# SIMPLIFIED REPORT OF THE AUDITOR-GENERAL ON THE CONSOLIDATED ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

KHOTSO PULA NALA

OFFICE OF THE AUDITOR GENERAL

USAID FROM THE AMERICAN PEOPLE

FSVC FINANCIAL SERVICES VOLUNTEER CORPS

# CONTENTS

## FOREWORD

It brings me great pleasure to introduce the first edition of the simplified Report of the Auditor-General on the Consolidated Financial Statements for the year ended 31 March 2022. This report is designed to offer the citizens a clear overview of how public resources were managed across various Government Ministries and Agencies.

While my primary responsibility is auditing public resources, I am equally committed to ensuring that our audit reports are easily understandable to all citizens, empowering them to make well-informed decisions when needed.

This streamlined report was developed with the aim of making audit findings easier to comprehend. The Office will be adopting this new approach as part of fulfilling its Constitutional mandate as the Supreme Audit Institution (SAI).

The report presents key findings from the audit of the 2022 Consolidated Financial Statements in a simplified format, incorporating images and infographics for enhanced accessibility.

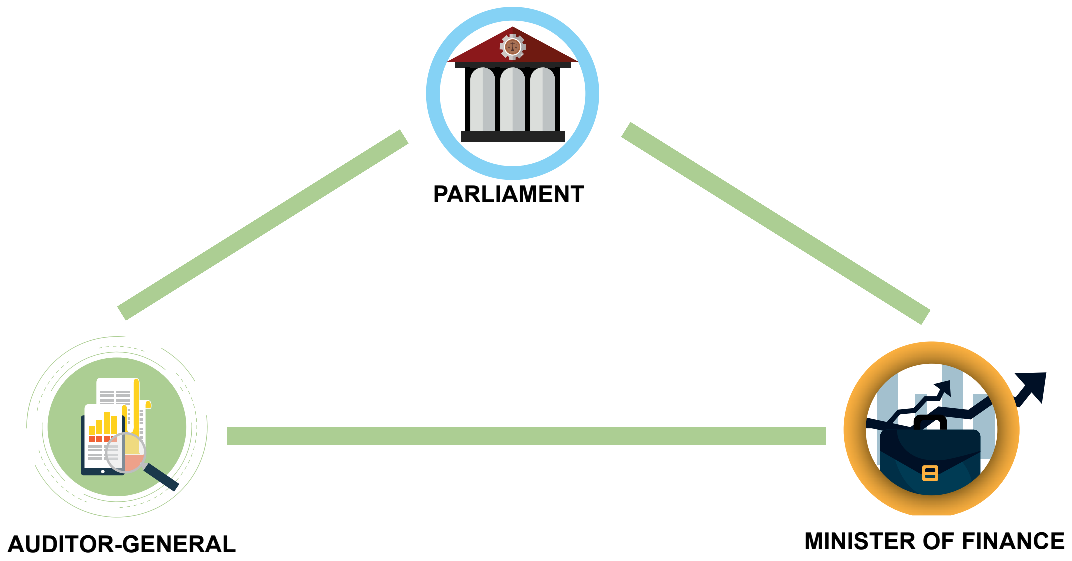
Lastly, I would like to express my gratitude to my staff, the Financial Services Volunteer Corp (FSVC), and USAID for their significant effort and financial support in realising this first simplified report. I am confident that it will greatly contribute to improving how the OAG engages with stakeholders in the public financial management accountability process.

**'Mathabo Gail Makenete (Ms)**

**Auditor-General**

# ABOUT THE OFFICE OF THE AUDITOR-GENERAL

The Office of the Auditor-General is the Supreme Audit Institution of Lesotho responsible for auditing accounts of Government Ministries, Departments, State-owned enterprises and any institution where government has interest of over 50%.




# MANDATE OF THE AUDITOR-GENERAL

**The mandate of the Auditor-General is to audit all public resources in the Country and is derived from:-**

i. Section 117 of the Constitution of Lesotho gives the Auditor-General the mandate to audit how public monies are utilised and report to Parliament.

ii. Audit Act 2016 recognises the broader role of public audit, in undertaking financial, compliance, and performance audits among others, to assess the adequacy of information systems and the efficiency of government operations.

iii. The Public Financial Management and Accountability Act (PFMA) of 2011.

## AUDIT CERTIFICATE

An adverse audit opinion was rendered on the Government of Lesotho's financial statements for the year ended March 31, 2022, indicating significant inaccuracies in representing the government's financial position, performance, and cash flows according to international standards. Key issues include:

i. **Cash Position Discrepancies:** There is a significant unexplained difference of M5.3 billion between reported cash balances and actual cash movements.

ii. **Cash Decrease Differences:** Reported decreases in cash do not match actual decreases, creating discrepancies of M856 million.

iii. **Undisclosed Receivables:** M415 million from previous years has not been accounted for, with no evidence of resolution.

iv. **Mis-allocation of Funds:** M26 million allocated for COVID-19 vaccines was misclassified, impacting proper budgeting.

v. **Pending Litigation:** Claims from ministries totaling M492 million were not properly accounted for.

vi. **Excessive Expenditures:** Some government departments overspent their budgets without proper authorization.

vii. " Long-standing issue like omitted accounts has yet to be resolved".

## KEY AUDIT FINDINGS OVERVIEW

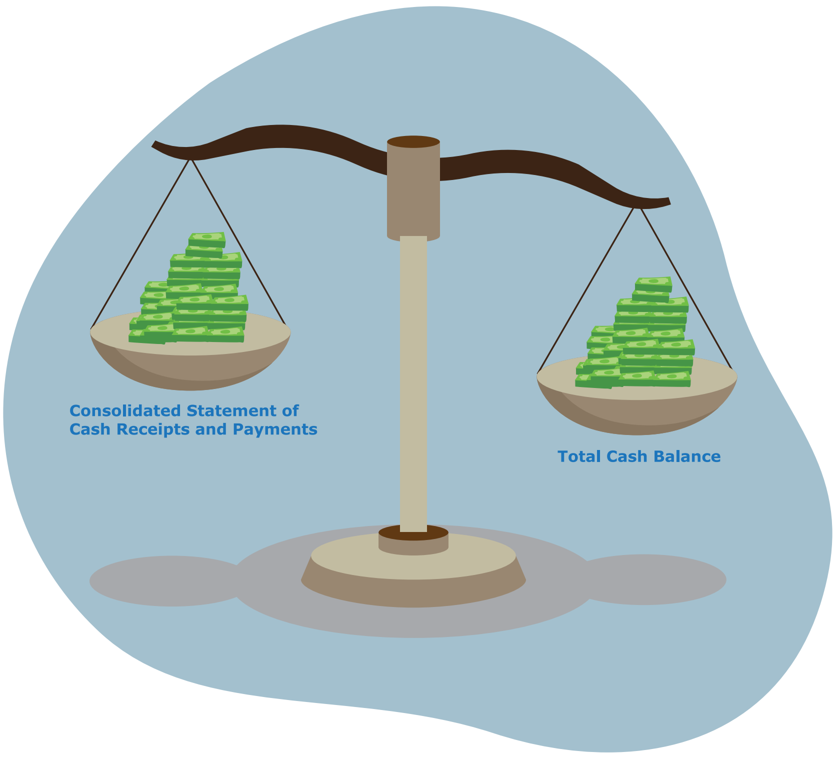
| Audit Findings | Amount |
|---|---|
| **1. Cash Management Discrepancies** | **M10.3 billion** |
| - Cash Balance Discrepancy | M5.3 billion |
| - Reconciling cash Items Discrepancy | M5.0 billion |
| **2. Fraudulent Transactions & Irregular Payments** | **M52 million** |
| - Fraudulent Transactions | M48.7 million |
| - Irregular Payments- Triple payments | M0.1 million |
| - Fraudulent Payments – duplicate payments | M2.2 million |
| - Exploitation of payment instruction | M0.9 million |
| **3. Financial Reporting Issues** | **M894.1 million** |
| - Discrepancies in Reporting cash | M856 million |
| - Misclassification of Advances | M36.8 million |
| - Mismanagement of Advances | M1.3 million |
| **4. Debt Management** | **M221 million** |
| Inadequate Debt Management | M221 million |
| **5. Compliance & Regulatory Issues** | **M2.4 billion** |
| - Non-compliance with Regulations | M804 million |
| - Failure to Prepare Appropriation Bill | M1.6 billion |
| - Delayed Action on Bank Accounts | M40.8 million |
| **6. Miscellaneous Findings** | **M1.06 billion** |
| - Anomalies in Accounting for Treasury bills | M602 million |
| - Omitted Liabilities | M10.4 million |

# SUMMARISED AUDIT FINDINGS

## CASH MANAGEMENT

### 2.1 Cash Position and Balances Discrepancies

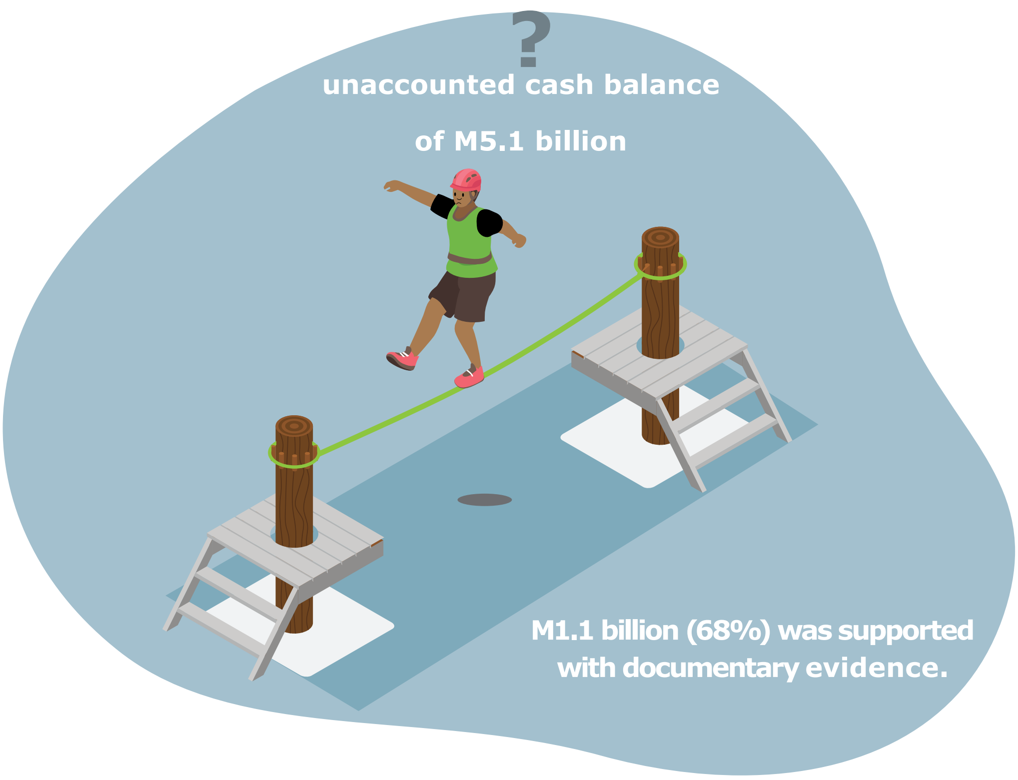
Discrepancies in the reported cash position of the government as of 31 March 2022 were identified. While the Consolidated Statement of Cash Receipts and Payments showed a cash balance of M9.9 billion, the total cash balance across various accounts amounted to M4.6 billion, resulting in an uncorroborated difference of M5.3 billion.




