REPUBLIC OF ZAMBIA

REPORT

OF THE

COMMITTEE ON PARASTATAL BODIES

ON THE

SPECIAL REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF WATER AND SANITATION COMPANIES FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER, 2018

FOR THE

FIFTH SESSION OF THE TWELFTH NATIONAL ASSEMBLY APPOINTED ON 21ST SEPTEMBER, 2017

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a. Composition of the Committee

The Committee consisted of Mr P M W Daka, MP (Chairperson); Ms P Kasune, MP (Vice Chairperson); Mr A Kasandwe, MP; Mr G Chiyalika, MP; Mr D M Syakalima, MP; Mr B Kambita, MP; Ms M D Mwanakatwe, MP; Mr E K Belemu, MP; Mr G Putu, MP; and Mr M Mukumbuta,MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir

The Committee has the honour to present its Report on the Special Report of the Auditor General on the Accounts of Water and Sanitation Companies for the Financial Year Ended 31st December, 2018, for the Fifth Session of the Twelfth National Assembly.

b. Functions of the Committee

The functions of the Committee are set out in Standing Order No. 157 of the National Assembly Standing Orders, 2016.

c. Meetings of the Committee

The Committee held ten meetings to consider submissions on the Special Report of the Auditor General on the Accounts of Water and Sanitation Companies for the Financial Year Ended 31st December, 2018.

d. Procedure adopted by the Committee

With technical support from the Office of the Auditor General, the Committee considered both oral and written submissions from the Controlling Officer in the Ministry of Water Development, Sanitation and Environmental Protection and Managing Directors of nine water utility companies that were cited in the audit report.

This Report contains the observations and recommendations of the Committee, including proposed remedial measures to correct identified irregularities. The Report is in three parts: Part I deals with the Auditor General's comments and the responses from the Secretary to the Treasury; Part II captures the responses from the Controlling Officer on the individual audit queries, and the Committee's recommendations and observations on the individual audit queries; and Part III contains the Committee's general observations.

PART I

i. Auditor General's Comments and Responses by the Secretary to the Treasury, Ministry of Finance

Auditor General's Comments:

Weaknesses in corporate governance; weaknesses in the implementation of Information Communication Technology (ICT) systems; failure to prepare financial statements; poor financial and operational performance; lack of title deeds; weaknesses in contract management; and under performance in terms of operations in critical focus areas namely: water production, service coverage for water and sanitation, water quality and non-revenue water were highlighted.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted that the responsibilities of the Auditor General with regard to the audit of public resources were noted. The Treasury acknowledged the audit of water and sanitation companies for the Financial Year ending 31st December, 2018 which also covered the audit of information communication technology (ICT) systems under the water utility companies. The Audit was done within the provisions of the *Constitution of the Republic of Zambia (Amendment) Act No. 2 of 2016*, the Public Finance Act No. 15 of 2004, *Public Finance Management Act No. 1 of 2018* and the *Public Audit Act No. 13 of 1994.*

ii. Scope of the Audit

Submission by the Secretary to Treasury

The Secretary to the Treasury submitted that the scope of the audit used by the Auditor General covered test checks and a review of accounts for the Financial Year ended 31st December, 2018 for the nine water and sanitation companies. He further acknowledged that the interaction of the Auditor General with Chief Executive Officers through the Controlling Officer upheld good corporate governance values in the management of water and sanitation companies entrusted with the responsibility of managing public resources and the provision of water and sanitation services to the general populace of the Republic.

iii. Internal Controls

Submission by the Secretary to Treasury

The Secretary to the Treasury submitted that he took note of the observations by the Auditor General with respect to weaknesses in the internal controls in areas of corporate governance, failure to adhere to Financial Regulations and poor implementation of ICT systems. He further submitted that in order to enhance internal controls, the Treasury had since engaged the Board of Directors and management of the utility companies to review the existing internal controls and develop new controls that would compel managements of these utility companies to adhere to Financial Regulations and ensure that due diligence was undertaken during the implementation of ICT systems. In this regard, the Treasury had directed the Controlling Officer in the Ministry of Water Development, Sanitation and Environmental Protection to ensure that the Board of Directors for the water utility companies were in place at all times to ensure that good corporate governance tenets were observed.

PART II

CONSIDERATION OF SUBMISSIONS FROM THE CONTROLLING OFFICER AND CHIEF EXECUTIVES OF WATER UTILITY COMPANIES

The Committee considered submissions from the Controlling Officer for the Ministry of Water Development Sanitation and Environmental Protection and the Managing Directors under whose mandate the water utility companies cited in the Special Report of the Auditor General fell as set out below.

1.0 CHAMBESHI WATER AND SEWERAGE COMPANY LIMITED

Review of Operations

An examination of financial and other records maintained by the company for the Financial Years ended 31st December 2016, 2017 and 2018 revealed various irregularities to which the Controlling Officer responded as outlined below.

1.1 Governance - Lack of a Board of Directors

The Controlling Officer submitted that the tenure of the previous board expired in 2016. During the same period, the mandate for water supply and sanitation was transferred from the Ministry of Local Government to the new Ministry of Water Development, Sanitation and Environmental Protection which consequently delayed the appointment of the new board. He further informed the Committee that the new board was appointed in November, 2018. Additionally, he indicated that management would ensure that the board was appointed on time after expiry of tenure of office and some members of the board would be retained to ensure continuity and institutional memory.

Committee's Observations and Recommendations

The Committee notes the response with dismay and condemns in the strongest terms the laxity by the appointing authority to appoint substantive members of the board. The Committee recommends that the appointing authority should adhere to the provisions of the Financial Regulations and ensure that corporate governance is upheld by ensuring that substantive boards are in place in a timely fashion. The Committee strongly urges the Executive to amend the relevant legislation to ensure that a time frame within which a board should be installed is prescribed. The Committee resolves to await a progress report on the matter.

1.2 Income

The Controlling Officer submitted that during the period under review, the company generated income from sales of water, sanitation services, connection charges and meter charges in amounts totaling K60,144,230 against the budget of K77,335,726 resulting in a negative variance of K17,191,496.

He further added that the company received grants in amounts totaling K130,526,692 from the Government and cooperating partners KFW/GFA and BADEA for various capital projects as shown in Table 1.3 below.

Table 1.3: Grants

SN	NAME	2018 K	2017 K	2016 K	TOTAL K
1	GRZ	5,105,358	26,758,570	16,477,385	48,341,313
2	BADEA	46,840,167	20,756,682	10,363,737	77,960,587
3	KFW/GFA	2,393,574	1,831,219	-	4,224,792
	TOTAL	**54,339,099**	**49,346,471**	**26,841,122**	**130,526,692**

The Committee also learnt that the negative variance of the generated income compared to the budget was as a result of the following factors:

i. massive electricity load shedding resulting in reduced quantity of water produced and supplied, hence reduced income;
ii. drying up of raw water sources in Mporokoso, Mungwi and Nakonde mainly attributed to climate change affecting water production and therefore income generation;
iii. the installation of ZESCO prepaid meters on pumping equipment and the recovery of a 40 per cent imbedded in the prepaid meters which affected the generated income adversely as the company had no money to buy enough power units to use in water production and supply. This was exacerbated by power load management;
iv. the delayed award of water and sanitation tariff in 2018 had an adverse impact on generated income. The water tariff for 2018 was only awarded in June, 2018 by the sector regulator; and
v. the budgeted income was based on the assumption that water supply projects would be completed. However, the delay in completing the projects had an adverse impact on generated income.

The Controlling Officer further submitted that in light of the above, the company had continued to engage NWASCO, the sector regulator, over the water tariff adjustment and the tariff was awarded to reduce the gap. Management had also engaged ZESCO to reduce hours of load shedding on water pumping facilities to mitigate the challenges. Further, the company had engaged the Treasury through the Ministry of Water Development Sanitation and Environmental Protection (MWDSEP) to release funds for completion of the projects.

Committee's Observations and Recommendations

The Committee is disappointed that despite receiving a grant from the Government, the company could not convincingly explain why its income was still below budget. Additionally, the Committee notes with concern the continued lamentations with regard to release of funds from the Treasury. The Committee recommends that the Controlling Officer should enhance supervision of the company as there is lack of seriousness to profitably manage the company. The Committee resolves to await a progress report ongoing discussions between the company and ZESCO and on the timely release of funds by the Treasury.

1.3 Operational Matters - Comparative Performance in the Water and Sanitation Sector

A review of the NWASCO reports in relation to the performance of Chambeshi Water and Sewerage Company Limited (ChWSC) for the period from 1st January 2016 to 31st December 2018 revealed the following:

i. Non-Revenue Water

The company's NRW ranged from 44 per cent to 51 per cent, resulting in a cumulative revenue loss of K54,663,405.The Controlling Officer acknowledged the audit observation that NRW deprived the company of the revenue to help improve its operations. He further submitted that the increase in non-revenue water during the period under review was due to the following:

i. most of the infrastructure under ChWSC was old and dilapidated, coupled with illegal connections;
ii. the construction of township roads damaged the water networks in some districts, leading to pipes bursting;
iii. water wastage by unmetered customers; and
iv. the old water meters that had outlived their useful life and had lost accuracy to register the correct consumption of water.

He further informed the Committee that the losses in non-revenue water were not disclosed in the financial statements because it was an oversight on the part of the Finance Department but was disclosed under the technical annual report. To resolve the challenge of NRW, management undertook to implement the following measures:

a. rehabilitation of old and dilapidated water infrastructure through the implementation of various water and sanitation projects such as the Integrated Small Towns Water Sanitation Programme;
b. engagement of the respective contractors who had damaged the water networks to ensure that the networks were repaired and provided with maps showing the pipe network to reduce on water losses as a result of damaged pipes; and
c. intensify metering to ensure that all the customers were metered and dysfunctional meters were replaced.

He further informed the Committee that the company would ensure that the losses in revenue through NRW were accounted for in the financial statements.

Committee's Observations and Recommendations

The Committee expresses concern at the failure by management to record in the financial statements the loss of revenue through non-revenue water, which the Committee finds to be a failure to execute duties diligently by officers in the Finance Department. Additionally, the

Committee recommends that disciplinary action should be meted out against all officers concerned, including the supervisors, who failed to execute their duties in this regard. The Committee further notes with concern that there is a lack of co-ordination among the various stakeholders involved in the rehabilitation of roads, resulting in the damage of water networks, and this in turn exacerbates the challenge of non-revenue water. In light of this, the Committee strongly recommends that the local authority and the Ministry of Infrastructure Development should enhance their collaboration henceforth. . The Committee resolves to await a progress report on the matter.

ii. Failure to Meet Water Quality Standards

The Controlling Officer submitted that during the period under review, ChWSC failed to meet the minimum required water quality of not less than or equal to 95 per cent as the overall assessment was below 80 per cent. He informed the Committee that the failure to meet water quality standards was due to the following:

a. the company did not have the adequate potable water quality testing equipment for carrying out certain required water quality tests such as turbidity, PH and colour due to financial constraints;
b. the obsolete water treatment facilities in some districts could not adequately treat raw water; and
c. the old and dilapidated networks also compromised the quality of adequately treated water through post contamination.

The Controlling Officer informed the Committee that, in the quest to resolve the above challenges, management had procured the necessary equipment to conduct the required water quality tests. Furthermore, the company had installed state of the art water treatment plants which were able to treat the raw water to required water quality standards. Additionally, the company was rehabilitating the old and dilapidated networks through the implementation of projects such as the Integrated Small Towns Water Supply and Sanitation Programme, Nakonde Water Improvement Project and Isoka Water Supply and Sanitation Project.

Committee's Observations and Recommendations

The Committee notes the response with regard to the measures that management has put in place to improve the water quality. The Committee urges the Controlling Officer to ensure that the strategies are implemented expeditiously, and resolves to await an update on the improvement of the water quality to meet NWASCO's set benchmark of 95 per cent.

iii. Operational Cost Coverage by Collection

The Controlling Officer submitted that the Auditor General's observations that the cost coverage by collection for the utility company during the period under review was below the NWASCO benchmark of 100 per cent, being 61 per cent in 2016, 82 per cent in 2017 and 77 per cent in 2018.

The Controlling Officer further submitted that the collections were unable to cover the full cost of operations. He further informed the Committee that the failure to meet operational costs coverage by collection was due to the following reasons:

a. delay by government institutions to settle their outstanding water bills;
b. difficulties for the company to collect money from unmetered customers because of poor service delivery; and
c. manual payment methods which tended to discourage customers as they had to queue at respective pay points.

