local Governments. It has been noted that funding from central government in most sectors has been drastically reduced and, as a result, activities in those sectors are suffering (Kutengule et al., 2014). Strengthening local revenue collection mechanisms and accountability is an important area that has potential to enhance the financial capacity of the local governments, promote their autonomy in line with the Decentralisation Policy of 1998 and AU aspirations on domestic resource mobilisation in the 2063 agenda.

5.1.2 Key Issue 2: Abuse of Development Resources

Internal Audit reports produced by Councils note that Development Funds received from central government, LDF and other donors for a variety of projects are pool accounts and there is a high risk of abuse through inter-borrowing and unwarranted expenditure. There is a prevalence of an informal culture of 'Internal borrowing' and inappropriate procurement practices. Previous studies also found that 'inter-borrowing' between sector budgets is not permitted, although it does happen despite the fact that Integrated Financial Management Information System (IFMIS) has features that can prevent it (Cammack and O'Neil ,2014). In the PEA, key informants explained that in most cases District Commissioners/Chief Executives in collaboration with Directors of Finance issue instructions to utilise project funds such as LDF, CDF, DDF and Deceased Estate Funds for other operational purposes, mainly subsistence allowances and fuel against stipulated rules and regulations. One key informant noted that the culture of 'internal borrowing' of project funds and using the resource for unwarranted expenditure has proliferated because of too much discretionary powers being exercised by District Commissioners. His view was that:

> The District Commissioner is a controlling Officer but his/her power is overblown to the extent that he can order the borrowing or use of other funds such as Deceased Estates, Sector Funds for other purposes as if it's a bank. In case of Deceased Estates when the owners of the funds come they are usually told that the funds have not yet matured (Interview with key informant, National Audit Office, 8th September, 2015)

Key informants narrated that the key culprits and powerful figures in the Council are District Commissioners/Chief Executives and Directors of Finance and to a lesser extent Sector Heads but of course it varies with individuals. One key informant noted that fraudulent practices can be traced to particular District Commissioners/Chief Executives and similar cases have been reported wherever such officers have been transferred to (Key informant interview, MLGRD, 1st September, 2015). The lack of Local Government Elections strengthened the District Commissioner's role. Cammack and O'Neil (2014) noted that without the council, the '*District Commissioner/Chief Executive was the king'* in a district and he/she was operating with a free hand. Formally responsibility for expenditure management is jointly held between the Director of Finance and the District Commissioner who is the formal controlling officer for all local government funds. For example:

> The District Commissioner is responsible for ensuring that the provisions of the Public Finance Management Act (2003) are complied with and ensure that all expenditure is properly authorised and applied to the specific purpose for which it was appropriated. The Director of Finance also has

> the responsibility of ensuring that all payments are within the approved estimates and internal controls are operating effectively (Ministry of Local Government and Rural Development, 2009:6).

In practice the significant oversight powers of the District Commissioners and those of Directors of Finance are not always exercised but are creating new value for money risks for the government and donors. Systems and procedures on paper are well known but are deliberately ignored and manipulated to create opportunities for exploitation and fraud. For example DCs may order use of funds meant for other purposes to be applied towards fuel and allowances and may sign cheques given to them without careful scrutiny of supporting documentation. Figure 1 summarises examples of these practices derived from a particular Council's Internal Audit Report covering 2014 to June 2015[4].

Figure 1: Examples of Council practices relating to abuse of development funds in a particular Council

Description of the practice in the Audit Report	Amount involved (MK)
Project Funds borrowed from DDF Account to finance activities of the secretariat	2,701,400.00
Some of the interborrowed funds were used for plot demarcation exercise. Eleven staff members were paid subsistence allowances and fuel for work done during the course of the day within a distance of one kilometre. The lowest amount paid was K30,000 with the highest amount being K120,000	753,000.00
Cash drawn from the Disaster Fund used to purchase fuel. Activities were classified in the audit as dubious and the fuel could not be traced in the log books	300,000.00
Payment vouchers on Disaster Funds not supported by receipts or cash sales	902,076.00
Fuel Purchased under an LDF Girls Hostel Project whose usage could not be traced	1,000,000.00
Activities carried under LDF ESWAP (4 school blocks) considered to be dubious	1,159,863.00
Fuel purchased under LDF ESWAP (6 schools) which could not be traced in the vehicle log books	781,424.50
Activities classified as dubious under LDF/Public Works Programme	1,188,644.00
Payment vouchers under LDF/Public Works Programme not supported by fuel cash sales	892,204.00
Payment vouchers supported by dubious cash sales under the LDF/Public Works Programme	426,793.00
Purchase of fuel under the LDF/Public Works Programme which could not be traced in motor vehicle log books	1,095,460.00

Source: Internal Audit Report for District Development Funds and Local Development Fund, 8th June, 2015

Similarly, an audit into the construction of school blocks under the LDF in Lilongwe City Council revealed that 41 million kwacha was lost through fraudulent activities: about 18 million was spent in fuel but little supervision was done. Some suppliers swindled the Council by supplying inferior materials worth 7.8 million kwacha; 6.4 million was an overpaid amount to the suppliers.[5] The report noted that officials deliberately overpay and later get the overpayment from the suppliers. The LDF Communications

[4] The name of the Council has deliberately been withheld. The information is being used here only for illustrative purposes of the nature of issues that Internal Audit Reports unearth in the Councils but the issues are usually subject to management comments.

[5] Khunga, Suzgo (2015) Audit Reveals Fraud in LDF Projects, Nation, Friday August 7.

Manager has been on record that reports of fraud in LDF projects across the country are rife but since the LDF is not a legal entity, there is not much action they can take against Councils which abuse funds[6].