**The Elusive M5.3 Billion Cash Trail.**

## 2.2 Reconciling Items Discrepancies

Significant discrepancies in reconciling cash balances were identified, with an unaccounted cash balance of M6.2 billion in the financial year 2020/2021 attributed to incomplete reconciliation. While the Accountant-General's Office reconciled M1.7 billion from 2019/2020 to 2020/2021, only M1.1 billion (68%) was supported with documentary evidence. A review of supporting documents submitted further revealed the following:-




The Elusive M5.1 Billion Cash Trail.

## i. Lack of Documentation for Payments Made Outside IFMIS

Payments made outside the Integrated Financial Management Information System (IFMIS) totalled M1.7 billion, involving five components: External Debt, Domestic Debt (Treasury bills and Treasury bonds), Subscriptions to International Organisations, Interest payments for Members of Parliament and Statutory positions, and Unclassified payments. While three components were supported by documentary evidence, accounting for M1.2 billion of the total amount, Domestic Debt and Unclassified transactions lacked supporting evidence, totalling M524.8 million. This absence of documentation raises concerns about transparency and accountability in financial transactions, emphasising the need for improved record-keeping and oversight of payments made outside the IFMIS system.

**Missing Paper Trail: The M524.8 Million Payment Puzzle.**

## ii. Fraudulent Transactions

During the verification of cash book reconciliations spanning from April 1, 2019, to August 2021, fraudulent transactions totalling M 48.7 million were uncovered. These transactions involved discrepancies between payment vouchers and instruction letters submitted to the Central Bank of Lesotho (CBL) for payment, resulting in unauthorised payments processed by the CBL. These fraudulent payments were made to companies that were not verifiable with the Ministry of Trade.


**Fraud Alert: The M48.7 Million fake Tranaction.**

## iii. Inconsistent Information on Payment

A significant issue arose regarding an instruction letter (052PVR21000199) dated 20/01/2021, which authorised a payment of M 942,670. This payment was later discovered to be fraudulent. The inconsistency emerged as the same instruction number was mentioned in the 'Particulars' column, while a different instruction number (052PVR21000019) was recorded in the transfer reference column, leading to confusion and requiring immediate attention.

**Fake Bills: The M942,670 Payment Swindle.**

## iv. Duplicate Payments

The audit revealed a case of fraudulent payment instructions issued to the CBL, involving instruction letter number 013PV21001213. This letter was exploited to authorise duplicate payments totalling M2.6 million to the same payee, MRP Enterprises (Pty) Ltd, on both 28th January 2021 and 11th February 2021. This incident highlights a violation of Section 24 (g) of Treasury Regulations, 2014, which mandates each payment voucher to be assigned a unique registration number. Additionally, it underscores weaknesses within the payment system between the Treasury and the CBL, indicating a failure to detect and prevent duplicate payments effectively.

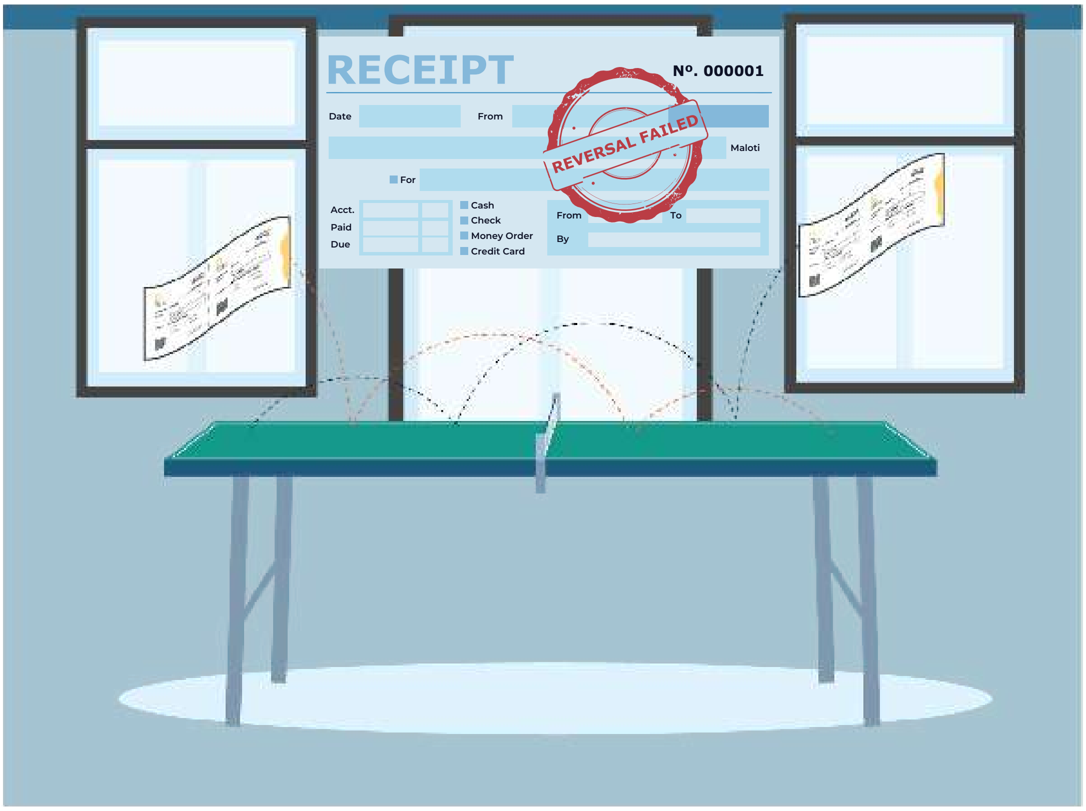
# V.Irregular Payments

A portion of payments, originally reported as double payments by the Treasury Department and totalling M59,404, were actually made thrice. This finding, uncovered through a review of bank statements, led to a total payment of M178,213. It was noted that a single payment voucher number was used to authorise the payment of the identical amount to the same payee on three separate dates, highlighting a significant flaw in the payment processing system.


**The Triple Trouble M178,213 Flaw.**

## 2.3 DOUBTFUL REVERSALS OF PAYMENTS

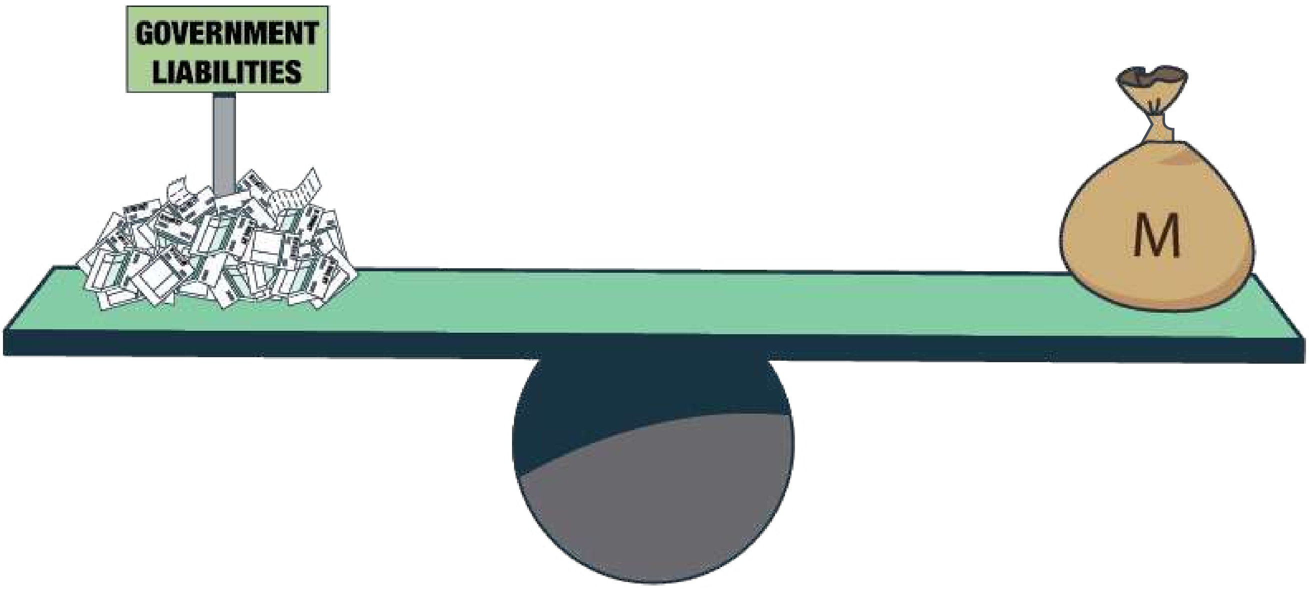
A suspicious incident came to light involving a payment of M9.9 million dated 30th July 2021, transferred using instruction number 051PVR22000237. Initially, this payment was reversed by the CBL on 2nd September 2021. However, the payment was subsequently made again on the same date with the identical instruction number, only to be reversed once more on 7th September 2021. This pattern of duplicated payments and reversals, along with the circumstances surrounding the reversals, raised doubts about the integrity and reliability of the payment processing system.




