



REPUBLIC OF ZAMBIA

REPORT

of the

PUBLIC ACCOUNTS COMMITTEE

on the

**REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF
PARASTATAL BODIES FOR 2004**

for the

**FIFTH SESSION OF THE NINTH NATIONAL ASSEMBLY
APPOINTED BY RESOLUTION OF THE HOUSE ON 20TH JANUARY 2006**

PRINTED BY THE NATIONAL ASSEMBLY OF ZAMBIA

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REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES FOR 2004 FOR THE FIFTH SESSION OF THE NINTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON 20TH JANUARY, 2006.

Consisting of:

Hon N P Magande, MP (Minister of Finance and National Planning); Mr F Z Simenda, MP (Chairperson); Mr P M Zulu, MP; Mr E M M Musonda, MP; Mr J Masowe, MP; Mr R K Chulumanda, MP; Ms C N Namugala, MP; Mr C U Sibetta, MP; and Mr L J Ngoma, MP.

The membership of your Committee was reduced following the appointment of Ms C Namugala, MP as Deputy Minister.

The Honourable Mr Speaker
National Assembly
Parliament buildings
LUSAKA

Sir,

Your Committee have the honour to present their Report on the Report of the Auditor-General on the Accounts of Parastatal Bodies for 2004.

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 conferred on them under Article 117(5) of the Constitution of the Republic of Zambia.

Meetings of the Committee

3. Your Committee held eleven meetings to consider the Report of the Auditor-General on Parastatal Bodies.

Procedure adopted by the Committee

4. With technical guidance by the Auditor-General and the Accountant General, your Committee considered both oral and written submissions from controlling officers in charge of five of the six institutions that were audited. The six institutions were: Examinations Council of Zambia; National HIV/AIDS/STI/TB Council; Patents and Companies Registration Office; Food Reserve Agency; Zambezi Sawmills (1968) Limited (In Liquidation); and Zambia-China Mulungushi Textiles (Joint Venture)

Limited. They also considered the submission of the Secretary to the Treasury on Zambezi Sawmills (1968) Limited (In Liquidation).

In order to learn more on the operations of Zambia-China Mulungushi Textiles (Joint Venture) Limited, your Committee invited the local branch of the National Union of Commercial and Industrial Workers to share their experiences. They further undertook an inspection tour of the company and had the opportunity of meeting the Chairman of the Board who is based in China.

This Report contains the observations and recommendations of your Committee and includes, in some cases, proposed remedial measures to correct the identified irregularities.

PART 1

AUDITOR-GENERAL'S COMMENTS

5. The Auditor-General reported that the Report on the Accounts of selected Parastatal Organisations for 2004, was submitted to the President for tabling in the National Assembly in accordance with the provisions of the Constitution and the Public Audit Act, Cap 378 of the Laws of Zambia.

In the course of preparing the Report, each Chief Executive of the audited institution was sent relevant draft paragraphs for comments and confirmation of the correctness of the facts presented. Where comments were received and varied materially with the facts presented, the paragraphs were amended appropriately.

Scope of Audit

6. The Report was as a result of a programme of test checks and reviews of the audited accounts of selected organisations for the financial years up to 31st December 2004. The Report also includes one organisation audited up to 31st March, 2005. Due to limited resources, the programme of work was restricted to a few organisations. During the period under review, audits and reviews of the accounts and operations of the Examination Council of Zambia, National HIV/AIDS/STI/TB Council, the Patents and Companies Registration Office, the Food Reserve Agency, liquidation of Zambezi Sawmills (1968) Limited and Zambia China Mulungushi Textiles Joint Venture Limited were carried out.

Internal Control

7. In the Report, specific mention was made of weaknesses in procurement procedures, payment of salaries, collection of debts, non-preparation of financial statements and misappropriation of funds.

PART 11

CONSIDERATION OF SUBMISSIONS

EXAMINATIONS COUNCIL OF ZAMBIA

Composition of the Council – Paragraph 7

8. According to the provisions of the *Examinations Council Act*, the Council should consist of ten members appointed on a three year renewable term. The Council comprises the Chairman appointed by the Minister, Vice-Chairman elected by the Council from among the members and eight other councillors representing various disciplines/institutions concerned with education.

The current Council was appointed in 1996. However, six individuals who are members on the Council had either retired or resigned from their respective institutions. The failure to reconstitute the Council has had an effect on the operations of the Council. For example, the certificates that were being issued still bore the signature of the late Chairman who died in 2001.

Submission by the Minister of Education

The Minister of Education in his submission stated that his predecessor had made attempts to have the Council in place, but could not complete the task as he was transferred to another Ministry. He had carried on with the task and reported that as at 6th March, 2006, Cabinet had approved the names of persons to serve on the Council.

On the use of the signature of the deceased Chairperson on school certificates, he described the practice as unfortunate. To this effect, the Council was advised by legal experts to cease using the signature of the late Chairperson. He, however, believed that the Council did this because of pressure as the number of pupils who had sat for examinations was increasing and needed to proceed to undertake undergraduate programmes. Others who went to study outside the country could not graduate because their respective universities wanted them to submit original Grade 12 certificates.

He admitted that the use of the signature could bring about complications depending on how the matter was handled. The Ministry of Education was looking into the matter. There were two options on the issue:

- (i) recall the affected certificates and reissue new ones; or
- (ii) accept the certificates and acknowledge the circumstances under which they were issued.

Both options had pros and cons.

Committee's Observations and Recommendations

Your Committee note the response on the appointment of the Council. On the certificates, they advise the Ministry of Education to pick-on the option that will have less consequences.

Review of Operations – Paragraph 9

9. It was reported that an examination of accounting and other pertinent records carried out in February, 2005, at ECZ Headquarters, Provincial Education Offices (PEOs), District Education Board Secretary (DEBS)'s Offices and learning institutions revealed the following:

a) *Revenue, Headquarters*

- i) *Delayed Banking*** – There were delays ranging from four to twenty-nine days in banking revenue collections amounting to K303,601,593 made during the period from January, 1999, to November, 2001, contrary to the provisions of the Financial Regulations.
- ii) *Inadequate Maintenance of Revenue Cashbooks*** – The revenue cashbooks in respect of examination fees were poorly maintained in that;
 - collections made in October and November 2001 in amounts totalling K894, 388,000 though receipted and banked were not recorded in the Revenue Cashbook contrary to accounting regulations;
 - receipts in amounts totalling K47, 602,700 collected between 1st January 2000 and 31st August 2000 were receipted after having been deposited contrary to the accounting procedures; and

In view of the above, it was evident that financial regulations were flouted.

- iii) *Unaccounted for Cash*** - Collections in amounts totalling US\$78,440 and GBP459.50 made during the period September, 1999, to August, 2002, could not be verified as banked in that no banking details were made available for audit.

b) *Revenue, Provinces*

Although the *Examinations Council of Zambia Act* provides for among other things the charging and collection of examination fees, the Council did not have offices or officers in the provinces to handle and monitor the collection of such

fees. In this regard, the Council depended on Ministry of Education officials such as Provincial Education Officers, District Education Board Secretaries (DEBS), bursars and teachers in schools.

According to the existing arrangements, ECZ is supposed to collect receipt books from Ministry of Finance and National Planning for distribution to the DEBS. The DEBS are in turn supposed to distribute the receipt books to the various institutions under their charge. The respective institutions are required to maintain a Register of Accounting Documents into which details of the receipt books are entered.

The system required the revenue collectors to deposit the money in designated ECZ bank accounts opened at the provincial and district centres. The money would later be remitted to headquarters.

An examination of records at the ECZ Headquarters revealed that between 1999 and 2001, cash amounting to K376, 568,432 was misappropriated by various officials in five provinces as shown below:

Province	Amount Misappropriated K
Copperbelt	255,042,892
Eastern	25,353,530
Northern	21,383,310
Central	12,037,500
Lusaka	62,751,200
Total	<u>376,568,432</u>

As of March, 2005, no recoveries had been made from the concerned officials.

Visits to six provinces namely; Southern, Central, Northern, North-Western, Copperbelt and Luapula revealed weaknesses in the collection of examination fees. In particular, it was noted that in almost all the learning institutions visited, no Registers of Accounting Documents were maintained while in certain cases revenues collected were not entered in the relevant cash books. As a result of these weaknesses the following were observed:

i) Southern Province

Livingstone - District Education Board Secretary

Delayed Banking – There were delays ranging from five to twenty days in banking revenue collections amounting to K65,491,500 made during the period January to June, 2003, contrary to the provisions of the Financial Regulations.

David Livingstone Teachers Training College

Delayed Banking and Unaccounted for Cash - Revenue collections in amounts totalling K18, 134,400 made from March, 2003 to June, 2004, were delayed in banking for periods ranging from four to twenty-one days. In addition, collections in amounts totalling K9, 254,000 made between May, 2003 and March, 2005, were unaccounted for.

Choma - Njase Girls High School

There were delays of five to forty-six days in banking amounts totalling K31, 663,500 collected between May, 2003 and March, 2004.

Monze

District Education Board Secretary

In February 2005, ECZ issued a receipt book with serial numbers 654801 – 654900 to the Office of the DEBS. It was observed, however, that a receipt book bearing the same serial numbers had been issued to the same office in February, 1997. This poses a risk of fraud. There was no evidence that examinations fees in amounts totalling K194, 872,000 collected in 2003 and 2004, were banked.

Charles Lwanga Teachers Training College

A review of accounting records at the College revealed that no Register of Accounting Documents was maintained.

It was further observed that receipt books with serial number 637001 – 637100, 637501 – 637600, 654601 – 654700, 284701 – 284800 and 183501 – 183600, received and used during the period between January, 2003 and February, 2005, were not recorded in the register of accountable documents at the Office of the DEBS.

In addition, a receipt book with serial numbers 82901 to 82950 was not found at the College although the DEBS recorded it as having been issued to the institution.

It was evident from the above that the existing arrangements were flouted.

Monze Boarding High School

Delayed Banking – There were delays ranging from three to forty-two days in banking revenue collections amounting to K13, 651,500 made during the period March, 2003, to April 2004, contrary to the provisions of the Financial Regulations.

Monze Town Basic School

Missing Receipt Books – Three receipt books with serial numbers 223401-223500, 636101-636200 and 636001-636100 issued to the school between May, 2003 and April, 2004, were missing.

ii) Northern Province

Kasama Teachers Training College

Delayed Banking - There were delays ranging from three to twenty- six days in banking revenue collections amounting to K10, 536,800 made during the period February to April, 2004, contrary to the provisions of the Financial Regulations.

iii) Central Province

Kabwe

District Education Board Secretary

During the period February to June, 2004, a total amount of K197, 060,000 was collected on receipt numbers 21201 – 21347. A review of records, however, revealed that the amount was not recorded in the daily revenue cash book and bank deposit slips supported only K54, 206,000. As of March, 2005, deposit slips supporting the balance of K142, 800,000 had not been produced for audit.

Kabwe High School

Delayed Banking - There were delays ranging from four to forty-two days in banking revenue collections amounting to K11,936,500 made during the period from February to April, 2004, contrary to the provisions of the Financial Regulations.

Chibombo

District Education Board Secretary

A total amount of K82, 462,000 was collected and handed over to the DEBS during the period from March to April, 2004, by various schools in the district. There was, however, no evidence at the Office of the DEBS that the money had been banked.

Chibombo Basic School

Amounts totalling K5, 586,000 collected by the school in June, 2003, was not accounted in that there was neither a covering receipt from DEBS nor was there a bank deposit slip.

Chibombo High School

Delayed Banking - There were delays ranging from twelve to sixty-seven days in banking revenue collections amounting to K6, 549,000 made during the period February to April, 2004, contrary to the provisions of the Financial Regulations.

Mumbwa

Mumbwa High School

There was no evidence that a total amount of K2, 997,500 collected by the school in June, 2003, had been banked.

Sanje High School

There was no evidence that a total amount of K8, 613,000 collected by the school in March/April, 2004, had been banked.

iv) North-Western Province

Solwezi

District Education Board Secretary

Amounts totalling K16, 984,500 remitted by schools to the DEBS for banking during the period March to April, 2004, though receipted, were not banked.

Although a total amount of K152, 747,500 was banked during the period February to September, 2003, it was not possible to ascertain the total

collections in that receipt books and cash books were missing. It is, therefore, not clear whether the amount banked was a true reflection of the total collections.

Solwezi Day High School

There was no evidence that a total amount of K4, 621,500 collected by the school from March, 2001, to August, 2003, had been banked.

Kasempa

District Education Board Secretary

There was no evidence that a total amount of K51, 155,000 collected by schools during the period March to April, 2004, had been banked.

Although a total amount of K31, 443,500 was banked during the period June to September, 2003, it was not possible to ascertain the total collections in that receipt books and cash books were missing. It is, therefore, not clear whether the amount banked was a true reflection of the total collections.

There were delays ranging from ten to sixteen days in banking revenue collections amounting to K17, 749,500 made during the period from March to April, 2004, contrary to the provisions of the Financial Regulations.

Mwinilunga

Kanyihampa Basic School

Delayed Banking - There were delays ranging from five to one hundred and sixty six days in banking revenue collections amounting to K7, 137,200 made during the period March, 2001, to April, 2004, contrary to the provisions of the Financial Regulations.

v) Copperbelt Province

Ndola - District Education Board Secretary

There were delays of up to twenty-eight days in banking revenue collections amounting to K17, 873,500 made in June, 2003, contrary to the provisions of the Financial Regulations.

It was observed that record maintenance was poor in that it was difficult to clearly trace revenue collections made between March to April, 2004, amounting to K391, 645,000 to their deposit slips and DEBS' receipts, as they were not attached to the Daily Revenue Cash book pages to which they relate.

In cases where they were attached, the deposited amounts as indicated on the deposit slips were not corresponding with the amounts indicated on the Daily Revenue Cashbook pages.

vi) Luapula Province,

Mansa

Mansa District Education Board Secretary

The Board secretary banked a total amount of K24, 954,000 collected during the years 2003 and 2004, from schools without issuing official receipts. In this regard, it was not possible to verify the completeness, accuracy and validity of the amounts collected.

Mansa Teachers Training College

Amounts totalling K57, 520,000 were collected during the period March to July 2003 and for the month of May 2004 though receipted were neither entered in the Daily Revenue Cashbook nor banked.

Mwense High School

Between February and April, 2004, a total amount of K12, 391,500 was collected. However, only an amount of K6, 087,000 was banked leaving a balance of K6, 302,000 unaccounted for.

Samfya

District Education Board Secretary

The Office maintained a bank account with Finance Bank in which all examination fees were deposited. The money was later remitted to ECZ headquarters and according to standing instructions, no expenditure was supposed to be incurred from the account. An examination of bank statements pertaining to the account, however, revealed that ECZ officers irregularly withdrew a total amount of K79, 588,100 from the account during period September, 2001, to October, 2002. There was no evidence of how the money was accounted for.

Samfya Basic School

The daily revenue cash books, receipt books and deposit slips, which were used to account for revenues collected between 2001 and 2002, were missing. It was, therefore, not possible to ascertain how much was collected during the period.

c) Expenditure, Head Office

During the period under review, ECZ operated ten bank accounts with four local commercial banks. The bank accounts included operations account, salaries account, examination fees account and loans account among others.