The Committee learnt that in order to resolve these challenges, the company had implemented the following measures in order to achieve 100 per cent operational cost coverage by collection:

i. a task force on illegal connection and reconnection had been formed to monitor water theft;
ii. two firms had been engaged to help in the collection of the outstanding debt;
iii. the company had improved the delivery of the service through the construction of new water treatment plants and repair of old networks;
iv. point of sale machines had been provided to the districts to improve collections;
v. new pay points had been opened in various locations for wide coverage;
vi. customers were being encouraged to sign payment plans; and
vii. the company had also come up with strategies on how to collect the revenue through the implementation of the new billing software which would provide for electronic payments through various mobile platforms.

Committee's Observations and Recommendations

The Committee expresses concern at the failure by management to cover the full operational costs from collections as this raises disquiet with regard to the company's continued existence as a going concern. In this regard, the Committee urges the Controlling Officer to enhance supervision of the entity, and to impress upon management to ensure that the strategies earmarked to improve cost coverage by collection are expeditiously implemented. The Committee resolves to await an update on the matter.

iv. Metering Ratio

The Controlling Officer submitted that the audit observation that the metering ratio was below the NWASCO benchmark of 100 per cent as outlined in Table 1.6 below was correct.

Table 1.6: Metering Ratio

Year	Benchmark (%)	Metering Ratio (%)	Variance (%)
2016	100	45	55
2017	100	49	51
2018	100	74	26

He further submitted that the low metering ratio was due to inadequate funds to purchase and install all the required meters in order to achieve the 100 per cent metering ratio. To resolve this, the company had embarked on the following measures to improve the metering ratio:

a. procurement of 13,494 post-paid water meters and 4,500 prepaid meters which had since been installed;
b. the company was ringfencing 5 per cent of monthly revenue collections for replacement of old and damaged water meters; and
c. every new connection was accompanied by a meter in order to maintain the 100 per cent metering ratio.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the improvement of the metering ratio benchmark.

v. Sanitation Coverage

The Controlling Officer submitted that the company's sanitation cover was below the NWASCO benchmark of 80 per cent. The company recorded sanitation coverage of 41.5 per cent in 2016, 41.8 per cent in 2017, and 59.1 per cent in 2018.

He further submitted that the failure to attain the sanitation benchmark was due to inadequate capital investment in sanitation projects. He informed the Committee that to resolve the challenge, the company had sourced financing through Integrated Small Towns Water Supply and Sanitation Programme, Kaputa Water Supply and Sanitation Project, Mporokoso Water Supply and Sanitation to rehabilitate and construct sanitation facilities. Once these projects were completed, the sanitation coverage would improve. Furthermore, the company, with support from cooperating partner SNV, was implementing the Urban Sanitation and Hygiene for Health and Development Programme, which involved construction of faecal sludge treatment plants and sanitation facilities in the community. Once this project was completed, the sanitation coverage was expected to improve. Documentary evidence was to that effect was available for verification.

Committee's Observations and Recommendations

The Committee expresses concern that due to the low sanitation coverage, a substantial number of urban households do not have access to adequate sanitation, and this may compromise public health. The Committee implores the Controlling Officer to enhance supervision of the entity, and to ensure that the earmarked strategies are implemented expeditiously. The Committee resolves to await an update on the matter.

vi. Staff Efficiency

The Controlling Officer submitted that the Auditor General's observation that staff efficiency was 0.95 in 2016, 0.74 in 2017 and 0.8 in 2018 which was above the standard of 0.4. was correct. The Committee also noted that the number of employees were higher than the water connections.

Committee's Observations and Recommendations

The Committee is dismayed to note that the number of employees is higher than the number of water connections. The Committee observes that this increases the staff costs in relation to the operations, and eventually affects the efficiency of the company. The Committee strongly condemns the unnecessary recruitment of more staff and strongly urges the Controlling Officer to ensure that management reduces the staff establishment to the required number. All excess staff should be paid their respective dues and trimmed off. The Committee will await an update on the matter.

1.4 Administrative Matters

i. Failure to Prepare Financial Statements

The Controlling Officer submitted that financial statements for the financial years ended 31st December, 2016 to 31st December, 2017 were prepared; however, they were not yet audited due to the financial challenges that the company had been facing, which led to non-settling of the outstanding payments for financial statements for 2012 to 2014 to CYMA. As a result, the firm could not proceed to audit 2016 to 2017 as this could have compromised their independence. He further submitted that the financial statements for 2018 were not audited because the 2016 and 2017 financial statements audits were not finalised. As a result, there were no opening balances to input in 2018 financial statements. The audit for 2016 and 2017 financial statements was completed on 15th May 2020.

The Committee also learnt that the financial statements for 2016 and 2017 had since been audited, while those for 2018 had also been prepared and the Terms of Reference (ToR) to advertise for the audit were approved by the Board of Directors. The company had since advertised for the procurement of external auditors on the electronic Government procurement platform (e-GP). Documentary evidence to this effect was available for verification.

Committee's Observations and Recommendations

The Committee expresses concern at the failure to prepare financial statements which is against the law, and consequently deprives the shareholders an opportunity to assess the performance of the company. The Committee is disappointed that the provisions of the *Companies Act No. 10 of 2017* are not being adhered to. In this vein, the committee urges the Controlling Officer to ensure that financial statements are prepared and that this query should not recur henceforth.

ii. Lack of Procurement Plan

The Controlling Officer submitted that the lack of a procurement plan was due to an oversight on the part of management. He further submitted that during the period under review, the company was using the activity-based budget to procure goods and services.

He further submitted that during the period under review, 2016 and 2017 financial years, the procurement unit was headed by a degree holder who was later dismissed in October, 2017. Between October 2017 and August 2018, the functions of the unit were carried out by a diploma holder before the recruitment of the degree holder. The Controlling Officer further informed the Committee that the lack of segregation of duties was due to high labour turnover, which caused understaffing in the unit.

The Committee was informed that the company had since prepared an Annual Procurement Plan for the year 2020 which had been approved by ZPPA and would ensure procurement plans were prepared annually. He further informed the Committee that in September 2018, the company employed a degree holder to head the procurement unit and as a result, there was segregation of duties. Documentation to this effect was available for verification.

Committee's Observations and Recommendations

The Committee observes with consternation that failure to prepare an annual procurement plan was as a result of an oversight on the part of management. In as much as the Committee notes that there was a high turnover in the procurement unit, the Committee recommends that disciplinary action should be meted out against the responsible supervisors who failed to execute their role. The Committee further urges the Controlling Officer to impress upon management to resolve the issues leading to the high turnover which has a negative effect on the operations of the entity. The Committee resolves to await an update on the matter.

1.5 Failure to Remit Statutory Obligations K 2, 128,813

The Controlling Officer submitted that the failure to remit Pay As You Earn Tax (PAYE) and other statutory contributions during the period under review as shown in the Table below was due to low revenue collections as the total monthly billing was less than the total monthly expenditure. The company was only able to meet net payroll costs. As a result of non-payment of statutory obligations, the company had accumulated NAPSA penalties in amounts totaling K31,093,673 as at 31st December 2019.

He further informed the Committee that the company had entered into a payment plan to offset the arrears with ZRA and NAPSA and so far a total of K583,935.41 and K572,015.62 had been paid to ZRA and NAPSA respectively. Furthermore, the company was implementing various projects, such as the Integrated Small Towns Water Supply and Sanitation Programme, which would enable it to generate more revenue and improve the financial position through expansion of service coverage areas and increased hours of water supply. Documentation to this effect was available for verification.

Table 1.9: Unremitted Statutory Obligations

SN	Detail	2018 K	2017 K	2016 K
1	ZRA	1,041,824	872,633	857,720
2	NAPSA	1,086,988	924,767	884,109
	Total	**2,128,813**	**1,797,400**	**1,741,829**

Committee's Observations and Recommendations

The Committee is concerned that the statutory obligations have not been settled in a timely manner, leading to accrual of penalty charges. The Committee urges the Controlling Officer to impress upon management to formulate a sustainable payment plan for the statutory obligations. The Committee will await an update on the matter.

1.6 Failure to Pay Salaries and Terminal Benefits

The Controlling Officer submitted that failure to settle personnel related payments to separated employees as outlined in the Table below was due to insufficient funds. Further the implementation of Article 188 and 189 of the Constitution of Zambia, as amended by Act No 2 of 2016, bloated the wage bill as the retired employees were still on the payroll. He further submitted that the company was paying the separated employees in installments while maintaining them on the payroll. So far, a total of K1,647,013.37 and K996,598.51 terminal benefits and gratuity had been paid respectively. Further, the company was waiting for the counterpart funding under the Integrated Small Towns Water Supply and Sanitation Programme which constituted 10 per cent contribution from the Government of the Republic of Zambia under institutional strengthening to clear all outstanding payments. Documentation to this effect was available for verification.

Table 1.10: Unpaid Salaries and Terminal Benefits

SN	Personnel Cost Type	Outstanding Amount K
1	Gratuity	2,049,133
2	Leave Pay	368,591
3	Long Service Bonus	592,770
4	Salaries & Wages Arrears	214,945
5	Terminal Benefits	1,700,439
	Total	**4,925,878**

He further submitted that as a result of non-payment of benefits, eleven separated officers continued drawing salaries and had been paid amounts totaling K497,906 as at 31st December 2019.

Committee's Observations and Recommendations

The Committee notes the response and urges the Controlling Officer to engage the Treasury with regard to the 10 per cent contribution for institutional strengthening to help clear all outstanding payments. This will enable the company to remove the employees in question from the payroll. The Committee will await an update on the matter.

1.7 Failure to Fill Vacancies

The Controlling Officer submitted that failure to fill in the vacancies was due to inadequate funds to support the full organisation structure. He further submitted that during the period under review, the company's total establishment was 350. However, the company had vacancies ranging from ninety eight to 116. See Table 1.11 below.

Table 1.11: Establishment Vs Actual

SN	Detail	2018	2017	2016
1	Establishment	350	350	350
2	Staffing Levels	252	234	248
3	Vacancies	98	116	102

The Controlling Officer informed the Committee that to resolve this challenge, management had undertaken the following measures:

i. the company had continued to expand the customer base to generate more revenue which would support the gradual filling of vacancies. Further, the company was implementing various projects such as the Integrated Small Towns Water Supply and Sanitation Programme, which was aimed at improving the water infrastructure, thereby reducing non- revenue water and improve water production which would increase the revenue for the company.

ii. out of the ninety eight vacant positions, the company had filled eight critical positions to support the operations of the company. Documentation to that effect was available for verification.

Committee's Observations and Recommendations

The Committee notes with concern the huge number of vacancies that have not been filled. The Committee holds the view that this has a potential to negatively affect the operations of the company. The Committee strongly urges the Controlling Officer to enhance supervision of the entity to ensure that the earmarked strategies aimed at increasing the revenue base which will in turn enable management to fill the vacancies are expeditiously implemented. The Committee resolves to await an update on the matter.

1.8 Project Management

During the period under review, the company entered into eleven contracts with various contractors for consultancy, construction, and rehabilitation of water systems in Northern and Muchinga provinces at a total contract sum of K459,500,319 and US$12,486,526.80.
The following were observed:

i. Delayed Payments to Contractors

The Controlling Officer submitted that the failure to liquidate payment certificates in amounts totaling K65,902,135.72 and $3,741,850.25 as outlined in the Table below was due to non-release of funds from the Treasury. He further submitted that the company, through the Ministry of Water Development, Sanitation and Environmental Protection, had engaged the Ministry of Finance to release funds to enable the company liquidate the payment certificates.

Table 1.12: Outstanding Payments to Contractors

Contractor / Consultant	Project	Contract Amount K	IPCs Outstanding K	Period Delayed As at 31st Dec 2019
Allione Consulting Engineers / Tommorrow Investment	Improvement of Water & Sanitation System in Kaputa District	161,284,108	26,591,481	15 months
China Gansu / BCHOD	Construction and Rehabilitation of Water System in Chinsali	51,078,443	8,682,146	21 months
China Jiangx / WRC	Construction and Rehabilitation of Water System in Isoka	36,014,810	8,138,304	24 months
China Gansu / Iliso	Construction and Rehabilitation of Water System in Mpulungu	167,252,052	11,511,676	42 months
China Gansu	Construction and Rehabilitation of Water System in Nakonde	33,900,343	9,475,292	13 months
	Consultancy and Construction and Rehabilitation of Water System in Mafinga	3,717,293	394,114	48 months
	Consultancy services for water supply and sanitation project in Mungwi	3,675,866	709,679	48 months
LNH Consulting	Consultancy and Construction and Rehabilitation of Water System in Shiwangandu	2,577,404	399,443	52 months
Total		**459,500,319**	**65,902,136**	
Contractor / Consultant	**Project**	**Contract Amount $**	**IPCs Outstanding $**	**Period Delayed As at 31st Dec 2019**
UNIK Construction Engineering Lesotho	Water Supply and Sanitation project in Mpika, Kasama and Mbala	12,486,526.80	3,741,850.25	9 months
Total		**12,486,526.80**	**3,741,850.25**	

The Controlling Officer further informed the Committee that Out of K65,902,135.72, the Ministry of Finance had paid contractors as at July 2020 as outlined in the Table below.

