
Consisting of:

Mr C L Milupi, MP (Chairperson); Mrs E M Banda, MP; Mr E M Hachipuka, MP; Mr V Mwale, MP; Mr L M Mwenya, MP; Mr B Y Mwila, MP; Mr M Ndalamei, MP; Mr P Sichamba, MP and Mr D M Syakalima, MP.

The composition of your Committee changed following the appointment of Mr M Ndalamei, MP as Deputy Minister.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,


Functions of the Committee

2. The functions of your Committee are to examine the accounts showing the appropriation of sums granted by the National Assembly to meet the public expenditure, the Report of the Auditor-General on these accounts and such other accounts, and to exercise the powers that may be conferred on them under Article 117(5) of the Constitution of the Republic of Zambia.

Meetings of the Committee

3. Your Committee held nine (9) meetings to consider the Auditor-General’s Report.

Procedure adopted by the Committee

4. With assistance from the Auditor-General and the Accountant-General, your Committee considered both oral and written submissions from controlling officers who were summoned to appear before them. This Report contains the observations and recommendations of your Committee and includes, in some cases, proposed remedial measures to correct the irregularities highlighted in the Auditor-General’s Report.
CONSIDERATION OF SUBMISSIONS

Introduction

5. The Auditor-General reported that the Report on the Outturn and Audit of Appropriation Accounts for the financial year ended 31st December 2005 was presented to the President for tabling before the National Assembly in accordance with the provisions of Article 121, clause 4, of the Constitution.

Contrary to the provisions of Article 118 (1) of the Constitution, the Financial Report for 2005 was not tabled by 30th September 2006. Consequently, the audit of, and report on, the Appropriation Accounts was delayed. However, the Financial Report was finally tabled in December 2006.

According to the Public Finance Act No.15 of 2004, the Minister responsible for Finance shall, subject to the provisions of the Constitution and the Act, have the management, supervision, control and direction of all matters relating to the financial planning and the economic management of the Republic. The Minister is head of the Office of the Treasury established under the Act and shall make policy and other decisions of the Treasury except those delegated under section six of the Act to the Secretary to the Treasury who shall exercise the powers of the Treasury. In exercising these powers, the Secretary to the Treasury designates, in respect of each head of revenue of expenditure provided for in any financial year, an officer who shall be a Controlling Officer. The responsibilities of the Controlling Officers are outlined in sections 7 (3) to (9) of the Act and include the preparation and submission of financial statements to the Auditor General for audit and certification before inclusion in the Financial Report. The audited financial statements are then submitted to the Secretary to the Treasury to enable him/her prepare the Annual Financial Report for tabling in the National Assembly by the Minister responsible for finance in accordance with the provisions of Article 118 (1) of the Constitution of Zambia.

It is the duty of the Auditor-General to audit and give an assurance that all revenues collected are brought to account and that money expended had been applied for the purposes for which they were appropriated and that the expenditure conforms to the authority that governs it. The principal functions, responsibilities and the rights of the Auditor General are set out in Article 121 of the Constitution of Zambia and the Finance Act of 2004.

The Outturn of the Government and the audit of the Appropriation Accounts for the financial year ended 31st December 2005, as reflected in this report, was based on information as contained in the Financial Report for 2005.

Secretary to the Treasury’s Submission

The Secretary to the Treasury submitted that the delay in tabling the 2005 Financial Report was due to material errors that were discovered by the Ministry of Finance and National Planning, on two occasions, in the printed copies of the report caused by the selected printer (Zambezi Printing Company), who, despite assuring the Ministry that they would deliver the reports within the agreed time frame and specifications, failed to do so.
As a result of the errors and delays by the selected printer, the Ministry of Finance and National Planning subsequently cancelled the printing contract and awarded it to the Government Printing Department.

The early dissolution of Parliament in readiness for the 2006 general elections also affected the tabling of the Report.

Notwithstanding the above, the Secretary to the Treasury admitted that there were internal deficiencies in the system that also contributed to the delays such as late submission of returns from Ministries, Provinces and Spending Agencies (MPSAs) and administrative lapses.

He assured your Committee that his office was committed to ensuring that financial reports were prepared and presented in accordance with the provisions of the law. He regretted the delay.

Observations and Recommendations

Your Committee, in noting the submission, wish to strongly advise the Secretary to the Treasury to put his house in order. Delaying the tabling of the Financial Report is a very serious matter as the timing of the tabling is constitutional and, therefore, he should ensure that the printing company that delayed printing it pays damages to the Government and all officers that contributed to the delays are disciplined.

Audit Query

Outturn of the Year

6. It was reported that according to the provisions of Article 118 (2) of the Constitution, the Financial Report should include, *inter alia*, a balance sheet showing the financial position of the Government as of the end of each financial year, the appropriation account and a statement of revenue.