An examination of records pertaining to the bank accounts and other relevant payment records revealed weaknesses in that in certain instances, no supporting documents for payments or transfers made from one bank account to the other were made available for audit. In particular the following were observed:

- i) payments in amounts totalling K5, 777,154,468 made during the period from 2000 to 2004, involving three hundred and thirty-eight transactions were not supported by relevant documents such as receipts/invoices and acquitted wage sheets. It was, therefore, not possible to verify the authenticity of the transactions;
- ii) imprest in amounts totalling K422, 161,072 issued to various officers during the period June 2000, to December, 2004, had not been retired as of March, 2005, contrary to the provisions of the financial regulations; and
- iii) there were no receipt and disposal details in respect of assorted stores items costing K80, 867,513 purchased during the period from January, 2003 to April, 2004, contrary to the provisions of the stores regulation.

d) Funding to Provincial Education Offices

The ECZ finances the administration of examinations through the Provincial Education Offices. The money is used for settlement of marking allowances to markers and other related examination expenses. The funds were to be retired by submitting expenditure returns to ECZ Headquarters. During the period 1995 to 2004, a total amount of K13, 507,028,885 was released to the provinces out of which K11, 273,911,716 was retired leaving a balance of K2, 293,117,169 as shown below:

PEO	Amount Received K	Amount Retired K	Total Outstanding K
Southern	1,617,303,584	1,251,504,075	365,799,509
Eastern	1,397,923,083	1,392,923,083	5,000,000
Northern	1,459,900,894	948,350,352	511,550,542
Western	951,616,203	749,271,864	202,344,339
Central	1,181,993,473	876,585,284	305,408,189
North Western	913,216,230	678,217,016	234,999,214
Luapula	877,747,251	698,728,963	179,018,288
Lusaka	2,044,454,710	1,600,841,110	443,613,600
Copperbelt	3,062,873,457	3,017,489,969	45,383,488
Total	13,507,028,885	11,213,911,716	2,293,117,169

The unretired imprest had an effect of distorting the financial statements in the respective years for which they remained unretired in that the expenditure for those years were either overstated or understated.

Submission by the Controlling Officer, Ministry of Education

The Controlling Officer acknowledged the observations by the Auditor-General and proceeded to submit as follows:

- (a) ***Revenue – Headquarters***
- (i) ***Delayed Banking***

It was regretted that there were delays in banking revenue collections amounting to K303, 601,592 during the period under review. During the period, Lusaka Province schools used to deposit examinations fees at the Council. As a result, there was too much work for the cashier to balance-off and have the money deposited on a daily basis. The banking procedures had since been streamlined, whereby, schools did not bring examination fees to the Council for depositing. Instead schools remitted examination fees to the DEBS office who in turn deposited the fees directly into designated Council accounts.

- (ii) ***Inadequate Maintenance of Revenue Cash books***

The amount totalling K894, 388,000 referred to in the Report as collections were actually transfers from one Examinations Council of Zambia Bank Account to another. These transfers were recorded in the main cash books and were available for audit verification.

It was regretted that receipts in amounts totalling K47, 602,700 collected between 1st January, 2000 and 31st August, 2000, were receipted after depositing because payments were not made by bank certified cheques. Arising from certain institutional cheques being dishonoured, the Council

decided to issue receipts after cheques had been cleared. The Council insisted on bank certified cheques for which receipts were issued immediately.

(iii) *Unaccounted for cash totalling US\$78,440 and GBP459.50*

It was regretted that at the time of audit, banking details for US\$78,440 and GBP459.50 were not availed for audit. The deposit slips together with bank statements were available for audit verification.

(b) **Revenue – Provinces**

According to Circular No. PS 2 (12) of 1987 dated 5th June, 1987, the establishment of the Examinations Council of Zambia did not mean that all matters pertaining to school examinations would be the sole responsibility of the Council. There were certain aspects of examinations administration that still remained the responsibility of the Ministry of Education. It was in that vein, therefore, that the Council was using the Provincial Education Officers, District Education Board Secretaries, Bursars and Teachers in schools.

According to Part I, Section 3 of the Examinations Council of Zambia Financial Regulations, all receipts must be vouched for on the form prescribed and provided by the Council.

The total amount misappropriated was K318, 175,392 and not K376, 568,432 as reported. The breakdown was as follows:

Province	Amount Misappropriated K	Amount Paid back K
Copperbelt	196,649,852	44,155,370
Eastern	25,373,530	-
Northern	21,383,310	-
Central	12,037,500	-
Lusaka	62,751,200	8,751,500
Total	318,175,392	52,906,870

The K376, 568,432 was overstated by K58, 383,040 in arriving at the total for Copperbelt Province. The amount of K58, 383,040 was duplicated on the misappropriated amount for Chingola in the Copperbelt Province. Therefore, the actual amount misappropriated for Copperbelt Province was K196, 649,852. This left a total amount misappropriated at K318, 175,392.

As regards action taken concerning the misappropriated K318, 175,392, the respective institutions and officers were written to requesting them to pay back the money. A reminder on the matter had since been written to the respective five Provincial Education Officers and so far K52, 906,870 had been recovered.

As regards the misappropriated K196, 649,852 for Copperbelt Province, the recovered amount of K44, 155,370 was broken down as follows:

	K
Mufulira Teachers Training College	4,943,420
Kitwe Teachers Training College	18,511,950
DEO – Chingola	<u>20,700,000</u>
	<u>44,155,370</u>

(i) **Southern Province**

Livingstone District

District Education Board Secretary

It was regretted that there were delays in banking. A reprimand letter was written to the officer who was charged with the responsibility of collecting and depositing the fees for not following Financial Regulations.

David Livingstone Teachers Training College

It was regretted that there was delayed banking. This was as a result of the ill health of the bursar.

The K18,134,400 had been deposited and an amount of K9,566,200 had been accounted for and was deposited in the Council account. A bursar had since been appointed at the institution.

Choma District

Njase Girls High School

It was regretted that there were delays in banking. The Headmistress wrote a reprimand letter to the bursar who was handling the fees for not following the Financial Regulations.

Monze District

District Education Board Secretary

It was true that two receipt books with the same serial numbers 654801 – 654900 were issued to the DEBS office. However, a period of eight years had elapsed when the second one was issued out. One receipt book was issued to the DEBS' cashier and the other receipt book was issued to a school. Books issued to DEBS had an HD prefix and those issued to schools had a prefix SC.

It was true that the DEBS office did not avail the copies of deposit slips to the auditors. However, bank statements for the period 2003 and 2004, show that a total of K255,773,603 was deposited into the Examinations Council of Zambia Bank Account.

Charles Lwanga Teachers' College

It was regretted that there was no maintenance of the Register for Accounting Documents at the time of audit. The receipt books with serial number 637001

– 637100, 637501 – 637600, 654601 – 654700, 284701 – 284800 and 183501 – 183600 had been recorded in the Register and it was available for audit verification.

The serial numbers quoted as 82901 – 82950 were not for a receipt book, but a revenue cash book. The book, which was reported as a receipt book, was actually the revenue cash book. However, it was regretted that the revenue cash book was not availed to auditors at the time of audit. The book was now in the custody of the Examinations Council of Zambia and was available for audit verification.

Monze Boarding High School

It was regretted that there were delays in the banking. The Headmistress wrote a warning letter to the officer in charge of collecting fees for not following Financial Regulations.

Monze Town Basic School

It was regretted that three receipt books with serial numbers 223401 – 223500, 636101 – 636200 and 636001 – 636100 were not availed to auditors. That was as a result of a break-in by thieves into the Cashiers' Office. The cited receipt books were with the Examinations Council of Zambia and were available for audit verification.

(ii) Northern Province

Kasama Teachers Training College

It was regretted that there were delays in banking revenue collections. The Provincial Education Officer had since reprimanded the College Principal.

(iii) Central Province

Kabwe District

District Education Board Secretary

The balance of K142,800,000 was deposited between April, 2004, to July, 2004, and the deposit slips together with updated Revenue Cash books were available for audit verification.

Kabwe High School

It was also regretted that revenue collections were not banked on time. The Headteacher of the School had been warned.

Chibombo District

District Education Board Secretary

It was regretted that the K82,462,000 was not verified as having been deposited at the time of audit. The K82,462,000 was actually banked and the documents were in the custody of the Examinations Council of Zambia and were available for audit verification.

Chibombo Basic School

The amount of K5,586,000 was collected by the School and remitted to the DEBS and a receipt was issued to the School.

Chibombo High School

It was regretted that there were delays in banking of revenue collections. The current position was that the School Headteacher had since warned the teacher in charge of collecting examination fees and banking.

Mumbwa District

Mumbwa High School

The total amount of K2,997,500 collected by the School in June, 2003, was deposited on 2nd June, 2003 and 7th June, 2003.

Sanje High School

The total amount of K8,613,000 collected by the School between March and April, 2004, was deposited into the Examinations Council of Zambia Account. The deposit slips were available for audit verification.

(iv)North-Western Province

Solwezi District

District Education Board Secretary

Contrary to the auditors' observation, the actual amount that was collected by schools for the period March to April, 2004 and remitted to the DEBS office was K14,508,500. The money was deposited and the deposit slips were available for audit verification.

It was regretted that receipt books and revenue cash books were not availed to the auditors for audit. The amounts totalling K152,747,500 for the period 20th February, 2003, to 9th September, 2003, were actually receipted. Copies of receipt books and revenue cash books were available for audit verification.

Solwezi Day High School

It was regretted that deposit slips amounting to K4,621,500 for the period 5th March, 2001, to 19th August, 2003, were not availed for audit. The deposit slips were available for audit verification.

Kasempa District

District Education Board Secretary

- It was regretted that deposit slips in amounts totalling K51,155,000 collected by schools during the period March to April, 2004, were not availed to auditors for audit. The funds were deposited and deposit slips were available for audit verification.
- It was regretted that at the time of audit receipt books and revenue cash books totalling K31,443,500 for the period June to September, 2003,

were not availed for audit. The receipts books and revenue cash books were available for audit verification.

- It was regretted that there were delays in depositing revenue collections made during the period March to April, 2004. The Provincial Education Officer had cautioned the District Education Board Secretary for not following the laid down Financial Regulations.

Mwinilunga District

Kanyihampa Basic School

It was regretted that there were delays in banking revenue collections for the period March, 2001 to April, 2004. The DEBS had written a reprimand letter to the Headteacher to follow the laid down Financial Regulations.

(iv) Copperbelt Province

Ndola District

District Education Board Secretary

It was true that there were delays in banking revenue collections made in June, 2003. The delay was regretted and the District Education Board Secretary's office had put in place measures to ensure that this did not happen again. All the moneys collected were deposited into the Examinations Council of Zambia Account.

It was regretted that there was poor record maintenance in revenue collections. The current position regarding the matter was that all the documentation relating to the revenue collection had been put in order and were available for audit verification.

(v) Luapula Province

Mansa District

District Education Board Secretary

It was regretted that official receipts and banking details for the amount of K24,954,000 collected during the years 2003 and 2004, from schools were not availed for audit. All the receipts, revenue cashbooks and deposit slips were available for audit verification.

Mansa Teachers Training College

It was regretted that the daily revenue cash books and deposit slips for amounts totalling K57,520,000 were missing at the time of audit. Efforts were being made to trace the missing documents.

Mwense High School

Contrary to the auditors' observation, the actual amount that was collected by Mwense High School between February and April, 2004 was K13,102,000. The receipt books together with deposit slips were available for audit verification.

Samfya District

District Education Board Secretary

It was true that the Examinations Council of Zambia maintained an account with Finance Bank in which all examination fees were deposited. The money was later remitted to the Examinations Council of Zambia Main Account. The Examinations Council of Zambia maintained district accounts with Zambia National Commercial Bank, which had no branch in Samfya District. For those districts where there was no on-line facility for transferring money as in the case of Samfya, Examinations Council of Zambia officers were sent with letters of instruction to the banks to issue bank certified cheques payable to Examinations Council of Zambia. The cheques were later receipted and deposited in the Main Account in Lusaka. That was what happened with those transactions referred to in the Audit Report. The receipts and deposit slips for K79,588,100 were available for audit verification.

Samfya Basic School

It was regretted that daily revenue cash books, receipt books and deposit slips for revenue collected between 2001 and 2002, were missing at the time of audit. Efforts were being made to trace the documents.

Expenditure – Head Office

It was true that during the period under review the Examination Council of Zambia operated ten bank accounts with four local commercial banks. The accounts included: Operations Account, Salaries Account, Examination Fees Account and Loans Account among others.

- (i) It was regretted that there were no supporting documents for payments such as receipts/invoices and acquitted wage sheets. The supporting documents for payments amounting to K5,773,001,104.08 had been traced leaving a balance of K4,153,363.92 unsupported. Efforts were being made to retrieve the remaining supporting documents from functional files.
- (ii) It was regretted that imprest issued to various officers was not retired at the time of audit. Imprest in amounts totalling K137,534,202 had been retired and details were available for audit verifications. The unretired balance of K284,626,870 was being deducted from the respective officers' salaries.
- (iii) It was regretted that there were no receipt and disposal details for assorted stores items purchased during the period January to April, 2004. That was due to the fact that, those were items bought for specific examinations requirements and did not go through stores. All the officers had been directed to follow the laid down Stores Regulations by ensuring that all purchases had receipt and disposal details.

(d) Funding to Provincial Education Offices

It was true that, at the time of the audit the unretired imprest to Provincial Education Offices was K2,293,117,169. Since then, imprest in the sum of K1,521,529,067 had been retired leaving the balance of K771,588,102 as at November, 2005.

Committee's Observations and Recommendations

a) REVENUE - HEADQUARTERS

i) Delayed Banking

Your Committee note the response and resolve to close the matter subject to confirmation by the Office of the Auditor-General that the new system is in place.

ii) Inadequate Maintenance of Revenue Cash Book

Your Committee recommend that the matter on the transfers that were reported as collections should be closed subject to verification.

They further recommend that the matter on the receipts totalling K47,602,700 be closed subject to verification.

iii) Unaccounted for Cash Totalling US\$78,440 and £459,50

In noting the submission, your Committee urge the Controlling Officer to caution the Examination Council of Zambia (ECZ) management for not making documents available during audits. They resolve that the matter be closed subject to verification.

b) REVENUE, PROVINCES

Your Committee note the response and urge the Controlling Officer to ensure that officers who had misappropriated ECZ funds are disciplined. They further urge her to report progress on the recoveries.

i) SOUTHERN PROVINCE

Livingstone

Your Committee note the submission and resolve that matters on delayed banking should close.

Choma District

They recommend that the matter on delayed banking should close.

Monze District

District Education Board Secretary (DEBS)

Your Committee in noting the submission recommend that the matters on receipt books and bank statements should close subject to verification.

Charles Lwanga Teacher's College

Your Committee recommend that the matters should close subject to verification that the Register of Accounting Documents was in place, and that serial numbers 82901-82950 were for a revenue cashbook and not a receipt book.

Monze Boarding High School

Your Committee note the submission and resolve that the matter on delayed banking should close.

Monze Town Basic School

Your Committee in noting the submission resolve that the matter on receipt books should close subject to verification.

ii) **CENTRAL PROVINCE**

Kabwe District

District Education Board Secretary (DEBS)

In noting the submission, your Committee resolve to close the matter subject to confirmation that the K142,800,000 is supported by bank deposit slips.

Chibombo District

District Education Board Secretary (DEBS)

Your Committee recommend that the matter should close subject to verification of the deposit slips.

Chibombo Basic School

Your Committee resolve that the matter should close subject to verification of the receipt.

Chibombo High School

Your Committee note the response and resolve that the matter on delayed banking should close.

Mumbwa District

Your Committee in noting the submission resolve that bank deposit slips should be verified both at Mumbwa High School and Sanje High School, further to which the matters should close.

iv) NORTH-WESTERN PROVINCE

Solwezi District Education Board Secretary (DEBS)

In noting the submission, your Committee recommend that the figure for the money that was remitted to the DEBS be reconciled with the Office of the Auditor-General. In addition, the receipt and cash books in which the K152,747,500 was entered should be verified. If found in order, the matter should close.

Solwezi Day High School

Your Committee note the submission and resolve that the deposit slips be verified and thereafter the matter should close.

Kasempa District – District Education Board Secretary (DEBS)

Your Committee resolve to close the matter subject to verification of the deposit slips for the K51,155,000 and the receipt and revenue books where the K31,443,500 was entered.