**The M9.9 Million Reversal Relay.**

## 2.4 Discrepancies in Reported Cash Decreases

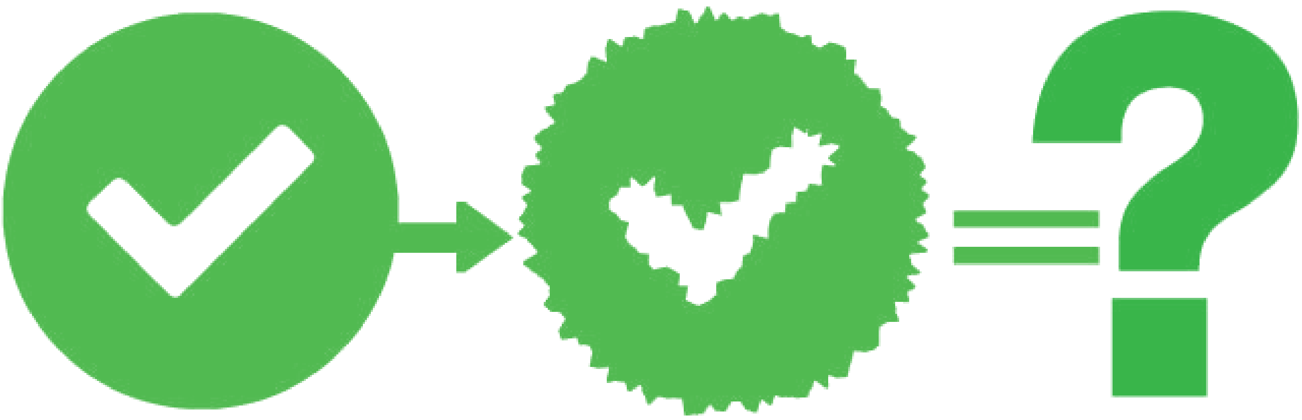
The Consolidated Financial Statements (CFS) Note 15, revealed a cash decrease of M856 million from M5.5 billion to M4.6 billion between March 31, 2021, and March 31, 2022. However, the Consolidated Statement of Cash Receipts and Payments showed a decrease of M537 million, differing from the reported M856 million decrease. Over-reporting cash flows could lead to cash overflow issues, hindering the settlement of government liabilities, while under-reporting may result in missing essential expenditures.




**Cash Discrepancy Dilemma.**

## 2.5 FINANCIAL STATEMENT AND BANK CONFIRMATION VARIANCES

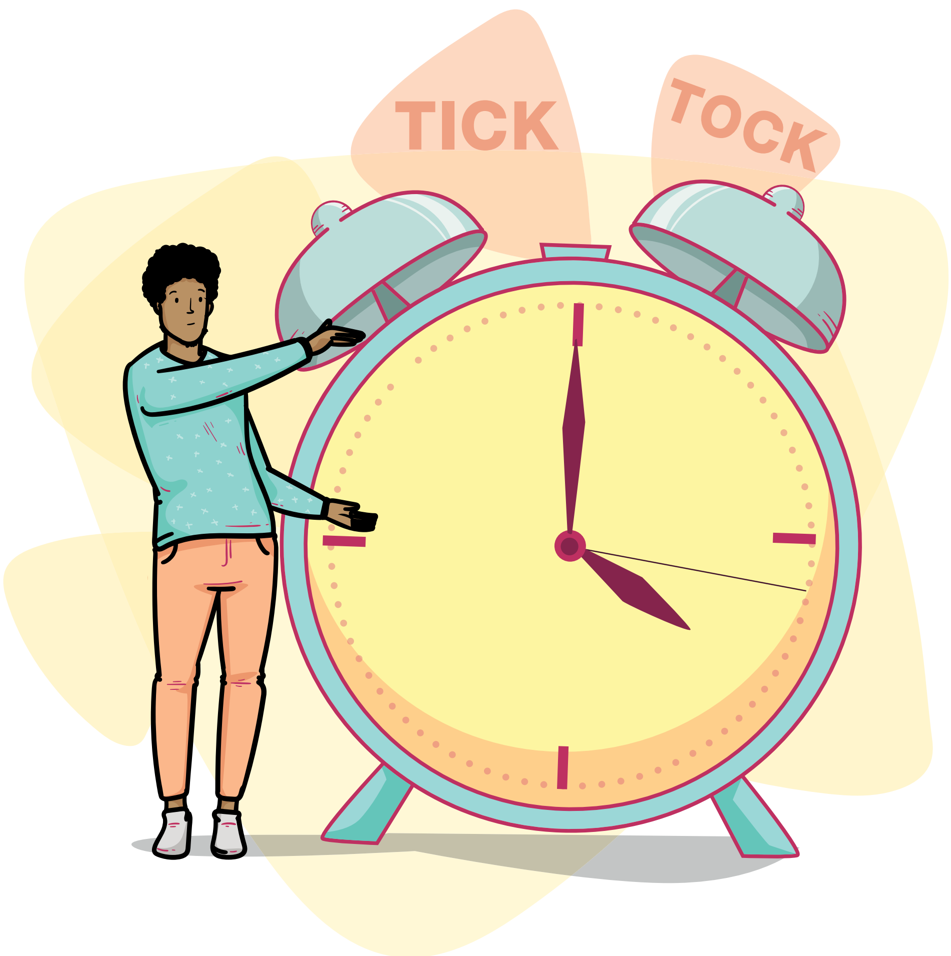
The audit revealed discrepancies between reported balances in the Consolidated Financial Statements (CFS) of M494 million and bank confirmation certificates of M495 million. The variances were M1.1 million at Lesotho PostBank which was omitted from Note 15 of the CFS and  M0.1 million in Foreign Missions attributed to an incorrect conversion rate for Foreign Missions.



**Financial Statement Gap.**

## 2.6 Delayed Action on Dormant/Inactive Bank Accounts

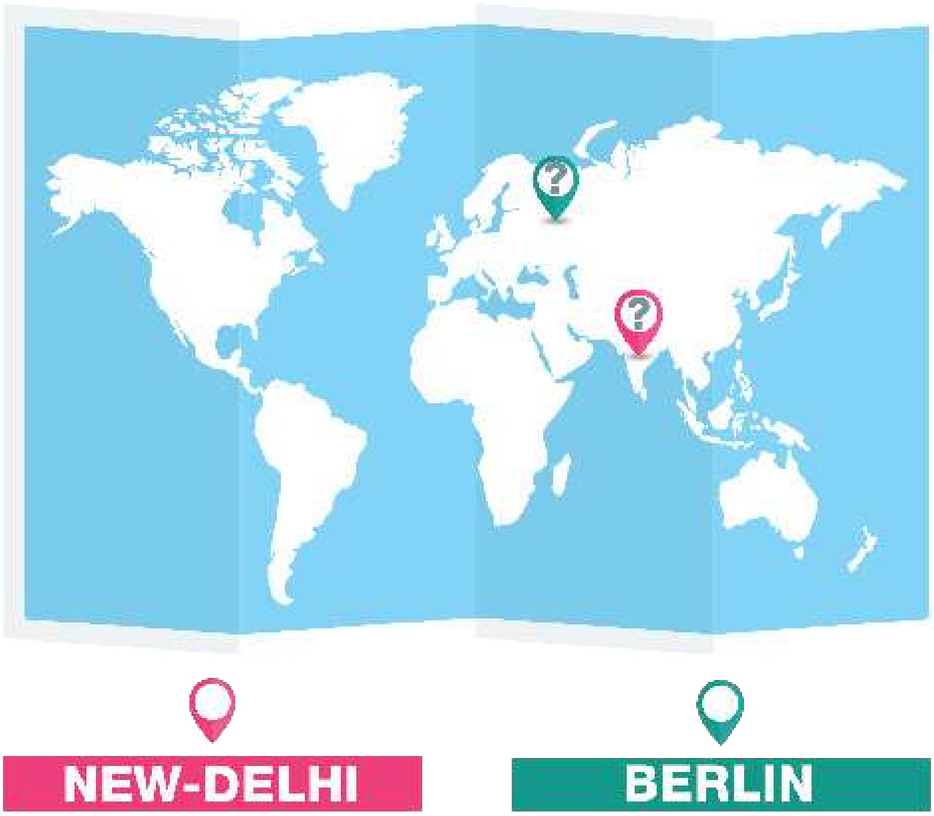
As of March 31, 2022, twelve dormant or inactive accounts, held at Standard Lesotho Bank and Lesotho Postbank, with a total balance of M40.8 million, were identified. The delay in action by the Accountant-General poses risks of theft, fraud, misappropriation, and embezzlement. The institutions involved are the Ministry of Finance, Local Government, Trade, Police and Public Safety and Communications.




**Idle Funds: The M40.8 Million Dormant Account Delay.**

## 2.7 UNRECONCILED CASH BALANCES AT THE FOREIGN MISSIONS

Persistent unreconciled accounts were found for the Berlin and New Delhi missions, and the Durban Consulate, with balances escalating from M0.03 million to M0.15 million by March 2022. Despite recommendations made for the financial year 2019/2020, these discrepancies persist, with Berlin's unreconciled amount at M1.3 million and New Delhi's at M0.75 million.




**Lost Abroad: The Unresolved M2.05 Million Mission Mystery.**

## 2.8 Incorrect Bank Reconciliation Statements

The confirmation from the Lesotho Brussels bank as of March 31, 2022, indicated a balance of EUR0.2 million, but the bank reconciliation statement for the same date, showed EUR0.24 million, based on the balance from March 1, 2022.


**Lets ensure our financial records are accurate and complete**

## 2.9 NON-AVAILABILITY OF RECONCILIATION STATEMENTS

Three mission bank accounts totalling M1.1 million remained unreconciled, hindering the evaluation of financial records' accuracy and completeness.

# NON- CASH ASSETS

## 3.1 Undisclosed Prior Year Balance

The Accountant-General reported a total overdue debt (accounts receivables and revenue arrears) of M172 million as of March 31, 2022. However, the audit revealed an amount of M415 million from prior years which was not disclosed and there was no evidence of how the amount was cleared.


**Reported Overdue Debt of M172million**

**Actual Overdue Debt of M415 million**

**Unreported Prior Year Debt**

## 3.2 MISCLASSIFICATION OF ADVANCES

The audit identified significant issues concerning the classification and management of advances in financial reporting, where a Ministry of Health Contingency Advance of M26 million for COVID-19 vaccines was erroneously classified as imprest instead of contingency advance.