Challenges of abuse have also been evident with the CDF. The procurement of goods does not follow any laid down procedures. MPs ignore rules and procedures in order to divert materials to individuals. Sometimes goods are bought without quotations, supplied without delivery notes and not signed for by recipients[7]. The other key problem has to do with unaccounted for stores and sourcing more than one quotation from one proprietor. Treasury Instruction (Stores) 507 (2) require that all stores purchased must be recorded in stores records before being issued out. An internal audit that was undertaken in Lilongwe District Council between January and April 2014 noted that stores worth K18, 905,857.32 was procured for CDF projects but none of this was recorded in the stores records of the Council. As a result materials can go missing or they can be used in other projects not known to the Council. There was also an indication of payments made on dubious invoices amounting to 1,002,073.73; sourcing of more than one quotation from one proprietor amounting to K4, 322,649.66; and payment of contract fees paid for uncertified work - K4,287,000.00 (Lilongwe District Council, 2014). Similar issues were raised in a review of the CDF that was carried out in 2012 (Chiweza and Munthali, 2012). The review found that 82% of the Councils were of the view that MPs interfere with procurement and cited the following examples:

- MPs bring quotations to the Local Authorities and they will already have known (perhaps arranged) the lowest quotation. The Local Authorities just go with the choice of supplier of the MP.
- MPs bring quotations after goods have already been collected from their preferred supplier. The LA's only option is to prepare payment.
- Some of the contractors that the MPs bring are not qualified to do the work and others have a bad track record.

The main causes identified include too much political influence over the management of the CDF and members of Parliament not adhering to CDF guidelines in the implementation of CDF projects. The political positioning and involvement of the Members of Parliament in local level matters makes them to be feared actors at the district level. While some MPs cooperate, most are high handed and it would appear that Ministers are feared even more. District Commissioners are particularly vulnerable to political pressure from influential MPs and Ministers because they are directly recruited by the Minister of Local Government and are subjected to frequent transfers. Due to this fear, the District Commissioners are not able to effectively exercise their roles as controlling officers in ensuring that correct procedures are followed. They would rather not take the MPs to task but depart from the provisions of the Public Procurement Act (2003) that appear to go against the wishes of MPs.

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[6] Ibid.

[7] Mwanza, J. *MPs deliberately courting CDF-gate*, The Nation, Wednesday October 6, 2015

5.1.3 Key Issue 3: Limited Production of Financial Reports and Attention to Audit Reports

Local governments are cost centers in their own right and they are supposed to be accountable for how they utilize resources assigned to them within the legal frameworks governing the management of public funds (Chinsinga, 2009). Financial and Audit Reports are important accountability tools for ensuring that Local Governments are accountable to their stakeholders. The Local Government accounting and financial management procedures require that Councils should produce accurate and reliable monthly reports and should be submitted to the Finance Committee, the National Local Government Finance Committee and the Ministry of Finance before the 10th of the ensuing month (Ministry of Local Government and Rural Development, 2009). However, this has been a challenge due to non-production of financial statements and other supporting statements. The Auditor General's Management letter relating to the 2011/12 audit of Councils revealed that failure to produce financial reports including failure to maintain accounting records, failure to keep and maintain control ledgers, failure to maintain Cash Books for Operation and ORT Accounts were the most common problems affecting all the Councils. The PEA noted that:

> Over 90% of Councils do not compile and submit consolidated monthly and quarterly financial reports to their Councils according to the format required by the NLGFC, National Audit Office, and the MLGRD. Councils are not willing to submit reports anywhere. Even the NLGFC also has to beg for reports from Councils (Key informant interview, NLGFC, 2nd September, 2015*)*.

The format required by the National Local Government Finance Committee (NLGFC) which is stipulated in Local Authorities Accounting and Financial Management Procedure is that a consolidated monthly financial report is supposed to report on all financial transactions of the Local Authority including locally generated revenues, central government transfers, Donor funds, Constituency Development Funds and other designated funds.

The PEA looked at the status of reporting since January to September, 2015. It found that these comprehensive monthly reports were not being produced and no discussion and review of such reports was being done by the relevant Committees at Council level. During the period under review only 12 out of 35 Councils (34%) were able to submit at least one or two electronic backups. According to the NLGFC officers, backups are a skeleton of tables that show budget commitments versus actuals and they are mainly used by the NLGFC for consolidating Council revenues and expenditures. They cannot serve as accountability tools because they do not contain the necessary financial performance information. A key explanation that Councils officers provided for non-production of financial reports is that they are usually pressed for time to do the reports manually because IFMIS features that were supposed to aid the electronic generation of such reports were not functional. Consequently the non-availability of such important reports compromises the Council accountability as relevant information is not provided to appropriate oversight bodies such as the Council finance committees for discussion and review. Councillors have expressed concern over their inability to access financial statements as the narrative shows:

> Our work hinges on implementation of projects under the Local Development Fund and other Development Funds. As such we need to have a clear picture on how the previous lots were utilised in order for us to evaluate what practices to maintain and those that should avoided in terms of fiscal discipline. But it is difficult to do all that because we have not been presented with the financial reports for scrutiny.[8]

Other members of Finance Committees noted that expenditure reports are provided when demanded by the Council members. Even when the reports are provided they are usually read in the meetings and the Council members rarely have enough time to scrutinise them before the actual meetings. Discussion with the National Audit office also revealed that accountability is also compromised through poor records management or other deliberate attempts to defraud the system. A common problem that National auditors have encountered during Council audit exercises relates to non-availability of payment vouchers for transactions carried out. In some cases there is non-availability of relevant supporting documentation. This encourages corruption as there is lack of an audit trail to follow on possible fraud.