Contractor / Consultant	Project	Contract Value Amount (K)	Value of Works Certified + Advance Payment Paid Amount (K)	Balance on the Contract Sum (K)
Allione Consulting Engineers / Tomorrow Investment	Improvement of Water & Sanitation System in Kaputa District	161,284,108	95,973,354.77	65,310,753.23
China Gansu / BCHOD	Construction and Rehabilitation of Water System in Chinsali	51,078,443	36,225,313,.55	14,853,129.84
China Jiangx / WRC	Construction and Rehabilitation of Water System in Isoka	36,014,810	27,855,927.33	8,158,882.76
China Gansu / Iliso	Construction and Rehabilitation of Water System in Mpulungu	167,252,052	11,000,000.00	156,252,052.00
China Gansu	Construction and Rehabilitation of Water System in Nakonde	33,900,343	29,240,872.16	4,659,470.48
	Consultancy and Construction and Rehabilitation of Water System in Mafinga	3,717,293	394,114	3,323,179.00
	Consultancy services for water supply and sanitation project in Mungwi	3,675,866	-	3,675,866.00
LNH Consulting	Consultancy and Construction and Rehabilitation of Water System in Shiwangandu	2,577,404	570,633.00	2,006,771.00
Total		459,500,319.00	201,260,214.80	258,240,104.20
UNIK Construction Engineering Lesotho	Water Supply and Sanitation project in Mpika, Kasama and Mbala	USD 12,486,526.80	USD 8,744,676.55	USD 3,741,850.25
Total		**12,486,526.80**	**8,744,676.55**	**3,741,850.25**

Committee's Observations and Recommendations

The Committee notes the strides made to settle the outstanding payments to respective contractors and urges the Controlling Officer to follow through with the Ministry of Finance to ensure that the outstanding balances are settled. The Committee resolves to await an update on the matter.

ii. Expired Performance Bonds K 252,230,837.96

The Controlling Officer submitted that performance bonds for three projects that were still in progress were not renewed after expiry.

He further submitted as follows:

a. Construction and rehabilitation of water supply systems in Nakonde

The Controlling Officer submitted that the contractor could not renew the performance bond as the Government had not settled the outstanding interim payment certificates (IPC) amounting to ZMW9,475,227.03 against uncompleted works amounting to ZMW3,270,842.71 and had reached the borrowing ceiling from their financiers. Further, the company could not terminate the contract because the amount outstanding to be paid to the contractor (IPCs) was more than the amount of the remaining works to be insured. The termination of the contract could have negatively affected the beneficiaries as the project was at 90 per cent completion and retendering could have taken more time.

The Committee learnt that on 30th July, 2019 management wrote to the contractor to renew the performance bond after extension of the completion period. Documentation to this effect was available for verification. Furthermore, management, through the Ministry of Water Development, Sanitation and Environmental Protection, had engaged the Ministry of Finance for the release of the funds to settle the outstanding Interim Payment Certificates (IPCs).

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all documents in support of the submission to the Auditor General. The Committee will await an update on the liquidation of the outstanding payments.

b. Construction and rehabilitation of water supply systems in Chinsali

With regard to the projects in Chinsali, the Controlling Officer submitted that the contractor could not renew the performance bond as the Government had not settled the outstanding interim payment certificates (IPC) amounting to ZMW10,955,330.76 against uncompleted works amounting to ZMW1,181,265.88 and had reached the borrowing ceiling from their financiers.

The company could not terminate the contract because the amount outstanding to be paid to the contractor (IPCs) was more than the amount of the remaining works to be insured. The termination of the contract could have negatively affected the beneficiaries as the project was at 98 per cent completion and retendering could have taken a huge amount of time. The Controlling Officer further submitted that on 30th July, 2019, management wrote to the contractor to renew the performance bond after extension of the completion period. Furthermore, the company, through the Ministry of Water Development, Sanitation and Environmental Protection, had engaged Ministry of Finance for the release of the funds to settle the outstanding Interim Payment Certificates (IPCs). Documentation to this effect was available for verification.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all documents in support of the submission to the Auditor General. The Committee will await an update on the liquidation of the outstanding payments.

c. Construction of water supply systems in Mpulungu

The Controlling Officer submitted that the contractor could not renew the performance bond as the Government had not settled the outstanding interim payment certificates (IPC) amounting to ZMW K36,599,483.90 and had reached the borrowing ceiling from their financiers. On 30th July, 2019 wrote to the contractor to renew the performance bond after extension of the completion period. The company, through the Ministry of Water Development, Sanitation and Environmental Protection, had engaged Ministry of Finance for the release of the funds to settle the outstanding Interim Payment Certificates (IPCs).

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all documents in support of the submission to the Auditor General. The Committee will await an update on the liquidation of the outstanding payments.

2.0 EASTERN WATER AND SEWERAGE COMPANY LIMITED

Review of Operations

An examination of financial and other records of the company for the Financial Years ended 31st December 2017 and 2018 revealed various irregularities to which the Controlling Officer submitted as outlined below.

2.1 Governance - Lack of Board of Directors

The Controlling Officer submitted that the observation that the company did not have a Board of Directors during the period from January 2017 to October 2018 was true and regrettable. He further submitted that the Board of Directors had since been appointed in accordance with the *Companies Act, No. 10 of 2017,* and was now fully functional.

Committee's Observations and Recommendations

The Committee notes the response and recommends that in future, the appointing authority should ensure that whenever tenure of a substantive board ends, the appointment of a new board is done expeditiously in line with the provisions of the *Public Finance Management Act, No 1 of* 2018. The Committee directs that the matter should close upon submission of all the supporting documents to the Auditor General and subsequent audit verification.

2.2 Income

The Controlling Officer submitted that the company generated less income in 2018 in comparison to 2017 as indicated in the Table 2.2 below.

Table 2.2: Budget against Actual Income

SN	Source of Funding	2018 K		2017 K		Total K		
		Budget	Actual	Budget	Actual	Budget	Actual	Variance
1	Sales of Services	39,463,343	31,548,215	20,011,792	25,695,826	59,475,135	57,244,041	(2,231,094)
2	Interest Received	6,600	3,483	-	4,128	6,600	7,611	1,011
3	Rent Received	120,000	148,479		111,500	120,000	259,979	139,979
4	Sundry Income	330,000	260,160	1,500	81,059	331,500	341,219	9,719
5	Amortisation of Capital Grant	11,100,000	4,862,266		4,806,005	11,100,000	9,668,271	(1,431,729)
6	Amortisation of Capital Reserve	-	1,908,832		1,908,832	-	3,817,664	3,817,664
7	Revenue Grant	-	724,845		-	-	724,845	724,845
8	Reconnections Fees & Others	300,167	481,295	9,000	345,229	309,167	826,524	517,357
9	Discount Received	-	21,490	-	55,631	-	77,121	77,121
	Total	**51,320,110**	**39,959,065**	**20,022,292**	**33,008,210**	**71,342,402**	**72,967,275**	**1,624,873**

Committee's Observations and Recommendations

The Committee notes the response and resolves to close the matter.

2.3 Financial Analysis

i. Financial Performance – Statement of Comprehensive Income

The statements of comprehensive income for the Financial Years ended 31st December 2017 and 2018 were as shown in Table 2.3 below.

Table 2.3: Statements of Comprehensive Income

Detail	2018 K	2017 K
Turnover	31,548,215	25,695,826
Operating Expenses	41,782,188	36,366,752
Operating loss	(10,233,973)	(10,670,926)
Non Operating income		
Interest Received	3,483	4,128
Rent Received	148,479	111,500
Sundry Income	260,160	81,059
Amortisation of Capital Grant	4,862,266	4,806,005
Amortisation of Capital Reserve	1,908,832	1,908,832
Revenue Grant	724,845	-
Reconnection Fee and Others	481,295	345,229
Discount Received	21,490	55,631
Total Non Operating income	8,410,850	7,312,384
Loss before Taxation	(1,823,123)	(3,358,542)
Taxation		
Income Tax	(1,219)	-
Deferred Tax	(872,673)	-
Loss after Taxation	(2,697,015)	(3,358,542)

Source: Eastern Water and Sewerage Company Ltd Financial statements for the financial years ended 31st December 2017 and 2018

a. Profitability

The Controlling Officer submitted that it was regrettable that the company incurred operating losses of K10,670,926 in 2017 and K10,233,973 in 2018. He further informed the Committee that the losses were attributed to the operating expenses which were higher than the turnover. Consequently, the company recorded a loss after tax of K3,358,542 in 2017 and K2,697,015 in 2018.The Committee also learnt that the main cause of the low financial performance was inadequate capital investment funds required for business expansion to help the company move towards profitability. Currently, the company required about K1.3 billion in capital investment funds to grow to break-even and sustainable profitability.

The Controlling Officer further submitted that to resolve the profitability challenge, management was implementing the following measures:

i. the company was actively looking for capital investment funds to help the company grow to profitability. At the time of appearance before the Committee, a grant of 10 million Euros had been secured from Kreditanstalt für Wiederaufbau Entwicklungs bank (KfW) for;

ii. the company was exploring a Business Diversification Programme in ventures such as water bottling, as per its strategic business plan for 2018-2020 in order to improve its revenue base;

iii. the company was working on obtaining a cost-recovery tariff, whilst making the water supply and sanitation services affordable to the majority Zambians, in its catchment area, as per the company Mission and Government agenda of universal access to clean and safe water and sanitation; and

iv. the company was exploring all possible operational cost-reduction measures and improvements in operational efficiencies such as reducing non-revenue water, bulk-buying of goods and services, automation of business processes, and other interventions.

Committee's Observations and Recommendations

The Committee observes with concern that failure to realise profits was due to operating expenses, which were higher than the turnover. The Committee holds the view that management has a duty to minimise operating expenses, and to ensure that they are not higher than the generated income. While appreciating the need for capital investments to a tune of K1.3 billion, the Committee urges the Controlling Officer to enhance supervision of the entity to ensure that management's operations are efficient. Furthermore, the Committee takes cognisance of the strategies that have been embarked upon, coupled with the support from other cooperating partners. In this regard, the Committee urges the Controlling Officer to ensure that these strategies are implemented expeditiously. The Committee resolves to await an update on the, matter and directs the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification.

ii. Financial Position

The statements of Financial Position as at 31st December 2017 and 2018 were as shown in Table 2.4 below.

Table 2.4: Statements of Financial Position

Details	2018 K	2017 K
ASSETS		
Non Current Asset		
Property , plant and equipment	81,132,279	86,936,656
	81,132,279	86,936,656
Current assets		
Inventory	2,987,935	2,903,466
Accounts receivable	7,213,421	7,005,354
Cash and bank balances	891,518	439,197
	11,092,874	10,348,017
Total Asset	92,225,153	97,284,673
EQUITY and LIABILITIES		
Capital and reserves		
Share Capital	250,000	250,000
Capital reserve	28,632,477	30,541,309
Revenue reserve	(11,972,607)	(26,573,835)
	16,909,870	4,217,474
Non Current liabilities		
Capital Grants	41,170,234	45,923,823
Provision for retirement	21,881,157	18,873,956
Deferred Tax	(8,036,221)	
	55,015,170	64,797,779
Current liabilities		
Bank Loan	88,405	715,785
Bank Overdraft	15,720	235,833
Trade and Other Payables	20,121,984	27,246,849
Taxation	74,004	70,953
	20,300,113	28,269,420
Total Equity and liabilities	92,225,153	97,284,673

Source: Eastern Water and Sewerage Company Ltd Financial statements for the financial years ended 31st December 2017 and 2018

a. Current Ratio

The Controlling Officer submitted that it was regrettable that, during the period under review, the current ratio for the company was 0.37 in 2017 and 0.55 in 2018 as shown in Table 2.5, which were below the National Water and Sanitation Council recommended current ratio for the sector of a minimum of 1:1. He further submitted that the main cause for the low financial performance was inadequate capital investment funds required for business expansion to help the company move towards profitability. At the time of reporting, the company required about K1.3 billion in capital investment funds to grow to break-even and sustainable profitability.