**M 26 Million Advances Mismanaged and Misclassified.**

## 3.3 FAILURE TO FOLLOW TREASURY GUIDELINES

Section 31(a) of the Treasury Regulations requires that any approved but unpaid public money at the end of a financial year should be cancelled; however, contrary to the regulation, an amount of M10 million listed as imprest under the Ministry of Finance in the 2021/2022 financial year, was reserved for vehicle procurement to be delivered in the subsequent financial year 2022/23.

**2021/2022**

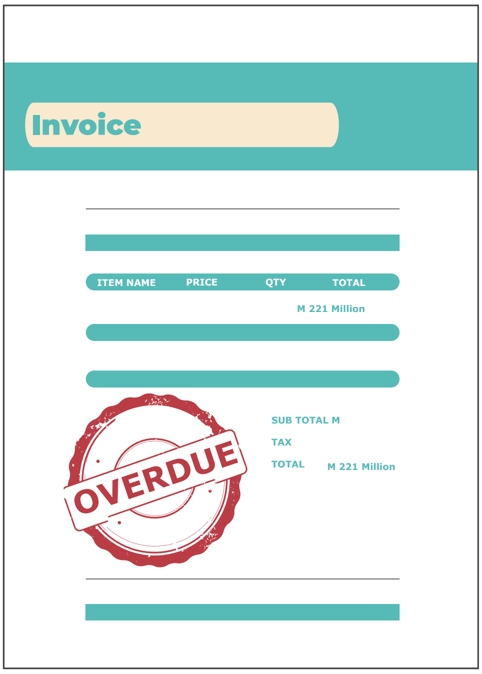
**M 10 Million Imprest**

**2022/2023**

**Reserved Funds for Vehicle Procurement**

## 3.4 Inadequate Debt Management and Oversight in Contracting New On-Lent Loans

Water and Sewerage Company (WASCO) accumulated payment arrears of M221 million since 2017, exacerbated by non-payment of current year's loan instalments for five projects. Despite WASCO's defaulting status, new on-lent loans were issued for projects like Five Towns (BADEA) and Greater Maseru Water Supply. Additionally, three loan agreements were contracted for similar projects, leading to one cancellation incurring M0.6 million in costs, resulting in fruitless expenditure and potential reputational loss. The absence of a loan billing system in the Debt Department resulted in inconsistent settlement of loans by agencies, as invoices were not being issued.




**Debt Dilemma: M221 Million Arrears Amid New Loan Contracts.**

# LIABILITIES

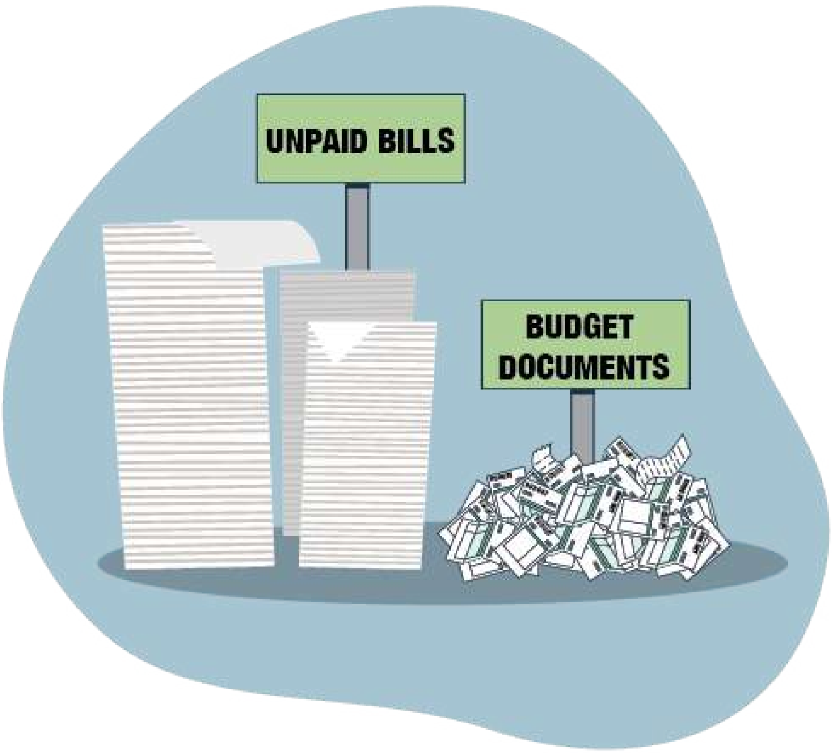
## 4.1 ANOMALIES IN ACCOUNTING FOR TREASURY BILLS AND BONDS

Discrepancies were found in reporting Treasury Bonds payments totalling M602 million, which were incorrectly reported on a net basis instead of the required gross basis, violating Cash Basis IPSAS standards. This misreporting conceals the true financial position and breaches reporting standards. Furthermore, essential details regarding withholding tax on interest and coupon payments for Treasury Bills and Bonds were not separately disclosed in the Consolidated Financial Statements (CFS), raising concerns about transparency and accuracy.

**Bonds and Bills Puzzle: M602 Million Misreported Concealing Financial Position.**

## 4.2 NON-COMPLIANCE WITH PAYMENT ARREARS REGULATIONS

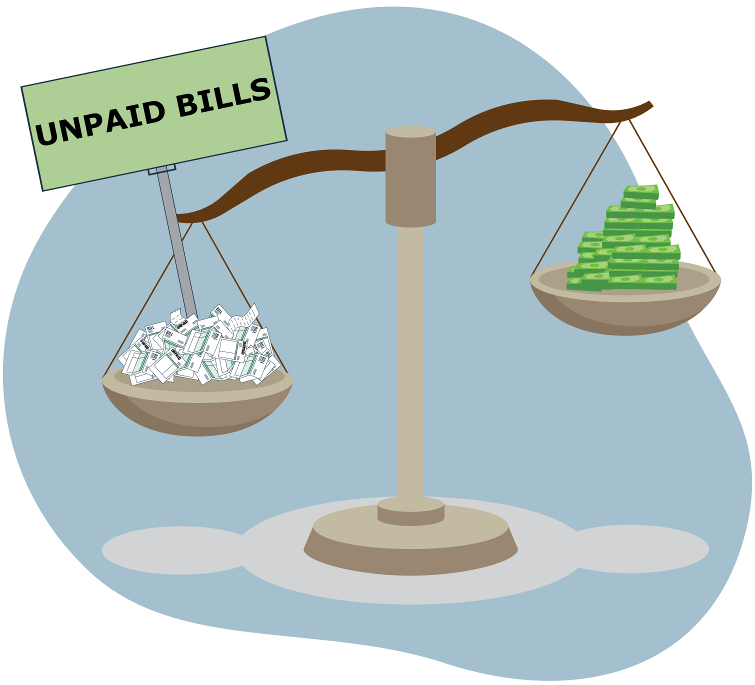
The audit revealed payment arrears totalling M804 million as of March 31, 2022, with M545 million outstanding for more than a year, contravening Treasury Regulation Section 26 (1) and (2). Notably, arrears related to construction work saw a substantial increase from 7% in 2021 to 36% in 2022. This non-compliance strains budget allocations for the upcoming fiscal year and undermines the achievement of set objectives and priorities due to activities being implemented without proper budgetary allocation.




**Arrears Avalanche: Straining Budget Allocations**

## 4.3 OMITTED PAYMENT ARREARS FROM COURT ORDERS – MINISTRY OF HEALTH

The Ministry of Health's payment arrears totalling M10.4 million were not included in the Consolidated Financial Statements (CFS), leading to an omission of significant liabilities. Despite court orders mandating payments, the Ministry of Health neglected to fulfil these obligations, leading to the accumulation of arrears. These arrears, along with accruing interest and additional costs, pose financial risks to the government.




**Healthcare Debt Dilemma: M10.4 Million Omitted, Posing Financial Risks.**

## 4.4 CONTINGENT LIABILITIES

### i. Guaranteed Loans

The audit revealed significant issues in managing guaranteed loans, including: the absence of documentary evidence supporting guarantees, lack of a database and monitoring system, inconsistencies in principal repaid amounts (M2.6 million for PCGF with Lesotho PostBank), discrepancies in opening balances compared to closing balances (M105 million difference for WASCO, Maseru E Textiles, and TZICC), totaling M20 million for newly disclosed opening balances. These findings highlight the urgent need for the Ministry of Finance to implement effective management and reporting procedures for guaranteed loans.


**Management Issues in Guaranteed Loans**

### ii Public-Private Partnership and Other Operational Agreements – Lack of Legal Framework

Audit findings highlight concerns regarding the lack of a legal framework for Public-Private Partnership (PPP) Agreements and other operational contracts between the government and private parties. This absence of legislation, framework, or policy makes it difficult to determine if the contracts meet PPP criteria. The lack of clarity poses potential risks in contract management and the Ministry of Finance should develop a clear framework to guide the provision of PPP agreements.