Accountability for resources is also compromised by limited attention towards review of internal audit reports. An Internal Audit is supposed to be an independent appraisal or monitoring activity established by the Local Authority for the review of the accounting and internal control system as a service to management and an important tool for strengthening horizontal accountability and oversight role of the Council members (Ministry of Local Government and Rural Development, 2007). The guidelines require that internal Audit reports should be submitted to the Finance and Audit Committee of the Council with a copy to the National Local Government Finance Committee and National Audit Office. The PEA found that in Councils where internal auditors exist, they do prepare audit reports but they are not usually attended to by management. In particular internal auditors lamented that management is reluctant to take action on matters where it has vested interest and is usually not confident enough to take any action on CDF irregularities. In some cases the reports are not shared or with the Finance and Audit Committee of the Council. As one key informant indicates:

> Internal audit reports are not usually responded to by management. The top man in the organisation does not even care about the report. (Key informant interview, Lilongwe City Council, 25th September, 2015).

In other cases, the reports are duly submitted to the Council Finance and Audit Committee but action is compromised by the divergent interests among voting members of the Council, i.e. Members of Parliament and Councillors. Members of Parliament are reluctant to promote accountability in cases where the audit queries relate to the way they handle and manage the Constituency Development Fund as this narrative illustrates:

> Our Finance and Audit Committee comprises of councillors and many experienced Members of Parliament. We received an internal audit committee report for the 2012/13 financial year but the

[8] Chairperson for Mzimba District Council, in Pondani, M (2015), Councillors, Councils tussle over financial statements. Malawi News, September 27- October 3.

report revealed many challenges associated with the way Members of Parliament manage the Constituency Development Fund. As a result we did not take any action since we could not agree on the way forward (Meeting with key member of the Finance Committee, Lilongwe District Council, 23rd September, 2015).

Similar challenges regarding accountability of the CDF also exist at the Public Accounts Committee level. A report of the Auditor General on the Accounts of the City, Town, and District Councils, for the years ended June 2006, 2007, 2008, 2011 and 2012 revealed non-adherence to CDF guidelines as a key problem affecting the management of CDF. The reports were presented before the Public Accounts Committee of Parliament but no actions have been taken to date. These practices illustrate that the control that Members of Parliament have on the Constituency Development Fund, combined with their status as voting members of the Council and Service Committees has potential to stifle and compromise accountability for resources in Local Governments.

5.1.4 Key Issue 4: Politicised Intra- District allocation of Development Resources

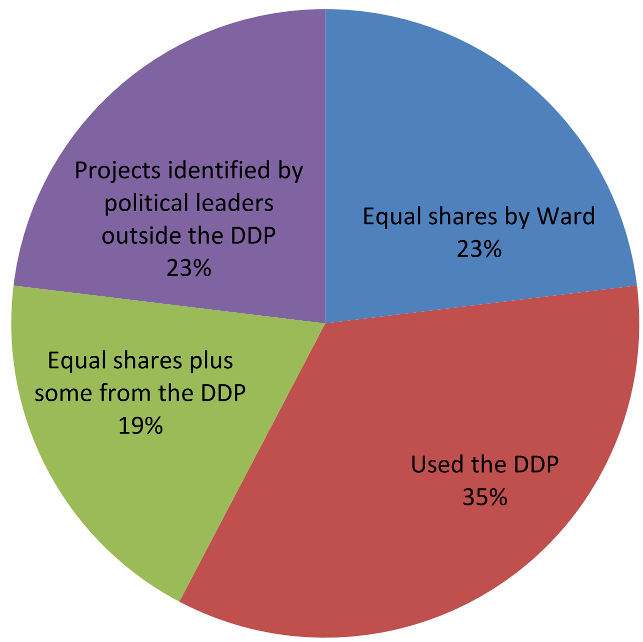
There is no formula guiding intradistrict allocation of development resources but District Development Plans exist in each Local Authority from which various funding agents can draw projects from. Lessons from Liu Lathu CSO projects and other studies have shown that politics takes a centre stage in intradistrict allocation decisions of development resources such as CDF and LDF[9]. The main incentives political representatives generally face is the need to be re-elected and developments projects are a major means of showcasing their visibility in the communities. This leads MPs to having a strong focus on delivering very visible benefits to their constituents. They therefore push for equal distribution of resources between constituencies or wards. MPs also ensure that investment is placed in areas of high support within their constituencies to reward their supporters and guarantee re-election. They also take a central role in deciding on the nature and location of development projects, particularly under CDF and in most cases communities and their structures are not involved[10]. This is compounded by lack of knowledge and information among the rural poor about the rules of the game regulating the various development funds and the requirements of the district development planning system.

Evidence coming from the recent experiences of the Development Funds that government provided in the 2015/16 budget shows that this politicised distribution and allocation of development resources may continue if it is not checked. The introduction of these funds was done without any intra-district allocation guidelines. The result has been that most MPs and Councillors pushed for equal sharing or prefer to identify projects outside the formal District Development Plans. Figure 2 summarises the practices and illustrates that Councils used varied criteria to make decisions on the allocation of the development funds

[9] Development Communication, Association of Progressive Women and Umodzi Youth Organisation (2013). Funding Mechanisms of LDF and the CDF, Liu Lathu Mwananchi Policy Brief Series, The Nation, August 23.
[10] Ibid

but the tendency appears to be more towards side lining the District Development Plan in favour of politically driven allocations.

Figure 2: Interdistrict Allocation Criteria for the 2015/16 Development Funds



Source: Information compiled from Council minutes sent to NLGFC.