The Outturn, as reflected in Statement A of the Financial Report for the year ended 31st December 2005, is analysed below:
Expenditure as reflected in Statement A 1.2

<table>
<thead>
<tr>
<th></th>
<th>K</th>
<th>K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original</td>
<td>9,779,600,093,393</td>
<td></td>
</tr>
<tr>
<td>Supplementary</td>
<td>1,001,791,313,683</td>
<td></td>
</tr>
<tr>
<td>Total Authorised Provision</td>
<td>10,781,391,407,076</td>
<td></td>
</tr>
<tr>
<td>Actual expenditure</td>
<td>7,266,854,447,179</td>
<td></td>
</tr>
<tr>
<td><strong>Net Under Expenditure</strong></td>
<td><strong>3,514,536,959,897</strong></td>
<td></td>
</tr>
</tbody>
</table>

The Net under expenditure of K3,514,536,959,897 is explained as follows:

Savings on Head 99 347,422,109,295
Add: Savings from other functions 3,250,455,985,779
Less: Unconstitutional Expenditure 83,341,135,177
3,597,878,095,074

Revenue As reflected in statement A 1.1

<table>
<thead>
<tr>
<th></th>
<th>K</th>
<th>K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Revenue</td>
<td>7,306,395,369,882</td>
<td></td>
</tr>
<tr>
<td>Revenue Estimate</td>
<td>7,282,400,321,337</td>
<td></td>
</tr>
<tr>
<td>Surplus in Revenue collections</td>
<td>23,995,048,545</td>
<td></td>
</tr>
<tr>
<td>Actual Revenue</td>
<td>7,306,395,369,882</td>
<td></td>
</tr>
<tr>
<td>Actual Expenditure</td>
<td>7,266,854,447,179</td>
<td>39,540,922,703</td>
</tr>
</tbody>
</table>

Financing Statement A 1.3

<table>
<thead>
<tr>
<th></th>
<th>K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Surplus</td>
<td>39,540,922,703</td>
</tr>
<tr>
<td>Internal Borrowing</td>
<td>-</td>
</tr>
<tr>
<td>External</td>
<td>1,643,496,669,883</td>
</tr>
<tr>
<td>Exceptional Revenue</td>
<td>218,253,526,447</td>
</tr>
<tr>
<td><strong>Net Surplus</strong></td>
<td><strong>1,901,291,119,033</strong></td>
</tr>
</tbody>
</table>

The Net Surplus of K1,901,291,119,033 for the year under review was explained as follows:

<table>
<thead>
<tr>
<th></th>
<th>K</th>
<th>K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cash</td>
<td>123,408,440,613</td>
<td></td>
</tr>
<tr>
<td>Imprest</td>
<td>42,823,956,883</td>
<td></td>
</tr>
<tr>
<td>Advances</td>
<td>17,379,344,618</td>
<td></td>
</tr>
<tr>
<td>Loan Revolving Fund</td>
<td>16,012,870,777</td>
<td></td>
</tr>
<tr>
<td>Decrease in Special Deposits</td>
<td>(223,207,187,434)</td>
<td>(23,582,574,543)</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td><strong>K</strong></td>
<td><strong>K</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>K</th>
<th>K</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decrease in Short Term Borrowing</td>
<td>120,642,875,724</td>
<td></td>
</tr>
<tr>
<td>Less: increase in deposits</td>
<td>(171,849,765,966)</td>
<td></td>
</tr>
<tr>
<td>Un-reconciled balance</td>
<td>1,976,080,583,818</td>
<td></td>
</tr>
<tr>
<td><strong>Net Surplus</strong></td>
<td><strong>1,901,291,119,033</strong></td>
<td></td>
</tr>
</tbody>
</table>

According to Ministry of Finance and National Planning, the unreconciled balance of K1,976,080,583,818 included an amount of K904 billion from the International Monetary Fund (IMF), K489.8 billion from the International Development Agency (IDA) (other
Projects) and K102.6 billion from the African Development Fund (ADF) - (various projects) through the Bank of Zambia (BOZ) which was still being reconciled by the Ministry with BOZ.

Secretary to the Treasury’s Submission

The Secretary to the Treasury submitted that the figures in question totalling K1,976,080,583,818 disclosed as revenue in the 2005 Financial Report by the Ministry of Finance and National Planning included the amounts set out below.

(1) K1,496,642,878,088 relating to inflows from cooperating partners of which a sum of:

a) K904,191,158,355 was credited directly to the Bank of Zambia for external debt servicing under the IMF Special Drawing Projects (SDR) and it had been reported to the Bank of Zambia as of July 2007 that a sum of K856,254,691,534 was actually disbursed to IMF for debt service, while the balance of K47,936,466,820.4 was as of 31st December 2005 available in the SDR and USD Poverty Reduction Growth Facility (PRGF) Deposit Account at the Bank of Zambia.