They further resolve that the matter on the delayed banking should close.

v) ***COPPERBELT PROVINCE***

Ndola District – District Education Board Secretary (DEBS)

In noting the submission, your Committee urge the Controlling Officer to ensure that record maintenance is improved following her disclosure that qualified accounting officers will be employed in the Ministry of Education.

They resolve to close the matter on record maintenance subject to confirmation that the documents are in order. They further resolve to close the matter on delayed banking.

vi) ***LUAPULA PROVINCE***

Mansa

Your Committee note the submissions and recommended as follows:

District Education Board Secretary (DEBS)

The matter should close subject to verification of the receipt books, cashbooks and deposit slips.

Mansa Teachers Training College

The Controlling Officer should provide bank statements to confirm that the K57,520,000 was banked in the absence of cash and receipt books. They will wait for a progress report on the matter.

Mwense High School

The figures should be reconciled and verified further to which the matter should close.

Samfya District

In noting the submission your Committee make the following recommendations:

District Education Board Secretary (DEBS)

The matter should close subject to verification that the K79,588,100 was banked in Lusaka.

Samfya Basic School

The Controlling Officer should provide a report on record maintenance at the School after 2002. The report should include an update on the missing documents.

c) EXPENDITURE – HEAD OFFICE

Your Committee note the response and recommend the following:

- i) supporting documents for the K5,793,001,104 – 08 should be submitted for verification;
- ii) the matter on imprest should close subject to confirmation that deductions have been effected from concerned officers, and verification of the retired K137,534,242; and
- iii) the Controlling Officer should provide purchase details and specify the examinations requirements that necessitated the purchases. They will wait for progress on the matter.

d) FUNDING TO PROVINCIAL EDUCATION OFFICE

Your Committee request the Controlling Officer to report progress on the retirement of the remaining K771,588,102.

NATIONAL HIV/AIDS/STI/TB COUNCIL

Paragraphs 11 – 14

The Council – Paragraphs 10 -11

10. According to the *National AIDS Council Act*, the Minister of Health appoints members of the Council for a renewable three year term. The Minister appoints the Chairman from amongst the members. The Council is made up of fifteen members appointed from among others, Government and Non-Governmental Organisations.

However, as of February, 2005, the Council had only twelve members. The other three members that included the Chairperson, who resigned in October, 2004 had not yet been replaced.

The Secretariat – Paragraph 12

11. The day-to-day administration of the Council was vested in the Secretariat which implements Council decisions including the development of technical guidelines for the coordination of the multi-sectoral national response for the prevention and combating of the spread of HIV/AIDS, STIs and TB. In this regard, the Council appointed a Director General who was the Chief Executive Officer and who was also the Secretary to the

Council. The Council also appointed the other staff of the Secretariat, as it considered necessary for the performance of the functions of the Council under the Act.

As of January 2005, NAC had no substantive Director-General. The acting Director-General was on secondment from the Tropical Diseases Research Centre.

Submission by the Controlling Officer, Ministry of Health

The Controlling Officer agreed with the comments by the Auditor-General. He informed your Committee that the Ministry was in the process of appointing the three members of the Council. The Position of Director-General had already been filled.

Committee's Observations and Recommendations

Your Committee note the response and request for a progress report on the appointment of the remaining three members of the Council.

Expenditure - Paragraph 14

12. It was reported that an examination of expenditure records at the Council revealed the following:

a) Irregular Payment of Rent

According to the conditions of service obtaining at NAC, the institution was not supposed to provide residential accommodation to its employees, but pay a salary that included housing allowance. It was observed, however, that despite the Acting Director-General being paid housing allowance in amounts totalling K82,500,000 during the period from January, 2003, to December, 2004, the Council also paid K63,805,614 as rentals for the officer's residential accommodation for the same period.

b) Irregular Payment of Salaries And Allowances

- i) The *NAC Act* provided that, only sitting allowances were to be paid to members of the Council for doing Council work. It was noted, however, that during the period January, 2002, to September, 2002, salaries amounting to K14,700,000 were paid to the then Council Chairman instead of sitting allowances as provided for by the Act. It was further observed that despite the Committee of Cabinet Ministers on HIV/AIDS nullifying the payment of salaries to the Chairman in July, 2002, NAC continued paying him up to September, 2002.

The amounts paid had not been recovered as of February, 2005.

- ii) In November, 2002, the former Director-General was requested to take leave following allegations levelled against him. While he was on leave, his contract expired in April, 2004 and was not renewed by the Council.

A scrutiny of payments revealed that during the period from May, 2004, to February, 2005, the officer, despite his contract having expired was irregularly paid amounts totalling K96,692,800. Out of this amount, K88,800,000 was paid as salaries and K7,892,800 as fuel allowances. As of February, 2005, no recoveries had been made.

It was further observed that the officer went away with a Hyundai motor vehicle and a desktop computer belonging to NAC. Although the items should have been surrendered on expiry of his contract, as February, 2005, the items were still in his possession.

c) **Failure to Recruit Staff Under the African Development Fund (ADF) Project**

In 2001, the Government entered into an agreement with the ADF for the support of the NAC. Under the agreement, NAC was to receive an amount equivalent to UA1,000,000. The amount was to be used for among others, procurement of consultancy services to monitor, evaluate, develop a financial management system, co-ordinate gender analysis and provides the framework for planning. Under the same agreement technical assistant experts on prevention, care and support, information, education, communication, impact mitigation and coordination were to be recruited. The project was to end on 31st December, 2004, but was extended to 31st December, 2005.

A review of documentation relating to the project in February, 2005, disclosed that technical experts on Evaluation and Communication, Prevention and Care, Impact Mitigation and Coordination had not been recruited. Consequently, NAC was unable to assess the impact of its activities on the community.

Submission by the Controlling Officer, Ministry of Health

In his response, the Controlling Officer submitted as set out below:

Irregular Payment of Rent

It was true that the former Acting Director-General was wrongly paid K63,805,614 as rentals for the officer's residential accommodation.

She had accrued terminal benefits amounting to K47,177,710 which had since been channelled towards offsetting the wrong payment. As for the balance, the Ministry of

Health had written to Tropical Disease Research Centre (TDRC) asking them to effect the recoveries on their behalf.

Irregular Payment of Salaries and Allowances

- (i) The former Council Chairman had been written to asking him to advise the Ministry how he intended to pay back the money owed to the institution.

When asked on what led to the Chairman being overpaid, the Controlling Officer replied that there was inadequate guidance given on the conditions of service.

- (ii) The overpaid salaries and fuel allowances totalling K96,692,800 to the former Director-General had been recovered from his terminal benefits.

The Hyundai motor vehicle and a desktop computer had been retrieved and were available for verification.

Non-Recruitment of Staff under the African Development Fund Project

Despite the Agreement between the Government of the Republic of Zambia and the African Development Bank (ADB) having been signed in June, 2001, project implementation only began in July, 2002. As a result of the restructuring of the National AIDS Council, staff that was to be recruited under the ADB Project were affected. A consultant, Deloitte and Touché was engaged to recommend a new NAC Structure, subsequently; new titles that were not in the ADB appraisal document were recommended.

The original positions in the appraisal document and those in the new structure were as follows:

Positions in Appraisal Document

1. Prevention and Care Officer
2. Information, Education and Communication Officer
3. Impact Mitigation Officer
4. Liaison Officer

New Positions on Structure

1. Care and Support Specialist
2. Behavioural Change Communication Specialist
3. Director, Impact Mitigation
4. Donor Coordinator / Public Relations Specialist

A no objection had since been obtained from the Bank. All but one position had since been filled-up. The remaining position; Director, Impact Mitigation, had been advertised.

Committee's Observations and Recommendations

Your Committee note the submission and make the following recommendations:

Irregular Payment of Rent

The Controlling Officer should report progress on the recovery of the balance on the amount that the Council had spent on rentals.

Irregular Payment of Salaries and Allowances

- i) The Committee should be given an update on the recovery of moneys that were irregularly paid to the former Chairperson in the form of salaries and allowances.
- ii) The query on salary and allowances over-payments that were made to the former Director-General should close. In addition, the query on the motor vehicle and desktop computer should also be closed.

Failure to Recruit Staff under the African Development Fund (ADF)

The Controlling Officer should report progress on the recruitment of the Director, Impact Mitigation.

PATENTS AND COMPANIES REGISTRATION OFFICE (PACRO)

Audit Queries

Paragraphs 17 – 18

Management of PACRO – Paragraph 17

13. It was reported that although PACRO was supposed to be supervised by the Ministry of Commerce, Trade and Industry, in practice, it was observed that this was not the case. This resulted in weaknesses in internal controls.

Submission by the Controlling Officer

In his response to the query, the Controlling Officer admitted that the Ministry of Commerce, Trade and Industry had not effectively supervised the Institution. However, the situation changed in 2004, when an Interim Advisory Board was appointed to ensure proper management and preparation of regular reports to the Ministry on PACRO's operations.

When asked why it took long to rectify the problems at PACRO, the Controlling Officer replied that the problem was partly due to the way the hive-off was executed. He admitted that there was an oversight on the part of the Ministry to identify serious problems at the Institution.

On the composition of the Advisory Board, the Controlling Officer stated that the Board comprised four individuals and one member from the Zambia Competition Commission. The tenure of office for members was two years renewable.

Committee's Observations and Recommendations

Your Committee note the response and observe that internal control weaknesses are mainly as a result of the failure by the Ministry of Commerce, Trade and Industry to closely supervise the functions of PACRO. Hiving-off of PACRO without putting in place a proper management structure led to the mismanagement of affairs at the institution.

While appreciating the constitution of the Interim Advisory Board, they urge the Controlling Officer to constitute a permanent body that will oversee the operations of PACRO for a longer specified period. They, therefore, resolve to wait for a progress report on the constitution of such a body.

Review of Management Letter - Paragraph 28

14. It was reported that a review of the management letter dated 26th February, 2004, submitted by the auditors that were contracted to carry out the audit of accounts for the Financial Years 1999 to 2002, on behalf of the Auditor-General revealed the following:

a) Non-Preparation of Reports

According to the Commercialisation Report prepared by the organisation, no financial statements and annual reports on the operations of PACRO had been prepared as of February, 2004, contrary to the operational guidelines.

b) Weaknesses in Internal Control

There were weaknesses in internal controls in that tender procedures were not followed, there were related party transactions, instances of non delivery of goods and services paid for and non preparation of books of accounts. As a result of the weaknesses in internal control the following were observed.

i) Supply of Accounting Package

During the period between November, 1998 and August, 1999, a total amount of K20,908,750 was paid to Buka Moto Enterprises for the supply and instalment of an integrated accounting package. However, the company did not supply the

package and no refund had been obtained from the company as of February, 2004. The review had revealed that the company belonged to an individual who was later employed as Management Accountant for PACRO.

ii) Purchase of Extinguishers

PACRO had paid a total amount of K28,850,000 for the supply of fifty-two fire extinguishers (Carbon dioxide 27, Dry powder 19 and Water gas 6). However, a physical verification carried out in February, 2004, revealed that only twenty-one fire extinguishers costing K8,887,000 were delivered leaving a balance of thirty-one costing K19,693,000. It was further noted that there were inconsistencies in the pricing in that in September, 2001, one carbon dioxide fire extinguisher from Mordecai was priced at K800,000 and a similar fire extinguisher from Chinso was priced at K680,000 in February 2002. There was no evidence that the transactions had been referred to the Tender Committee.

iii) Purchase of Stationery

During the period October to November, 2001, PACRO had purchased 3,465 reams of A4 bond paper at a total cost of K69,300,000 from Kasabi Industries. A review of records revealed that the tender meeting to approve the procurement was attended by only two officers namely the Management Accountant and the Accountant. The Procurement of the paper was therefore done without tender committee approval;

A physical verification of reams of A4 bond paper on hand carried out on 2nd January, 2004, revealed a shortfall of seven hundred and four reams costing K14,080,000.

Despite bringing the matter to the attention of management, no action had been taken as of February, 2004.

iv) Procurement of Building Materials

Between February, 2000 and January, 2001, PACRO paid a total amount of K11,925,000 to two companies, Micmar and Parlur Trading, for the supply of five hundred and fifty bags of cement. However, there was no evidence that this cement was received. Further, the use of the cement could not be verified since there was no evidence of major construction works at the Institution.

v) Procurement of Carpets

During the period June, 1998, to March, 2002, amounts of K140,616,928 and US\$6,600 were paid to Mwicho Enterprises and an individual for the supply of carpets. A review of records revealed that the orders were split in order to circumvent tender procedures.

vi) Procurement of Air Conditioners

A total amount of K20,200,000 and US\$29,925 were paid to Crowthorne (US\$1,925) and Shad enterprises (K20,200,000 and US\$28,000) between January 1999 and April, 2001, for the supply of eighteen air conditioners. A physical verification carried out in February, 2004, at the PACRO offices revealed that only thirteen air conditioners had been supplied and installed. The balance of five air conditioners costing US\$11,667 (K55,999,920) had not been supplied as of February, 2004.

A comparison of prices of air conditioners charged by other suppliers and those charged by Shad Enterprises showed that the unit price of an air conditioner ranged between K3,475,000 and K4,375,000 while Shad enterprises charged K11,200,000 per unit. It is, therefore, evident that the supplier inflated the prices by over 100 percent resulting in a potential loss of K81,900,000.00.

vii) Procurement of Computerised Certificates and Folders

A total amount of K102,014,400 (US\$21,253) was paid to Smith and Ouzman of the United Kingdom between January and March, 2002, for the supply of twenty thousand computerised certificates and folders for use at PACRO. It was, however, noted that due to the departure of the officer who was spearheading the use of computerized certificates, the certificates acquired remained unused as of February, 2004. The certificates may, therefore, become obsolete. It was further noted that no Tender Board authority was obtained for the transaction.

viii) Purchase of Mwayi House

On 21st May, 1999, the Registrar of companies, Patents and Trade Marks entered into an agreement with Cebic Limited for the purchase of portion A of stand 8471 at a cost of K399,999,996 (US\$140,000). The payment was made on 25th May, 1999, through Citibank to an account in National Westminster Bank, 16 place St Helier Jersey, Channel Islands. The procurement of portion A was made after deliberations by management.

In addition, on 16th February, 2000, another agreement was entered into between Townford Limited and the Registrar of Companies, Patents and Trade Marks for the purchase of portion B of stand 8471 at a cost of K780,000,000 (US\$275,618) bringing the total cost of the building to K1,179,999,996 (US\$415,618). Two officers, the Registrar and the Personnel and Welfare Manager, decided the purchase of portion B. In this regard, it was noted that whereas PACRO paid a total amount of US\$415,618 for the building, a qualified Government valuator made no valuation of the building and there was no Tender Board approval.

It was also observed that the Registrar was paid a total of US\$7,500 as legal fees for handling the sale of Mwayi House on behalf of PACRO. The propriety of paying the Registrar the amount of US\$7,500 as legal fees when he was the Chief Executive of PACRO was highly questionable.

ix) Construction of Pre-Fabricated Building

In August, 1999, a contract was awarded to TAP for the construction of a pre-fabricated building that houses the conference room at Mwayi House at a total cost of US\$86,130. In this regard, a total amount of US\$83,207 had been paid towards the contract sum leaving a balance of US\$2,923 as of February, 2004.

It was, however, observed that no Tender board authority was obtained.