The figure shows that only 35% of the Councils used the District Development Plan to identify development projects for funding while the remaining 65% used other criteria. Of the 65%, about 23% of the Councils divided the resources equally per ward with one Council where the allocation was per Constituency. In a similar percentage of Councils, projects were identified by MPs and Councillors outside the DDP. The rest of the Councils (about 19%) combined priorities contained in the DDP and equal shares. There are a number of problems with the politically driven approach to intradistrict allocation of District Development Financing. First, it represents a significant risk to the value for money provided by Government of Malawi and has potential to exacerbate systematic service delivery inequalities within the district because of already significant disparities in the quality and availability of services across the district. Secondly, by distributing limited resources evenly, the districts do not use local knowledge to tackle areas where poverty is highest – a key justification for decentralisation and for the production of Village Action Plans and District Development Plans. What this means is that without a strong oversight system that can check the excesses of political leaders, i. e. the MPs and even the newly elected councillors, resource allocation may not be pro-poor but may be geared towards serving the political interests of the leaders. In order to deal with these challenges the MLGRD is in the process of developing guidelines for the development budget. It will be important to ensure that these guidelines are well synchronized with other guidelines such as the CDF guidelines. Also important would be to ensure that all these guidelines are popularized so that communities, citizen groups, and others stakeholders with an interest in promoting Council accountability are aware of the rules and can act as a check to the interests of the elected political leaders.

5.2 Key Drivers and Motivations of the Observed Problems

1. Weak Oversight by External Bodies

The institutional reporting framework for Local Council resource accountability is on paper very extensive but in practice it is weak and fragmented. It includes the National Local Government Finance Committee, Accountant General, Treasury, The Auditor General and the Ministry of Local Government and Rural Development.

a. The Accountant General

The Accountant General is responsible for setting policies and standards regarding accounting practices in respect of public financial management in the public sector. In liaison with the NLGFC, it advises Local Authorities on policies regulating management of public resources (MLGRD, 2009). The main interest of the Accountant General is to ensure prudent financial management in the Councils. The Accountant General and Treasury have limited direct engagement with the Councils and their roles are mainly exercised by the NLGFC.

b. The National Local Government Finance Committee

Section 149 of the Constitution mandates the National Local Government Finance Committee (NLGFC) with accounting and financial management regulatory functions of the Local Authorities. The National Local Government Finance Committee (NLGFC) was created in 2001 to manage financial transfers and to support local council's financial performance. Its role is to provide policy guidance on Local Authority accounting and financial management, reviewing budgets, financial reports, assisting councils in revenue mobilisation strategies and following up on audit queries arising from audits of Local Authorities and imposing surcharges (MLGRD, 2009). Its main interest is to ensure that Councils manage their finances effectively and are not prone to corruption and fraudulent practices. The main challenge relates to the limited oversight powers of the National Local Government Finance Committee. The main challenge is that NLGFC does not have its own Act which defines its powers and what to do in particular circumstances. In cases where Council staff has misappropriated funds, the NLGFC is powerless, and it operates as an agency of the Ministry of Local Government and Rural Development. The Ministry of Local Government and Rural Development transfers the staff concerned. One key informant queried that by transferring or rotating officers that have misappropriated resources, how does the law catch up with that person? These frequent transfers also make it difficult for the Public Accounts Committee to get appropriate responses when there are audit queries.

c. The Auditor General

The audit of Local Authority Accounts is the responsibility of the Auditor General. The Auditor General or his/her appointee has the responsibility of carrying our annual audits of Local Authorities to ensure that the transactions of the Local Authorities are in line with approved estimates and in line with the applicable law. A key challenge is that Local Government Council external audits are irregular and are usually in arrears. A key explanation for this provided by the key informants has been lack of resources to conduct regular audits as and when they are due. The Office of the Auditor General would not on its own commence an auditing exercise unless its jurisdiction is invoked by the NLGFC and staff expenses are paid for by NLGFC or other interested parties. In addition audit reports are 'ready several years after the end of the fiscal year making it very difficult to hold Controlling Officers responsible for mismanagement' (Durevall and Erlandsson, 2005: 31).

d. Other Institutions

The Ministry of Local Government and Rural Development plays a limited inspectorate and monitoring role and rarely provides feedback to the Councils. Similarly there is limited attention by the Public Accounts Committee and Anticorruption Bureau on matters of Local Government Councils. These institutions have largely focused on national level institutions at the expense of local government institutions.

2. A fledgling Full Council Oversight system

At the Local Authority level, the Full Council, as stipulated in the Local Government Act has the overall mandate over the accounting and financial management functions of the local authority. The Full Council represents the supreme financial management policy formulation body at the local level. The 9 year gap without Councillors resulted in a local government system with limited checks and balances. One important consequence of the absence of formal Councils due to the postponement of local elections is the fact that local financial management practices were shaped by the local context and the personalities of powerful actors. Payment decisions were usually influenced by District Commissioners and Directors of Finance in collaboration with relevant directors in ways that were not transparent. Institutional Integrity Committees, a key element of the Malawi Anticorruption Strategy were formed in a few District Councils with support from an Irish Aid Project but they did not fully take root and never functioned. In the end District Commissioners assumed too much discretionary power for unilateral decision making while disabling internal systems and procedures for checks and balances.

With the coming in of Councillors and the establishment of Legal Local Councils in 2014, the situation is slowly changing but much remains the same because of two main reasons. The first is that most Councillors are new and inexperienced and have limited knowledge about how the Council works, what information to ask for, and what they are supposed to do to ensure the accountability of Council officers. The second relates to the preponderant power and influence of District Council staff. Indeed since the Councillors started their term of office in 2014 there have been widespread perceptions among councillors and the general public that Council staff are using a variety of tactics to restrict the capacity of Councillors to oversee and scrutinise the officers' activities. These tactics include deliberately withholding of vital information and preventing the regular holding of Full Council and service committee meetings under the pretext of lack of resources. A key informant also pointed out that:

> Some fraudulent DCs/CE use selective distribution of favours and other incentives such as trips, more meetings, and allowances to benefit Council chairpersons and Service Committee chairs in order to dissuade them from scrutinising the officers' practices and pressing for accountability (Key informant interview, Lilongwe City Council, 25th September, 2015)

The Council's accountability role is also compromised by its limited power over senior staff who engage in financial malpractices. The Council can reprimand errant senior officers but it has no power to transfer, fire, or discipline the officers because they are accountable to distant service commissions and ministries that have very little direct oversight over Council activities. Council Officers who are bent on flouting the Council financial management regulations do so with impunity because they are aware of the Council's limitations and that the members are *toothless dogs*. The low levels knowledge on financial matters, combined with the power tactics of key Councils officers have contributed towards the slow emergence of a strong Council oversight system. To date the Council has not fully gained the necessary leverage to monitor and control financial management activities in such a manner as to contribute to improved results and performance of the Councils.