Table 2.5: Current Ratio

SN	Detail	2018 K	2017 K
1	Current Assets	11,092,874	10,348,017
2	Current Liabilities	20,300,113	28,269,420
3	Current Ratio	0.55:1	0.37:1

The Controlling Officer further informed the Committee that to resolve this challenge, the company had undertaken the following measures:

i. the company was actively looking for capital investment funds to help the company grow to profitability. In that regard, a grant of 10 million Euros had been secured from Kreditanstalt für Wiederaufbau Entwicklungsbank (KfW);

ii. the company was exploring a business diversification programme in ventures such as water bottling, as per its strategic business plan for 2018-2020 in order to improve its revenue base;

iii. the company was working on obtaining a cost-recovery tariff, whilst making water supply and sanitation services affordable to the majority Zambians in its catchment area, as per the company Mission and Government agenda of universal access to clean and safe water and sanitation; and

iv. the company was exploring all possible operational cost-reduction measures and improving operational efficiencies such as reducing non-revenue water, bulk-buying of goods and services, automation of business processes, and other interventions.

Committee's Observations and Recommendations

While noting that the company has a low current ratio in comparison to NWASCO's sector ratio of a minimum of 1.1, due to low capital investment, the Committee expresses concern that a low current ratio is an indication that the company is unable to meet its short-term obligations. The Committee urges the Controlling Officer to ensure that all the strategies earmarked to improve the current ratio are implemented to ensure that the company avoids litigation in an event that it fails to liquidate its debts.

2.4 Operational Matters

i. Irregular Credit Adjustments on Customer Balances K 58,008

The Controlling Officer submitted that management did not undertake any adjustments to customer balances. However, the adjustments that were implemented were on credit balances, on the customer accounts distributed as follows:

i. eleven accounts out of the sixty-one accounts with amounts totalling to K1,130.97 were as a result of advance payments for water supply and sanitation services by respective customers;
ii. twenty-one out of the sixty-one customer accounts amounting to a total of K19,242.14, were as a result of posting of payments of K1,100.00 new connection fees paid by individual account holders on their respective accounts without a corresponding invoiced amount;
iii. twenty-nine out of the sixty-one accounts had running credit balances, amounting to a total of K37,661.76 arising from amounts which were paid by customers after a debt write-off was effected.

Documentary evidence to this effect was available for verification. He further submitted that the following actions that had been undertaken to avoid recurrence of the query:

i. no adjustments were made to eleven customers because these were advance payments made by respective customers for water and sanitation services amounting to K1,130.97;
ii. twenty-one customers whose accounts were not invoiced had since been invoiced;
iii. twenty-nine customers who paid their outstanding amounts after a debt write off had their amounts reclassified as bad debt recoveries; and
iv. the company was undertaking capacity building for all staff involved in posting transactions in the system so as to minimise errors or omissions and mis-posts in future.

Committee's Observations and Recommendations

The Committee notes the response albeit with concern over the discrepancy between the Auditor General's observations and the response from the Controlling Officer. The Committee is also displeased that this information was not availed to the auditors during the audit. In this regard, the Committee strongly urges the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification. The Committee further recommends that in an event that management is found to have flouted the Commercial Policy of 2013 which requires that all adjustments to the customer accounts should be approved by responsible officers, disciplinary action should be meted out against the responsible officers. The Committee resolves to await a progress report on the matter.

iii. Connection of New Customers without paying Connection Fees - K183, 475

The Controlling Officer submitted that it was regrettable that the scrutiny of the new accounts opened revealed that 153 customers did not pay connection fees in amounts totaling K183,475, leading to failure to collect revenue. The Controlling Officer further submitted as outlined below.

i. Sixty-six customers out of the 153 paid new connection fees amounting to K87,120. However, at the time of audit, the receipts could not be availed due to mis-filling. Documentary evidence was available to this effect.
ii. Forty-six customers out of the 153 were connected under the externally-funded Devolution Trust Fund (DTF) Network Extension Project, which included funding household connections in Nyimba district. The company only charged a K500.00 as administrative/promotion charge per connection and collected a total of K23,000.00. The indicated expected charge of K1,320.00 per connection was not applicable. Documentary evidence was available to this effect.
iii. Twenty-four customers out of 153 connections were given free connections as land compensations relating to the executed projects. Twenty of these customers were connected in Chanida under the Climate Resilience Infrastructure Development Fund (CRIDF) and four in Mwami. Documentary evidence was available to this effect.
iv. Eleven customers out of the 153 connections had accounts created in the billing system after applications for new connections were made. However, these customers did not pay the new connection fees and were not connected to the water supply network. Documentary evidence was available to this effect.
v. Six customers out of the 153 connections were connected to the water network without having paid the required new connection fees.

He further informed the Committee that the following actions had been taken to avoid recurrence of the query:

i. the company had enhanced record keeping by sensitising employees to ensure that receipts were properly filed;
ii. the company was engaging the seven customers whose accounts were created in the billing system after applications for new connections to make payments and complete the application process. Four applicants had since paid new connection fees in full whilst the other three had signed payment plans; and
iii. disciplinary action had been taken against three officers who were involved in connecting six customers without paying connection fees and the money had since been recovered.

Committee's Observations and Recommendations

The Committee finds it unacceptable that documents could not be availed during the audit. The Committee recommends that disciplinary action be undertaken against all the officers responsible for failing to provide the documents to the auditors, including all supervisors who failed to ensure proper filing of these important documents. Whilst noting that disciplinary action was meted out on the three officers involved in the connection of six customers without paying connection fees, the Committee is gravely concerned with the handling of connections for new customers and calls for tightening of the process in this regard. It directs that the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification and resolves to await an update on the matter.

iii. Failure to Replace Defective Meters - Petauke

The Controlling Officer submitted that management acknowledged and regretted the query. He further submitted that failure to replace defective meters on time in Petauke was due to inadequate funds required to procure and replace defective meters whose failure rate was very high due to blockages caused by calcium in the system. The Controlling Officer informed the Committee that the status on the 277 defective water meters was as follows:

i. the company had replaced 110 defective meters with new ones and documentary evidence was available to that effect; and
ii. 167 water meters were assessed, repaired, and put back into use and documentary evidence was available to that effect.

He further submitted that the company would continue to apply several approaches to the calcium challenge and water meter clogging in Petauke. The company had put in place the following measures to address the high failure rate of water meters.

i. the company was changing the type of water meters currently in use from volumetric type to velocity type in a bid to minimise the frequency of meters getting stuck;
ii. the company was in the process of restructuring the water reticulation system, in Petauke and other districts, to include additional washout valves, upgrading some selected lines as well as changing the water reticulation from the current open-system to a looped system to reduce prolonged water stagnation which was the recipe for calcium solidification;
iii. the company was exploring alternatives in order to install an appropriate and more effective technology (ion exchange plant) to reduce on calcium content in the water. So far, two expert institutions had been engaged to carry out a detailed assessment to the calcium challenge in Petauke district. These were Cardiff University in United Kingdom and Zambia Bureau of standards; and
iv. The company was considering migrating from the current underground water source to surface water source (construction of a dam) as a long term solution to the challenge. However, this migration required substantial capital investments once funds were secured.

In order to improve the revenue base, the company was implementing the Chipata Water Supply and Sanitation Project amounting to 10 million Eurosfunded by KfW. Once commissioned, the revenue generated as a result of increased customer base, would be used to procure meters to replace defective meters in Petauke and other districts. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee observes with concern that failure to have proper functioning water meters has a negative effect on revenue generation and the authenticity of the bills that are given to the clients. The Committee takes note of the strategies earmarked to resolve the challenge of malfunctioning water meters and urges the Controlling Officer to impress upon management to implement these strategies expeditiously. The Committee will await an update on the matter.

iv. Incomplete Client Information

The Controlling Officer submitted that management regretted the situation of having incomplete client information as observed by the Auditor General and was as shown in the Table 2.7 below.

Table 2.7: Incomplete Client Information

SN	Details	No. of Client
1	Lack of Physical Address	92
2	Lack of Contact Details	2,581
	Total	2,673

He further submitted that the major causes of the missing customer contact details were as follows:

i. there were no contact details for the customers inherited from local authorities; and
ii. there was data loss that occurred during the billing system migration from the Asyst Billing System to the Municipal Billing System.

The Committee learnt that the company had since updated the 2,673 missing customer and physical address details. Documentary evidence was available to this effect.

Committee's Observations and Recommendations

The Committee notes the response and directs that all documents in support of the submission should be submitted to the Auditor General for verification, subject to which the mater should close.

v. Comparative Performance in the Water and Sanitation Sector

A review of the NWASCO Sector Reports for 2017 and 2018 in respect of Eastern Water and Sewerage Company revealed various irregularities, to which the Controlling Officer submitted as outlined below.

a. Non-Revenue Water

The Controlling Officer submitted that management acknowledged and regretted the Auditor General's observations as shown in Table 2.8.

Table 2.8: Non- Revenue Water (NRW)

SN	Details	2018	2017	Total
1	Total Water Production (m3)	5,700,000	5,400,000	11,100,000
2	Total Water Billed (m3)	3,320,000	3,100,000	6,420,000
3	NRW (m3)	2,394,000	2,268,000	4,662,000
4	NRW %	42%	42 %	
5	Benchmark (%)	25%	25 %	
6	Revenue loss on NRW (K)	19,199,888	18,443,900	37,643,788

He further submitted that the causes of the high Non-Revenue Water were as follows:

i. the old dilapidated water infrastructure network in Chipata;
ii. the high frequency of blockages caused by high accumulation of calcium in water network in Petauke District, resulting in water losses due to frequent flushing to unblock the system; and
iii. under reading of water meters due to old age.

The company had instituted the following remedial measures:

i. the company was implementing the Chipata Water Supply and Sanitation Project amounting to 10 million Euros(EUR10million), funded by KfW, which involved replacement of old dilapidated water infrastructure network in Chipata District;
ii. the company was exploring alternatives in order to install an appropriate and more effective technology (preferably an ion exchange plant) to reduce on calcium content in the water. So far two expert institutions had been engaged to carry out a detailed assessment to the calcium challenge in Petauke district. These were Cardiff University in the United Kingdom and Zambia Bureau of standards.
iii. the company had scaled up the process of replacing of old water meters that were under performing. The company had since replaced 110 defective meters with new ones in Petauke district.

Committee's Observations and Recommendations

The Committee notes with concern that the non revenue water deprived the company of the income to help improve its operations. The Committee urges the Controlling Officer to ensure that management reduces the percentage of non revenue water from 42 per cent to the sector benchmark of 25 per cent. The Committee finds it unacceptable that the reason of dilapidated infrastructure continues to be an excuse for failure to address the issues of non revenue water. The Committee, therefore, strongly cautions the Controlling Officer to ensure that suitable solutions on how to mitigate the issue of non revenue water are formulated and implemented. The Committee will await an update on the matter.

b. Sanitation Coverage

The Controlling Officer submitted that management regretted the low sanitation coverage as observed by the Auditor General and shown in Table 2.9 below.

Table 2.9: Sanitation Coverage

Year	Benchmark	Sanitation Coverage	Variance
2017	80%	31%	49 %
2018	80%	32%	48%

He further submitted that the reason for not meeting the sector benchmark was inadequate funds for capital investment to increase sanitation coverage. Management had undertaken the following measures to resolve the challenge:

i. the company was implementing the Chipata Water Supply and Sanitation Project amounting to 10 million Eurosfunded by KfW which involved among other things, replacement of old dilapidated sewer network and service connections in Chipata District and documentary evidence was available to that effect; and

ii. the company had embarked on public private partnership (PPP) initiatives in a bid to improve sanitation coverage such as the Great East Mall sanitation Project. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee observes with grave concern the failure by management to reach the sanitation sector benchmark. This has led to failure to access adequate sanitation by a substantial number of urban households, which compromises public health. The Committee strongly recommends that this challenge should be resolved expeditiously, and that management should prioritise the implementation of all the strategies earmarked to resolve the challenge. The Committee will await an update on the matter.

c. Staff Cost in Relation to Billing and Collection

The Controlling Officer submitted that the Auditor General's observation was correct. He indicated that it was regrettable that the company's ratio of each staff collections was still higher than the sector desired target of 40 per cent, even though it had reduced from 98 per cent in 2017 to 75 per cent in 2018.