A physical inspection of the building carried out at the time of audit revealed that the building had cracks and the roof along the corridor was leaking. The defects had not been corrected as of February, 2004.

x) Payments to the Consultant

Between July, 1998 and December, 1999, PACRO paid a total amount of K30,117,500 as fees to a financial consultant. It was, however, observed that there were no contracts or other documents to support the payments. In addition, PACRO paid amounts of K3,000,000 in December, 1999 and K23,527,423 in July, 2000 as burial benefits and gratuity respectively to the consultant. The payments were irregular as the consultant was not an employee of PACRO.

xi) Payment to the Zambia Institute for Advanced Legal Education (ZIALE)

An amount of US\$9,800 was paid to ZIALE in April for the Registrar's five months course in legislative drafting. The course and the payment were not referred to the Permanent Secretary, Ministry of Commerce, Trade and Industry for approval but was instead approved by the Registrar.

xii) Payment for Preparing Drafts for Patents and Trade Marks

A total amount of US\$6,000 was paid to an individual between November, 2000 and March, 2001, for preparing drafts for Patent and Trade Marks Legislation. The contract was not subjected to tender procedures.

xiii) Payments for the Preparation of a Staff Appraisal System

In March, 2001, an amount of US\$4,000 was paid to the Personnel and Welfare Manager as funds needed for the preparation of the staff appraisal system. The funds were in turn supposed to be paid to KM Financial Services who were to

undertake the works. It was observed that there was no competitive bidding in the process of selecting the service provider and there was no contract signed by PACRO and KM Financial Services. In this regard, the payment of US\$4,000 to the Personnel and Welfare Manager was irregular.

xiv) Payments for Printing of Brochures and other Works

A total amount of US\$12,550 was paid to DC Saatchi and Saatchi in June and July, 2001, for the works done at the PACRO stand at the Zambia International Trade Fair in Ndola and printing of brochures. However, no Tender Board authority was obtained.

xv) Purchase of Laptop and IBM Computers

Between September, 1998 and August 1999, a total amount of US\$7,439 was paid to two companies, Techzam Olivetti Limited (US\$3,819) and Mutech (Z) Limited (US\$3,620) for the supply of a Toshiba laptop and an IBM computer respectively. During a physical verification carried out in February, 2004, the two computers were not found on hand.

xvi) Purchase of a Satellite Cell Phone

In February, 2002, PACRO purchased a satellite Motorola cell phone at a cost of US\$3,600 from Border Trading without following tender procedures. Although the phone was meant to ease communication problems between PACRO and the Inspectors in the field, an inspection carried out in February, 2004, revealed that the phone had never been used since it was acquired. The expenditure of US\$3,600 was, therefore, wasteful.

xvii) Other Irregular Payments

An examination of payment records revealed weaknesses in the manner payments were being done at PACRO in that in certain instances imprest were paid without being retired, advances/loans paid were not recovered, subsistence allowances were paid without indicating the purposes for which they were paid and payments made for various trips purportedly undertaken on PACRO business. In particular, the following were observed:

- a total amount of US\$9,500 was paid to the Management Accountant between October 2000 and February 2001 as imprest for purchase of the Registrar's furniture (US\$6,000) and (US\$3,500) a working session at Riverside Motel in Kafue. The amounts had not been retired as of February 2004;
- a total amount of US\$7,555 was paid to the Personnel and Welfare Manager in August 2001 comprising daily subsistence allowance of US5,055 and contingency in the sum of US\$2,500 when he travelled

to Malawi with the Registrar and the Management Accountant. It was noted however that no Cabinet Office authority was obtained and there was no indication that the amount had been retired as of February 2004. The payment of a contingency of US\$2,500 in addition to their daily allowances was irregular. Further, the purpose of the trip could not be established;

- in September 2001, an amount of US\$3,620 was paid to an officer as subsistence allowance for thirteen (13) days including US\$500 for incidentals. The Personnel and Welfare Manager and the Management Accountant approved the payment. There were, however, no details of the purpose for which the money was paid;
- a payment of US\$1,900 was made to the Personnel and welfare Manager in November 2001 when he travelled to Geneva. The amount paid included an amount of US\$1,000 for books, which were to be bought from Geneva for PACRO. There was however no evidence that the manager had either purchased the books or refunded the money as of February 2004;
- a total amount of US\$91,010 was paid to the Registrar for commutation of leave days - US\$12,533, school fees refunds - US\$14,477, holiday allowances - US\$8,000 and owner occupier rentals -US\$56,000 during the period December 1999 to December 2001. The payments were made allegedly in line with his contract of service. A review of the contract however revealed that it was signed by his junior, the Personnel and Welfare Manager instead of being referred to Cabinet Office for approval; and
- during the period November 1999 to June 2001, salary advances and loans amounting to US\$31,000 were paid to the Registrar. According to records examined, the Personnel and Welfare Manager approved the advances and there was no evidence that the advances were recovered.

xviii) Revolving Fund

A review of the revolving fund account revealed weaknesses in that in certain cases advances and loans were paid without approval while in other cases the beneficiaries approved their own payments. In this regard, it was observed that a total amount of K437,471,000 paid as salary advances and loans to forty officers during the period under review had no recovery details.

xix) Advances to the Ministry of Commerce, Trade and Industry

During the period March, 1999, to January, 2002, amounts totalling US\$33,612 and K105,431,200 were advances to the Ministry of Commerce, Trade and Industry. The amounts had not been refunded as of February, 2004.

xx) Sale of Motor Vehicles

In 1999, PACRO disposed of five motor vehicles with a total net book value of K177,490,031 to five officers for a total of K92,000,000. The sale resulted in a loss on disposal of K85,490,031. There was no evidence that the motor vehicles had been valued before the sale. For example one motor vehicle with a net book value of K52,849,531 was sold to the Registrar for only K23,000,000.

xxi) Procurement of Motor Vehicles

Between December, 1998 and October, 1999, PACRO made payments in amounts totalling US\$137,358 for purchase of a motor vehicle. The vehicles were procured through National Assembly instead of the Ministry of Works and Supply, contrary to laid down Government procedures. It was further noted that although National Assembly quoted K59,893,187 for the 30 seater Rosa bus, PACRO paid a total amount of K30,988,121. There was no evidence that the overpayment was recovered.

Submission by the Controlling Officer

In reply, the Controlling Officer submitted as follows:

i) Internal Reports

- (a) the daily flow reports were being prepared and were available a for inspection;
- (b) PACRO had prepared the half-yearly financial and management reports which were submitted to the Advisory Board and the Ministry;
- (c) a qualified Chief Accountant had been employed;
- (d) a server to host a new accounting package had been procured to facilitate the preparation of financial statements rather than using a manual system, which was a hindrance; and
- (e) a deliberate policy to upgrade skills in the Financial Section had been initiated through short-term training.

ii) External Reports

PACRO had requested the Office of the Auditor-General to have its books audited and it was expected that this would be done by February, 2006. This would facilitate the production of the annual reports.

Weaknesses in the Internal Control

With regard to weaknesses in Internal Control, the Controlling Officer submitted that:

- i) the utilisation of the MCTI Tender Committee, Tender Board Procurement Guidelines above PACRO threshold would be referred to the Ministry of Commerce, Trade and Industry; and
- ii) a position for recruitment of a qualified procurement person to deal with purchases had been created in the new structure and soon a qualified person would be recruited.

Supply of Accounting Package

On the supply of the accounting package, the Controlling Officer said that the matter was one of the issues being investigated by the Anti-Corruption Commission and investigations were ongoing.

Purchase of Extinguishers

When PACRO was hived-off from the Ministry of Commerce, Trade and Industry, there was no qualified person to competently deal with stores and procurement and hence Mordecai supplied the fire extinguishers. It was later discovered that some of the extinguishers were not functioning and these were removed and put behind the building for storage.

He admitted that there was an omission on the part of PACRO as they did not subject this procurement to the tender process. In order to forestall a recurrence, the Ministerial Tender Committee had started approving all major procurements for the institution.

He admitted that tender procedures were not followed. PACRO acknowledged that the record keeping in its stores was very poor as it was being manned by persons who were not qualified for the job. The matter was referred to the police.

Procurement of Building Materials

The Controlling Officer admitted that cement was bought and delivered although the Goods Received Notes (GRN) were not produced. Evidence of the procurement of cement in the absence of goods received notes could be seen by the construction works involving the drive-way, drainage system, pavements, flower beds and concrete cement for the fence which was not in existence at the time Mwayi House was purchased. A system had now been put in place to deal with procurement.

Procurement of Carpets

Records at PACRO showed that the cited individual was the owner of Mwicho Enterprises which was registered as a business name. He sometimes quoted under the name of the business while at other times he quoted under his own personal name. It was acknowledged that the tender process was flouted and the matter was referred to the police. However, measures were already in place to prevent a recurrence, as all major procurements were now done through the Ministry of Commerce, Trade and Industry Tender Committee.

Procurement of Air Conditioners

The Controlling Officer conceded that there was over-pricing of the items in question. He stated that PACRO did not have proper stores management systems in place and therefore, no qualified person to verify the pricing.

Procurement of Computerised Certificates and Folders

The Controlling Officer acknowledged that there was no adherence to tender procedure in this procurement. He stated that the certificates and folders had since been utilised and exhausted. PACRO in 2004, employed an IT Manager who immediately operationalised the system left by his predecessor and the certificates had been put to good use.

Purchase of Mwayi House

The Controlling Officer informed the Committee that this matter was before the Anti-Corruption Commission. The Office of the Attorney-General was handling the matter on behalf of PACRO.

Construction of Pre-Fabricated Building

The Controlling Officer submitted that the matter was under probe by the Anti-Corruption Commission as it was part of the procurement of Mwayi House as a whole.

Payment to the Consultant

The Controlling Officer informed your Committee that a new payroll system had been put in place and training was conducted on how to operate and manage the system. Under the arrangement, the Consultant was employed on contract. However, before the contract of employment could be drawn up, he passed away. It was acknowledged that there was an omission on the part of PACRO not to have entered into a contract with him while he was just a Consultant to cover the period. The payroll system was still in use at PACRO.

Payment to the Zambia Institute for Advanced Legal Education (ZIALE)

The Controlling Officer stated that in an effort to upgrade legislative drafting skills, the Registrar attended and was awarded a Diploma in Legislative Drafting from ZIALE. It was acknowledged that, there was an omission on PACRO's part not to have sought prior approval from the Ministry.

Payment for Preparing Drafts for Patents and Trade Marks Legislation

The Controlling Officer admitted that the tender process was not followed in the commissioning of this work. However, the individual in question produced the drafts as commissioned by PACRO. Tender processes were now being followed.

Payment for Preparing of a Staff Appraisal System

The matter was under the Anti-Fraud Squad at Police Service Headquarters who were actively investigating it.

Payment for Printing of Brochures and other Works

The Controlling Officer admitted that tender procedures were flouted. However this had been addressed.

Purchase of Laptop and IBM computers

It was submitted by the Controlling Officer that the IBM computer was available and was being used by the institution. Due to poor record keeping, it was very difficult to know what happened to the laptop.

Purchase of a Satellite Phone

It was admitted by the Controlling Officer that the Tender process was not followed in procuring the phone. However, PACRO intended to sell the phone through normal Government procedures to recover the money spent on the procurement of the phone.

Other Irregular Payments

The Controlling Officer submitted as follows:

- a) The US\$2,500 was retired leaving a balance of US\$5,055 unretired. The officer responsible was no longer working at PACRO. The documentation in these transactions was incomplete and consequently the Anti-Corruption Commission and Police were investigating the matter. The issue in some cases was compounded by the fact that some of the officers involved were no longer at

PACRO making follow-up difficult, hence the involvement of the police. The transactions involved include:

- (i) salary Advances/loans;
- (ii) imprest;
- (iii) commutation/Leave days;
- (iv) foreign travel payments; and
- (v) school fees/holiday allowances.

In order to forestall a recurrence of non-retirement of imprest, measures had been put in place so that imprest was retired within a stipulated time-frame.

b) It had been difficult to establish the purpose of the trip for which the officer was paid the subsistence allowance since he had left the institution.

c) This matter was also under investigations by the Police since the officer was no longer an employee of PACRO.

d) The documentation in these transactions was incomplete and consequently the matter had been referred to Anti-Corruption Commission and the Police. The transactions involved include the following:

- salary Advances/Loans;
- commutation/Leave days;
- payment for school fees;
- payment for rentals; and
- payment for Mr Kunkuta's electricity bills.

Revolving Fund

The Controlling Officer submitted that recoveries of advances and loans were in progress at the time of audit on the payroll. The process for approval and recovery period for loans and advances from the Revolving fund account was strictly enforced.

Advances to the Ministry of Commerce, Trade and Industry

The Controlling Officer submitted that the Ministry had acknowledged the debt and efforts were being made to pay it back.

Sale of Motor Vehicles

The Controlling Officer submitted that the case had been referred to the Anti-Corruption Commission including the issue of the vehicle that the Chief Executive sold to himself. He conceded that there was no valuation of these

motor vehicles before their disposal. At the time, there was no policy in place at PACRO dealing with acquisition and disposal of assets by the Institution.

Procurement of Motor Vehicles

As regards the purchase of vehicles through the Clerk of the National Assembly's Office, the Controlling Officer explained that the then Deputy Minister at the Ministry of Commerce, Trade and Industry facilitated this transaction. The idea was that the institution would benefit from the duty free procurement facility. However, National Assembly later decided that duty should be paid, as PACRO was not entitled to the duty free facility, which was restricted. The overpayment was meant to cover this duty, which National Assembly asked to be paid. Measures to obtain the document on tax to verify that tax was paid through the National Assembly were instituted, but the National Assembly had not reverted to PACRO with the Tax document despite several visits to the Accounts Office.

Committee's Observations and Recommendations

Your Committee observe and recommend the following:

a) Non Preparation of Reports

They express worry on the level of financial mismanagement at PACRO. They urge the Controlling Officer to ensure that the Advisory Board implements the plan that has been devised to improve financial management at the Office. They will, therefore, expect a progress report on the matter.

b) Weaknesses in Internal Control

The Controlling Officer should report progress on the recruitment of a qualified procurement officer.

i) Supply of Accounting Package

Your Committee should be provided with an update on the Anti-Corruption Commission investigations on the matter.

ii) Purchase of Fire Extinguishers

They demand for a progress report on the action that PACRO will take against the suppliers. The progress report should include information on how many of the received extinguishers are functional and which company has been contracted to be servicing them.

iii) *Purchase of Stationery*

They be provided with an update on the police investigations on the matter.

iv) *Procurement of Building Materials*

Your Committee resolve to close the matter subject to the Auditor-General's office confirming that a procurement system has been put in place and also that the 550 bags of cement were used on the construction works mentioned.

v) *Procurement of Carpets*

The Controlling Officer should report progress on the Police investigations on the matter.

vi) *Procurement of Air Conditioners*

Your Committee observe that what was happening at PACRO could be described as plunder. They, therefore, re-emphasise the need for the Controlling Officer to closely monitor the operations of PACRO.

vii) *Procurement of Computerised Certificates and Folders*

The matter should close subject to verification that the certificates were utilised.

viii) *Purchase of Mwayi House*

The Controlling Officer should report progress on the case involving the former Registrar and the Personnel and Welfare Officer.

ix) *Construction of Pre-Fabricated Building*

The Controlling Officer should report progress on the case.

x) *Payment for preparing drafts for Patents and Trade Marks Legislation*

They resolve to close the matter subject to confirmation that the drafts were produced.

xi) *Payment for preparing of a Staff Appraisal System*

The Controlling Officer should provide an update on the police investigation on the matter.

xii) Purchase of Laptop and IBM Computer

Your Committee observe that this is another problem that is as a result of unregulated procurement at PACRO. They resolve to close the matter on the IBM computer subject to verification. They advise the Controlling Officer to submit a loss report for the laptop.

xiii) Purchase of a Satellite Cell Phone

Your Committee resolve to close the matter on the understanding that the satellite cell phone is still available.

xiv) Other Irregular Payments

- (i)-(ii) The Controlling Officer should report progress on the outcome of police investigations on the matters. In addition, the retired US\$2,500 should be verified.
- (iii) Your Committee are of the opinion that the officers that approved the payment should also be questioned since they are the same officers under investigations.
- (iv)-(vi) The Controlling Officer should provide an update on the police investigations.
- (vii) Your Committee resolve to close the matter on the Revolving Fund subject to confirmation that loan and advance are in progress.

xv) Advances to the Ministry of Commerce, Trade and Industry

Your Committee urge the Controlling Officer to commence liquidating the advances. They, therefore, request him to report progress on the repayments.

xvi) Sale of Motor Vehicles

The Controlling Officer should provide an update on the case.

xvii) Procurement of Motor Vehicles

Your Committee urge the Controlling Officer to continue dialoguing with the National Assembly on how to resolve the matter.