3. Weak Capacity of the Finance & Audit Committee to effectively exercise Council financial oversight.

The full Council is supposed to be aided by the Finance Committee of the Council. This Committee carries delegated authority of the Full Council over oversight matters relating to the raising of revenue, the expenditure of money, the general supervision and control of all financial matters and implementation of the Council's financial policy. In relation to accountability, the specific roles of the committee include: receiving and reviewing both internal and external audit reports and taking appropriate action; comparing and monitoring the actual revenues and expenditure with approved estimates on a monthly basis and recommending necessary measures, considering the collection of revenues not less than once in a quarter and issuing instructions to improve collection (Ministry of Local Government and Rural Development, 2009). Despite these clearly stipulated roles, most key informants expressed an understanding that members of the Finance and Audit Committees are not fully aware of their terms of reference, what they are supposed to do to ensure the accountability of Council Officers. An officer working with the NLGFC had this remark:

> The Finance Committees in the Councils do not know their roles and responsibilities and do not know what to demand and they cannot demand the reports. Since the councillors resumed office, there has not been any specific training for the finance committee (excerpt from discussion with NLGFC officer, 2 Sept, 2015).

The PEA also noted in some cases even those chairing Finance and Audit committees do not know what to do, what information to demand from the officers. This is more pronounced in cases where the chairperson does not have any background experience in finance matters. One chairperson of a Finance Committee in a particular Council indicated that, '*there are no clear guidelines for Councillors to monitor resources.'* One of the explanatory factors is that apart from general orientation sessions for all Councillors organised by the MLGRD, there have not been specific capacity building exercises bordering on Financial Governance for Council Finance and Audit Committees. The other factor is that even when guiding documents and other materials are provided, the Councillors rarely take time to read and understand the materials. The effect is that Finance and Audit Committee chairpersons, particularly those without a finance background usually have to wait to receive direction from the Directors of Finance unless the committee has experienced Members of Parliament to support the newly elected councillors. As one informant narrated:

> When the Councillors started operating we wrote terms of reference for the orientation of the Audit subcommittee of the Finance Committee and submitted them to the Chief Executive but it was not attended to. An audit subcommittee was formed in November 2014 but up to now they have never met. To make matters worse, the Councillors in the subcommittee do not even know what they are supposed to be doing in matters of internal audit reports and they have no incentive to demand the reports. (Key informant interview, Lilongwe City Council, 25th September, 2015).

Council Officers are exploiting this lack of knowledge to disable the accountability system by not providing the correct and relevant financial information at the right time.

4. Limited Oversight over resources by Local Institutions and citizens

As noted the ability and understanding of citizens to hold their local leaders accountable is a profound step in building a culture of democratic participation in a society that has largely been oriented to receive instructions and not to question authorities. In Malawi citizens are generally poorly informed about Council processes and finances. Civil Society accountability related projects have largely focused on building citizen voice to demand services and explanations from duty bearers and facilitating dialogue between citizens and duty bearers. Consequently most locally based CSOs and local level committees such as VDCs and ADCs are preoccupied with demanding and following up on completion of localised development projects but do not have meaningful control over Council finance, procurement processes and even establishing linkages with budget expenditures at the local level. Rural communities lack capacity in tracking down funds that have been allocated for various projects in their respective areas. Community structures also lack skills to monitor development projects and track expenditure trends of the development initiatives coming into their areas.[11] Several key informants indicated that an area that is lacking is IEC materials to enable people to know details of Council finances and budgets, understand financial reports and what to focus on in financial reports, issues of procurement at the local level

[11] Ibid

including the utilisation of Council funds such as how much was received, how it was spent and what results have been achieved.

5.3 Key Stakeholders in Accountability for Resources in Local Governments

This section discusses the role and interests of the key stakeholders in accountability for resources in Local Government. There are other institutional stakeholders that have already been discussed in the sections above and the details provided should be read together with what has been raised earlier.

District Commissioners/Chief Executives

Appointed by the MLGRD, formally District Commissioners (DCs)/Chief Executives (CEs) are the controlling officers of the Local Authorities, and are responsible for managing all funds generated within and transferred to the Local Authorities. Their main role is to ensure that the provisions of the Public Finance Management Act are complied with, provide financial management advice to the Council and ensure that internal controls are in place, all collection of revenue and expenditure is according to approved plans, and all required financial reports are prepared (MLGRD, 2009). DCs/CEs have diverse interests. Others are interested in ensuring financial discipline while others are interested in exploiting the system for personal enrichment. District Commissioners that have an interest to exploit the system have an incentive to maintain the status quo. They do not strictly comply with accounting and financial management guidelines and their main interest is to circumvent and bypass the rules to fulfill their selfish interests.

Directors of Finance

Director of Finance are there to perform the daily management functions of public funds. The Director of Finance is answerable to the DC/CE and oversees the work of all finance officers across the sectors. Their role is to advise management of the Local Authority on all financial matters, ensuring that all payments are within the approved estimates, coordinating the compilation of timely and adequate audit responses and preparation of monthly and annual financial reports (MLGRD, 2009). Just like DCs, their interests are also diverse. Those that are interested in ensuring financial discipline in the Council are able to advise management on correct procedures and they can stand up to DCs who have fraudulent intentions and issue instructions that are not in line Council financial management guidelines. Those that have personal enrichment interests collude with the DCs to subvert accountability mechanisms and controls for their own gain.