The details were as outlined below:

i) Poverty Reduction Growth Facility Loan

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount (SDR)</th>
<th>Amount (ZMK) Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>14.03.05</td>
<td>1,000,000</td>
<td>5,016,540,000</td>
</tr>
<tr>
<td>30.03.05</td>
<td>1,000,000</td>
<td>5,016,540,000</td>
</tr>
<tr>
<td>18.07.05</td>
<td>65,168,154</td>
<td>326,918,651,267</td>
</tr>
<tr>
<td>19.09.05</td>
<td>1,000,000</td>
<td>5,016,540,000</td>
</tr>
<tr>
<td>30.09.05</td>
<td>1,000,000</td>
<td>5,016,540,000</td>
</tr>
<tr>
<td>30.12.05</td>
<td>65,168,154</td>
<td>326,918,651,267</td>
</tr>
<tr>
<td><strong>Sub-total (K)</strong></td>
<td><strong>134,336,308</strong></td>
<td><strong>673,903,462,534.32</strong></td>
</tr>
</tbody>
</table>

ii) Structural Adjustment Facility Loan

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount (SDR)</th>
<th>Amount (ZMK) Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>06.06.05</td>
<td>18,175,000</td>
<td>91,175,614,500</td>
</tr>
<tr>
<td>30.06.05</td>
<td>18,175,000</td>
<td>91,175,614,500</td>
</tr>
<tr>
<td><strong>Sub-total (K)</strong></td>
<td><strong>36,350,000</strong></td>
<td><strong>182,351,229,000</strong></td>
</tr>
<tr>
<td><strong>Grand-total</strong></td>
<td><strong>170,686,308</strong></td>
<td><strong>856,254,691,534.32</strong></td>
</tr>
</tbody>
</table>

b) K592,451,719,733 was released through the Investment and Debt Management Department in the Ministry regarding external borrowing in relation to IDA (other projects) amounting to K489,837,300,854 and ADF (various projects) valued at K102,614,418,879 for financing of specific donor - supported programs. However, it had been established with regret that the disbursements in this regard were erroneously omitted in the 2005 Financial Report.

Following the measures that the Ministry had put in place to update the debtors data base, the disbursements in this respect amounting to K419,254,757,837.19
on IDA (other projects) and K102,614,432,170.65 on ADF (various projects) had been established. The Accountant-General would accordingly make adjustments in the accounts for 2006; and

(2) A sum of K479,437,705,730 related to some recurring Below – the – Line items (BTL). The office of the Secretary to the Treasury was reviewing the Financial Report in order to reconcile all the components of the report and consider a possible write-off of items that were now statute barred, in accordance with the provisions of the Public Finance Act and the 2006 Financial Regulations. The Secretary to the Treasury further clarified that not all the K479,437,705,730 would be written-off.

He assured your Committee that the Ministry of Finance and National Planning was taking appropriate corrective measures that included putting in place a better Financial Management System (IFMIS) to efficiently record the above and other related transactions in order for the Financial Report to be comprehensive and complete. The solution to the above was to have one system of information management. The creation of the Treasury Department would to a large extent address the problems.

He further stated that the problem of the K1,976,080,583,818 arose as a result of the failure to carry out a reconciliation. This was not a case of misappropriation of public funds.

Observations and Recommendations

Your Committee observe that non-capturing of donor funds is a problem that has been brought up by the Auditor-General almost on a yearly basis. They appreciate the Ministry of Finance and National Planning’s efforts of negotiating with donors so that assistance is given as direct budget support. Continued reports of misapplications, misappropriation and failure to make reconciliations may erode the confidence that donors have in the country’s fiscal management. Your Committee, therefore, urge the Secretary to the Treasury to expeditiously implement measures aimed at improving the reporting of grants and other funds from donors.

They further urge him to report progress on the movement of the recurring below-the-line items.

Audit Query

Analysis of Surplus / Shortfall in Revenue

7. It was reported that an analysis of Statement A 1.1 of the Financial Report for the financial year under review revealed that the actual revenue collected exceeded the estimated amount by K23,995,048,545 as detailed below:
## Head Description | Approved Estimates | Actual Revenue | Over the Estimate | Shortfall
---|---|---|---|---
Income Tax (other than Mineral tax) | K | K | K | K
201 Mineral tax | 2,416,622,951,814 | 2,416,744,864,004 | 121,912,190 |
202 Customs and Excise | 1,250,256,016,538 | 1,253,669,607,821 | 3,413,591,283 |
204 Mineral Revenue | 38,864,752,308 | 38,864,752,308 | - |
206 Fees of Courts or Office | 71,720,368,791 | 63,734,968,018 | (7,985,400,773) |
207 Value Added Tax | 1,633,080,216,728 | 1,633,091,224,061 | 11,007,333 |
208 Miscellaneous and other Collections | 20,252,992,269 | 13,489,470,781 | (6,763,521,488) |
209 Interest (loans & Investments) | 6,282,685,807 | 6,282,685,807 | - |
211 Capital Repayments | 102,437,082 | 102,437,082 | - |
212 Capital Grants | 1,845,217,900,000 | 1,880,415,360,000 | 35,197,460,000 | - |
**Total** | **7,282,400,321,337** | **7,306,395,369,882** | **38,743,970,806** | **(14,748,922,261)**

As can be seen, the surplus of K23,995,048,545 was mainly attributable to the over collection in Capital Grants and Customs and Excise.