Your Committee further request the Controlling Officer to invite the Auditor-General to verify that the vehicles were actually procured and received.

FOOD RESERVE AGENCY (FRA)

Paragraphs 19 -30

Background – Paragraph 19

15. It was reported that in the Report of the Auditor-General for 1996 and 1997, on the accounts of the Food Reserve Agency (FRA), mention was made of various financial and other irregularities. A recent review of the operations of the Agency for the period from 1st April, 1999, to 31st March, 2004, revealed that there were still cases of irregularities. In particular the following observations were made:

Funding – Paragraph 20

16. During the period under review, Government funding to the Agency totalled K162,299,593,010 out of a total budget of K262,130,000,000 as detailed below:

Year	Budget K	Released K	Variance K
1998	12,125,000,000	1,000,000,000	(11,125,000,000)
1999	12,000,000,000	10,750,000,000	(1,250,000,000)
2000	19,000,000,000	2,104,639,904	(16,895,360,096)
2001	32,000,000,000	-	(32,000,000,000)
2002	22,305,000,000	18,000,000,000	(4,305,000,000)
2003	117,500,000,000	82,754,633,273	(34,745,366,727)
2004	47,200,000,000	47,690,319,833	490,319,833
	262,130,000,000	162,299,593,010	(99,830,406,990)

The failure to release the total budgeted amount had a negative impact on the operations of the Agency.

Submission by the Controlling Officer

The Permanent Secretary in charge of Co-operatives and Marketing under whom the Food Reserve Agency (FRA) falls in his submission, on behalf of the Controlling Officer, acknowledged that K162,299,593,000.00 was received by the Agency from 1998, to 2004, from a total budgetary allocation of K262,130,000,000.00 resulting in a shortfall of K99,340,088,157.00. The under funding had a negative impact on the operations of the Agency.

Committee's Observations and Recommendations

Your Committee express concern on the failure by the Central Government to release the total budgeted amount for the FRA. They wonder how food security in the country can be attained when the Institution tasked with the responsibility of holding strategic food reserves is under funded.

Financial Performance - Paragraph 21

17. According to the audited accounts of the Agency for 1999, 2000 and 2001 and draft accounts for the year 2002, as well as management accounts for the financial years 2003 to 2004, the financial position of the Agency was as detailed below:

Income and Expenditure Accounts						
	2004	2003	2002	2001	2000	1999
	K'000	K'000	K'000	K'000	K'000	K'000
Total Income	24,560,121	11,155,466	27,911,049	76,063,759	38,732,163	37,260,171
Total Expenditure	14,490,844	7,267,657	27,635,896	48,671,825	82,213,757	55,447,171
Surplus (Deficit)	10,069,277	3,887,809	275,153	27,391,934	(43,481,594)	(18,187,000)

- a) It was observed that although the Agency recorded surpluses of between K275,153,000 and K27,391,934,000 between 2001 and 2004, from a deficit of K18,187,000,000 in 1999, the total income was mainly made of Government grants.
- b) A review of the management accounts revealed adverse variances on maize sales, fertilizer sales, seed sales, cassava sales and grain bags sales. For instance, during 2004 the position was as follows;

	Budget	Actual	Variance	% Variance
	K'000	K'000	K'000	
Maize sales	233,098,836	45,449,357	(187,649,479)	(81)
Fertiliser sales	76,800	4,340	(72,460)	(94)
Seed sales	22,500	-	(22,500)	(100)
Grain bag sales	4,670,000	2,053,225	(2,616,775)	(56)
Cassava sales	1,152,150	128,138	(1,024,012)	(89)

The trend was the same in 2003, 2002 and 2001. It is clear, therefore, that the performance of the Agency has been poor. Despite the adverse variances, there was no evidence of any action having been taken by management to address the situation.

Although in her reply dated 26th May, 2005, the Executive Director had stated that the adverse variances were due to the Agency's strategy to build a National Strategic Reserve, this activity was not budgeted for.

Submission by the Controlling Officer

- (a) He acknowledged that the Agency recorded deficits of K18,187 billion and K43.482 billion in 1999 and 2000, respectively. However, the Agency recorded surpluses of K27.391 billion and K0,275 billion in 2001 and 2002, respectively.

He further acknowledged the fact that the total income of the Agency was mainly made up of Government grants.

- (b) The variances on maize and cassava sales were due to a directive by the Board of Directors not to sale stock, but build a strategic national reserve stock.

The variances in fertiliser and seed were due to the discontinued activities in the input distribution programme.

Committee's Observations and Recommendations

Your Committee note the response on the income and expenditure accounts and on the sales variances. They resolve to close these matters.

Interim Salaries - Paragraph 22

18. During the period between 1st April 2001 and 31st July 2004 when the Executive Director's position was vacant, three officers acted in the interim until when the position was filled in August 2004. The three interim Executive Directors were two Permanent Secretaries from the Ministry of Agriculture and Co- operatives and the Agency's Legal counsel.

An examination of records at the Agency revealed that the two Permanent Secretaries were paid salaries totalling K274,000,000. It was noted, however, that the Board, which included the two Permanent Secretaries, authorised the salaries. In addition, the Permanent Secretaries drew salaries from Government during the same period.

The Legal Counsel who also acted as Interim Executive Director during the period May, to July, 2004, was paid a total amount of K19,533,333 as an allowance in addition to his salary. It was noted, however, that although K7,000,000 was paid to the Legal Counsel per month, conditions of service provided for a responsibility allowance of K5,000,000.

Submission by the Controlling Officer

The payment of K292,533,333.00 made to two Permanent Secretaries from the Ministry of Agriculture and Co-operatives were responsibility allowances and not salaries. The Food Reserve Agency Board of Directors approved the payment. No authority was obtained from the Public Service Management Division, as the payment was that of allowances and not salaries.

The Board of Directors approved the payment of K7 million acting allowance to the Legal Counsel who acted as Executive Director.

Committee's Observations and Recommendations

Your Committee observe that the payments were sanctioned by the Board of Directors, which meant that the payments were not really irregular. What existed at the time was weak supervision of the Board by the Ministry of Agriculture and Co-operatives. Your Committee note with satisfaction that the Ministry has undertaken measures to avoid a recurrence of a similar situation by ensuring that no Permanent Secretary can act as Executive Director of the Agency. In closing the matter, the Committee urge the Controlling Officer to ensure that there is closer monitoring of the activities of the Board of Directors.

Payment of Gratuity - Paragraph 23

19. In February, 2002, the Government announced that the Agency was to be scrapped and be replaced with Crop Marketing Authority (CMA). In this regard, in December, 2002, a Bill was presented to Parliament. However, the Bill was withdrawn and the Government brought an amendment Bill to strengthen the Food Reserve Agency (FRA) which was enacted accordingly.

An examination of records at the Agency revealed that before the Bill was presented to Parliament, the Board in May and October, 2002, authorised the payment of gratuity totalling K3,702,218,279 to the members of staff in anticipation of the closure of the Agency.

It was noted that before the payment of gratuity, all the members of staff were on permanent and pensionable scheme of service. However, after the payment, all the staff was re-engaged on contract, which will attract payment of further gratuity.

The action of the Board to authorise the payment of gratuity and subsequent change of conditions of service was irregular.

Submission by the Controlling Officer

He acknowledged that the Food Reserve Agency Board authorised the payment of gratuity to the Agency staff and subsequent change of conditions of service. He further described the situation that existed at the time as dynamic in the sense that so many things happened which were authorised by the Board. The situation was exacerbated by the uncertainty that surrounded the workers, therefore, people reacted to safeguard their interests.

Committee's Observations and Recommendations

Your Committee note the response and bemoan the actions that were taken by the Board of the Food Reserve Agency. They observe that these kinds of action could be repeated if there is a sense of uncertainty on the part of workers. In closing the matter, they reiterate their recommendation that the Ministry should closely monitor the activities of the Board of the Food Reserve Agency.

Consultancy Fees - Paragraph 24

20. When the Crop Marketing Authority Bill that intended to scrap the Food Reserve Agency was withdrawn, the senior managers held a three days seminar in November, 2003, to look into the re-organisation of the Agency. In line with their conditions of service, the managers were paid amounts totalling K6,480,000 as sitting allowances. A further scrutiny of pertinent records revealed that in addition to the sitting allowances, the senior management irregularly paid themselves amounts totalling K44,200,000 as consultancy fees for presenting papers on the way forward of their departments when this was within their job requirements.

Submission by the Controlling Officer

He attributed the irregular payments to poor management at the Agency at the time. All concerned staff were requested to repay the Agency the moneys that were paid to them as consultancy fees.

Committee's Observations and Recommendations

Your Committee note the submission and request for an update on the recoveries.

Payment of Sitting Allowances - Paragraph 25

21. According to the provisions of *Food Reserve Agency Act* No. 12 of 1995, the Agency shall meet for the transaction of business at least once every three months at such places and times the Chairperson may determine and only have a special meeting to be held within fourteen days of receipt of a written request addressed to the Chairperson by at least five members of the Agency. Further, the Act states that if the urgency of any particular matter does not permit the giving of such notice as is required under subparagraph (3), a special meeting may be called by the Chairperson, upon giving a shorter notice.

An examination of records at the Agency revealed that during the period between February, 2001 and July, 2004, the Board held 221 meetings for which a total amount of K1,853,789,589 was paid to the members as sitting allowances for adhoc and special meetings. Under normal circumstances, the Board should have met sixteen times exclusive of special and adhoc meetings. Further, there was neither evidence that the

special meetings were requested for by at least five members, nor evidence that matters deliberated upon on the 221 occasions were urgent as provided for in the Act.

In addition to the K1,853,789,589 paid as sitting allowances the Board members were also paid amounts totalling K217,919,250 as quarterly allowances, and K76,480,000 as Honorarium.

The propriety of the Board to institute regular sittings and paying itself the above hefty allowances was irregular and not in the interest of the Agency as well as Government.

Submission by the Controlling Officer

The *Food Reserve Agency Act* stipulated that the Board would determine its own allowances. Following the audit observations, the new Board of Directors had cut down allowances payable to itself. Only sitting allowances, night allowances and transport reimbursables were now paid to the Board. Further, the Board had put in place a schedule for Board meetings to avoid holding many meetings.

Committee's Observations and Recommendations

Your Committee resolve to close the matter subject to verification of the adjusted allowances and the schedule of Board meetings.

Debtors - Paragraph 27

22. According to the existing credit policy, the FRA gives loans in form of inputs and grain bags to farmer groups and primary cooperative societies. The loans are supposed to be repaid in the subsequent farming season.

An examination of records revealed that inputs and grain bags valued at K138,824,597,912 were given in form of loans during the period from 1998 to 2002 without corresponding collateral. It was observed in this regard that as of September, 2004, only K39,088,167,375 representing 28 % of the loans issued had been recovered, leaving a balance of K99,736,430,537.

Submission by the Controlling Officer

The loan modalities for fertiliser, maize and grain bags were different from one financial year to another as follows:

- (i) the 1997/98 loans were given to individuals and farmer groups and these were secured; recoveries were mostly from these loans;
- (ii) in the 1998/99 – 2001/02 period, loans were made available to primary co-operative societies. It had proved difficult to recover these loans as no collateral was obtained by the Agency.

The recoveries were being pursued through the courts.

Committee's Observations and Recommendations

Your Committee note the response and request for an update on the recoveries.

Assets of the Agency - Paragraph 28

23. In 1995, various assets with a total market value of K100,920,890,000 were transferred to the Agency from the Zambia Co-operative Federation (ZCF). A review of the assets register revealed that as of 2004, the value of the assets had reduced to K86,844,125,298 as shown below:

Type Of Property	1995		2004	
	Quantity	Market Value K	Quantity	Market Value K
Housing Units	322	6,710,000,000	-	-
Storage Facilities	609	80,280,890,000	609	80,280,890,000
Stacking Machines	102	10,890,000,000	102	10,890,000,000
Bagging Machines	6	1,800,000,000	6	1,800,000,000
Hoppers	4	400,000,000	4	400,000,000
Evacuators	4	840,000,000	4	840,000,000
TOTAL		100,920,890,000		94,210,890,000

As can be seen from the table above, the market value of the assets had remained static despite that the Agency having paid a valuator K83,483,250 to revalue the assets. Further a physical verification in selected provinces revealed that most of the stacking machines were obsolete but there were no arrangements made for disposal.

The reduction in the total value of the assets to K94,210,890,000 was as a result of the transfer of 322 housing units to the Presidential Housing Initiative. A further analysis of the assets register revealed the following:

(i) Storage Facilities

At its inception in 1996, the Agency inherited a total of 609 storage facilities comprising six silos and 603 warehouses/sheds. A physical inspection of the storage facilities in September, 2004, revealed that all the six grain silos located in Monze, Lusaka, Chisamba, Kabwe, Ndola and Kitwe were not operational due to lack of maintenance.

The costs of repair for the six silos were estimated at K9,137,617,654 in 1994. However the estimated cost has since risen to K14,800,000,000 as of December, 2004.

(ii) Non Valuation of Properties

The Agency had not revaluated its properties since the last valuation done by C.M. property Consultants in March, 1997, which resulted in wrong assessment of rental charges when leasing them as they are based on old valuation. However, on 26th February, 2003, a contract was signed between the Food Reserve Agency and Bitrust Real Estate and Financial Services for the Company to revalue the properties of the Agency. The contract was signed at the total costs of K83,483,250. The purpose of the valuation was to assess current open market values, current open market rental values and insurance values.

It was observed, however, that properties were valued by desk research approach that resulted into inconsistencies, as most of the properties were not physically assessed. This was contrary to the agreement with the valuator and, therefore, the expenditure was wasteful.

Submission by the Controlling Officer

The Government transferred assets of Namboard to Food Reserve Agency through Statutory Instrument No. 12 of the *Food Reserve Agency Act* of 1995. The assets had earlier been transferred to Zambia Co-operative Federation in 1989. The assets transferred were as follows:

Type of Property	Number	Market Value (K)
Housing Units	320	6,710,000,000.00
Storage Facilities	609	80,280,890,000.00
Stacking Machines	102	10,890,000,000.00
Bagging Machines	6	1,800,000,000.00
Hoppers	4	400,000,000.00
Evacuators	4	840,000,000.00
Total		<u>100,920,890,000.00</u>

The housing units were transferred to the Ministry of Works and Supply through a Statutory Instrument. This had created a shortage of housing units for the Food Reserve Agency staff and had also depleted the asset base of the Agency. The Ministry of Agriculture and Co-operatives recommended that Ministry of Works and Supply should re-imburse the Agency K6,710,000,000.00 as consideration for the housing units.

Further, certain assets transferred were depot based and the Agency wanted these to be retained as they were necessary for the functioning of the depots.

(i) Storage Facilities

The Agency inherited a total of six grain silos located in Monze, Lusaka, Chisamba, Kabwe, Ndola and Kitwe. According to the technical report done by German consultants, the Monze Silo had a structural fault, therefore, could not be used.

At the inception of the Food Reserve Agency, only the Lusaka and Kitwe silos were operational. The other silos were in a state of disrepair.

The silos require rehabilitation in civil, mechanical and electrical engineering at an estimated cost of K15 billion as of 31st December, 2004. Food Reserve Agency would solicit for a Government grant in order to rehabilitate the silos, auxiliary and support infrastructure such as access roads, rail and weighbridges.

Your Committee further heard that the Food Reserve Agency had the potential storage capacity of 2 million metric tonnes. At one time, K4 billion was released for rehabilitation of storage facilities, but the amount was not sufficient to undertake comprehensive works. The Agency resolved to rehabilitate hoarding sheds. Silos were a better method of storage, however, they were expensive to maintain when compared to storage sheds.