Public-Private Partnership (PPP) Concerns

## LOSSES AND ACCIDENTS

### 5.1 Ministry of Health - Loss of or Damage to Government Property

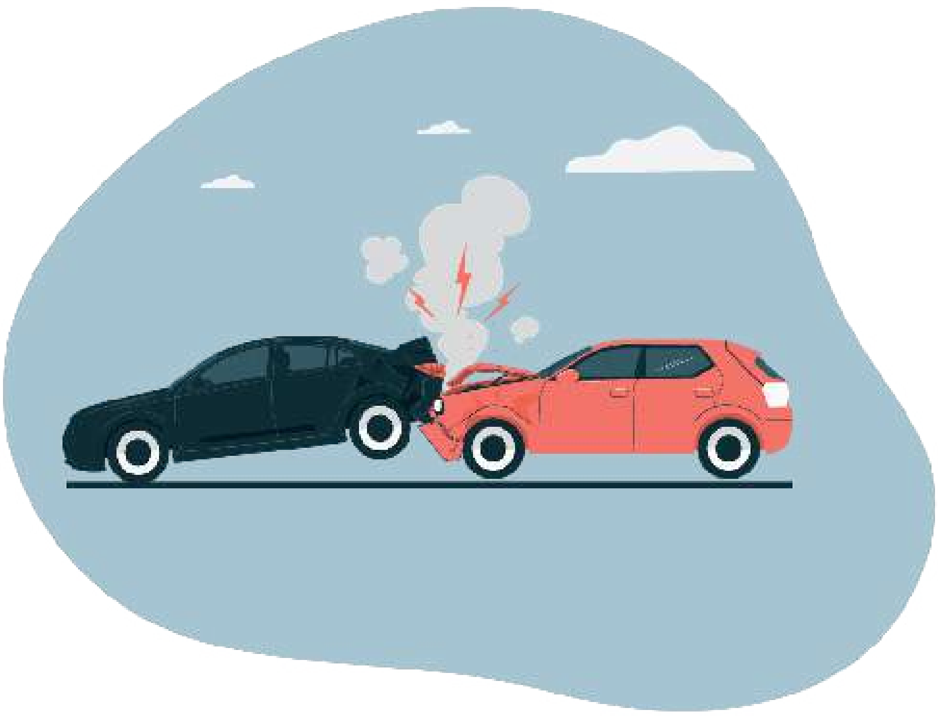
The Ministry of Health experienced extensive damage due to a fire incident at its headquarters in 2019, impacting the office building, furniture, and equipment. While the Ministry reported the incident to the police and engaged insurers for building assessment and refurbishment, there was a lack of documentation regarding the quantification of loss on furniture and equipment.

**Healing After the Flames: Ministry of Health Grapples with Unquantified Losses from 2019 Fire.**

## 5.2 Discrepancies in Reporting and Recording of Motor Vehicle Accidents

Discrepancies were found in reporting motor vehicle accidents and subsequent actions across the Consolidated Financial Statements (CFS), Ministries' Financial Statements, and reports received by the Auditor-General. Contrary to regulations, the total cost of repairs and the number of accidents reported varied significantly among these records. This inconsistency violates Treasury Regulations and impedes accurate financial management and accountability.

The Auditor-General's office received reports for 38 vehicles with a total repair cost of M0.3 million. However, the CFS indicated a total repair cost of M3.8 million, while the Ministries' financial statements showed M1.5 million.

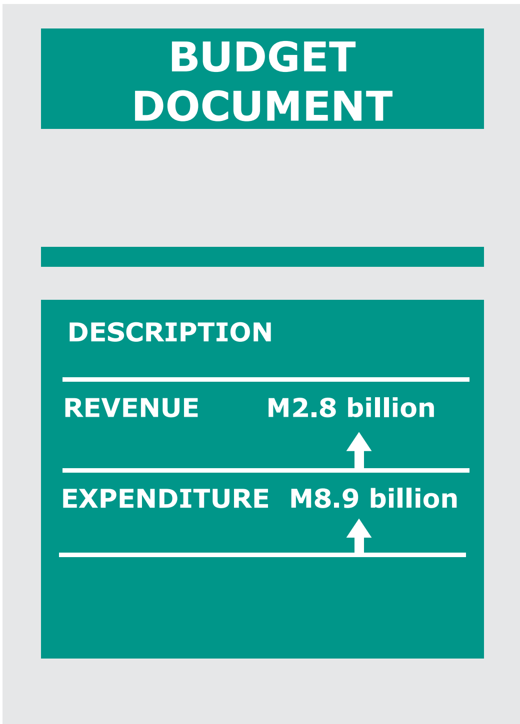


**Crash in Accountability: Inconsistencies in Reporting Motor Vehicle Accidents Raise Red Flags.**

# ADMINISTRATION OF PUBLIC FINANCE

## 6.1 Discrepancies in Government Revenues and Recurrent Expenditure

Significant discrepancies were found in government revenues and recurrent expenditure between the amounts specified in the Appropriation Act and those stated in the Book of Estimates for the fiscal year 2021/2022. The discrepancies amounted to M2.8 billion for government revenues and M8.9 billion for recurrent expenditure.




**Budget Blues: Discrepancies of M2.8 Billion in Revenues and M8.9 Billion in Expenditure.**

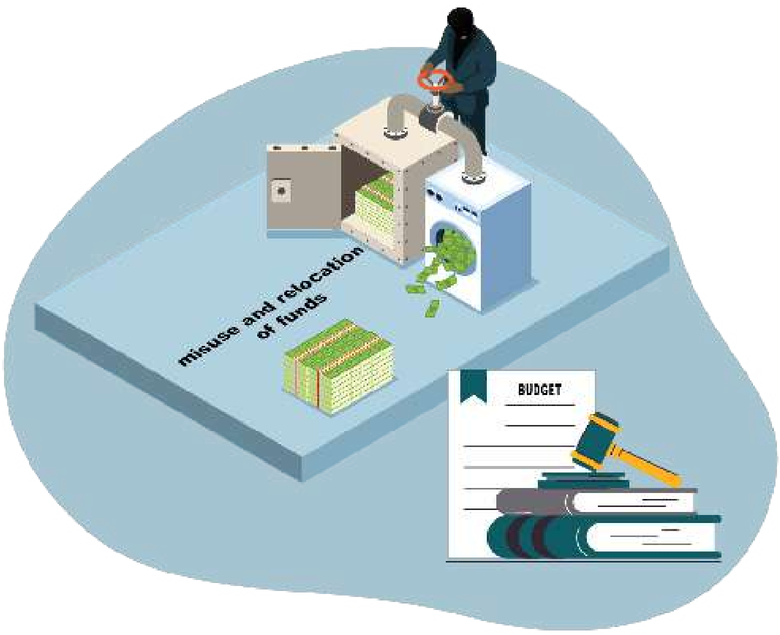
## 6.2 Failure to Prepare Supplementary Appropriation Bill in Time for Administration Account/Contingencies Fund

During the financial year, M600 million was allocated to the Administration Account (Contingencies Fund), and an extra M252 million was added, making it a total of M852 million. Recurrent Expenditure advances amounted to M478 million, while Development Expenditure advances totaled M328 million. However, the additional M252 million was not properly supported by an approved supplementary bill because the draft Supplementary Appropriation Bill 2021/22 was submitted but not yet presented to Parliament at the time of the report.


**Delayed Disbursement: M478 Million Advanced Without Timely Bill Presentation.**

## 6.3 Misuse of Centralised Items Vote Without Relevant Legislation

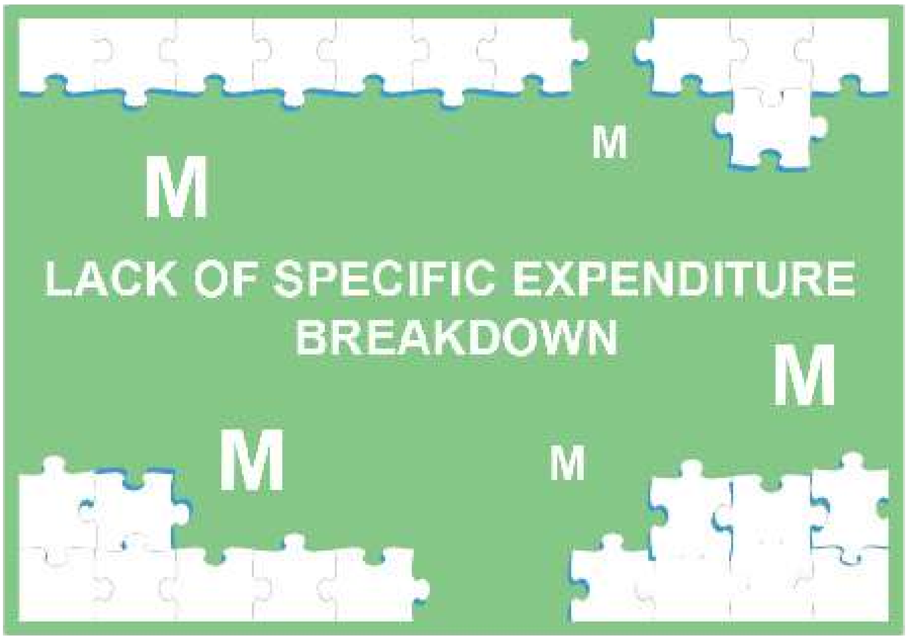
Significant concerns arose related to the Centralised Items Vote (Head 30) in the fiscal year under review. The practice of financing salaries (both vacant and new positions), purchase of vehicles, cycles, and equine out of the Centralised Items Vote raised issues due to the lack of relevant legislation governing its usage. This practice is deemed contrary to Section 20 of the PFMA Act, as the items charged to this vote are already existing line items in ministries. During the year, the budget was revised to include expenses for consultancies, salaries for established posts, grants, and vehicles, emphasising the need for proper legislation for the Centralised Items Vote. The audit revealed that 84% of the budgeted amount for the Centralised Items Vote had been reallocated to existing votes without a specific expenditure breakdown.




## Mismanagement Revealed as Appropriation Bills Remain Unprepared.

## 6.4 Misallocation and Reallocation of Centralised Items Vote Funds

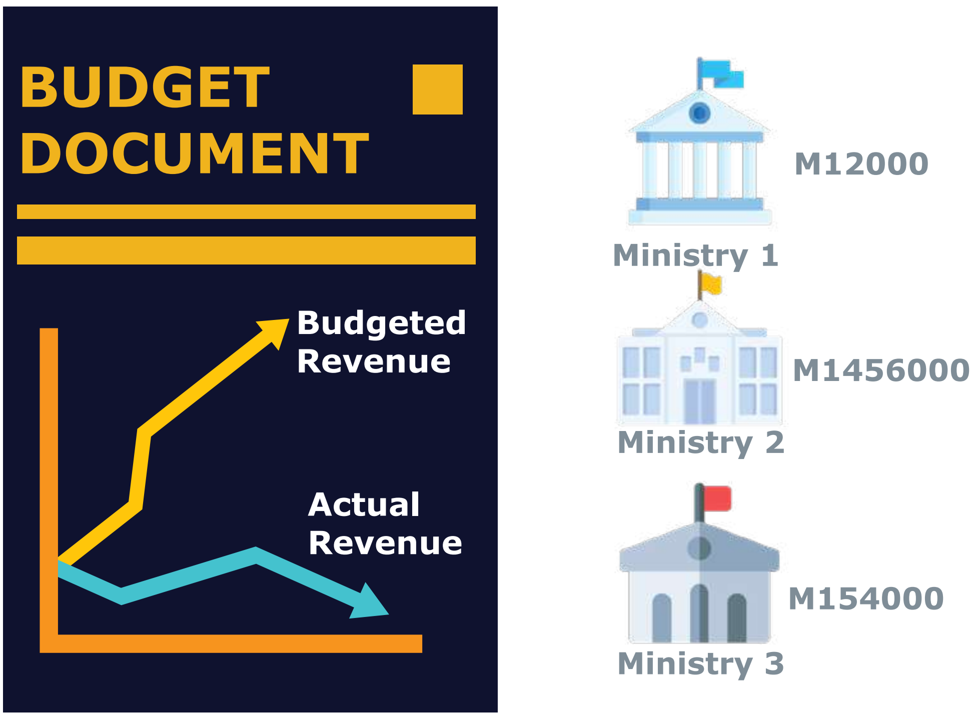
The audit revealed significant concerns regarding the allocation and reallocation of funds within the Centralised Items Vote. While the Appropriation Act initially allocated M493 million to this vote, only M414 million was allocated to specific spending units, leaving a balance of M79 million. Additionally, there was no specific expenditure breakdown for Head 30 in the Consolidated Financial Statements (CFS), further complicating oversight.