### Secretary to the Treasury’s Submission

In response, the Secretary to the Treasury submitted as presented below;

**i) Capital Grants**

The over collections were as a result of an increase in donor inflows attributed to the good will from Zambia’s cooperating partners.

**ii) Customs and Excise**

The over collections were due to the increase in the flow of imported goods into the country as a result of the increased mining activities in the North-Western Province and other areas, in addition to the appreciation of the kwacha.

Improvements in forecasting could lessen such differences.

### Observations and Recommendations

Your Committee note the submission.

### Audit Query

**Non Tax Revenue / Funding**

8. It was reported that during the year under review, amounts totalling K59,561,124,000 were not realised on six (6) subheads as reflected in Statement A. 1 of the Financial Report for the year ended 31st December 2005 as detailed below:
According to Financial Regulation No.133, revenue may be abandoned only with the approval of the Secretary to the Treasury. An application for this authority must give the sum of the revenue, the date on which it was due, the action taken to collect it and the reasons why it was not possible to collect it. A copy of the application should be forwarded to the Auditor General. It was observed that, contrary to the above provisions, there was no authority to abandon the collection of revenue and there was no explanation given in the Financial Report for failure to collect revenue.

Secretary to the Treasury’s Submission

In response, the Secretary to the Treasury submitted as follows:

i) **Judiciary – 206/085 (Library Studies) – K57,579,214**

The revenue collected under this revenue Subhead was erroneously reported under Fines of Court by the Judiciary Department, though the Ministry of Finance and National Planning had advised the office of the Chief Administrator to report separately the two types of revenues.

The Ministry of Finance and National Planning would institute measures to ensure that revenues were reported under the correct sub-head / items, in addition to conducting orientation workshops and extensive reconciliations.

ii) **Ministry of Finance and National Planning: 206/37/052 (Damages – to Government Vehicles) – K1,790,676**

Records indicated that all the revenue collected under this Subhead was wrongly brought to account under codes 206/037/044 – Rental Charges and 206/37/045 – Miscellaneous Revenue. As a result, over collections of K218,600,219 under Rental Charges and K2,207,495,662 on Miscellaneous Receipts were reported.

The Ministry of Finance and National Planning would take the necessary measures to address the anomaly which was quite prevalent due to the practice of allowing non accounting officers to handle revenue. This would be partly addressed through orientation workshops, extensive reconciliations and inspection tours.
iii) Ministry of Communications and Transport: 206/51/180 (Air Service Permit Fees) – K104,394,110

The revenue realised under this Subhead was accounted for under Code 206/51/181: Aviation and Landing Charges instead of the Code for Air Service Permit Fees. This misposting resulted in the over-collection of K700,410,309 under Aviation and Landing Charges.

iv) Ministry of Works and Supply: 206/64/194 (Office Equipment and Maintenance Service) – K169,310,000

Revenue collected under this Sub-head was deposited into a revolving fund account to cater for the purchase of spare parts for servicing and repair of Government equipment.

The Accountant-General had since been instructed to scrutinise the receipt book to confirm the application of funds.

v) Capital Grants 212/142 (DANIDA/NORAD/KARIBA SADC) – K56,694,000,000 and 212/177 (BADEA) – K2,534,050,000

The grants were not reported in the Financial Report as having been received due to lack of information at the time because the funds were remitted directly to the targeted beneficiaries without notifying the Treasury. It was in view of the above that the Secretary to the Treasury’s office was discussing with the donors to finance all the programmes through the budget support system and Control 99.

Observations and Recommendations

Your Committee recommend that the Secretary to the Treasury should see to it that problems of misreporting and miscategorisation of revenues are addressed.

They further recommend that the revenue amounting to K169,310,000 under the Ministry of Works and Supply that was deposited into a Revolving Fund should be verified.

The Secretary to the Treasury should report progress on the discussion with donors on the need for them to finance all developmental programmes through Control 99 and the budget support system to avoid distorting the financial reporting system in place.