(ii) Non-Valuation of Properties

The desk research approach was conducted on the request of Food Reserve Agency. The expenditure was not wasteful because K400 million was required for a full physical valuation and only K83 million was available.

Your Committee were assured that the Food Reserve Agency would undertake a full physical valuation based on rational norms and standard practice to ensure a realistic valuation in the 2005/06 fiscal year.

Committee's Observations and Recommendations

Your Committee in noting submission, advise the Controlling Officer to initiate the process of seeking the re-imburement of K6,710 million from the Ministry of Works and Supply for the housing stock. They will await progress on the matter.

(i) Storage Facilities

Your Committee observe that delays in rehabilitating storage facilities in the country will result in repair costs reaching unaffordable levels. In addition, the state of silos is indicating that policy pronouncements on food security are not being matched by actions. They request the Controlling Officer to report progress on the rehabilitation of storage facilities in the country.

(ii) *Non-Valuation of Properties*

Your Committee request for a progress report on the full physical valuation of the Food Reserve Agency properties.

Import of White Maize from Argentina - Paragraph 29

i) Maize paid for but not delivered

24. In paragraph 11 of the Auditor-General's Report for the years 1996 and 1997, on the accounts of the Food Reserve Agency, mention was made of the Agency entering into supply contracts in 1997 and 1998, with Carlington Sales company of Canada for the supply of 150,000 metric tons of white maize at a total cost of US\$29,000,000. The Food Reserve Agency paid a total of US\$4.9 million and the Ministry of Finance and National Planning also paid US\$600,038 bringing the total to US\$5,500,038. Despite all these payments the company did not deliver the maize.

In its report of the fourth session of the eighth National Assembly, the Public Accounts Committee recommended that the Ministry of Agriculture Food and Fisheries follow up the arbitration of the Carlington deal so that the funds are recovered.

In view of the magnitude of the matter and the colossal loss of public funds at the Agency, your Committee further strongly recommended that the Anti-Corruption Commission and other relevant law enforcement agencies thoroughly investigate the matter and bring the culprits to book.

A review of the situation in September, 2004, disclosed that the Agency had engaged Rosenblait Solicitors of London in March, 2000, at a cost of K360,241,686 (£40,779) to pursue the matter. However, while the case was being pursued, Carlington Sales Company went into liquidation in December, 2002. In addition the Agency spent a total amount of K163,656,450 (US\$35,655) as travel expenses for Agency staff that travelled to the United Kingdom and Canada in pursuit of the case.

Despite the colossal sums of K523,898,136 spent on the case, no recoveries had been made. However, the case is still being pursued in the courts of law in the United Kingdom and Canada and further expenditure will be incurred.

ii) Loans Obtained by the Food Reserve Agency

25. In paragraph 132 of the Auditor-General's Report for the year ended 31st December 2000, mention was made of the Agency's indebtedness to some financial institutions. In this regard, it was reported that the Agency owed a total amount of US\$66,966,021 to two (2) financial institutions namely ABSA and Nedbank. The loans were guaranteed by the Government and were to be repaid within twelve (12) months from the date of signing.

A review of the situation in September 2004 revealed that the Agency had failed to service the loans and as of November 2001, only US\$17,457,042 had been repaid. The balance of US\$49,508,979 has since been referred to the Government, as the guarantor, for payment under the Subsidiary Credit Agreement signed in April 2003. Under this agreement, the Agency will repay the Government in thirty (30) instalments commencing November 2008 and ending November 2022.

Submission by the Controlling Officer

(i) Carlington Sales Company – Undelivered Maize

The Food Reserve Agency paid Carlington Sales Company US\$5,128,473.70 between 10th October, 1998 and 24th March, 1998, for the supply of 100,000mt of white maize. No maize had been delivered as of January, 2006.

The Food Reserve Agency obtained judgement in the London Chamber of International Arbitration against Carlington Sales Company for re-imbusement of US\$6,108,822.44 for breach of contract.

The Food Reserve Agency engaged an English Law Firm – Rosenblatt Solicitors of London to represent the agency in the Carlington Sales case. Total payments to Rosenblatt Solicitors were £70,865.00

Lawyers had to travel to the United Kingdom to ascertain the chances of recovering the funds. The resolution of the Food Reserve Agency Board was that the case was unfruitful and had, therefore, referred it to the Ministry of Justice for further consideration. The Food Reserve Agency could not pursue the case any longer as it was costly on their part.

(ii) Loans Obtained by the Food Reserve Agency

He agreed that the Agency signed an on-lending agreement with the Ministry of Finance and National Planning for US\$52,995,924.23 to cover outstanding loans to various banks and institutions guaranteed by the Government.

The Agency had repaid US\$3,159,805.15 to the Ministry of Finance and National Planning leaving a balance of US\$49,836,119.08.

Committee's Observations and Recommendations

1. Maize Paid for and not Delivered

Your Committee note the observation and express concern on the little progress that has been made in resolving the case. They further observe that the time factor will eventually make the pursuance of the funds unrealistic. They, however, support the decision by the Food Reserve Agency to refer the case to the Ministry of Justice. They, therefore, resolve to wait for an update on the matter.

2. Loans obtained by the Food Reserve Agency

Your Committee observe that the repayment was to commence in 2008 and end in 2022, with respect to the US\$52,995,924.23. They, therefore, would wait for a progress report on the liquidation of the US\$49,836,119.08.

Provincial Inspections - Paragraph 30

26. In September, 2004, a tour of five selected Provinces, Eastern, Southern, Lusaka, Central and Copperbelt was undertaken to:

- check on the physical state of storage facilities and equipment; and
- check on the state of grain stored in the storage facilities.

The inspection revealed the following:

a) Eastern Province

Lundazi

The District had five sheds out of which two were rented out to Omnia and Stancom. Three had capacities of 5,000 metric tonnes each while two had 3,500 metric tonnes each. As of September, 2004, the sheds needed rehabilitation.

It was further observed that there was only one stacking machine on hand although the records at the Agency headquarters showed that three were at the depot. The other two stacking machines were not accounted for.

b) Southern Province

i) Kalomo

According to the records maintained at the Agency headquarters, the depot was not allocated with any stacking machine. However, a physical inspection carried out disclosed that one stacking machine was on hand and operational.

ii) Choma

According to the records at the Agency headquarters, the depot had one stacking machine. However, during a physical inspection carried out at the depot in September 2004, nine stacking machines were on hand. Out of the nine, one was working, one was serviceable and seven were in a state

of disrepair. There was also on hand one ton self-dialling scale in a good working condition.

Apart from the one stacking machine, all the other machinery was not put on charge.

As of October, 2004, the Agency Headquarters had not updated their records.

iii) *Monze*

According to the records made available at the Agency headquarters, there were no machines allocated to the depot. However, during a physical inspection conducted in September, 2004, twelve fire extinguishers, four platform scales, and three stacking machines were found on hand. Out of the three stacking machines, two were unserviceable.

Although in their response the Agency stated that there were eight stacking machines at the depot, the other five were not found on hand. In addition, all the machinery at the depot had not been put on charge.

As of October, 2004, the Agency Headquarters had not updated their records.

c) **Central Province**

i) *Kabwe – Natuseko Depot*

The Depot has one unit of silos with a capacity of 22,500 metric tons, two 3,500 metric ton Capacity sheds and a weighbridge.

A physical inspection disclosed that whereas the weighbridge was operational, the silos were vandalized and had not been maintained and used since 1994. As of October, 2004, the rehabilitation costs were estimated at K3 billion.

ii) *Chisamba Depot – Chibombo*

The Depot had one Unit of Silos with a capacity of 15,000 metric tons, As of October, 2004, the unit of silos was in a dilapidated state and required K3.5billion for rehabilitation.

The Depot had three stacking machines out of which two were unserviceable.

d) **Copperbelt Province**

i) *Bwana Mukubwa Depot – Ndola*

A physical verification at Bwana Mukubwa revealed the following:

The depot had twelve stacking machines out of which only six were serviceable. Of the six serviceable machines one was leased to Antelope

Milling Company at a monthly charge of K500,000. All the machines at the depot were not put on charge.

The depot had one Unit of Silos with a capacity of 22,500 metric tons. As of October, 2004, the Silos were in a dilapidated state and K3.5 billion was required for repairs.

ii) Kitwe Depot – Kitwe

The Depot had one Unit of Silos with a capacity of 15,000 metric tons and one shed with a capacity of 2,250 metric tonnes. As of October, 2004, both the silos and the shed were in a dilapidated state and had not been used since 1994.

The Depot had three houses, which as of October, 2004 had been occupied by illegal tenants.

In her reply dated 26th May, 2005, the Executive Director stated that arrangements were being made to evict the illegal tenants.

Submission by the Controlling Officer

(a) Eastern Province

The Lundazi Depot had 03 x 5,000mt capacity sheds and 02 x 3,500mt capacity sheds.

He acknowledged the observation that the sheds needed rehabilitation. The Depot had one stacking machine instead of three as the other two were transferred to Chipata.

(b) Southern Province

(i) Kalomo

The discrepancy on the quantity of stacking machines was due to movements between depots within the province.

The Depot had one functional stacking machine and three scrap. The stacking machine in Kalomo was transferred from Choma Depot, after the Food Reserve Agency did maintenance repairs.

(ii) Choma Depot

The Depot had a total of fifteen (15) stacking machines as follows;

One	-	Functional
Nine	-	Serviceable
Five	-	Scrap

The Food Reserve Agency repaired the functional stacking machines and Head Office had the records for machines at the region.

(iii) Monze Complex Depot

The Monze Depot had twelve fire extinguishers, four platform scales and eight stacking machines of which three were functional, one was serviceable and four were scrap.

The fire extinguishers were bought by Food Reserve Agency who also repaired the functional stacking machines. The platform scales were delivered for the maize purchase programme.

(c) Central Province

Kabwe and Chibombo

The Kabwe silo was vandalised and would require huge sums of money to rehabilitate. It was vandalised before the inception of the Food Reserve Agency. The rehabilitation costs were estimated at K3 billion.

The Chibombo Depot silo was not functional and required K3.5 billion to be rehabilitated.

(d) Copperbelt Province

(i) Bwana Mkubwa – Ndola

The Depot had five sheds and eleven slabs in good condition. The shed capacities were; 01 x 2,250mt, 01 x 4,000mt and 03 x 5,000mt.

The Depot had one dumper in working condition and two weighbridges with one working side. The rail wagon weighbridge was not working.

The Depot had six stacking machines beyond repair and six were repairable.

The silo with a capacity of 22,500mt was vandalised and required K3.5 billion to be rehabilitated.

(ii) *Kitwe Depot – Kitwe*

The Depot had a vandalised 15,000mt capacity silo. The Depot had an office block rented by Mpelembe Properties. The Depot also had three houses and one canteen.

The Agency had repossessed the houses at the Depot. All the housing units had since been put on lease to tenants.

Committee’s Observations and Recommendations

Your Committee observe that the update on the rehabilitation of silos and sheds will suffice on issues related to state of storage infrastructure.

They recommend that the Auditor-General’s office should verify the updated records at the Food Reserve Agency Head Office with respect to equipment that was queried as having not been put on charge at Lundazi, Kalomo, Choma, Monze, Kabwe (Natuseko Depot), Chibombo (Chisamba Depot), Ndola (Bwana Mkubwa Depot) and Kitwe. If found in order, the matters should close.

Your Committee further recommend that the issue of illegal tenants in Kitwe should close subject to verification that the tenants were now occupying the houses legally.

ZAMBEZI SAWMILLS (1968) LIMITED

Paragraphs 31 - 32

Background

27. Zambezi Sawmills (1968) Limited was incorporated in 1968 and was a wholly owned subsidiary of ZIMCO. The business of the company was primarily wood processing, producing products such as railway sleepers, saw timber and door frames. The company operated from Mulobezi and Sesheke sawmills and a dry mill and factory in Livingstone.

Following the liquidation of ZIMCO in March, 1995, the Zambia Privatisation Agency through Public floatation appointed Coopers and Lybrand as interim Managers for Zambezi Sawmills (1968) Ltd in October, 1996. The interim Managers were to safeguard the interests of stakeholders who included Government and the creditors.

The creditors included the Development Bank of Zambia which was owed K11,600,000 and US\$1,064,000 obtained through INDECO Limited.

To safeguard their interests, Development Bank of Zambia decided to place Zambezi Sawmills (1968) Ltd under receivership and on 26th January, 1998, appointed a Receiver Manager on the mortgaged property being stand number 2642, Zambezi Sawmills factory office situated in Livingstone. However, the appointment was terminated in May, 1998.

A review of records maintained at Ministry of Finance and National Planning, Development Bank of Zambia, Zambia Privatisation Agency, the receiver and ZIMCO (in liquidation) and physical inspections at various sites revealed the following:

a) Zambezi Sawmills (1968) Limited During Receivership

Zambezi Sawmills (1968) Limited was in receivership from January, 1998, to September, 2001. An examination of records maintained by the receiver revealed that scanty records were maintained and as a result among other things it was not possible to verify what the interim managers handed over to the receiver. In particular the following were observed.

i) Sale of a Motor Vehicle

At the time of placing the company into receivership, there were seven motor vehicles taken over by the receiver. One motor vehicle (Fiat Uno AJA 7540) was offered for sale at K550,000 to the former manager who took possession of the vehicle.

However, due to poor maintenance of records, it was not possible to ascertain whether the vehicle offered to the former manager was paid for. It was also not possible to ascertain how the remaining six vehicles detailed below were disposed of:

Model	Registration No
Landrover 110	AJA 5562
Fiat Uno	AJA7250
Landrover	AJA 4767
Lenco Trailer	AAE 6626T
Fiat Regata	AJA 7767
Mazda 323 S1	AJA 5079

A visit to the site in March 2005 revealed that the vehicles were not on hand.

ii) Sale of Scrap Metal

In September 1998, 340 metric tonnes of scrap metal valued at K6,000,000 were sold to a company based in Kitwe. Although the amount was paid to the receiver in September 1998, the money had not been remitted to Zambezi Sawmills (1968) Limited (in liquidation) as of March, 2005.

iii) Contract for Sale of Zambezi Sawmills (1968) Limited

In December, 1998, the Receiver Manager through the Zambia Privatisation Agency and acting on behalf of the Development Bank of Zambia entered into a contract with Jet Cheer Development Company (Z) Limited for the sale of Zambezi Sawmills (1968) Limited comprising the Factory office in Livingstone and the Mill sites located in

Sesheke and Mulobezi at a contract sum of US\$650,000. Although the full amount of US\$650,000 was paid, an amount of US\$335,000 was later refunded to Jet Cheer Development Company Zambia Limited leaving a balance of US\$315,000.

b) Zambezi Sawmills (1968) Limited During the Liquidation Process

i) Appointment of the Liquidator

In 1999, the company's creditors initiated a creditors' voluntary winding up and consequently in October, 1999, a liquidator was appointed by the courts, but was later substituted in September, 2001. It was, however, observed that the liquidator's remuneration was not determined at the time of his appointment. The liquidator later proposed a fee of 10% of amounts collected, but no evidence was produced to show that the courts endorsed the proposal.