**Missing Pieces in Fiscal Management.**

## 7.1 BUDGET EXECUTION ON RECURRENT REVENUE

The examination of the execution of the budget on recurrent revenue highlighted disparities between the total budget reflected in Ministries' financial statements (M15.5 billion) and the actual revenue collected (M16 billion), resulting in an over-collection of M480 million. Twenty-eight (28) ministries experienced significant variances between their budgeted and actual revenue collection, with some collecting less than 50% against the budget and others exceeding their budget by as much as 613%. Discrepancies between the Consolidated Financial Statements (CFS) and the Ministries' Financial Statements raised concerns, particularly regarding the treatment of Treasury bills amounts.




Budget Execution and Revenue Collection

# ACCOUNTABILITY FOR EXPENDITURE BY CHIEF ACCOUNTING OFFICERS

## 8.0 Ineffective Financial Management and Budget Oversight

The audit findings highlight significant deficiencies in various aspects of financial management and budget oversight within the government. These include:

i. Under-utilisation of appropriated funds.

ii. Discrepancies between budget figures and financial statements.

iii. Non-enactment of necessary legislation for supplementary appropriations.

iv. Variances between budgeted and actual expenditures.

v. Lack of adherence to constitutional and legislative requirements.

vi. Inadequate utilisation of donor grants and loans.

vii. These issues collectively indicate systemic weaknesses that call for comprehensive reforms to improve transparency, accountability, and efficiency in public expenditure. The table below shows the magnitude of the weaknesses:

**Strengthening Oversight and Accountability. Systemic weaknesses call for comprehensive reforms to ensure efficient public expenditure.**

| | |
|---|---|
| Management of Recurrent Expenditure Budget | Three spending units (Forestry, Auditor-General, and IEC) reported budget execution below 75%, indicating under-utilisation of funds. The under-utilisation was due to unreleased appropriated amounts. A supplementary bill meant to regularise expenditure from the contingency fund of M806 million has not been enacted. Additionally, 13 heads of expenditure received supplementary budget allocations but failed to utilise them, showing a lack of effective budget monitoring. Differences between budgeted amounts were also found between Appropriation Act balances, spending units, and CFS, which could lead to spending units utilising unapproved amounts. |
| Development Budget – Under utilisation | Out of a revised budget allocation of M7.3 billion, only M4.3 billion (58%) was utilised. Ten spending units displayed an execution rate below 50%, raising concerns about the ability to provide essential public services. |
| Failure to pass Supplementary Appropriation Bill and Spending Units Financial Statements | An instruction was issued for a Supplementary Appropriation Bill to regularise capital expenditure of M1.6 billion, but it has not been enacted. |
| Unbudgeted Expenditure | A total grants expenditure of M27.3 million was not budgeted for. |
| Budget Execution on charged Expenditure | Under-utilisation of budget was observed, with actual expenditure amounting to 69% of the revised budget of M4.7 billion. |
| Usage of Donor Grants, Loans, and Government of Lesotho Development Budget | Low absorption of donor grants and a decline in loans utilisation compared to the previous year were noted, indicating inefficiency in fund usage. A total of M856 million of donor grants was left unspent, and there was a discrepancy of M310,373 between the actual expenditure reported in the CFS and the audited financial statements. |

# AUDIT OF STATUTORY BODIES

## 9.1 Preparation and Audit of Annual Accounts:

As of March 31 2022, several statutory bodies failed to produce their annual financial statements in a timely manner, and some did not submit any financial statements for audit at all. Additionally, audit reports of statutory bodies were not being presented to Parliament by Ministers, contrary to Section 28 of the Audit Act 2016, read along with Sections 44 and 45 of the PFMA Act.


**Statutory Bodies Miss Deadlines for Financial Reporting.**

## 9.2 Unrecognised Liability– Road Directorate

The Roads Directorate failed to recognise a liability of M44.9 million in contractors' claims in its Statement of Financial Position, breaching International Financial Reporting Standards (IFRS) 9. Of this amount, M37.9 million was interest due on delayed payments, and M7 million was due to project terminations.

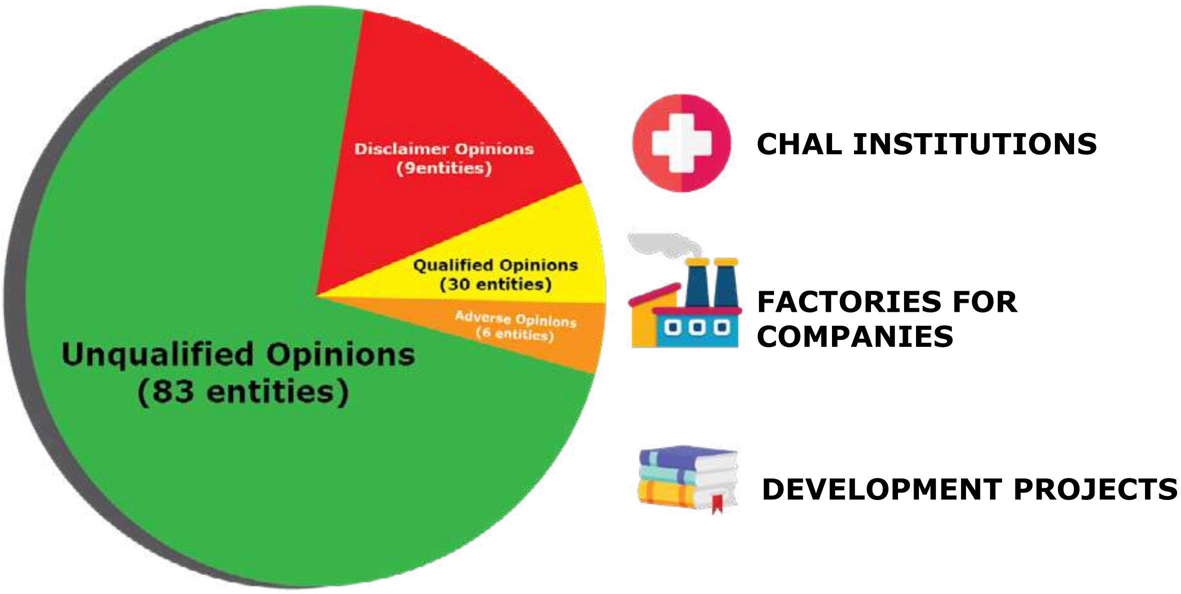
**Road to Liability: Unaddressed Claims and Unused Assets**

## 9.3 Improper Procurement of Road Construction Equipment-M 10.6 Million

Contrary to its mandate outlined in Section 4(1)(e) of the Roads Directorate Act 2010, the Roads Directorate, through the Road Fund, purchased road construction equipment from Bell Equipment Sales SA Limited in 2019, totaling M10.6 million. However, during a 2021 audit, it was found that this equipment remained unused, resulting in depreciation, and tying up capital that could have been used for other activities.

## 9.4 Analysis of Audit Opinions

The analysis of opinions of statutory bodies, Christian Health Association of Lesotho (CHAL) institutions, trading accounts, companies, authorities, corporations, and development projects reveals a concerning number of unfavourable audit opinions. Out of 128 audited entities, 9 received a disclaimer opinion, 30 had a qualified opinion, while 6 had an adverse opinion. Further 83 entities received an unqualified opinion. Disclaimer opinions indicate weaknesses in internal controls and governance processes, posing risks of fraud and errors. Adverse opinions can significantly impact an entity's reputation and relationships with stakeholders. Recommendations include ensuring financial statements are supported by reliable evidence and correctly reflect transactions.



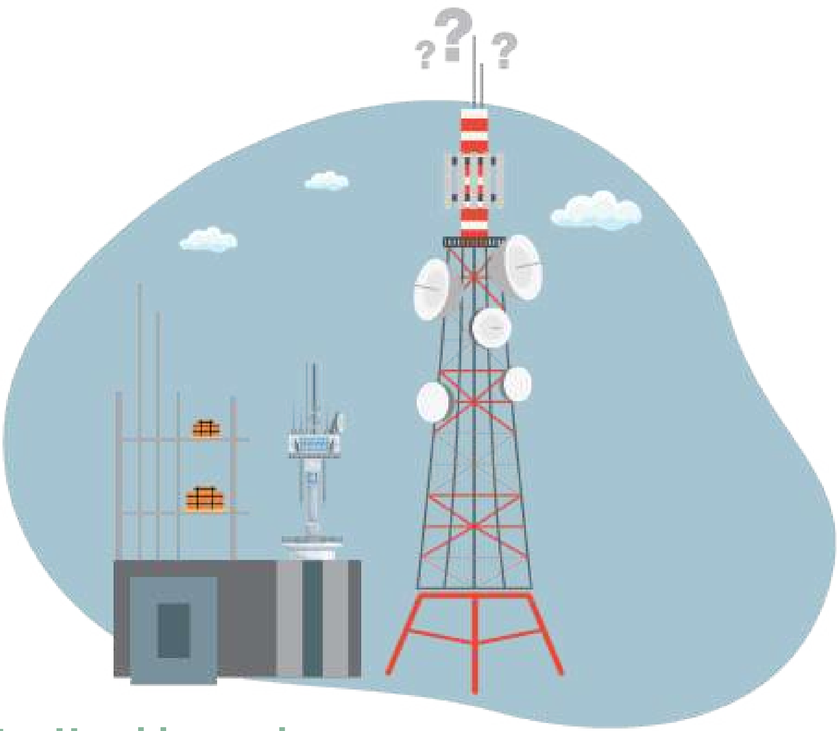

Audit Opinions Analysis

## 9.5 Other Matters Arising from The Audit of State-Owned Enterprises

During the audit of state-owned enterprises, against their mandates, the following anomalies were discovered as depicted below:

**i.Payment made for a suspended project: Lesotho Communications Authority (LCA)**

The Lesotho Communications Authority (LCA) contracted Global Voice Group (GVG) for a Compliance Monitoring and Revenue Assurance Tool (C-MART) project valued at M529 million. However, due to unmet pre-conditions, the project did not commence. Despite this, M14.5 million was paid as a commencement fee and recorded as Property, Plant, and Equipment (PPE). This payment occurred despite no progress on the project, leading to an understatement of expenditure and an overstatement of assets. The funds spent are at risk of being deemed as fruitless expenditure due to the unlikely progress of the project.