Council Finance and Audit Committee

Formally the Finance Committee has a responsibility over all matters relating to the raising of revenue, the expenditure of money, the general supervision and control of all financial matters and implementation of financial policy as set by the full Council. As a collective, their main interest is to ensure that Councils are not prone to corruption and other fraudulent practices, are able to generate adequate resources and effectively utilise the resources in order to promote service delivery. However individual councillors have diverse interests. While others are interested in ensuring effective oversight so that the Council performs effectively, others are interested in opportunities that will give them some cash and access to development projects in order to advance their political interests and chances of re-election. As one Councillor remarked:

> The effectiveness of individual Councillors in financial oversight depends on the interest of the Councillor. Some do not show any interest and rarely contribute during meetings. They come to meetings; do not speak or question anything but receive a drink and an allowance. Many are interested in becoming members of several committees because it means more allowances (Key informant interview, Lilongwe City Council, 23rd September, 2015).

Such Councillors usually press for more Council and service committee meetings, usually talk about money but have limited attention to interrogating Council Officers and performing effective Council oversight roles to ensure that the Council improves its service delivery performance.

Members of Parliament

Most MPs are interested in accessing development projects through the Council and they pay little attention to enhancing Council officers' oversight and accountability. They rarely attend service committee meetings. They are the main culprits in flouting Public Finance Management and Procurement procedures in relation to the Constituency Development Fund. This leads to conflict of interest especially when serving as members of the Finance Committee. This is because they control the committee so that it should not discuss any audits or queries relating to the Constituency Development Fund.

Civil Society Organisations

CSOs are interested in ensuring Council accountability and transparency in matters of finance. They have been implementing a variety of initiatives but of a limited nature - mainly focusing on creating awareness among the citizenry about their service entitlements, enhancing dialogue with duty bearers through interface meetings and empowering them to demand services and accountability from duty bearers. Others have focused on social auditing mainly empowering citizens to follow up on infrastructural development projects. While many CSO claim to be working on strengthening the accountability of Local Government Councils in matters of financial oversight, there are very few CSOs that have solid capacity to support citizens and Councils in public expenditure tracking and Council Financial Oversight. The few include Malawi Economic Justice Network, Kalondolondo and its network of District CSO partners. More recently the National Democratic Institute is also working with some CSOs on budget tracking and social accountability. To a lesser extent and in particular sectors there are others doing budget tracking work such as Malawi Health Equity Network in Health, Civil Society Network for Agriculture and Civil Society Coalition for Education. The budget tracking work of these sectoral CSOs is usually high level that is focused on national budgets and service delivery surveys. There is a major gap among many CSOs on Budget Tracking at the local level and Local Government Financial Oversight and how they can support local structures and communities to understand Council budgets, development plans and other financial material in order to effectively follow on Council resources and their results on the ground.

Citizens

Citizens are generally interested in improved service delivery by their Councils. They are keen to see that Councils are utilizing public funds effectively and efficiently in order to provide the needed services. However, most citizens understand bottom up participatory planning processes, but have limited access to relevant Council financial information with which to make any meaningful judgments. They also have limited understanding of how the Council works in matters of financial management and are not able to follow the complex Council budgets, Development Plans and financial reports. They also do not have the necessary skills and tools to ensure Council accountability for resources and results.

Donors

Donors have an interest in ensuring prudent financial management in the Councils and they have been supporting the MLGRD in strengthening the financial capacity of Councils. Others have supported CSOs initiatives aimed improved financial management, budget transparency and accountability. These include Irish Aid, GIZ, DFID and USAID. Capacity Building exercises have largely been undertaken by Malawi College of Accountancy, Malawi Polytechnic and Staff Development Institute.

5.4 Past and Current Interventions on Financial Management and Accountability in Councils

There are a variety of activities that are being implemented by various donors and NGOs focusing directly on strengthening financial management, public expenditure tracking, and promoting local government accountability. Awareness of these initiatives is important as it enables Tilitonse to avoid overlaps and duplications.

1. Irish Aid

Irish Aid has provided assistance for strengthening local government capacity in financial management, including IFMIS sustainability at the local level, deployment of financial analysts, training accounting and finance personnel, support to clear audit backlogs, and support to local authorities to develop and implement revenue enhancement strategic plans. Currently Irish Aid is supporting a variety of activities that are geared towards dealing with some of the key issues identified through the PEA but strengthening the supply side. This includes:

- Supporting review of LA Accounting and financial management and internal Audit manual
- Facilitating inter district financial management peer reviews and learning
- Supporting the NLGFC with clarification of its functions through development of policy documents
- Supporting orientation of District Council Finance Committees. Currently training has been conducted in Ntcheu but plans are underway for the National Local Government Finance Committee to conduct the trainings to all Councils country wide.
- Support LG tip off program with Delloitte
- Building capacity of NLGFC to investigate cases of abuse and backstopping.

2. Norwegian Embassy

The Norwegian Embassy has been supporting Women's Regal Rights Resource Centre (WORLEC) with a general capacity building orientation programme for Councillor that runs to 2016 capacity building exercises. Assistance is provided to nine districts and the major activities include, training of trainers, regional workshops for councillors, stakeholder meetings to assess progress, and local workshops for each council. The focus of the capacity building initiatives has been on providing basic operational skills of councillors in such areas as how the Council system operates, role clarification of various actors and their relationships, Council standing orders, sources of local government finance and the role of Council members in finance issues.