The Controlling Officer informed the Committee that the following were the causes of higher staff costs in relation to billing and collection:

i. the revenue generated by the company was still low due to a low customer base and non-cost reflective tariffs;
ii. high maintenance costs due to dilapidated water network because of engagement of additional labour and payment of overtime; and
iii. several districts and business centres were unable to cover their operational costs from the revenue they generated, yet the requisite staffing level and skills mix had to be maintained in such loss-making business centres in order to provide service to the people.

Management had undertaken to implement the following measures:

i. the company had prioritised resource mobilisation from multiple sources, for capital investments, by engaging Government, cooperating partners (such as KfW) and other stakeholders to expand the network and customer base for improved revenue generation;
ii. in a bid to have cost-recovery tariffs, the company had applied for tariff adjustment and the National Water Supply and Sanitation Council (NWASCO) was currently analysing the application;
iii. the company had automated business processes by introducing electronic billing (e-billing) as opposed to paper-based billing, which had improved collection efficiency and reduced operational costs. The company had also introduced payments using various mobile banking platforms to improve on the collection efficiency; and
iv. the company had embarked on a multi-skilling programme, for example as meter readers took readings, they also undertook repairs to the network. This was to reduce labour costs.

Committee's Observations and Recommendations

While noting the measures that management had put in place to resolve the query, the Committee is extremely concerned to note that staff costs are higher than the billed and collected amounts, thereby affecting the profitability of the company. The Committee finds this unacceptable and strongly urges the Controlling Officer to enhance supervision of the entity, and to ensure that all the strategies meant to mitigate the challenges are implemented with the urgency and seriousness they deserve. The Committee will await an update on the matter.

2.5 Administrative Issues

i. Failure to Remit Statutory Obligations

The Controlling Officer submitted that it was regrettable that the company owed amounts totaling K10,567,178 in respect of outstanding statutory obligations as at 31st December 2018 as shown in the Table 2.10 below.

Table 2.10: Outstanding Statutory Obligations

SN	Institution Name	Details	Amount K
1	Zambia Revenue Authority	PAYE	9,728,255
2	LASF	Pension	838,923
	Total		10,567,178

He further informed the Committee that the causes of non-remittance of statutory obligations were as follows:

i. the company's monthly average billing K2,600,000) was lower than its monthly average operational costs K3,200,000). As a result, the company was unable to pay statutory obligations in full (PAYE and LASF); and

ii. non-payment of water bills by various customer categories.

To settle the outstanding statutory obligations, the company had since signed a payment plan with Zambia Revenue Authority. So far, K150,000.00 and K48,586.15 had been remitted towards the dismantling of the outstanding arrears to the Zambia Revenue Authority (ZRA) and Local Authorities Superannuation Fund (LASF), respectively. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee expresses concern over the company's failure to settle its statutory obligations, and urges the Controlling Officer to ensure that a strategy is formulated to pay the dues and avoid accrual of penalty charges and possible litigation. The Committee will await a progress report on the matter.

ii. Unaccounted for Stores K683,540

The Controlling Officer submitted that the Auditor General's observations as shown in Table 2.11 below were agreed to and regrettable.

Table 2.11: Unaccounted for Stores

SN	Station	No. of Transactions	Amount K
1	Headquarters	18	66,596
2	Chipata	27	4,299
3	Lundazi	82	279,153
4	Petauke	48	280,741
5	Nyimba	64	52,751
	Total	239	683,540

He informed the Committee that the causes of the above cited query were as follows:

i. at the time of audit of stores records at the districts, some records had been sent to Head Office for capturing in the SAGE ERP inventory management system;
ii. inadequate capacity amongst staff handling stores; and
iii. assigned officers from districts have not been subjected to orientation and training in stores management.

To resolve these challenges, management had undertaken to implement the following:

i. copies of receipt and issue notes would be maintained at the district offices;
ii. the company had since started training personnel handling stock in stores records management;
iii. The documents for disposal details had since been retrieved and were ready for audit verification; and
iv. the stores function had since been transferred from procurement to finance in line with the *Public Financial Management Act, No. 1 of 2018.*

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee reiterates its observations that the tendency to provide supporting documents only after the audit is unacceptable. The Committee recommends that disciplinary action should be taken against the officers responsible for this irregularity, including their supervisors who failed to execute their duties diligently. The Committee directs that all documents in support of the submission should be submitted to the Auditor General for verification. The Committee will await an update on the matter.

iii. Lack of Title Deeds

The Controlling Officer submitted that the Auditor General's observation was agreed to and regrettable. He further submitted that the major cause was due to delay in the transfer of properties from the local authorities to Eastern Water and Sanitation Company Limited as a result of a delay in the issuance of the Statutory Instrument for the transfer of the assets. However, out of the reported ninety-six properties, the company had acquired certificates of title for head office building and one residential House along Musafunsa Road in Chipata. The company was in the process of acquiring certificates of title for all the remaining properties by December, 2020. Further, all properties in Chipata district had since been surveyed in the quest to obtain the certificates of title while surveys for properties in other districts was underway. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and directs that all documents in support of the submission should be submitted to the Auditor General for verification. The Committee will await a progress report on the matter.

3.0 LUAPULA WATER AND SEWERAGE COMPANY LIMITED

An examination of financial and other records maintained at Luapula Water and Sewerage Company Limited for the Financial Years ended 31st December 2015, 2016, 2017 and 2018 revealed various irregularities to which the Controlling Officer responded as outlined below.

3.1 Governance - Lack of a Board of Directors

The Controlling Officer responded that the tenure of the previous Board expired in 2016 and, during the intervening period, the mandate for water supply and sanitation was transferred to Ministry of Water, Sanitation and Environmental Protection from the Ministry of Local Government. He further submitted that the new Board was in place and it was appointed in November, 2018. Management would ensure that a new Board was appointed promptly as and when the tenure expired.

Committee's Observations and Recommendations

The Committee is disappointed that LpWSC operated without a Board for more than two years and cautions the Controlling Officer against allowing such a state of affairs to recur. The Committee directs that all documents supporting the submission should be submitted to the Auditor General for verification, subject to which the matter should close.

3.2 Income

The Controlling Officer responded that income was the volume of water multiplied by the tariff (price). During the period under review, the volume of water produced and supplied was negatively affected by the following operational challenges, which subsequently caused the income (metered billing) to be lower than the budgeted billing:

i. breakdown of pumps (Mansa, Samfya, Mwense and Nchelenge);
ii. drying up of water sources near the abstraction points due to climate change in all districts; and
iii. flooding of the pumping station in Mansa in 2018 which led to a reduction in water supply for twenty one days.

The Controlling Officer explained that pumps at Mansa and Mwense were replaced with new pumps. The pumps at Samfya and Nchelenge were overhauled (repaired) but needed to be replaced because they had outlived their lifespan. The pumps in Samfya would be replaced under the Integrated Small Towns Water Supply and Sanitation Programme (ISTWSSP). The pumps in Nchelenge would be replaced through the Nchelenge and Chiengi Water Supply and Sanitation Project.

i. The construction of the Chibalashi Dam (in Mansa) was concluded in 2017. This had resolved the issue of Mansa River drying up in the dry season. The abstraction points on Lake Bangweulu and Mweru were extended from the bank of the lakes. An arrangement had been made to equitably share water between the commercial farmers who were upstream and the utility company which was downstream on the Mwense stream. In the long term, an alternative abstraction source would be constructed under the ISTWSSP.
ii. The pump station entrances in Mansa were raised to prevent a recurrence of flooding.

Committee's Observations and Recommendations

The Committee notes the response from the Controlling Officer and resolves to await progress report on the measures that have been put in place by management to improve the company's income.

3.3 Information Communications Technology Systems

ii. Lack of ICT Strategic Plan

The Controlling Officer responded that there was lack of ICT competence in the company during the period under review. The company was in the process of formulating the IT Strategic Plan using an expert consultancy on the Africa Development Bank (AfDB) funded ISTWSSP. During the period under review, in order to improve ICT competence, the company employed an ICT officer who was not at management level. However, a senior ICT officer at management level reporting direct to the Managing Director would be employed once the company built adequate financial capacity to pay an ICT Officer at senior management level.

Committee's Observations and Recommendations

The Committee is concerned that LpWSC is operating without an ICT strategic plan, especially in view of the importance of ICTs. In this regard, the Committee strongly urges the Controlling Officer to ensure that the plan is formulated speedily. The Committee will await a progress report on the matter.

ii. Lack of ICT Policy

The Controlling Officer responded that the lack of an ICT policy was due to the fact that at the time of formulating company policies, there was lack of human resource capacity in ICT in the organisation. The company was in the process of developing the ICT policy under the ISTWSSP consultancy. The consultancy would also recommend human resource requirements for an ICT department.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee urges the Controlling Officer to ensure that an ICT Policy is put in place without further delay. The Committee will await an update on the matter.

iii. Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)

The Controlling Officer responded that the reason for the lack of the Business Continuity and Disaster Recovery Plans was due to lack of human resource capacity in ICT in the organisation.

The Business Continuity and Disaster Recovery Plans were being developed under the ISTWSSP consultancy. The Consultancy would also recommend human resource requirements for an IT department. In spite of not having the plans in place, backups on critical software such as accounting and billing were being done that could be used in case of any disaster to allow for business continuity.

Committee's Observations and Recommendations

The Committee expresses concern at the potential disaster that might be caused by the absence of a Business Continuity and Disaster Recovery Plan. The Committee notes that while the Controlling Officer submitted that there are backups of critical accounting and billing information, this is not efficient. In this regard, the Committee urges the Controlling Officer to ensure that a Business Continuity and Disaster Recovery Plan is put in place. The Committee will await an update on the matter.

iv. Lack of Off-Site Backup Facility

The Controlling Officer responded that the reason for lack of off-site back up facility and documented back up policy was due lack of human resource capacity in ICT in the organisation. The off-site back up facility had been identified and the backup policy would be embedded in the ICT Policy once formulated by the ISTWSSP consultancy. The consultancy would also recommend human resource requirements for an IT department.

Committee's Observations and Recommendations

The Committee is dismayed that LpWSC attributes all the weaknesses in its ICT resources to lack of human resource capacity in the company. The Committee is of the view that the company does not take ICTs seriously and cautions the Controlling Officer to desist from condoning this lack of seriousness. The Committee observes that the lack of an offsite backup facility is highly irregular and unacceptable and urges the Controlling Officer to ensure that the off-site facility that has been identified is operationalised as a matter of urgency. The Committee further directs the Controlling Officer to ensure that a backup policy is put in place. The Committee will await and update on the matter.

vi. Lack of Insurance Cover for ICT Equipment

The Controlling Officer responded that the failure to insure ICT equipment during the period under review was as a result of limited financial resources to cover insurance. Insurance cover for the ICT equipment had since been paid for under the Integrated Small Towns Water Supply & Sanitation Programme.

Committee's Observations and Recommendations

The Committee notes the response and urges the Controlling Officer to ensure that the query does not recur. The Committee directs that the documents supporting the submission should be submitted to the Auditor General for verification, subject to which the matter should close.

3.4 Operational Matters

A review of the NWASCO reports in relation to the performance of LpWSC for the period from 1st January 2015 to 31st December 2018 revealed the findings outlined below.

i. Non-Revenue Water

The Controlling Officer responded that the increase in the non revenue water was due to the reasons below.

a. The old and dilapidated water network infrastructure which led to frequent pipe bursts and leakages. The pipes were more than fifty years old and had outlived their thirty year old lifespan.
b. Wear and tear of water meters leading to under reading of water supplied to the customers.
c. Illegal connections and water theft by the community.

The Controlling Officer further responded as outlined below.

a. All the pipes on the water networks had been registered on the Geographical Information System (GIS) to ease the location of leakages. A dedicated team of plumbers had been put in place to speedily identify and repair leakages. All the old and leaking pipes on the water network would be replaced under the ISTWSSP which would result in a reduction of non revenue water.
b. A consignment of 2,000 meters was procured under the Water Basket Fund financed by KfW to replace 25 per cent of the aged meters. Additionally, small repair works were undertaken on the metres which were stuck from time to time. All the metres on the water network would be replaced under the ISTWSSP, which would result in a reduction of non revenue water.
c. Sensitisations had been carried out to inform customers on how to legally connect to the system and to report illegal connections. Additionally, active inspections were carried out to discover illegal connections during the time of meter reading and bill distribution. Those who were found to have connected to the network illegally were penalised by way of a fine.