### Road to Liability: Unaddressed Claims and Unused Assets

## ii Base Transceiver Stations not completed on time: Universal Service Fund (USF)

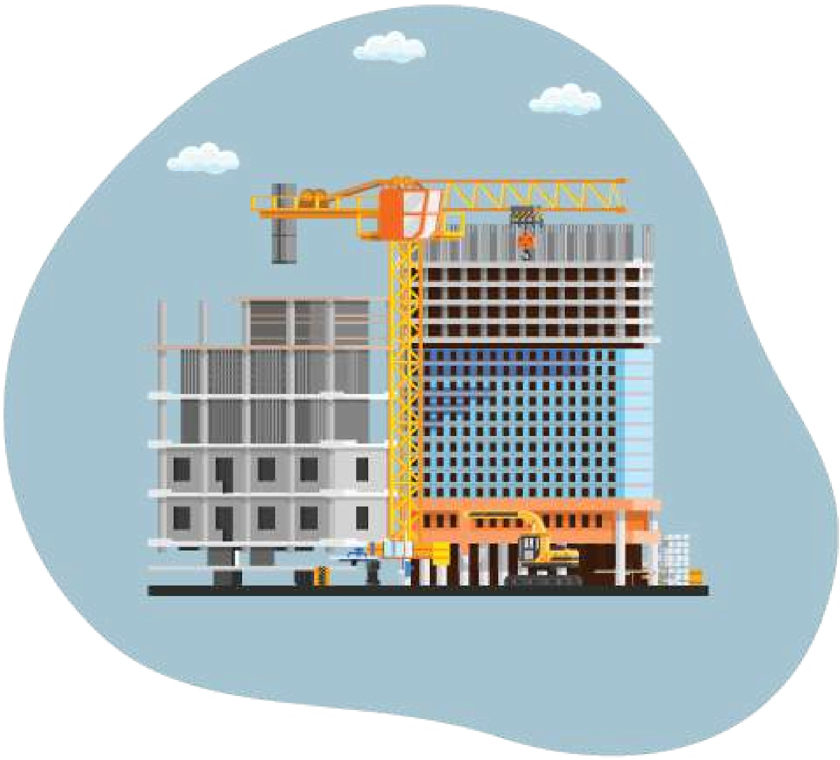
Between November 2021 and March 2022, seven Base Transceiver Stations (BTSs) were not completed within the agreed-upon timeframes. The Universal Service Fund (USF) lacked the capacity to effectively oversee the project, prompting its reassignment to Vodacom Lesotho (VCL) and Econet. Despite this, delays persisted, leaving certain areas without universal access to communication services. The audit recommends allocating adequate resources to ensure timely project completion and provision of services, as further delays could increase construction costs and prolong service unavailability.

| BTS Location/ Name | Cost (M'000) | Expected start Period | Planned completion period |
|---|---|---|---|
| Khubelu Valley | 3,994 | September 2021 | March 2022 |
| Liseleng | 3,609 | Septembewr 2021 | March 2022 |
| Mants'onyane (2BTS) | 7,729 | August 2021 | November 2021 |
| Semonkong | 4,064 | September 2021 | March 2022 |

# AUDIT OF DEVELOPMENT PROJECTS

## 10.1 Ministry of Health – Budget underperformance

The audit identified significant underperformance in various projects under the Health Sector Reform Project, including the "COVID TF," "Cancer Treatment Centre," and "LNHSS," with budget performance levels as low as 0%, 7%, and 10% respectively. For instance, the "COVID TF" project had a budgeted amount of USD 1.693 million but no actual amount was used.



**Health Projects Stalled: Budgets Remain Untouched, Services Unfulfilled.**

## 10.2 Ministry of Trade and Industry- Inadequate Asset Management and Reporting in the Economic Diversification Support Project (EDSP)

In the Ministry of Trade and Industry's Economic Diversification Support Project (EDSP), which aims to improve infrastructure and educational support, Lerotholi Polytechnic received fifty HP ProDesk monitor computers valued at M0.8 million and Hospitality Management Equipment valued at M1.2 million. However, a physical verification revealed the absence of five CPUs and two monitors from the delivered computers, resulting in a loss of public funds. Additionally, ongoing renovations at the storage location prevented the physical verification of the Hospitality Management Equipment. Despite these findings, the loss was not promptly reported to either EDSP management or the Ministry of Finance, indicating a lack of accountability.

**Lost Assets, Lost Accountability: Shortcomings in Project Management Revealed.**

## 10.3 Ministry of Communications, Information, Science and Technology- Delay and Financial Discrepancy in E-Government Infrastructure Project

The Ministry of Communications, Information, Science, and Technology oversees the E-Government Infrastructure Project, which aims to enhance digital services in rural areas. However, Phase II of the project experienced substantial delays, with only 35% of planned activities completed in the first year. Additionally, discrepancies amounting to M1.3 million were noted between the expenditure reported in financial statements and the corresponding payment vouchers.

**stalled Progress, Hidden Costs: Delays and Irregularities in E-Government Project.**

## REPORT ON ASSET MANAGEMENT PROCESS REVIEW MINISTRIES AND DEPARTMENTS

### 11.1 Ministry of Agriculture and Food Security- Mismanagement of Ministry of Agriculture and Food Security's Property.

The audit identified significant mismanagement issues related to the Ministry of Agriculture and Food Security's property, as outlined below:

**i. Unauthorised Use of Ministry Property:**
A list of sites and buildings owned by the Ministry revealed unauthorised utilisation either wholly or partly, by external parties. These properties lacked sublease agreements, indicating a lack of control over the use of government assets.

**ii. Obsolete Assets Not Properly Accounted For:**
Lists of assets submitted by various units, such as the Lesotho Agricultural College (LAC) and the Department of Livestock, included obsolete assets. However, due to missing tags on physical assets, these obsolete assets could not be identified against the assets in use, raising concerns about proper asset management and accountability.

**Lost Harvest: Government Assets Mismanaged, Accountability Neglected.**

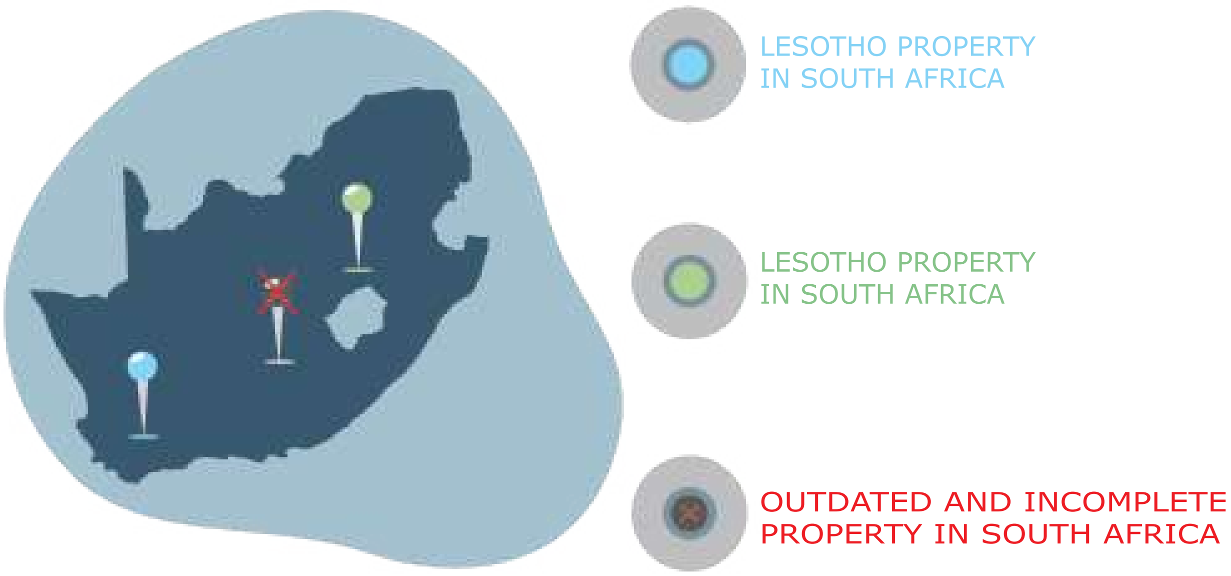
## 11.2 Ministry of Foreign Affairs and International Relations
## Inadequate Management of Lesotho Government Properties in South Africa

The Ministry of Foreign Affairs and International Relations oversees the Lesotho Government's properties in South Africa, including the Pretoria High Commission and four consulates. However, there are significant concerns regarding the management of these properties:

i. The Asset Register has not been updated since April 2019, leading to outdated information.

ii. Recorded assets lack specified acquisition dates, hindering proper asset management.

iii. Twelve out of nineteen properties in Johannesburg are in poor condition, potentially affecting operations.




**Lost in Transition: Neglected Properties Abroad, Hindered Operations.**

## 11.3 Ministry of Home Affairs- Ineffective Management of Passport Services and Revenue Loss

The Ministry of Home Affairs, specifically the Department of Passport Services, faced several issues related to passport issuance and revenue loss:

i.Limited skills transfer and poor maintenance of IT systems due to the absence of collaboration between Ministry IT personnel and PANGEA Officers, leading to dysfunctional printers and computers.

ii.Passports distributed in unsealed boxes by a Passport Officer without security personnel, violating Section 5 (h) of the PFMA Act.

iii.A total of 15,372 passports rendered unusable, resulting in a revenue loss of M3.6 million for the Ministry. These passports, if intact, could have generated an estimated revenue of M2.1 million.