3. National Democratic Institute (NDI)

NDI has been implementing Malawi Electoral and Decentralization Activity (MEDA) with USAID support which ends in March, 2016. MEDA has been working to strengthen civil society engagement with elected local councils in USAID's three focus districts of Balaka, Machinga and Lilongwe. The programme has also developed public expenditure tracking guidelines as tools for Council members to exercise their oversight roles effectively. Another set of guidelines has been specifically designed to enable CSOs, ADCs, VDCs and community leaders follow local government expenditures and carry out social audits in order to enhance accountability for results. The programme works with Council members, Agriculture, Health and Education Service Committees and selected CSOs such as Malawi Human Rights Youth Network, NGO-GCN, FEDOMA and CSEC in the three districts. Programme activities have focused on workshops on roles of Council members and public expenditure tracking based on the guidelines.

NDI has received DFID funding to scale up the programme to twelve other districts, initially up to May 2016, but with a possibility for extension to cover the next five years. The districts are: Nsanje, Chiradzulu, Luchenza, Thyolo, Neno, Dedza, Lilongwe, Ntchisi, Nkhotakota, Mzimba, Nkhatabay and Karonga. The table below lists the CSOs it is working with in the twelve districts.

Table 2: Districts and CSOs Working with NDI

District	**Name of CSO**
Luchenza	Pacenet
Nsanje	Tiphedzane
Thyolo	Malawi Human Rights Youth Network
Chiradzulu	CAVWOC
Neno	NEST
Dedza	CYECE
Lilongwe	IGA
All 12 districts	Zodiak Radio
Kasungu	Kasungu Radio
Mzuzu and Nkhatabay	Livingstonia Synod

Karonga	CHRR
Mzimba	Phunzirani

4. CMD, PAC, CCJP (LL) and MLGRD

With support from the Tilitonse Fund, a number of CSOs working together with the MLGRD have been working on the Review the Local Government Act. Some of the proposals deal with issues of devolution of functions and decentralising authority for hiring and firing so that Councils can be able to apply sanctions for poor performance and wrongdoing. The proposals are at Cabinet stage. The task force has also been working on CDF guidelines to ensure that they are all inclusive and the revised guidelines have been completed.

5. Kalondolondo Programme (Plan and Congoma)

The Kalondolondo Programme is a leading social accountability based governance programme in Malawi operating in 25 of the 28 districts in Malawi, namely Chitipa, Karonga, Rumphi, Nkhatabay, Mzimba in the Northern Region; Nkhotakota, Salima, Kasungu, Mchinji, Ntchisi, Dedza, Ntcheu and Lilongwe in the Central Region; Balaka, Chikhwawa, Nsanje, Thyolo, Phalombe, Mulanje, Mwanza, Chiradzulu, Mangochi, Blantyre, Zomba and Machinga in the Southern Region. It is well known for its result oriented approach to accountability. It is being implemented with funding from the Department for International Development (DFID). The project aims at improving service delivery by providing a platform through which communities and civil society can participate in the national budget process by giving feedback on how service users and communities in general, perceive the delivery of services in health, education, water and agriculture sector as well as other decentralized funding mechanisms such as the Local Development Fund (LDF) Constituency Development Fund (CDF) and Energy. The secondary objective of the programme is to build the capacities of NGOs and Civil Society Organizations on the usage of the Community Scorecard approach and in the management of finances so that they can be able to reach communities and engage them in assessment of public service delivery. Kalondolondo Works through CSO and currently it has 43 CSO partners (see annex 1 for list of partners for 2015).

6. Malawi Economic Justice Network

Malawi Economic Justice Network is implementing a variety of projects as summarised below:

- **Capacity enhancement for local stakeholders' effective participation in policy processes in Malawi: 2012-2018**. Supported by Trocaire, the project is about enhancing the capacity of rights' holders to demand transparency and accountability from duty bearers at the local district council and lower levels in the following districts: Rumphi, Mzimba, Kasungu, Mchinji, Ntcheu, Zomba, Blantyre and Mulanje. MEJN is working through its District Chapters and three Area Development Committees (ADCs) and Village Development Committees (VDCs) in the sectors of Health, Education, Water, Agriculture and Infrastructure.

- G**lobal Partnership for Social Accountability (GPSA): 2014-2017**. The project supported by World Bank focuses on monitoring the procurement, distribution and usage of Text Books for primary schools in 12 districts of Phalombe, Rumphi, Mulanje, Blantyre, Chikwawa, Machinga, Lilongwe, Mzuzu, Nkhatabay, Dedza, Kasungu and Salima. MEJN is working with Care Malawi International, CSEC, CHRR, CeGPP, Ministry of Education, Science & Technology Ministry of Finance, Economic Planning and Development (MoFED); and the Office of the Director of Public Procurement.
- **Public Procurement Monitoring: 2013-2015**. The project is enhancing transparency and accountability, effective and efficient use of public resources raising the Profile of Public Procurement Act Principles and Foundations and development of 'third-party procurement monitoring' tools for CSOs to effectively monitor public procurement of goods, works and services. The project is supported by AfDB and World Bank and it is being done in 20 districts and MEJN is working with ODPP, Procurement Entities and selected CSOs; NLGFC, MoLGRD, ACB, NCIC, COST Secretariat and MSG members, Media, MEJN District Chapters and CSO District Platforms, District Council Management and IPCs and Business Communities. It zeroes on the following sectors: Agriculture; Education; Health; Works, Roads and Infrastructure.