Audit Query

Unconstitutional Expenditure

9. It was reported that a review of Statement “C” of the Financial Report for the year under review revealed that expenditure in excess of the provision voted by Parliament in respect of twenty three (23) Heads of Expenditure amounted to K83,341,135,177 as follows:
<table>
<thead>
<tr>
<th>Details</th>
<th>Total Authorised Expenditure</th>
<th>Actual Expenditure</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>K</td>
<td>K</td>
<td>K</td>
</tr>
<tr>
<td>Office of the Auditor General</td>
<td>12,358,433,418</td>
<td>13,204,871,834</td>
<td>(846,438,416)</td>
</tr>
<tr>
<td>Zambia Police - Ministry of Home Affairs</td>
<td>62,816,443,033</td>
<td>65,913,093,547</td>
<td>(3,096,650,514)</td>
</tr>
<tr>
<td>Protective Unit</td>
<td>5,811,407,128</td>
<td>5,811,407,129</td>
<td>(1)</td>
</tr>
<tr>
<td>Lilayi Police Training School</td>
<td>7,186,487,728</td>
<td>7,186,487,729</td>
<td>(1)</td>
</tr>
<tr>
<td>Airport Division</td>
<td>2,876,776,676</td>
<td>2,876,776,677</td>
<td>(1)</td>
</tr>
<tr>
<td>Lusaka Province</td>
<td>18,956,235,148</td>
<td>18,956,235,149</td>
<td>(1)</td>
</tr>
<tr>
<td>Copperbelt Province</td>
<td>18,498,350,904</td>
<td>18,498,350,905</td>
<td>(1)</td>
</tr>
<tr>
<td>Western province</td>
<td>4,928,795,012</td>
<td>4,928,795,013</td>
<td>(1)</td>
</tr>
<tr>
<td>Eastern Province</td>
<td>4,166,732,488</td>
<td>4,166,732,489</td>
<td>(1)</td>
</tr>
<tr>
<td>Southern Province</td>
<td>7,324,205,248</td>
<td>7,324,205,249</td>
<td>(1)</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs - Missions Abroad</td>
<td>6,361,387,780</td>
<td>6,361,387,781</td>
<td>(1)</td>
</tr>
<tr>
<td>Judiciary Headquarters</td>
<td>13,408,555,931</td>
<td>13,661,268,700</td>
<td>(252,712,769)</td>
</tr>
<tr>
<td>Supreme Court</td>
<td>1,660,678,128</td>
<td>1,993,329,681</td>
<td>(332,651,553)</td>
</tr>
<tr>
<td>Sheriff of Zambia</td>
<td>1,320,758,843</td>
<td>1,320,758,845</td>
<td>(2)</td>
</tr>
<tr>
<td>Local Court of - Northern Province</td>
<td>3,335,467,177</td>
<td>3,335,467,178</td>
<td>(1)</td>
</tr>
<tr>
<td>High Court - Western Province</td>
<td>261,027,954</td>
<td>261,027,955</td>
<td>(1)</td>
</tr>
<tr>
<td>Ministry of Community Development - HQ</td>
<td>43,216,662,429</td>
<td>43,819,325,518</td>
<td>(602,663,089)</td>
</tr>
<tr>
<td>Ministry of Health - Lusaka Province</td>
<td>72,509,025,721</td>
<td>86,295,951,499</td>
<td>(13,786,925,778)</td>
</tr>
<tr>
<td>Ministry of Defence - HQ</td>
<td>68,498,458,508</td>
<td>85,857,802,994</td>
<td>(17,359,344,486)</td>
</tr>
<tr>
<td>Department of Defence Inteligence</td>
<td>4,511,530,426</td>
<td>4,933,244,887</td>
<td>(421,714,461)</td>
</tr>
<tr>
<td>Constitutional Posts</td>
<td>13,000,000,000</td>
<td>34,137,078,507</td>
<td>(21,137,078,507)</td>
</tr>
<tr>
<td>Contingency</td>
<td>9,649,783,057</td>
<td>9,924,400,000</td>
<td>(274,616,943)</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>557,652,220,661</strong></td>
<td><strong>640,993,355,838</strong></td>
<td><strong>(83,341,135,177)</strong></td>
</tr>
</tbody>
</table>

The excess expenditure of K83,341,135,177 was unconstitutional and would require approval by Parliament as provided for under Article 117 (5) of the Constitution.

**Secretary to the Treasury’s Submission**

The Secretary to the Treasury regretted that twenty-three Heads of Expenditure reported expenditure in excess of the provision voted by Parliament.

**a) Constitutional Posts**

It was correct that during the year under review, a total sum of K34,137,078,507 was spent on constitutional and statutory posts, against an approved provision in the budget of K13,000,000,000, thereby incurring unconstitutional expenditure of K21,137,078,507.

The unconstitutional expenditure of K21,137,078,507 was primarily due to insufficient provisions under Head 99, to meet the entitlements for ministers, judges and other constitutional post holders under the Government payroll, following the enactment of the Presidential, Ministerial and Parliamentary, and Constitutional Offices (Emoluments) (Amendment) Acts in August 2005.
The unconstitutional expenditure was categorised as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Salaries</td>
<td>K14,823,406,298.47</td>
</tr>
<tr>
<td>ii) Judges widows/widowers</td>
<td>K2,677,249,638.00</td>
</tr>
<tr>
<td>iii) Gratuity and Leave Terminal Benefits for Judges</td>
<td>K2,540,477,315.53</td>
</tr>
<tr>
<td>iv) Leave travel benefits</td>
<td>K466,605,344.00</td>
</tr>
<tr>
<td>v) Domestic Servants Wages for Ministers</td>
<td>K538,786,044.00</td>
</tr>
<tr>
<td>vi) Judges 40% housing allowance and non private practice allowances</td>
<td>K90,553,867.00</td>
</tr>
<tr>
<td></td>
<td><strong>K21,137,078,507.00</strong></td>
</tr>
</tbody>
</table>

b) Contingency

The unconstitutional expenditure was due to an underestimation on Zambia’s contribution to COMESA, during the Financial Year ended 31st December 1995.