**Passport Chaos: Dysfunctional Systems, Revenue Leakage.**

## 11.4 Ministry of Health

**i. Absence of Asset Register:**

The Ministry of Health failed to maintain an asset register as required by Section 5 (h) and (i) of the PMFA Act. Valuable assets such as health equipment, vehicles including ambulances and mobile clinics, personal protective equipment (PPE), land and buildings, and office furniture were not registered, leading to a lack of control and accountability over government property.

### ii. Irregularly Appointed Service Provider and Attempted Transfer of Public Funds:

Contrary to procurement regulations and internal control requirements, Lebomatt Consulting was awarded a contract as a single-source service provider, despite not being a business partner of SAP Business One. Additionally, there was a more suitable existing service provider for this purpose. A transfer of public funds amounting to M5.2 million in favour of Lebomatt Consulting for SAP software installation and environmental setup was attempted, violating procurement regulations and controls.

**Healthcare in Disarray: Missing Assets, Financial Mismanagement.**

## 11.5 Ministry of Forestry and Land Reclamation - Misappropriation of Foreign Grant Funds

Contrary to Section 30 (1) and (2) of the PFMA Act, an amount of USD 7,000 was received from the Japan International Co-operation Agency (JICA) in the form of cash by a Public Officer instead of the Minister of Finance as required. This misdirection of foreign grant funds violates established procedures and raises concerns regarding accountability and transparency in the handling of external assistance.


**Grant Gone Astray: Funds Misappropriated, Trust Betrayed.**

## 11.6 MINISTRY OF LOCAL GOVERNMENT

**i. Unaccounted for withdrawals amounting to M279,400**

The Leribe District Council (LDC) failed to adhere to Treasury Regulations concerning bank statement reconciliation and reporting financial irregularities. Between October 2020 and April 2021, discrepancies emerged between approved withdrawal amounts and those reflected in bank statements, resulting in an unaccounted amount of M279,200. While disciplinary measures were taken against responsible officers, LDC did not prepare or submit mandatory loss reports. Furthermore, monthly bank reconciliations were not promptly conducted, indicating non-compliance with regulatory requirements.

**ii. Fruitless and wasteful expenditure for premises rent**

The Leribe District Council (LDC) violated Treasury Regulations by failing to adhere to budget implementation and cash plans, leading to the termination of a sub-lease agreement due to financial insufficiency. This termination resulted in a claim for upgrade costs totalling M450,000 by the sub-lessor. Although LDC agreed to the claim as per a Commercial Court ruling, it failed to comply with the court order, thus breaching legal obligations and incurring a contingency liability of M450,000. This non-compliance poses financial losses and reputational risks for LDC.


## Empty Coffers: Irregularities Drain Resources, Obligations Breached.

# PERFORMANCE AUDIT

# LESOTHO AGRICULTURAL COLLEGE

## 12 Implementation of LAC Academic Programmes

According to Section 7 (2)(d) of the Audit Act of 2016, the Auditor-General is required to conduct various audits, including performance audits, which assess an organisation's activities to determine if they are conducted economically, efficiently, and effectively, while meeting accountability requirements. These audits can extend beyond a single financial year due to their comprehensive nature.

### i. Lack of Accreditation for Lesotho Agricultural College (LAC) Programs

The audit of Lesotho Agricultural College (LAC) aimed to assess the effectiveness of academic program administration and management strategies. LAC, under the Ministry of Agriculture, offers various diploma programs. However, only the Diploma Programme in Agriculture was submitted for accreditation in 2018, and it did not meet the required standards specified by the Council on Higher Education (CHE). Consequently, LAC was granted probationary accreditation, and none of its programs met accreditation standards. The audit recommends that LAC management address the recommendations raised by CHE to meet accreditation standards.


## Accreditation Denied: Students' Dreams Deferred, Standards Unmet.

### ii. Failure to Conduct Institutional Audit at Lesotho Agricultural College (LAC)

The Lesotho Qualifications Framework (LQF) 2020 mandates institutions of higher learning to conduct internal evaluations to facilitate institutional audits and accreditation by the Council on Higher Education (CHE). However, the audit revealed that the institutional audit scheduled for October 2021 at LAC was not conducted due to the unavailability of funds and LAC's failure to submit internal evaluation information to CHE. As a result, the institutional audit could not proceed as planned. The audit recommends that LAC management undertake internal evaluation and prepare for the institutional audit to ensure compliance with regulatory requirements.


## Audit Delayed: Compliance Hindered, Accountability Deferred.

### iii. Lack of Curriculum Review at Lesotho Agricultural College (LAC)

The National Strategic Development Plan (NSDP 1) 2012/13 – 2016/17 and the Council on Higher Education (CHE) Review Report 2018 emphasise the importance of regular curriculum review in educational institutions, particularly in the agricultural sector. However, the audit revealed that the curriculum at LAC has not been reviewed since 2008, contrary to the requirement for review every five years. This lapse in curriculum review was attributed to the curriculum not being considered a priority in the plans by the Ministry of Agriculture, Food Security, and Nutrition. Without regular curriculum review, training provided may not align with the evolving needs and developments in the agricultural sector. The audit recommends that LAC management prioritise the review of the curriculum every five years as mandated by the Higher Education Act 2004.

**Audit Delayed: Compliance Hindered, Accountability Deferred.**

## iv. Financial Mismanagement of Student Enterprise Projects (SEPs)

The audit identified financial mismanagement in the Student Enterprise Projects (SEPs) at LAC. The SEP Supervisors Manual of February 1992 outlined a loan system for third-year students studying Diplomas in Agriculture and Home Economics, enabling them to purchase or rent inputs and facilities for their projects. However, several projects, including those for rabbits, fish, dairy cattle, and beef cattle, were discontinued due to the depletion of SEP funds. This depletion hindered students' ability to continue with their chosen projects. The audit recommends that LAC management take proactive measures to secure funds and effectively monitor SEPs to prevent similar financial mismanagement in the future.


**Audit Delayed: Compliance Hindered, Accountability Deferred.**

### v. Lack of Progress in Implementing Lesotho Agricultural College (LAC) Management Strategies)

The audit revealed a failure to implement the management strategies outlined in the Lesotho Agricultural College Strategic Plan 2016/17-2020/21 and the government directive to transform LAC into the Lesotho College of Agriculture, as a semi-autonomous institution. Despite the drafting of the LAC Bill in 2014, political changes prevented its passage, and subsequent efforts to advance the process were not pursued by LAC management or the Ministry of Agriculture, Food Security and Nutrition. This failure to transition LAC hindered its development and self-governance capability, impacting education quality. The audit recommended proactive steps by the Ministry to table the LAC Bill before Parliament for the institute to transition to an autonomous higher learning institution.


**Stuck in Limbo: Management Plans Delayed, Progress Hindered.**

## vi. Neglect of Education Facilities at Lesotho Agricultural College

The audit uncovered significant neglect in maintaining and enhancing education facilities at LAC, including laboratories, libraries, workshops, and recreational areas. These facilities lacked essential equipment and suffered from various issues like water supply shortages and non-functional machinery. The neglect was due to delays in procurement, contract disputes, and insufficient budget allocation by the Ministry. The audit recommended that the Ministry allocate an independent budget to LAC and provide ample funding for facility maintenance and acquisition to meet its educational objectives.

**Forgotten Spaces: Neglected Facilities, Learning Hindered.**

## RECOMMENDATIONS.

| Group | Recommendations |
|---|---|
| Financial Transparency | Provide thorough explanations for cash balance discrepancies |
| | Ensure accuracy in cash flow reporting and monitor payment reversals |
| | Address incomplete reconciliation processes to avoid unaccounted cash balances |
| | Conduct thorough reconciliations between financial statements and bank records |
| | Address persistent discrepancies in cash balances at foreign missions |
| | Enhance revenue management and adherence to regulations in passport services |
| Record-Keeping | Improve record-keeping and implement fraud prevention measures outside IFMIS |
| | Improve classification and management of financial advances to prevent errors |
| | Implement better asset tracking and accountability measures to prevent loss of public funds |
| | Strengthen asset control and management procedures to address mismanagement issues |
| Project Management | Improve project management and resource allocation for underperforming projects |
| | Enhance project planning and financial management practices to avoid delays and discrepancies |
| Asset Management | Implement improved property management practices for government properties in South Africa |
| | Improve asset tracking and procurement processes to ensure accountability |
| | Enhance financial oversight and compliance with regulatory requirements |

## THE AUDIT PROCESS

### 1.Planning

- The Ministry of Finance submit the Consolidated Annual Financial Statements.
- OAG engages with them to agree on timelines and request the necessary documentation required for obtaining evidence.
- OAG reviews the provided documents and engages in discussions with the auditees.

### 2. Performing the Audit

- OAG performs audits in accordance with the INTOSAI Standards for Supreme Audit Institutions (ISSAI) and National Laws.
- Written queries are submitted, and ongoing oral discussions with auditees are conducted throughout the audit process.

### 3. Reporting

-The Office composes Management letters, shared with auditees for discussion and inclusion of responses into findings.
-The initial draft report is prepared and shared with auditees for additional responses.
-Subsequently, the report is finalised.

### 4. Submission of the Report

The Report is submitted to the Minister of Finance who in turn submits and tables the report in Parliament.

### Publication

The report is published for the general public on OAG website and copies are distributed to auditees and the general public. The report is made public only once tabled in parliament.

### Follow Up

The implementation of the recommendations is followed-up during the audit process and refer to them in the subsequent audits.

## HOW CITIZENS CAN USE THE REPORT

This summarised report can be utilised by the media, Civil Society Organisations (CSOs), citizens and other stakeholders involved in public finance and resource management in Lesotho, for advocacy and raising awareness.

It also serves as a valuable resource material for training, workshops, and other educational initiatives aimed at enhancing understanding of public governance issues. Additionally, both this summarised report and the full report can be utilised as research documents for students studying related subjects, contributing to a deeper understanding of public finance and resource management in Lesotho.

## We Would Like to Hear from You.

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