7. Local Government Accountability Programme (LGAP) USAID

This is a five year USAID supported programme which has not yet started but is expected to start in 2016. It has both supply and demand side components through three key result areas: Local government performance and accountability, demand for accountable government strengthened at the local level, and Decentralisation policy environment and systems improved. Among others it seeks to achieve the following results:

a. Select policies and legal reforms related to decentralization supported: Key legislative reforms such as the Local Government Act, Chiefs Act and legislation regarding the National Local Government Finance Committee are advanced. Support MLGRD in reviewing past district performance assessments and viability of rolling out across Districts to aid in performance management.
b. Public financial management systems improved: National Local Government Finance Committee has the systems and capacity required to effectively manage and oversee public finances in the Districts. This includes improving local government IFMIS "Serenic Navigator", improving connectivity and ICT support, and providing technical assistance to NLGFC staff. NLGFC internal auditors and finance staff will be mentored and supported to enable strong financial reporting and oversight of district expenditures. Communications are improved, including development of a NLGFC website, to enable transparency of budget allocations and financial information for use by councillors, DEC staff, and others.
c. Human resources and key management systems improved: MLGRD and national government stakeholders will have the support needed to develop and roll out key HR and management systems associated with planned administrative decentralization. Human resources staff in target

districts understands central government policies and reforms and have the capacity to ensure HR systems and management structures operate effectively.

d. The project is also looking at improving public financial management and oversight of public expenditures, improving local revenue collection methods, strengthening local level demand for accountable government, and social accountability and transparency of public expenditure management and service delivery.

5.5 Proposed Interventions for Tilitonse Fund Thematic Call

While the challenge facing Local Governments in matters of resource accountability are many, the recommendation is that Tilitonse should focus on projects that:

- Will consolidate gains made in previous Tilitonse supported projects,
- Can be effectively implemented with potential to demonstrate results within the next years.
- Have traction with CSOs- those where CSOs have capacity to implement
- Support the on-going Public Sector Reform initiatives on local governance and build on other existing initiatives to strengthen the capacity of CSOs in matters of Council financial governance in Malawi

In light of the foregoing, the recommendation is that Tilitonse should invite focused proposals aimed at enhancing Council Service Delivery by improving accountability, transparency and participation in issues of locally generated revenues and Development Funds. This is divided into three thematic areas as follows:

Theme	Proposed Projects and Initiatives
1. Accountability and transparency in the Collection and use of locally generated revenues	1. Supporting CSO projects to develop and implement a monitoring and accountability mechanism for locally generated revenues that involves citizens and local tax payers such as (market vendors, rest house operators, business operators etc.) 2. Projects to support empowerment of the Council Finance and Audit committee on local resource mobilisation and oversight.
2. Accountability for Development Resources and Results.	Devolution of the Devolution Budget is a key focal area in the Public Sector Reform commitments of the Ministry of Local Government and Rural Development. Projects in this area should seek to support this process and effective utilisation of the development resources. CSO projects should be geared towards: i. Carrying out Public Expenditure Tracking (PET) on all development resources going to the districts DDF, LDF and CDF ii. Providing Capacity building of PETS to local structures including council committees

	iii. Lobbying and advocacy on improvements in allocation and utilization of Development resources in Malawi based on the PET findings
3. Accountability and citizen participation in the Development Fund and CDF	1. Supporting CSO projects to popularize the revised CDF guidelines among the key stakeholders and general public. These revised guidelines were produced under a previous Tilitonse supported project. 2. Supporting CSO projects to build the Capacity of local structures such as VDCs, ADCs on CDF and how they can effectively take part and influence decisions; 3. Supporting the Institutionalisation and popularisation of guidelines for the recently introduced Development Fund among key stakeholders in Councils and the general public.

Annex 1: List of people and Organisations Consulted

Name of Person	**Position**	**Organisation**
Mr Syak Mwamondwe	Financial Analyst	National Local Government Finance Committee
Mr Douglas Mkweta	Deputy Director, Local Government	Ministry of Local Government and Rural Development
Mr. Chome	Director of Administration	Ministry of Local Government and Rural Development
Mr Eliam Banda	Director of Treasury Services	National Local Government Finance Committee
Stanley Tchuthi,	Chief Planning and Economic Services	National Local Government Finance Committee
Mr Demis Chikunkhuzeni	Director of Finance	Lilongwe District Council
Mr Audel Banda	Internal Auditor	Lilongwe District Council
Ms Patricia Nkhono	Chairperson, Finance Committee	Lilongwe District Council
Mr Sibande	Director of Finance	Lilongwe City Council
Mr Jones Gondwe	Controller of Audit Services	Lilongwe City Council
Ms Juliana Kaduya	Chairperson, Finance Committee	Lilongwe City Council
Mr Musopole	Principal Corruption Prevention Officer	Anticorruption Bureau
Mr. Kampanje	Assistant Auditor General	National Audit Office
	CSO institutional Information was also sourced from the following	
Dalitso Kubalasa	Director	Malawi Economic Justice Network
Jephther Mwanza	Executive Director	Kalondolondo Programme
Pamela Kuwali	Senior Project Officer	National Democratic Institute
Henry Chilobwe	Project Officer	National Democratic Institute

Annex 1: List of Kalondolondo Partners (2015)

NO	DISTRICT	ORGANISATION
1	Karonga	FOCUS
2	Karonga - CP	Future planning for Child
3	Rumphi	REAP
4	Nkhata Bay	YONECO Nkhatabay
5	Mzimba	Church N Society Livingstonia synod
6	Mzuzu	Youth Watch Society
7	Kasungu - KK	CSCD
8	Kasungu	Good Health Organisation
9	Kasungu	CEYCA
10	Mchinji	Women's Hope
11	Ntchisi	MAICC
12	Salima	IDI
13	Lilongwe	MHRYN
14	Lilongwe	YECE
15	Lilongwe	Grassroots Movement for HD
16	Dedza	Malawi Career
17	Dedza	Centre for Children Aid
18	Mwanza	WORLEC
19	Mwanza	COPRED
20	Chikhwawa	BT SYNOD
21	Chiradzulu	CAVWOC
22	Chiradzulu	Association of Early Childhood

23	Mangochi	CISER
24	Mangochi	NACC
25	Machinga	YONECO
26	Machinga	YOUTH IMPACT
27	Ntcheu	GLOHOMO
28	Balaka	CHINANSI
29	Phalombe	AYISE
30	Nsanje	
31	Mulanje	WORLEC
32	Blantyre	Girls Empowerment Network
33	Thyolo	ACORD

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