Committee's Observations and Recommendations

The Committee notes the response and will await an update on the reduction in non revenue water.

ii. Operational and Maintenance Cost Coverage by Collection

The Controlling Officer responded that the low operational cost coverage by collection was mainly due to the fact that the operational costs were K1,200,000 per month against an average monthly billing (sales) of K650,000. The low monthly billing was attributed to the low customer base of 8,400 against 25,000 to break even. The collection efficiency for the period under review was an average of 84 per cent of the monthly billing of K650,000 against a sector benchmark of 85 per cent.

The Controlling Officer explained that the customer base (number of connections) had increased from 5,200 customers in 2015 to 7,400 in 2018 and the number stood at 8,600 customers as at September, 2020. The company would address the low operational cost coverage by collections by increasing the revenue base from the current 8,600 customers to 20,000 customers when pipes were installed in the un-serviced areas under the ISTWSSP.

Committee's Observations and Recommendations

The Committee notes the steady increase in the operational cost coverage and urges the Controlling Officer to ensure that LpWSC continues on an upward trajectory until the 100 per cent NWASCO benchmark is attained. The Committee resolves to await an update on the matter.

iii. Sanitation Coverage

The Controlling Officer responded that the reason for low sanitation coverage was inadequate capital investment for expansion of the sewage treatment plants and pipe network.

A survey was carried out in Mansa which revealed customers who were covered and were not known to be covered on the sewerage network. These were subsequently captured in the system. Feasibility studies had been carried out for all the districts to ascertain the sanitation needs for funding. The company would address the low sanitation coverage through rehabilitation and construction of new sanitation infrastructure under the ISTWSSP such as construction of new sewer ponds, sewer networks and sanitation facilities at public places. In addition, the Government had mobilised funding from the African Development Bank *(*AfDB) for the preparation of the detailed designs and tender documents for the construction of sanitation infrastructure in Mansa under the Integrated and Sustainable Urban Sanitation Project in Zambia.

Committee's Observations and Recommendations

The Committee notes the response and urges the Controlling Officer to ensure that the measures put in place by LpWSC result into the company attaining the 100 per cent NWASCO benchmark in the shortest possible time. The Committee resolves to await an update on the matter.

iv. Water Service Coverage

The Controlling Officer responded that the low water service coverage was due to lack of adequate capital investment for expansion of the water production plants and pipe network. The company had increased the customer base (number of connections) from 5,200 customers in 2015 to 7,400 in 2018 and the number stood at 8,600 customers as at September, 2020. The company would address the low sanitation coverage through rehabilitation and construction of new sanitation infrastructure under the ISTWSSP such as construction of new sewer ponds, sewer networks and sanitation facilities at public places.

Committee's Observations and Recommendations

The Committee notes the response and urges the Controlling Officer to ensure that LpWSC improves its water service coverage as a matter of urgency. The Committee resolves to await an update on the matter.

3.5 Accounting Irregularities

i. Procurement of Software - Wasteful Expenditure

The Controlling Officer responded that training on Municipal Billing in Pastel was conducted and three officers were trained, of which two resigned before the data capture was completed. Furthermore, the license expired in 2017 and it was not renewed due to inadequate financial resources. Additionally, the officer that remained also resigned in 2018 before Pastel could be renewed.

The Controlling Officer further responded that the process of renewing the license was underway.

Committee's Observations and Recommendations

The Committee expresses disappointment at the wasteful use of the much needed resources and at the fact that LpWSC is not benefitting from the software in any way. The Controlling Officer is urged to ensure that once the license is renewed, it should be used correctly, failure to which disciplinary action should be taken on the erring officers. The Controlling Officer is directed to submit the supporting documents to the Office of the Auditor General for Audit verification subject to which the matter should close.

ii. Irregular Procurement of Goods and Services Using Imprest

The Controlling Officer responded that this was attributed to weaknesses in internal controls at the time. The company had since stopped the use of imprest to procure goods and services whose value could be ascertained.

Committee's Observations and Recommendations

The Committee is saddened that LpWSC has weak internal controls and directs the Controlling Officer to ensure that the query does not reoccur, failure to which disciplinary action should be taken on the erring officers. The Committee directs the Controlling Officer to submit the supporting documents to the Auditor General for audit verification, subject to which the matter should close.

iii. Irregular Payment of Housing Allowance

The Controlling Officer responded that there was an oversight from management as authority was not sought from the Board for the employees to occupy the houses which were in a deplorable state and needed to be secured from vandalism in 2014. The employees continued getting housing allowance. The payment of housing allowances on the payroll was only stopped in September, 2019. The matter was taken to the Board for approval to effect the recoveries and the Board resolved that the housing allowances which were wrongly paid be recovered. The recoveries were initiated in January, 2020.

Committee's Observations and Recommendations

The Committee is dismayed that such a serious matter can be attributed to an oversight on the part of Management. To this effect, the Committee recommends that necessary disciplinary action be taken against the officers responsible for the oversight. The Committee resolves to await a progress report on the matter.

iv. Unremitted Statutory Contributions

The Controlling Officer responded that the company was unable to remit statutory contributions to respective statutory bodies due to financial constraints. The company intended to settle the outstanding statutory obligations using the counterpart funding on the ISTWSSP. The total counterpart funding expected was USD4 million (K75million) against company obligations of K28million. The company would endeavour to collect the debt stock owed by various customers through the prepaid meters which would be installed under the ISTWSSP in order to improve liquidity and reduce the debt stock. Further, the company was in the process of increasing the revenue base by expanding the pipe network, under the ISTWSSP, to capture more customers.

Committee's Observations and Recommendations

The Committee is concerned and finds it unacceptable that project funds from the ISTWSSP were used to settle statutory obligations. The Committee recommends that counterpart funding should be used to improve the company's infrastructure and service delivery, so that LpWSC improves its financial standing and is be able to meet its statutory obligations. The Committee resolves to await a progress report on the matter.

v. Delayed Banking

The Controlling Officer responded that the cause for the delay in banking in the districts was an oversight. Warning letters were issued to the responsible officers. The company was encouraging all customers to make payments directly into the respective company bank accounts and other mobile money platform. Bank account details were provided on water bills, new connection application forms as well as on notice boards at all pay points**.**

Committee's Observations and Recommendations

The Committee notes the response and urges the Controlling Officer to institute measures to ensure that the query does not recur. The Committee resolves to close the matter subject to audit verification.

vi. Unretired Accountable Imprest

The Controlling Officer responded that this was mainly due to a weakness in the internal controls, which had since been addressed. K32,915.47 out of K48,310.83 had been retired and recoveries amounting to K6,695.36 have been effected. Management had since strengthened internal controls and had stopped issuing accountable imprest.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the retirement and recoveries of the outstanding imprest.

vii. Unsupported Payments

The Controlling Officer responded that the query came about as a result of poor filing. Payments worth K412,989.91 had since been supported and Management had since strengthened internal controls by ensuring that documents such as cash sale receipts, attendance list and acquittal sheets were attached.

Committee's Observations and Recommendations

The Committee finds it unacceptable that management failed to avail the accounting documents to the auditors during the audit exercise, and only availed the documents after the process. The Committee strongly recommends that the Controlling Officer should ensure that filling systems are put in place and that all the officers responsible for the failure to avail supporting documents are disciplined. The Committee resolves to await a progress report on the matter.

viii. Unaccounted for Stores

The Controlling Officer responded that this was mainly due to weaknesses in the internal controls. The officer responsible was given a written warning. Internal controls had since been strengthened by ensuring that all procurements were receipted and disposal details entered in the ledgers. Payments were made only after the delivery of the goods.

Committee's Observations and Recommendations

The Committee directs the Controlling Officer to submit supporting documents to the Auditor General for audit verification, subject to which the matter should close.

ix. Failure to Deduct Withholding Tax

The Controlling Officer responded that failure to deduct withholding tax on rentals on the cited transactions was due to oversight. Management has started deducting and remitting the withholding tax to the Zambia Revenue Authority.

Committee's Observations and Recommendations

The Committee directs the Controlling Officer to submit supporting documents to the Auditor General for audit verification, subject to which the matter should closed.

3.6 Project Management - Delayed Implementation of Project

The Controlling Officer responded that the project works had not commenced because the mandate for water supply and sanitation was transferred to the Ministry of Water, Sanitation and Environmental Protection from the Ministry of Local Government. This caused a delay because structures under the new Ministry had to be out in place to facilitate the fulfillment of the conditions of the loan agreement and to manage the project procurements. Furthermore, the designs needed to be reviewed by the consultant before bidding documents could be prepared to procure the contractors.

The Committee was informed that the contract period for the contractors was structured to be completed within the loan agreement. Lot 1 (Mansa and Samfya) was awarded in January, 2020 and would be completed in November, 2021 as scheduled in the loan agreement. Lot 2 had to be re-scoped and re-tendered because it fell outside the budget allocated to Lot 2. It was for this reason that it would be completed one year behind schedule in view of the rigorous procurement procedures which needed to be followed. The Lot 3 contract was recently approved by the Attorney General and would be completed in twelve months after award.

Committee's Observations and Recommendations

The Committee resolves to await a progress report on the completion of the Project.

4.0 LUKANGA WATER AND SEWERAGE COMPANY LIMITED

Audit Findings

An examination of financial and other records of the company for the Financial Years ended 31st December 2017 and 2018 revealed various irregularities, to which the Controlling Officer responded as outlined below.

4.1 Governance - Lack of Board of Directors

The Controlling Officer responded that the tenure of the Board of Directors expired in July 2016 when the company was under the then Ministry of Local Government and Housing. In the same year, the mandate for water supply and sanitation was transferred to the new Ministry of Water Development, Sanitation and Environmental Protection. This transition to the new ministry delayed the appointment of the new board.

The Board of Directors was constituted in December, 2017. However, the LgWSC only held its 2016 AGM on 26th December, 2017, while the 2017 AGM was held on 12th April, 2019. The 2018 AGM was scheduled to be held on 27th March, 2020, but was postponed to a later date due to the COVID 19 pandemic.

Committee's Observations and Recommendations

The Committee is dismayed that LgWSC has been operating without a board for two years and thus has had no strategic direction during this period. The Committee notes that even during the COVID-19 pandemic, the AGM could have been held virtually. The Committee urges the Controlling Officer to ensure that the AGM is held as soon as possible using available electronic platforms such as Zoom or Webinar. The Controlling Officer should submit supporting documents for audit verification and the Committee will await an update on the matter.

4.2 Financial Analysis

i. Profitability

The Controlling Officer responded that the company had high maintenance costs due to dilapidated water infrastructure**.** The company incurred recurring loses of K2,349,034 in 2017 and K1,823,233 in 2018 due to the following reasons:

i. the cost of plumbing materials was high due to the increase in the exchange rate;
ii. high production cost, which included energy and water treatment chemicals - during period under review, ZESCO increased electricity tariffs and the cost of water treatment chemicals went up due to increase in exchange rate;
iii. lack of capital investment to expand the customer base and address high non-revenue water due to very old dilapidated infrastructure; and
iv. the low water tariffs which were not cost reflective.

The Controlling Officer submitted that the company had put in place the following measures to mitigate the recurring losses.

i. The company had developed an alternative energy strategy and was exploring alternative sources of energy such as solar energy in order to reduce the energy costs. The company had reduced the annual percentage increase in staff salaries to contain the staff costs.
ii. The National Water Supply and Sanitation Council (NWASCO) approved cost reflective tariffs from 2019 to 2020.
iii. Feasibility studies for the construction and rehabilitation of water supply and sanitation infrastructure were being undertaken with support from AfDB under the Integrated Small Town Water Supply and Sanitation Project (ISTWSSP). Once implemented, the project

would address the dilapidated water and sanitation infrastructure which would reduce the maintenance and repair costs.

Committee's Observations and Recommendations

The Committee takes note of the response from the Controlling Officer and resolves to await a progress report on the outcome of the measures that have been put in place to improve the company's profitability.

ii. Financial Position – Statement of Financial Position

a. Liquidity Position

The Controlling Officer responded that the failure to achieve the acceptable current ratio of 1:1 recommended by NWASCO was due to the reasons outlined below.

i. The increase in accounts payable from K45,988,979 in 2017 to K59,150,790 in 2018 was due to accumulation of electricity bills due to inadequate settlement as a result of poor cash flows and inconsistent payments of statutory obligations to Zambia Revenue Authority, National Pension Scheme Authority and other suppliers of plumbing materials.
ii. Inconsistent payment of suppliers of chemicals and repair materials was due to high cost as a result of increase in exchange rates.
iii. Low increase in receivables and cash was mainly due to low customer base.