The Ministry of Finance and National Planning sincerely regretted that:

i) inadequate provisions were provided in the budget to meet the inevitable personal emolument related expenditure for constitutional and statutory posts and contingency expenditure during the year; and

ii) the unexpected expenditure resulting from the emoluments in question and the COMESA contributions which came into effect towards the end of the year could not be included in the Supplementary Estimates for the 2005 Financial Year, which at the time had already been finalised. Line ministries did not provide for COMESA subscriptions in their budgets. These, therefore, had to be charged against contingency.

Your Committee inquired on how unconstitutional expenditure could be avoided in the wake of late releases of funds which, in most instances, had to be carried over into the following financial year, particularly, capital funds. The Secretary to the Treasury informed your Committee that there were a number of reasons that gave rise to excess expenditure such as:

i) timing of cash inflows (revenues) and cash outflow (expenditure); the greatest challenge was on additional expenditures after October when the Ministry of Finance and National Planning would have stopped processing supplementary provision applications;

ii) unregulated Bank Balances – Ministries, Provinces and Spending Agencies were keeping substantial amounts in banks which were being carried over from one financial year to another resulting in excess expenditure; this was also creating an artificial cash shortage in the Government thereby affecting the timely release of funds; and
iii) accounting officers were in some instances remiss in the performance of their duties and allowed MPSAs to incur excess expenditure.

When asked if there were countries that did not depend on revenue collected within the budget year to finance the expenditures, the Secretary to the Treasury replied that Britain had a three year budget cycle and, therefore, the expenditures of a particular year were not financed through revenue collections of that year. In Africa, Tanzania, Kenya, Ghana and Uganda had implemented treasury systems that were working fairly well. This did not mean that they had all the funds they required at the beginning of the financial year. In Zambia, having in place a robust and effective budget system could minimise the possibility of MPSAs incurring excess expenditures.

On what measures had been taken to deter officers from perpetuating irregularities, he informed your Committee that there was an attitude problem among public workers as well as other interest groups that were resisting change. He stated that the last approach was to improve the system first then deal with individuals. With an effective system in place, individuals would be forced to operate in line with the requirements of the system.

In addition, the Secretary to the Treasury submitted that he would prefer a system where performance evaluation of Permanent Secretaries was based on their financial management abilities since most of them were Controlling Officers.

Controlling Officer’s Submission – Office of the Auditor-General

Unconstitutional Expenditure of K846,438,417

The Controlling Officer submitted that the excess expenditure was incurred on the donor component of the Restructuring and Institutional Development Project (RIDP II) within the budget for the Office of the Auditor-General for the financial year ending 2005. This was the project co-funded by the Royal Governments of Norway and the Netherlands.

The Office had a total authorised provision on Department 1 of K12,358,433,418. During the year under review, the Department incurred expenditure of K13,204,871,834, resulting in excess expenditure of K846,438,417.

Details of the expenditure were as given below:

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIDP II</td>
<td>4,862,495,000</td>
<td>6,401,857,947</td>
<td>(1,539,362,947)</td>
</tr>
<tr>
<td>Savings from GRZ Budget</td>
<td></td>
<td>692,924,530</td>
<td></td>
</tr>
<tr>
<td>Net over expenditure</td>
<td></td>
<td></td>
<td>(846,438,417)</td>
</tr>
</tbody>
</table>

The Office received donor funding for restructuring in 2003. These funds were meant to cover various activities related to capacity-building that the Office had embarked upon. As at December 2004, the Office had in its possession a balance of US$ 537,800.07. This amount was carried forward to 2005 following the authorisation given to the office to spend the money in the following year by the Donors. In addition, further funds were allocated and released for RIDP II in 2005 in amounts totalling US$ 1,171,131 (K4,862,495,000) as indicated in the Financial Report for 2005. This brought the total funds available to US$ 1,708,931.07 (K6,401,857,947).
As a result, the office had excess funds outside the authorised budget of US$537,800.07 (K1,539,362,947) which were spent on the activities as outlined in the project.

When asked why the Office did not apply for a supplementary budget to avoid the expenditure becoming unconstitutional, the Controlling Officer informed your Committee that there was an administrative oversight and assured them that measures had been put in place to avoid a recurrence of the same.