An inspection of the Liquidator's Dollar Account maintained with Zambia National Commercial Bank in Lusaka, carried out in April, 2005, revealed that out of the US\$315,000 realised by the Receiver from the sale of Zambezi Sawmills (1968) Limited to Jet Cheer Development Company (Z) Limited, only US\$234,980 was transferred to the above mentioned Account in January, 2002, leaving a balance US\$80,020. The owner of the account from which the money was transferred could not be identified. It was also not possible to ascertain how the balance of US\$80,020 was accounted for.

ii) Supervision of Zambezi Sawmills (1968) Limited (In liquidation)

Following the liquidation of ZIMCO in 1998, the ZIMCO liquidators were to oversee the liquidation of ZIMCO subsidiary companies. However, it was noted that the supervisory framework in the liquidation of Zambezi Sawmills (1968) limited and other ZIMCO subsidiaries was lacking in that although there were Committees of Inspection legally constituted, these did not seem to supervise the liquidators who in most cases were left to carry out their work with very little Government intervention. In particular, Government as the sole shareholder through ZIMCO (in Liquidation) was not represented on the Committee of Inspection for Zambezi Sawmills (1968) Limited. There is, therefore, very little known by the Ministry of Finance and National Planning concerning the activities of the Liquidator as no minutes were produced to that effect.

iii) Sale of Equipment

A review of records pertaining to the sale of earth moving equipment revealed that in April, 2004, the Liquidator commissioned a company, Technomart Limited to advise on the state of the earth moving equipment and on the best way forward. Technomart Limited advised that the earth moving equipment should be sold and that the company would advertise and sell the equipment on behalf of Zambezi Sawmills (1968) Limited (in Liquidation). The company would charge a 10% commission from the sale proceeds.

Between January and October 2004, the earth moving equipment was sold by Technomart Limited for a total amount of K135,000,000 as shown below:

Machine	Sale Price K	Agents Commission K	Amounts Remitted To ZSM K	Amount Not Accounted For K
CAT 930	50,000,000	5,000,000	10,000,000	35,000,000
CAT D4	30,000,000	3,000,000	21,000,000	6,000,000
CAT D4	25,000,000	2,000,000	5,000,000	13,000,000
CAT 950	35,000,000	3,500,000	15,000,000	16,500,000
	135,000,000	13,500,000	51,000,000	70,500,000

It was, however, observed that only K64,500,000 (K51,000,000 remitted to the Liquidator, K13,500,000 retained by the Agent as commission) was accounted for leaving a balance of K70,500,000.

Of the amounts remitted by Technomart Limited of K51,000,000 to the Liquidator, no details have been provided as to how the liquidator utilised the amounts.

It was further observed that the same moving equipment sold as detailed above was also offered to another buyer by the Liquidator for K210,000,000, for which a part payment of K22,000,000 was made. As of April, 2005, there was no evidence that the amount paid by the second buyer had been refunded.

In January, 2004, the liquidation manager based in Livingstone sold a A20 Volvo truck with mounted crane together with two magirus trailers and a heavy duty welding machine to an individual based in Katima Mulilo at a price of K20,000,000 which was paid.

It was observed, however, that the liquidation manager under valued the equipment and as a result, the liquidator in August, 2004, drew up a fresh agreement which put the equipment at K25,000,000. The buyer, however, declined to pay the extra K5,000,000 and as of March, 2005, the matter had not been finalised.

Records further showed that the liquidator had also appointed Livingstone Metal and Motor Centre to sell some other equipment such as a mobile workshop, heavy duty welding machine, drilling machine and electrical motors for a total amount of K11,700,000. There was no evidence to show how the agent accounted for the money.

iv) Banking

A scrutiny of a receipt book obtained from the Liquidator and Bank materials for one of the accounts branch, revealed that though a total amount of K99,200,000 had been receipted, there was no evidence that the money was banked. Consequently the account was overdrawn by K98,578,775 and interest of K11,677,302 had accrued as of April, 2005.

V) Financial Statement

As of May, 2005, the Liquidator had not produced financial statements. It was, therefore, not possible to ascertain how much was realised from the liquidation and how the money was utilised.

Submission by the Secretary to the Treasury

a) *Zambezi Sawmills (1968) Limited (In Receivership)*

i) Sale of Motor Vehicles

The Secretary to the Treasury reported that seven motor vehicles at the company were sold to the former managers at prices averaging K500,000.00. The proceeds were utilised by the Receivers in their operations and an account made to Development Bank of Zambia.

ii) Sale of Scrap Metal

The Secretary to the Treasury reported that the K6,000,000.00 was received by the Receiver Manager on behalf of Development Bank of Zambia (DBZ) towards the purchase of scrap metal by a company based in Kitwe. The money had since been refunded to the Kitwe Company by DBZ following a ruling by the Supreme Court of Zambia.

iii) Contract for Sale of Zambezi Sawmills (1968) Limited

The Secretary to the Treasury reported that on the 24th December 1998, the Receiver Manager, acting on behalf of Development Bank of Zambia, entered into a contract with Jet Cheer Development company (Z) Limited for the sale of the three sites of Zambezi Sawmills (1968) Limited comprising the factory office in Livingstone and the Mill sites located in Sesheke and Mulobezi at a contract sum of US\$650,000.00.

However, only a sum of US\$315,000.00 was paid to Development Bank of Zambia and by reason of Jet Cheer's inability to settle the balance of US\$335,000.00, Development Bank of Zambia terminated the contract and proceeded to refund Jet Cheer the US\$315,000.00. Jet Cheer not being happy with the termination of the contract proceeded to court where the liquidation was ordered to give the assets of Zambezi Sawmills to Jet Cheer at the amount of US\$650,000.00 should Jet Cheer come up with the US\$650,000.00. However, Jet Cheer was not able to come up with US\$650,000.00 and only had the US\$315,000.00 refunded to them by Development Bank of Zambia. Accordingly, an arrangement was reached with Jet Cheer where Jet Cheer was allowed to acquire the Livingstone factory office at the sum of US\$315,000.00 leaving out Sesheke and Mulobezi sites. Jet Cheer, based on this new arrangement, reached an agreement with them and issued to Zambezi Sawmills (1968) Limited (in Liquidation), a cheque in

the sum of US\$234,980.00 drawn on their Standard Chartered Bank Account whilst US\$80,020.00 had been paid directly into High Court of Zambia Account, Lusaka. The US\$234,980.00 paid to the liquidation was applied towards the settlement of all the terminal benefits of the company's ex-employees and all this was done pursuant and in conformity with the Liquidation Order of the High Court for Zambia. The US\$80,020.00 which was paid into the High Court Account, had not yet been retrieved, but the Liquidator had promised to retrieve the money and pay it over to Government as a dividend.

b) Zambezi Sawmills (1968) (In Liquidation)

i) Appointment of the Liquidator

The Secretary to the Treasury reported that the remuneration due to the Liquidator had not yet been determined by court because the documents filed into court to confirm a proposed fee of 10% of the amount collected were withdrawn by the liquidator upon advice from the Ministry of Finance and National Planning that the liquidator first quantify the work he had done before they agreed on a fee. This was being worked on.

ii) Supervision of Zambezi Sawmills

Zambezi Sawmills (1968) Limited (In Liquidation) as opposed to other ZIMCO subsidiaries, other than Livingstone Motor Assemblers Limited, was a Court Order Liquidation and by law supervision was exercised by the High Court for Zambia. The Ministry of Finance and National Planning was not represented on the Committee of Inspection. However, periodic reports were rendered to Government through the Ministries of Finance and National Planning; and Commerce, Trade and Industry.

iii) Sale of Equipment

The Secretary to the Treasury reported that when the earth-moving equipment was initially offered for sale to the members of the public, one bidder offered to pay K220,000,000.00 for the entire lot and a contract was consequently drawn up under which the buyer paid an initial deposit of K22,000,000.00 and promised to pay the balance within three month. However, six months down the line the buyer said he was unable to proceed with the contract because he could not source the entire amount to purchase the equipment. The contract was terminated and K22,000,000.00, which was earlier paid, was refunded to him from the K51,000,000.00 given to Zambezi Sawmills Limited (in Liquidation) by Technomart from the sale of the earth-moving equipment at K135,000,000.00.

Out of the K51,000,00.00, an amount of K29,000,000.00 was paid to guards and maintenance workers at Sesheke and Mulobezi. Documents acknowledging receipt of the money by the various guards and workers were available for scrutiny. The balance of K70,500,000.00 due from Technomart Limited was still outstanding. In view of the long delay, the Liquidator had commenced court proceedings against Technomart.

Relating to the A20 Volvo truck, two margirus trucks and a heavy duty-welding machine sold to an individual based in Katima Mulilo, the Liquidator was following up on the outstanding amount. As regards the outstanding payment from Livingstone Metal and Motor Center, the Liquidator was taking steps to recover the money.

The Liquidation Manager's contract was terminated without benefits for his unprofessional conduct in the matter.

iv) Banking

The total amount receipted in the sum of K99,200,000.00 was made up of the following payments.

- a) K51,000,000.00 received from the sale of earthmoving equipment through Technomart Limited.
- b) K22,000,000.00 deposit from a buyer who had earlier expressed interest in the earthmoving equipment which amount was later refunded.
- c) K20,000,000.00 from an individual in Sesheke who had connived with the Liquidation Manager to undervalue the price of the certain equipment at Mulobezi. Both the purported sale contract entered into by the Liquidation Manager as well as the Liquidation Manager's contract were terminated.
- d) K6,200,000.00 from Livingstone Metal and Motor Centre from the sale of various equipment in Mulobezi.

All the aforementioned moneys were received piecemeal over a period stretching from August, 2001, to March, 2005, on an average would amount to about K20,000,000.00 per year in monies received and paid out to guards and workers. Mulobezi was virtually a town solely owned by Zambezi Sawmills and its properties include schools, clinics, police station and over 130 houses. Consequently guards and maintenance workers were engaged and were still engaged to protect and maintain the properties. It was likely that expenses will continue unless the new buyers of Zambezi Sawmills pay the purchase price and assume occupation of the sites. Receipts evidencing payments to guard and workers were available for scrutiny.

v) Financial Statements

Your Committee were informed that according to the Liquidator, financial statements as well as the companies accounts were being worked on by a firm of accountants and would be available before the 30th of March, 2006. However, the Liquidators normally produced periodic progress reports of the liquidation as opposed to yearly financial statements. The periodic reports contained statements of the company and the Liquidator had been submitting periodic progress reports.

Committee's Observations and Recommendations

a) *Receivership Period*

i) Sale of Motor Vehicles

Your Committee are not impressed with the response in that this type of information should have been provided at the time of audit. They, however, resolve to close the matter subject to the Auditor-General verifying that the vehicles were fully paid for and proceeds accounted for.

ii) Sale of Scrap Metal

Your Committee resolve that the matter should close subject to verification of the Supreme Court ruling and the refund.

iii) Contract of Sale of Zambezi Sawmills (1968) Limited

In noting the submission, your Committee request the Secretary to the Treasury to provide them with a progress report on the retrieval of the \$80,020 which was paid in the High Court Account.

They further request for the verification of the amount that Jet Cheer Development Company actually paid for the Livingstone Factory Office.

b) *Liquidation Period*

i) Appointment of Liquidator

Your Committee request for an update on the determination of the fees to be paid to the former liquidator.

ii) Supervision of Zambezi Sawmills (1968) in Liquidation

Your Committee note the response and resolve to close the matter subject to verification of the periodic reports that are submitted to the Ministry of Finance and National Planning and the Ministry of Commerce, Trade and Industry.

iii) Sale of Earth-Moving Equipment

Your Committee resolve as follows:

- i) they be given updates on:
 - the recovery of K70,500,000 from Technomart being part proceeds from the sale of equipment;

- the matter involving the A20 Volvo truck, two trailers and a heavy-duty welding machine; and
 - the outstanding payments from Livingstone Metal and Motor Centre.
- ii) the matter on the refund of K22,000,000 and utilisation of the K51,000,000 earned from the sale of the earth-moving equipment should close subject to verification of the refund and the payments that were made to guards and maintenance workers at Sesheke and Mulobezi.
- v) *Financial Statements*

Your Committee urge the Secretary to the Treasury to make available the financial statements and all periodic progress reports to the Auditor-General for verification.

ZAMBIA-CHINA MULUNGUSHI TEXTILES (JOINT VENTURE) LIMITED

Background

28. The Zambia-China Mulungushi Textiles Joint-Venture Limited was incorporated in 1982, following an agreement of Economic and Technical Co-operation between the Chinese and Zambian Governments signed on 23rd June, 1976 and the subsequent provision of bilateral funding by the two Governments. Construction of the plant by the Chinese civil engineering team started in 1977 and was completed in 1981 and handed over to the Zambian Government in 1983, for trial production.

In 1996, the company was transformed into a joint venture between the Chinese and Zambian Governments and was renamed as The Zambia-China Mulungushi Textiles Joint Venture Ltd. The joint venture was formed by way of taking over the assets of Mulungushi Textiles Ltd as a going concern.

The objectives of the Joint-Venture were to rehabilitate and resuscitate Mulungushi Textiles Ltd in order to produce and deal in a variety of textiles, electric products and machinery for the domestic and foreign markets.

In terms of the benefits and why the company was under the Ministry of Defence, your Committee learnt that the benefits that accrue to the country as a result of establishing ZCMT could not be overemphasised. They included:

- (i) the export of textile garments to neighbouring countries earned the country some foreign exchange;
- (ii) there was a drastic reduction on the amounts of foreign exchange spent on the importation of uniforms for the defence and security forces as all military wings procure materials for uniforms from ZCMT;
- (iii) made Zambia self sufficient in textile products; and

- (iv) encouraged Zambians to grow more cotton to feed the plant and at the same time it was one way of creating employment.

The relationship between Zambia and China dated back to the 1970's when the Chinese were constructing the Tanzania Zambia Railway line. At that time, Zambia National Service was deeply involved in the construction work of the Railway line. The Chinese preferred to work with military personnel because of the discipline and teamwork that was imbedded in their rank and file.

Upon completion of the Tazara, the Government at that time decided to put up a Textile industry in Kabwe with the assistance of the Chinese Government.

The Zambia National Service and Chinese team commenced the construction of the textile complex in 1977. The plant was completed in 1981 and started trial production in 1983.

While the plant was being constructed, Government directed Zambia National Service to start cultivating cotton at Mumbwa Big Concession Farm as a raw material for the newly opened textile plant in Kabwe.

The involvement of Zambia National Service personnel to construct the Mulungushi textiles in Kabwe and the cultivation of cotton at Mumbwa Big Concession Farm as raw materials for the plant meant that the Ministry of Defence as the portfolio holder of ZNS naturally became part and parcel of the project. It was for this reason that the ZCMT continued to be linked to the Ministry of Defence.

Capital Structure

29. The company was incorporated with an authorised share capital of K14,550,862 ordinary shares of K1 each which were issued and fully paid for and K10,449,148, 10 percent cumulative preference shares of K1 each. The Zambian Government wholly owned the Company.

At the time of transforming the Company into a joint venture, the total investment of the joint venture amounted to US\$9.05 million. The existing assets of the original Mulungushi Textiles of Zambia limited were assessed at K4,700 million by both sides. This amount was taken as the registered share capital of the joint venture of which 34 percent (K1,598 million) was possessed by the Zambian side while the remaining 66 percent (K3,102 million) was possessed by the Chinese side.

Management of the Joint Venture

30. The Venture has a Board of Directors comprising nine members, four Zambians and five Chinese, appointed by the two Governments. The Chairman of the Board is a Chinese elected by the Board from among its members and has a casting vote.

A General Manager recommended by the Chinese side heads the administration and two Deputy General Managers recommended by both parties. Upon receipt of recommendations, the Board appoints the three officers for four years tenure.

Performance of the Company – Paragraph 36

31. The performance of the Company during the period under review was as follows:

a) Profit and Loss

During the year under review the company recorded a profit of K250,885,737 as compared to K521,298,834 in 2002. However, an examination of records revealed that:

- i) exchange losses amounting to K5,175,095,643 incurred during the year were not charged to the profit and loss account. It is therefore evident that the Company could have incurred a loss had the exchanges losses been charged; and.
- ii) interest in amounts totalling US \$12,673.61 earned on its foreign time deposit account during the year under review was not disclosed in the financial statements.

b) Liquidity position

The liquidity position of the company during the period under review was as follows:

	31.12.03	31.12.02
	K	K
Current Assets	56,064,735,583	47,946,471,879
Current Liabilities	12,955,559,363	7,184,934,487
Working Capital	<u>43,109,176,220</u>	<u>40,761,537,392</u>

Although the Company had a favourable working capital, a total amount of K20.9 billion was tied up in debtors as at 31st December, 2003. The debtors’ figure rose from K19.4 billion in 2002. It was further noted that despite a huge debt, no provision for bad and doubtful debts was made in the accounts. It is evident that the company had no credit policy that would ensure early settlement of debts to avoid bad debts.