The Controlling Officer submitted that Management was doing the following to improve the current ratio:

i. procuring most supplies on cash basis, hence avoiding an increase in account payables;
ii. the company had entered into payment plans with selected major suppliers to reduce the liabilities;
iii. the company was engaging the Ministry of Finance to consider settling the outstanding debt. In March, 2020, the Ministry of Finance entered into a debt swap with ZESCO amounting to K21,355,120.18 . This had reduced the debtors' and the creditors' amounts by the same amount. This would improve the current ratio; and
iv. the company was working on improving the company turnover by increasing the customer base. This would increase the account receivables and increase the current ratio.

Committee's Observations and Recommendations

While noting the efforts undertaken by management, the Committee expresses concern that the company is operating with a negative working capital. The Committee urges the Controlling Officer to ensure that the company strictly follows the measures it has put in place to improve its current ratio. The Committee will await a progress report on the matter.

b. Receivable Days

The Controlling Officer responded that the reasons for the increase in receivable turnover days from 301 days in 2017 to 313 days in 2018 were as follows:

i. delay in payment of outstanding water bills by Government institutions who accounted for 50 per cent of the company's billing;
ii. operational challenges to collect debt in the business units due to lack of transport, inadequate manpower and dedicated revenue collection officers; and
iii. unwillingness to settle the outstanding debt by customers who had opted for alternative sources of water supply such as wells and boreholes and by most domestic customers, especially those on fixed billing and receiving erratic water supply.

Management was doing the following to reduce the receivable turnover days:

i. the company had been engaging Ministry of Finance to consider settling the outstanding debt, and consequently, a debt swap of K21,355,120.18 was done with ZESCO in March, 2020;
ii. in order to address transport challenges, the company had come up with a phased procurement of motor vehicles and bikes to improve mobility during revenue collection;
iii. the company had introduced mobile payment platforms to ease customer payments, such as MTN, Airtel money and points of sale;
iv. the company had commenced litigation on defaulting commercial and domestic customers with long outstanding debt; and
v. a phased metering plan was in place to ensure that all customers on fixed billing were metered. Management had procured 2500 meters to replace old and defective water meters.

Committee's Observations and Recommendations

The Committee strongly urges the Controlling Officer to ensure that the measures put in place yield positive results and reduce the receivable days, including further debt swaps with quasi-Government institutions. Further, the Committee urges the Secretary to the Treasury to intervene in this matter by deducting the outstanding amounts at source for Government institutions that owe LgWSC. The Committee will await an update on the matter.

4.3 Operational Matters - Comparative Performance in the Water and Sanitation Sector

i. Non-Revenue Water

The Controlling Officer responded that the high non revenue water and estimated revenue loss of ZMW 48,247,290 was due to the following reasons:

i. the leaking, old and dilapidated water supply infrastructure;
ii. water wastage by customers who did not have water meters;
iii. under registering of water consumption by old and defective water meters; and
iv. water theft through illegal connections, meter bypasses and billing errors.

Management was implementing the measures outlined below in order to address high non-revenue water.

i. The company had put in place Maintenance Management System (MMS) which assisted in capturing reported leakages, scheduling works for repairs and produced the leakage status report monthly. Further, Management had introduced a mega mass leak repair programme every month.

ii. The company had procured 2500 metres to replace old and defective water meters.

iii. The company had developed an application called Lukanga Digital Meter Reader (LDMR) which had assisted in capturing correct water consumption.

iv. The company had introduced a whistle blowing policy where members of the public were given incentives for reporting illegal connections and meter bypasses.

v. Upgrading and replacing of the dilapidated water distribution network had been included in the preparation of detailed designs under the ISTWSSP. Once financed and implemented, the non revenue water would be reduced.

Committee's Observations and Recommendations

While noting the measures put in place by LgWSC Management, the Committee is concerned at the high rate of non revenue water. The Committee urges the Controlling Officer to ensure that the Company makes more concerted efforts to mitigate the revenue loss resulting from the non revenue water. The Committee will await a progress report on the matter.

ii. Metering Ratio

The Controlling Officer responded that the low metering ratio in the period under review was due to inadequate capital injection for the purchase and installation of water meters. The company had procured 2500 meters for unmetered customers and for replacement of old and defective water meters.

Committee's Observations and Recommendations

The Committee takes note of the response from the Controlling Officer and resolves to await a progress report on the metering of unmetered customers.

iii. Sanitation Coverage

The Controlling Officer responded that the low sanitation coverage was mainly due to the following:

i. inadequate capital investments for the development and rehabilitation of sanitation infrastructure; and

ii. non-integrated infrastructure development with the local authorities who are in charge of land use allocation as adequate allocation of land for sanitation infrastructure is not being given priority.

However, Management was implementing the measures below to improve sanitation coverage.

i. Detailed designs for the construction and rehabilitation of sanitation infrastructure are currently being prepared under the ISTWSSP once the detailed designs were implemented, sanitation coverage would increase.

ii. The Government had sourced funds from AfDB for the preparation of a detailed design for the construction of sanitation facilities in Kabwe and Kapiri Mposhi.

iii. The company was working with SNV to formulate a framework in order to improve sanitation coverage in low income settlements.

iv. The company was extending sewerage services to customers living in serviced and semi serviced areas upon request. So far 610 properties in Kapiri Mposhi, Kabwe and Chisamba had been connected to the sewerage network. Further the company had continued sensitising customers on the need to connect to sewerage network.

v. The company was charging a sanitation levy on water bills to raise funds for the development of sanitation infrastructure.

vi. The company had engaged local authorities to avoid allocating plots in sewerage plots and also to avail land for sewerage expansion plans.

Committee's Observations and Recommendations

The Committee expresses concern that LgWSC is operating below the NWASCO sanitation cover benchmark. The Committee recommends that in view of the importance of sanitation to public health, the Controlling Officer should ensure that the measures put in place are implemented in order to yield positive results. The Committee will await a progress report on the matter.

iv. Sanitation Surcharge Fund

a. Failure to Open Bank Account

The Controlling Officer responded that the company had had a dedicated bank account (Account No. 1038353500561) for sanitation funds since 2016.

Committee's Observations and Recommendations

The Committee wonders why the supporting documents were not presented during the time of audit and directs the Controlling Officer to institute disciplinary action against officers who failed to avail the documents to the auditors. Further, the Controlling Officer is directed to submit the supporting documents to the Auditor General for audit verification. The Committee will await a progress report on the matter.

b. Misapplication of Funds

The Controlling Officer responded that variance was a result of the liquidity problems caused by poor payment from Government departments and low global collection efficiency in 2017 and 2018. This led to misapplication of the funds on other projects. The company had completed the Chisamba sanitation project worth about K611,979.39. Management had updated this variance with NWASCO periodically and explained to the Authority what projects were being carried out and how much was owed to the account for collections. Additionally, the Kapiri Mposhi Sanitation project was also funded by this account. The next project was the Mutwe wa Nsofu Sanitation project which was worth more than a K1.35 million. Once the Government paid LgWSC for the outstanding bills, the company would fund this project.

Meanwhile the Kapiri Mposhi prepaid funds were deposited into this account daily and periodically money was transferred to this account to finance expenditure on sanitation.

Committee's Observations and Recommendations

While noting the response, the Committee expresses displeasure at the fact that the response from the Controlling Officer does not offer an explanation on what action had been taken to correct the irregularity. The Committee further recommends that the funds in question should be reimbursed to the collection account and the Committee will await an update on the matter.

4.4 Accounting irregularities

i. Delayed Banking

The Controlling Officer responded that the delayed banking was due to weakness in the internal controls relating to the cash management system which led to some fraudulent activities in Chibombo District.

Management had since taken the measures outlined below.

i. The company had strengthened the internal controls, such as reconciliation of the amount collected and banked on a daily basis. (All cashiers were online and head office could see what had been collected daily).
ii. Disciplinary action was taken against the erring officers.
iii. Spot checks in the districts were conducted monthly to enhance compliance with financial procedures.
iv. The company had introduced various mobile and online payment platforms to reduce cash handling by cashiers.
v. The company was sensitising customers on the online payments platforms like mobile money.

Committee's Observations and Recommendations

The Committee notes the response and urges the Controlling Officer to caution Management to ensure that the query does not recur. The Controlling Officer is directed to submit supporting documents to the Auditor General for verification, subject to which the matter should close.

ii. Unaccounted for Revenue

The Controlling Officer responded that the unaccounted for revenue in Kabwe was caused by differences between what was posted in the system and what was on the manual daily collection report. This mainly occurred when clients made direct deposits in the bank and submitted proof of transfer at later date for update of the customer account. The cashier would then capture the proof of transfer on the date funds were transferred to the bank rather the date of entry in the system. Hence backdated receipts were not appearing on the signed daily collection sheet.

The unaccounted for revenue in Chibombo of K129,217 and K55,548 in 2017 and 2018 respectively was due to fraudulent activities. In Chibombo, the staff would collect the funds and only deposit it at the end of the month. In Mumbwa, the K506 was due to negligence on the part of the cashier.

Management was taking the measures outlined below to improve revenue accountability.

i. Disciplinary action was taken against the erring officers in Chibombo.
ii. The unaccounted for revenue in Chibombo of K129,217 and K55,548 in 2017 and 2018 respectively still remained unaccounted for. However, K40,912 has been recovered from the terminal benefits of the officers who were dismissed leaving a balance of K143,853.
iii. The officer involved in fraudulent activities in Mumbwa was suspended and the K506.00 was recovered.
iv. The Promun system had been configured to disable the back dating of bank transfer receipts.

Committee's Observations and Recommendations

The Committee directs the Controlling Officer to ensure that internal controls are tightened and that the outstanding amount of K143,853 is recovered without any further delay. Supporting documents should be submitted for audit verification. The Committee will await and update on the matter.

iii. Missing Receipt Books

The Controlling Officer responded that the missing receipt books were still in the district at the time of audit. There was delay in the district to send all used receipt books to Head Office after use. Out of the 127 missing receipt books, 121 had been retrieved.

The company had begun only issuing receipt books upon retirement of the used receipt books. The company had also enhanced online receipting options in all the districts by use of points of sale which worked even when there was no power. This had reduced the use of manual receipts.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling officer to submit the documents supporting the submission to the Auditor General for audit verification, subject to which the matter should close.

iv. Closure of Accounts without Board Approval

The Controlling Officer responded that during the period under review, there was no Board in place. Management suspended the 858 accounts from billing so that debt on the accounts could stop accumulating. These were mainly accounts which were inherited from the local authority and had duplicate accounts (325 accounts). The other closed accounts were inactive accounts and double billing (533 accounts). Management acknowledged the oversight of closing the accounts without Board approval.

All the 858 accounts with a total outstanding balance of K974,440.34 which were closed without Board approval had been presented to the Board for ratification and the approval for write off had been granted by the Board.

Committee's Observations and Recommendations

The Committee directs the Controlling Officer to submit the supporting documents to the Auditor General for audit verification, subject to which the matter should close.

v. Missing Payment Vouchers

The Controlling Officer responded that there was an oversight to process direct transfers without the accompanying payment vouchers. Management had since started preparing payment vouchers for all payments done, including bank transfers. A caution letter had since been issued to the officer responsible for not preparing payment vouchers as per procedure.

Committee's Observations and Recommendations

The Committee is dismayed with the submission that the query was the result of an oversight. The Committee finds the tendency to submit documents after an audit unacceptable as it raises concern over the authenticity of the documents. The Committee directs that all documents in support of the submission should be submitted to the Office of Auditor General and the Committee will await an update on the matter.

vi. Unsupported Payments

The Controlling Officer responded that most unsupported payments were due to the uncollected receipts from suppliers stationed outside Kabwe who were paid through bank transfers and cheque deposits. Out of the twenty seven unsupported payments amounting to K373,142.00 only, twenty six had been located and only one payment totaling K23,656.67 had not been located due to the fact that the company went under liquidation after the payment.

The company had since collected the receipts, LPOs and GNRs cited above and had put in place a proper mechanism to collect the receipts from all suppliers on time. The Managing Director had written to the Finance Department to step up collection mechanisms.