Controlling Officer’s Submission – Ministry of Home Affairs

The Controlling Officer agreed that the Ministry of Home Affairs incurred unconstitutional expenditure amounting to K3,096,650,514 during the year ended 31st December 2005. The over expenditure was due to the factors set out below.

i)  **Unit 1 Human Resource and Administration**

    *Programme 01 Chiefs of Defence Joint Operations – K10,182,750*

    The funds were spent as a contribution towards maintenance of the Lounge for Service Chiefs at the Lusaka International Airport. This amount was part of the supplementary provision in the sum of K78,159,999 that was submitted to the Ministry of Finance and National Planning for approval. The Supplementary Provision Warrants (SPWs) were regrettably submitted late because funds were released after the closure of the period within which SPWs should have been submitted.

ii)  **Unit 8 Service Motor Transport**

    *Programme 07 Transport Management – K2,000,000,000*

    The K2 billion unconstitutional expenditure was as a result of the initial preparations for the tripartite elections which were held in 2006. A Supplementary Provision Warrant (SPW) in the sum of K3,600,000,000 was regrettably submitted late for approval.

iii)  **Unit 8 Human Resource and Administration Unit (Stationery)**

    *Programme 02 General Administration - K546,590,305*

    The Ministry incurred unconstitutional expenditure amounting to K546,590,305 during the financial year ended 31st December 2005 as a result of decentralisation of Interpol operations at Livingstone and Ndola which entailed that stationery had to be procured for the new offices. In addition, the Police Force bought Occurrence Books for distribution to all police stations throughout the country. The Supplementary Provision of K8,640,210,078 was submitted late for approval.

iv)  **Unit 22 Quartermaster Unit**

    *Programme 07 Acquisition of Uniforms and Rations - K539,877,459*

    The Ministry incurred unconstitutional expenditure amounting to K539,877,459 as a result of the procurement of uniforms for recruits and also the disaster management
operation in Kawambwa where over fifty Kawambwa Boys High School pupils were involved in a fatal traffic accident. A supplementary provision in the sum of K8,640,210,078 was also submitted late for approval.

During the oral presentation, the Controlling Officer submitted that the excess expenditure was partly caused by budget ceilings that were imposed by the Ministry of Finance and National Planning.

**Controlling Officer’s Submission – The Judiciary**

1) **Judicial Headquarters – K252,712,769**

The unconstitutional expenditure was caused by an over expenditure on international conferences and workshops for magistrates amounting to K50,242,489. The workshops that the magistrates attended were annual conferences, which provided fora for exchange of experiences with colleagues from other countries.

The other over expenditure was on the audit of the payroll amounting to K306,625,000. The audit was essential as it was a way of cleaning up the old payroll before migration to the Payroll Establishment and Management Control (PEMC) system.

However, despite spending over and above the amounts approved by Parliament on these lines, the Judiciary had savings amounting to K35,153,021 on Personal Emoluments and K69,001,699 under Unit 01 (Financial Management Unit).

2) **Supreme Court – K332,651,553**

The Judiciary embarked on a vigorous awareness campaign on HIV/AIDS activities during the year 2005. Besides the sensitisation activities, the campaign also involved procurement of food supplements such as Gorgies, HEPS and Selenium products. At that time, the Judiciary had to pay for procurement of ARVs as well as CD4 count tests for affected staff.

Though a supplementary provision of K7,307,707 was made on the HIV/AIDS awareness line and a saving made on office administration amounting to K12,000,000.00, there was a net deficit of K332,651,553 under Department 02 – Supreme Court.

It was regretted that no Supplementary Provision Warrant was requested on these votes.

When asked why the Judiciary failed to apply for the SPWs to avoid incurring unconstitutional expenditure, the Controlling Officer informed your Committee that the Judiciary was facing a serious shortage of accounting officers and such lapses may continue if the situation was not addressed.

**Controlling Officer’s Submission – Ministry of Community Development and Social Services**

The Controlling Officer explained that the causes for the excess expenditure amounting to K602,663,089 were as detailed below.
a) The Ministry supported various grant-aided institutions to facilitate the implementation of poverty reduction programmes and funding for each institution was dependent on the ceilings that the Ministry of Finance and National Planning set. It was on that basis that the annual budget for the Ministry was derived from.

b) In the year 2005, the poverty levels in the country rose due to the floods/droughts and the subsequent impact of the HIV/AIDS through the increasing numbers of orphans and vulnerable children. The unconstitutional expenditure amounting to K602,663,089 was as a result of the desire by the Ministry to reach more vulnerable and poor persons and in its endeavour to achieve a reduction in poverty among communities in the country. The Ministry did this by requesting more funds from the Ministry of Finance and National Planning in order to scale-up the activities in existing Grant-Aided Institutions so that they could meet the overwhelming demand from the different segments of the vulnerable people.

Although the Ministry requested Supplementary Provisions from the Ministry of Finance and National Planning, only the HIV/AIDS Global Funds were approved.

Controlling Officer’s Submission – Ministry of Health

The Ministry of Health, Lusaka Province, in 2005 received K54,838,427,423. This included K13,709,606,855.75 which was to cater for salary increments that were awarded to Public Service Workers in the year 2005 on Circular No. B 7 of 2005.

The over expenditure of K13,786,925,778 reported by the Auditor-General from Statement C on Lusaka Province was as a result of the salary increments awarded to the public service workers amounting to K13,709,606,855.75 and K77,425,778 utilised from bank balances brought forward from December 2004.

During the passing of the inter-departmental charges for salary increments between the Ministry of Health and the Ministry of Finance and National Planning, the K13,709,606,855.75 which was to be passed on to the Ministry of Finance and National Planning was omitted.

The Ministry had since strengthened internal controls to ensure that such omissions did not recur.