In addition, a total amount of K26.2 billion was tied up in stocks and work in progress as of 31st December, 2003 compared to an amount of K19.6 billion in 2002. The stocks may not be turned into immediate cash as required. Further, there is a risk of the stock becoming obsolete and other related stock holding costs to the company.

The above position had an effect on the company's working capital and the company may, therefore, be unable to meet its obligations as they fall due.

Submission by the Controlling Officer, Ministry of Defence

The Controlling Officer submitted as follows on the queries that were raised by the Auditor-General.

a) Profit and Loss

Zambia-China Mulungushi Textiles (JV) Limited obtained two loans of 50,000,000 and 150,000,000 Chinese Yuan from the Export-Import Bank of China through the Development Bank of Zambia (DBZ) in 1996. The said loans were used to re-capitalise and provide working capital to the company.

These loans were advanced to the company in US dollars and exchange losses amounting to K5,175,095,643 were incurred as at 31st December, 2003, due to the continuous depreciation of the Kwacha against the US Dollar from 1996 to 2003. The company had been charging the exchange losses and gains to the Amortisation Expenses Account from the time the loans were obtained in line with the consistency concept.

Interest amounting to US\$12,673.61 earned on its foreign time deposit account in Qingdao was not disclosed in the financial statements for the year ended 31st December, 2003, because the bank statements for the foreign account were received in May, 2004, long after the financial statements for 2003, had been finalised. He assured your Committee that the anomaly observed by the Auditor-General would be corrected.

The delays in receiving the statements were partly as a result of the inefficient banking system in China. The Chinese banking system was undergoing rapid change and these delays would not be a problem in the near future.

The ZCMT was prompted to open the offshore account because of insecurity that engulfed the banking sector in Zambia between 1998-2001, when several banks closed.

In the year 2001, the company had opened an account with a local bank which was later liquidated and hence to date, the company was unable to access its US\$420,000 in the insolvent bank. The company also lost money through frauds at two other banks. This created a sense of insecurity on the part of the company where they could put their money safely. Consequently, the Board of Directors decided that the company opens an offshore account, which had good security.

When asked who the signatories on the Offshore Account were, the Controlling Officer replied that there were two signatories, the Board Chairman and another

authorised signatory. The other signatory was also Chinese mainly because the account was in China. The movement of funds in the account was monitored by the Finance Department at the company. So far, the funds had been utilised for the acquisition of spare parts.

b) *Liquidity Position*

He noted the observation that during the period under review the company did not provide for bad and doubtful debts in the accounts in line with the prudence concept. The concern raised by the Auditor-General on this very important aspect of accounting practice had been noted and he assured your Committee that in future such anomalies would not occur during the preparation of financial statements.

The K26.2 billion tied up in stock and work in progress as at 31st December, 2003, comprised components of assorted old factory machinery that belonged to the defunct Mulungushi Textiles of Zambia, which were taken over by the Joint Venture at inception in 1996. The other stock included ginned cotton meant for the production process.

These spare parts amounted to K7,851,017,098. Although the machinery was old, the Joint Venture still re-used some of the parts upon modifications. In addition, an attempt to sell these old spare parts had proved difficult, as the type of machinery the defunct Mulungushi Textiles of Zambia were using was unique and based on inferior technology.

Other stock of goods seemingly tied-up included, dye and chemicals in the sum of K2,544,053,532; fuels K1,128,844,977; work in progress K2,542,940,454; raw materials K4,126,590,199 and finished goods K7,940,409,822 such as waste materials, sub-standard materials, off-cuts which were left-over during the production process.

The build-up in stock was partly as a result of the fact that production was affected by seasons. Therefore, at one particular time, there could be a build-up of raw materials, work-in-progress and finished goods stock. In addition, the company had breaks in the production process because of the unreliable supply of coal. Marketing was another challenge that the company faced. All the above needed to be looked into in order to improve the liquidity position of the company.

When asked whether the company indeed did not have a credit policy, the Controlling Officer in his reply stated that management usually allowed credit ranging from thirty to ninety days depending on the type of customer. The company had credit guidelines that it followed, but it had no deliberate written policy on credit.

Committee's Observations and Recommendations

a) *Profit and Loss*

Your Committee note the response and resolve to close the matters subject to verification that the US\$12,673.61 interest was accounted for.

b) *Liquidity Position*

Your Committee observe that the huge amounts owed to the company have a negative impact on the liquidity position of the company. They further note that the company has a credit policy. They, therefore, recommend that the Controlling Officer should report progress on the recovery of moneys from debtors.

They advise the Controlling Officer to use this position on the Board to ensure that operations of the company were progressing well by regularly examining management accounts of the Company and not rely solely on the audit reports. There is more to lose if the company grounds to a halt.

They also resolve that the Controlling Officer should submit in its annual report to Parliament an update on the performance of the company at the end of the 2006 financial year.

Debtors - Paragraph 37

32. A scrutiny of debtors' records revealed the following:

a) *Advance Payments to Suppliers*

Out of the total amount of K20,945,664,460 reflected as debtors in the accounts, a total amount of K5,796,403,270 constituting 28 percent of debtors was in respect of advance payments to suppliers for the supply of various raw materials. The materials had not been delivered as of June, 2004. This arrangement has a serious impact on the company's cash flow.

b) *Indebtedness of Political Organisations and Politicians*

As of 31st December, 2003, a total amount of K481,800,825 was owed to the company by some political parties and politicians for chitenge materials obtained during election campaigns. The amount had increased by K154,938,396 from K326,862,430 in 2002.

c) Indebtedness by Government Institutions

The Government's indebtedness to the company in respect of various materials supplied to defence and security wings as at 31st December, 2003, was K573,649,082 compared to K645,843,182 in 2002, as shown below:

Institution	Amount Owing	
	2003	2002
	K	K
Zambia Police Service	329,049,821	386,243,922
Zambia National Service	191,944,095	206,944,094
Zambia Prisons service	23,710,683	23,710,683
Zambia Army	28,944,483	28,944,483
Total	573,649,082	645,843,182

Submission by the Controlling Officer

i) Advance Payments to Suppliers

The advance payments to suppliers in the sum of K5,796,403,270 was for the procurement of various raw materials needed for the operation of the factory. A schedule of the advance payments to the suppliers was provided.

At the time of preparing the submission, some of the suppliers had delivered materials amounting to K5,538,453,761 leaving a balance of K257,949,509. The company was still making efforts to ensure that all the goods were delivered.

ii) Indebtedness of Political Organisations and Politicians

The sums of money owing to ZCMT by various political parties and individual politicians for chitenge materials obtained during the previous election campaigns was slightly below the figure observed by the Auditor-General. A list of debtors was provided.

Some of the debtors had so far passed on and attempts were being made to recover the said debts from the administrators of the deceased estates. The company would endeavour to recover the moneys through legal means where necessary. As for the debtors who were living, ZCMT would continue to pursue them until all the moneys were recovered. The Ministry of Defence was equally helping the company in the recovery of debts.

iii) *Indebtedness by Government Institutions*

On the uniform materials supplied to the defence and security wings, your Committee was informed that the company had continued to pursue the recovery of these debts with the respective institutions. At some stage, management had even appealed to the Republican President when he last visited the company to intervene, of which a Technical Committee was appointed to find ways and means of recovering the moneys.

Committee's Observations and Recommendations

i) *Advance Payments to Suppliers*

Your Committee resolve to close the matter subject to verification that the value of undelivered materials had reduced from K5,796,403,270 to K257,949,509.

ii) *Indebtedness of Political Organisations and Politicians*

Your Committee note the response and request the Controlling Officer to report progress on the recoveries.

iii) *Indebtedness by Government Institutions*

Your Committee note the submission and resolve to wait for an update on the recoveries. Included in the update should be the results of the Technical Committee that was appointed to find ways of recovering the moneys. They further urge the Controlling Officer to ensure that the Government does not unnecessarily owe the company huge sums especially that as a Board Member he has first hand information on the liquidity position of the Company.

Procurements - Paragraph 38

33. An examination of procurement records maintained at the company revealed that during the period under review, US\$155,000 (ZK719,110,000) worth of unspecified Chinese goods were purchased from a foreign company, Wan Sheng. There were, however, no purchase orders, invoices, and goods received notes. Consequently, it was not possible to establish what was actually sourced from the supplier.

Submission by the Controlling Officer

ZCMT had a contractual arrangement with Qingdao Wang Sheng Trade Company for the supply of various goods. Goods received notes were available indicating various goods received amounting to US\$155,000. The various goods included spare parts, raw materials, dyes and chemicals.

Committee's Observations and Recommendations

Your Committee observe that the management of the Company did not act in good faith by not providing the necessary documents to the auditors when they were conducting their work. They, however, resolve to close the matter subject to verification of the purchase order, invoices and goods received notes.

Long Term Loans - Paragraph 40

34. On 7th March, 1997 and 25th April, 2000, the Joint Venture entered into loan agreements with the Development Bank of Zambia (acting on behalf of the Export and Import Bank of China). The two loans amounted to RMB 150,000,000 (approx. US\$18,072,289) and RMB 50,000,000 (approx. US\$6,024,096) and attracted interest charges of 5.25 percent and 2 percent per annum respectively. The loans were for the rehabilitation of Mulungushi Textiles Limited. The loans were to be repaid starting ten years from the date of signing the agreements.

A review of accounting records revealed that the Company had defaulted in paying the loans with the last payment having been made in 2001. As of 31st December, 2003, the total outstanding amount was K117,059,368,055 principal (K109,639,816,981) and accrued interest (K7,419,551,074).

Submission by the Controlling Officer

The Joint-Venture obtained two loans in sum of 50,000,000 and 150,000,000 Chinese Yuan from the Export-Import Bank of China through the Development Bank of Zambia (DBZ) at inception in 1996, which attracted interest of 5.25 percent and 2 percent per annum respectively.

ZCMT commenced payment of interest on the two loans on 28th February, 1997, up to 2000. So far a sum total of US\$2,834,798.88 interest on the two loans had been paid.

He admitted that the Company had defaulted on payments of the principal and interest as at 31st December, 2003. This was due to liquidity problems at the Company. In order to cushion the Company over this debt, ZCMT had commenced negotiations on debt re-scheduling with the Development Bank of Zambia.

Committee's Observations and Recommendations

Your Committee note the response and request the Controlling Officer to report progress on the servicing of the two loans.

Stores - Paragraph 41

35. A verification of stores records carried out in June, 2004, revealed that stores costing K142,660,368 were either slow moving or obsolete.

Submission by the Controlling Officer

Management at the Company recommended to the Board of Directors at its 12th Board Meeting to authorise them dispose-off the obsolete stores. The Board of Directors was yet to make a decision on the matter. The slow moving stores consisted of some political and church prints which were difficult to sell unless the same customers came to buy them. Existing agreements on such prints forbid the Company from selling them to other customers.

Committee's Observations and Recommendations

Your Committee note the submissions and resolve to wait for progress on the Board's decision on the slow moving stores.

Safety Policy - Paragraph 42

36. A review of the safety policy document of the Company and physical check on the implementation of the same revealed that safety policy measures such as the provision of protective clothing were not being strictly implemented. It was noted during a visit to the plant that some workers operating machinery and handling chemicals had no protective clothing.

Submission by the Controlling Officer

The Ministry appreciated the concerns raised by the Auditor-General on the provision of protective clothing to the workers. The Company would continue to provide protective clothing to employees operating in hazardous areas. This would be strictly implemented in accordance with the provisions of the Healthy and Safety Regulations.

The Company was at the moment failing to provide adequate protective clothing to the workers because of liquidity problems that the company was facing.

Committee's Observations and Recommendations

Your Committee during their tour of the factory observed that there were workers that did not wear any form of protective clothing. They are concerned at the state of affairs considering that the company is partly owned by the Government, which is supposed to lead by example. They, therefore, strongly urge the Controlling Officer to put a stop to the practice in his capacity as a Government Official and representing the State on the Board of the Company.

MATTERS ARISING FROM THE TOUR OF THE FACTORY

37. Given hereunder are the matters that arose during the tour

i) Holding of Board Meetings

Your Committee inquired from the Controlling Officer whether holding of one Board meeting per year would assist resolve problems at the company.

In reply the Controlling Officer informed the Committee that current company regulations were that there would be one Board meeting per year. However, if need arose, more could be held. Since the management team was in place at the company, there was no need for many Board meetings.

ii) Labour Force and Salaries of Workers

In terms of the labour strength, ZCMT had 1,819 workers. Of these, 168 were management staff, 706 were casual employees, 295 were on contract and the remaining 650 were unionised workers.

The Controlling Officer admitted that conditions of service obtaining at ZCMT were among the worst in the Country.

When asked what the salaries were for a lowly paid Chinese worker such as a cook and that of a Zambian sales officer or metal fabricator, he replied that a Chinese cook was paid about US\$500 inclusive of allowances, while a Zambian metal fabricator got about K356, 000 basic salary and sales staff salaries ranged from K400,000 to K750,000. However, it needed to be appreciated that Chinese workers were working away from home, therefore, their remunerations were slightly higher.

iii) Subsidiary Companies

Your Committee were informed that ZCMT plant premises acted like an industrial park and two subsidiary companies had so far been formed, (i) a cotton and cooking oil company, and (ii) a garment manufacturing company. These companies were independent and employed their own staff though some workers were on secondment from ZCMT.

The subsidiaries were strategically created so that they could provide additional services to ZCMT, such as ensuring a reliable supply of cotton and use of by-product to make edible oils. The garment company was producing value-added products to the market by manufacturing clothing. A third subsidiary that would be making blankets was under consideration.

The Controlling Officer was satisfied with the existence of the subsidiary companies but not entirely so with their operations.

iv) Tour of the Factory

Your Committee was taken on a conducted tour of the factory. Sections visited were:

- Carding
- Blowing
- Roving
- Spinning
- Weaving
- Draw-in
- Finishing

The dyeing and printing section was closed. Management explanation was that lack of coal had caused the closure. Maamba Mine had flooded and Hwange Collieries of Zimbabwe was unable to supply coal despite being paid in advance.

The Way forward

38. The position of the Ministry of Defence over ZCMT was that in order to resolve the operational problems at the Company, there was need to re-negotiate the Agreement that the Government entered into with the People's Republic of China. The Agreement had provisions for amendments.

Committee's Observations and Recommendations

Your Committee observe that there is need to look into the composition of the Board on the Zambian side as one way of strengthening its monitoring capacity. They particularly recommend that the Permanent Secretary - FMA in the Ministry of Finance and National Planning should sit on the Board.

They also recommend that the Zambian Government should undertake a review of the Company in terms of operations and provisions of the Agreement and determine whether the Company is operating as envisaged.

Your Committee further advise the Government to urgently renegotiate the ownership structure of the Company so that the Zambia can own more shares in the Company and assume more strategic managerial powers. Otherwise, it is difficult to wield any meaningful influence with shareholding of only 34%.

Your Committee strongly recommend that the company should have a resident Managing Director or General Manager unlike the situation now where the Managing Director is based in China.

Conclusion

39. Your Committee wish to express their gratitude to you Mr Speaker and the Office of the Clerk for the support rendered to them throughout their deliberations. They further wish to thank the Minister of Education, the Secretary to the Treasury, all Controlling Officers and the Union Leaders at ZCMT-JV who appeared before them for their co-operation.

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.

May, 2006
LUSAKA

F Z Simenda, MP
CHAIRPERSON