Controlling Officer’s Submission – Ministry of Defence

The Controlling Officer submitted as follows:

i) Defence Headquarters K17,359,344,486

The reasons for the excess expenditure incurred by the Ministry of Defence Headquarters were as stated below:

i) K10,000,000,000 was used for the procurement of spare parts for earth moving equipment for the Zambia National Service.

ii) Transport activity under General Administration programme incurred an excess expenditure of K2,103,750,000. This was financed by transfers received from the Zambia National Service, K1,654,400,000.00, and the Defence Force Medical Services (DFMS), K329,000,000.00, for the procurement of motor vehicles. The
balance of K120,350,000.00 on transport was financed from extra funding received under the recruitment and training activity vote.

The remaining excess expenditure was incurred on the movement of recalled Defence Attachés from foreign missions. These included payment for tickets, accommodation and transportation of personal effects. This was financed from the carry over balance from the previous year.

**ii) Zambia Air Force**  
**K25,230,338,648**

This excess expenditure was incurred, among other things, on acquisition of spares, repairs of equipment and payment of salary arrears.

**iii) Department of Defence Intelligence**  
**K421,714,461.00**

The causes of excess expenditure were:

**Transport**

i) The over expenditure incurred on transport amounted to K176,403,976. This was applied on the maintenance of operational vehicles.

**Operations**

i) The over expenditure of K245,310,483 was incurred on operations.

**Observations and Recommendations**

Your Committee observe the following:

a) the provisions of the Constitution that allow regularisation of unauthorised excess expenditure are being taken as authority to incur unconstitutional expenditure. The provisions are a guide on how to deal with excess expenditure in the event that it was inadvertently incurred.

Considering that there is a process of Constitutional changes in motion, your Committee are of the opinion that, for purposes of enhancing accountability of public funds, consideration should be made for excess expenditure to be authorised by Parliament and the Excess Expenditure Appropriation Bill to be presented within eighteen months after the close of the financial year to which it relates;

b) the explanations given by the various Controlling Officers clearly show that administrative lapses were a major cause of unconstitutional expenditures in the period under review;

c) accounting officers are not performing their duties satisfactorily in that under the Financial Regulations, they are supposed to report to the Controlling Officer where it is envisaged that they are likely to over spend so that appropriate action can be taken; and

d) dishonest public service workers have the potential of rendering any system that will be put in place to improve financial accountability ineffective.
They, therefore, recommend that:

i) the Secretary to the Treasury should ensure that any Controlling Officer whose Ministry or Province incurs unconstitutional expenditures as a result of oversight is disciplined. Unconstitutional expenditure should not be a matter of routine, but a last resort for expenditure of a clearly discerned emergency. To achieve this, the budgeting process should be improved to ensure greater adherence to the budget and in the event of an emergency occurring, applications for supplementary provisions should be submitted in time to avoid unconstitutional expenditure.

Controlling Officers on their part should also ensure that accounting officers that do not prepare reports on the position of their expenditures under their Heads and Subheads are disciplined.

In future, unconstitutional expenditure will only be allowed to stand as a charge against public funds after responsible officers are disciplined; and

ii) measures that are being put in place to improve treasury management should be implemented side by side with measures to deal with dishonest public officers, to guard against failure of the new system.

They further recommend the following on the specific institutions:

**Ministry of Finance and National Planning**

For measures aimed at minimising excess expenditures to be effective, the Head Ministry, in this case, the Ministry of Finance and National Planning, has to first put its house in order.

Failure to provide for COMESA subscriptions in the 2005 budget pointed to negligence. The Secretary to the Treasury should, therefore, ensure that this does not recur and the responsible officers should be disciplined.

**Office of the Auditor-General**

The K846,438,417 that was incurred as excess expenditure should stand as a charge against public funds.

**Ministry of Home Affairs**

The excess expenditure amounting to K3,096,650,522 should stand as a charge against public funds.

**The Judiciary**

The excess expenditure of K585,364,326 incurred by the Judiciary in 2005 be allowed to stand as a charge against public funds.
Ministry of Community Development and Social Development

The excess expenditure of K602,663,089 incurred by the Ministry of Community Development and Social Services in 2005 be allowed to stand as a charge against public funds.

Ministry of Health

The excess expenditure amounting to K13,786,925,778 incurred by the Ministry of Health in 2005 be allowed to stand as a charge against public funds.

Ministry of Defence

The excess expenditure of K43,011,397,595 incurred by the Ministry of Defence in 2005 be allowed to stand as a charge against public funds.
Conclusion

10. Your Committee wish to express their gratitude to you, Mr Speaker, and the Office of the Clerk for the guidance and support rendered to them throughout their deliberations. They further thank the Secretary to the Treasury and all Controlling Officers who appeared before them for their cooperation.

Finally, they wish to acknowledge and show appreciation for the advice rendered to them by the Office of the Auditor-General and the Office of the Accountant-General throughout their deliberations.

C L Milupi, MP
CHAIRPERSON

OCTOBER 2007
LUSAKA