Committee's Observations and Recommendations

The Committee reiterates its concern on the authenticity of the supporting documents. It urges the Controlling Officer to strongly caution management and to ensure that supporting documents for the balance of K23,656 are collected. The Committee will await a progress report on the matter.

vii. Failure to Produce Expenditure Returns

The Controlling Officer responded that at the time of audit most expenditure returns which were attached to the relevant payment vouchers had not been filed back in the respective box files as they were earlier pulled out to answer queries from the other external auditors. LgWSC had since managed to locate expenditure returns amounting to K35,038.62 out of the K74,927.05. The Committee was informed that management had made improvements in the filing of documents.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that such careless lapses as poor filing are not allowed to continue. The Committee recommends that disciplinary action should be meted against the officers who failed to execute their responsibilities.

viii. Irregular Use of Imprest

The Controlling Officer responded that the query was as a result of an oversight to procure goods and services whose values were obtainable on the market. Management had put in place a system to ensure that accountable imprest was only used for the purchase of goods and services whose value could not be ascertained at the time of purchase. Further, management had put in place mechanisms for payments directly to the suppliers.

In addition, all employees had been cautioned to desist from irregular use of imprest to purchase goods and services whose value could be ascertained.

Committee's Observations and Recommendations

The Committee is disappointed with the failure by officers to follow accounting procedures and strongly recommends that the Controlling Officer should ensure that management tightens internal controls to avoid recurrence of the query. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General for verification subject to which the matter should close.

ix. Unremitted Statutory Obligations

The Controlling Officer responded that the failure to remit tax obligations was due to inadequate funds arising from delays in payment from the company's major clients, especially Government institutions owing over K25,000,000.00 in unpaid bills. As a result, the company was running a net payroll.

The Committee was informed that the company had engaged the Ministry of Finance for payment of outstanding Government debt or process a debt swap with ZRA. The company was also engaging debt collectors and a litigation unit to vigorously follow up domestic and commercial debt. Further, the company had introduced flexible payment options to ease payment of bills for customer such as bank, points of sale, and mobile money platforms.

Committee's Observations and Recommendations

The Committee notes that statutory obligations are mandatory and ought to be remitted without delay. In this regard, the Committee strongly urges the Controlling Officer to follow through the measures that have been put in place and resolves to await a progress report on the matter.

x. Fuel Drawn by Motor Vehicles Not on Company Fleet

The Controlling Officer responded that out of the 443 transactions amounting to K156, 185.91, twelve transactions amounting to K5,375.65 involved company vehicles while 339 transactions amounting to K119,455.08 involved employees' personal vehicles. The remaining ninety two transactions amounting to K29.78.58 involved private vehicles from various stakeholders that were authorised by Management to draw fuel to fulfill company obligations.

Below were some of the reasons why motor vehicles not on the institutional fleet were allowed to draw company fuel.

i. Due to limited company vehicles, the Transport Policy clause 9 and the Management Conditions of Service, clause 14.6, provided for the use of private vehicles on company business provided authority was granted either by the Chief Executive Officer or the Heads of Department.

ii. According to the Conditions of Service, senior managers who used personal vehicles and draw a Vehicle Maintenance Allowance were entitled to Tom Card fuel for use on operations within duty station. However, they were allowed to draw fuel when working outside duty station.

iii. As corporate social responsibility, there were times when the company donated fuel for specific events upon request.

iv. There were occasions when the company hired equipment on dry rate such as earth moving equipment and had to provide fuel for the work.

The Controlling Officer stated further that documentary evidence to show that the drawing of fuel by private vehicles had prior approvals was available for scrutiny.

Committee's Observations and Recommendations

The Committee observes with concern management's extravagant use of fuel. The Committee recommends that the Controlling Officer should ensure that fuel donations are immediately stopped as these are not provided for and are a sure conduit for unscrupulous activities. The Controlling Officer is further directed to submit supporting documents to the Auditor General for audit verification subject to which the matter should close.

4.5 Asset Management

i. Lack of Title Deeds

The Controlling Officer responded that the company was awaiting the Statutory Instrument from the Government to formally confirm ownership of the said assets from the Councils to the company. The company received a letter from the Central Province Permanent Secretary directing it to commence title deed acquisition. In addition, the company received a letter from the Ministry of Water Development Sanitation and Environmental Protection Permanent Secretary for the company to commence title deed acquisition.

The Controlling Officer explained that the company had responded to the letter which came from the Central Province Permanent Secretary. All local authorities had been communicated to and this would be an agenda item in the next AGM.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee expresses concern at the large number of properties without title deeds. The Committee cautions the Controlling Officer that LgWSC risks losing these properties and urges him to ensure that the process of acquiring the title deeds is expedited. The Committee will await a progress report on the matter.

ii. Failure to Protect Water Utility Well fields and Infrastructure

The Controlling Officer responded that the failure to protect water utility well fields and infrastructure was due to the following:

i. lack of financial resources to construct physical infrastructure such as fences to deter encroachers from building in the land; and
ii. lack of Title Deeds made it very difficult for the company to take legal action against the encroachers.

The company had put in place a number of measures to protect the water well fields and infrastructure as outlined below.

i. The company was planning to take a phased approach in fencing up the above assets.
ii. The company had applied to all the local authorities in Central Province for surveying of land to facilitate onward submission to Ministry of Lands for processing of title deeds. Further, site plans had been prepared and verification by some local authorities had begun.
iii. In order to safeguard the land and deter further encroachments, Management demolished some structures that had been built illegally in the Mukobeko Well fields.
iv. Further, Management had also developed a monitoring mechanism for land encroachments and follow ups.
v. The company had put in place a strategy to mobilise resources to secure the properties.
vi. Billboards had been placed in various pieces of land to show that the land belonged to LgWSC.

Committee's Observations and Recommendations

The Committee reiterates its earlier recommendation on the need to expedite the acquisition of Title deeds. The Committee also urges the Controlling Officer to ensure that all the properties are fenced off and resolves to await a progress report on the matter.

4.6 Project Management

i. Stalled works at Serenje Water Supply and Sanitation Project – Serenje District

The Controlling Officer responded that the stalled works at Serenje Water Supply and Sanitation Project were due to non-release of funds by the Treasury for the completion of the remaining works. The vandalism to the well field where the boreholes were sited was due to vastness of the well field. The well field was always guarded but due to the under staffing and vastness of the well field, the guards were concentrating on the existing old boreholes which were operational.

Management was engaging Ministry of Finance through Ministry of Water Development, Sanitation and Environmental Protection for the release of funds to complete the project. Furthermore, the company had enhanced security to ensure the equipment was safe guarded against vandalism.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the stalled works are completed in the shortest possible time. The Committee will await a progress report on the matter.

5.0 LUSAKA WATER SUPPLY AND SANITATION COMPANY LIMITED

Audit Findings

An examination of financial and other records maintained at Lusaka Water Supply and Sanitation Company (LWSC) for the financial years ended 31st December 2016, 2017 and 2018 revealed various irregularities, to which the Controlling Officer responded as outlined below.

5.1 Weaknesses in Application Controls

i. Prepaid Poor Password Administration Billing System

The Controlling Officer responded that the failure to set the prepaid system password to expire within a specified period of sixty days was an oversight. The password change for all the 110 active users was initiated on 11th May 2020, and the functionality of setting passwords to expire in sixty days in compliance with the ICT policy and Cyber Security Framework National Institute of Science and Technology-NIST 800-63 Password Guidelines had since been activated.

The Controlling Officer further informed the Committee that the prepaid system had been set to automatically expire/request for change of passwords within sixty days, in compliance with the ICT Policy. Instructions had been given to the ICT Manager to ensure full adherence to the ICT Policy and to best practice on password management.

Committee's Observations and Recommendations

The Committee notes the response and expresses concern that LWSC is not adhering to its own ICT Policy with regard to the management of passwords. The Committee urges the Controlling

Officer to mete out disciplinary action against all officers responsible for the oversight. Further, the Committee directs the Controlling Officer to ensure that the query does not recur. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, and an update be submitted to the Committee.

ii. Inability to Deactivate Dormant Users – Prepaid Billing System

The Controlling Officer responded that the failure to set the prepaid system functionality to deactivate accounts that were over ninety days as per ICT Policy was an oversight. All the ninety three cited dormant accounts that required deactivation had since been deactivated and the prepaid system had been set to automatically deactivate all dormant accounts in ninety days as per communication from the developer/vendor. Further, instructions had been given to the Manager-ICT to ensure full adherence to the ICT Policy and to best practice on password management. Furthermore, the Human Resources Department had enhanced communication of all new staff entrants and exits to ensure timely and appropriate action in the Transact and other ICT systems in the company.

Committee's Observations and Recommendations

While noting the Controlling Officer's response, the Committee is deeply concerned with the LWSC's non adherence to the ICT Policy. The Committee urges the Controlling Officer to mete out disciplinary action against all officers responsible for the oversight. Further, the Committee cautions the Controlling Officer to ensure that the query does not recur and directs that all documents in support of the submission should be submitted to the Office of the Auditor General. The Committee will await a progress report on the matter.

5.2 Income

The Controlling Officer responded that the negative variance in 2016 was due to continued electricity supply interruption and reduction of ground water sources on some critical boreholes, which adversely impacted on production and consequently sales. The company had engaged ZESCO Limited and had managed to negotiate for exemption of load shedding in some critical installations like Kafue (Iolanda) Water Treatment Plant and Chilanga booster station, and reduced load shedding in other places.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's response and requests for an update on the status of the company's income.

5.3 Financial Analysis

i. Statement of Comprehensive Income

a. Profitability

The Controlling Officer responded that in the year 2016, the company experienced an increase in debt (receivables) as customers, including Government institutions, were not settling their water and sanitation bills. The company also made a provision for Government debt for the first time as previously it only provided for other customers. Consequently, the company had to make a big provision of K44, 676,428 on post-paid services to all customers. The provision increased the operating expenses which was a major contributor to the loss of K33, 521,585 in 2016.

In 2018, the company received further foreign denominated loan (on-lent by the Government) disbursements under the Lusaka Sanitation Project amounting to US$ 16,402,911, equivalent to K176,173,096 which led to a net exchange loss of K69, 897,072. The exchange loss was the major contributor to the company's loss of K39, 841,737 recorded in 2018. The exchange loss arose as a result of conversion of the foreign denominated loans into Kwacha at the end of each financial year at the prevailing exchange rate. The other notable contributors to the loss in 2018 were production costs in terms of electricity (following the tariff adjustments in the third quarter of 2018) and chemicals (increase in quantities and high cost of importation arising from fluctuation in foreign exchange rates) as the company had to increase dosage (super chlorination) during the cholera outbreak period. Provision for depreciation was also significant as more capital works under the Lusaka Water Supply Sanitation and Drainage Project were completed and transferred into operations attracting the resultant depreciation charge.

The Controlling Officer explained that the company had focused on managing costs while at the same time ensuring revenue maximisation in an effort to improve profitability. Cost management focused on reduction of staff costs, fuel and increase in energy efficiency, such as use of low energy consumption pumps. Revenue maximisation was expected to be realised from completion of projects being implemented, with Chongwe Water Improvement and Kafue Bulk Water Supply projects commissioned and earmarked for commissioning in 2020 and 2021, respectively. It was expected that once the projects were completed, there would be increased hours of water supply for existing customers and provide water supply access to new customers, thereby, increasing revenue.

In order to address exchange losses on concessional loans contracted through Government, the company had continued to engage the Ministry of Finance to consider restructuring the payment terms so that part of the principal amount could be swapped with Government accrued arrears from water and sanitation services provided, while the company continued to service the remainder of the loans.

Committee's Observations and Recommendations

The Committee expresses concern at the foreign denominated loan and the resultant exchange loss which was the major contributor to the company's loss recorded in 2018. The Committee urges the Controlling Officer to ensure that he engages with the Ministry of Finance to consider restructuring the payment in order to yield positive results and curb the company's poor financial position. The Committee will await a progress report on the matter. In addition, the Committee requests an update completion of the Kafue Bulk Water Supply, and the resultant effect revenue.

ii. Financial Position

a. Payable Days

The Controlling Officer responded that the company had been unable to pay suppliers timely due to inadequate liquidity as a result of poor payment culture of customers, especially domestic customers and the Government institutions.

Regular Government debt verification exercises were arranged with the Ministry of Finance (MoF) Internal Audit Department. These provided a basis for possible payment by the Treasury and or payment swap arrangements between the company and other Government institutions.

ZESCO accounted for 64 per cent of the payables as at 31st December, 2018. In this regard, the company engaged the Ministry of Finance and ZESCO with a view to pay the liability of K49, 549,470.85 to ZESCO through a debt swap. The debt swap was effected on 29th February, 2020. The company had engaged the Government to facilitate further debt swaps with other quasi-Government institutions to ease liquidity pressure given that the Government also owed larger amounts in water and sanitation service bills.

In addition, the company had reduced debt (credit) contraction and maximised revenue collection from non-Government customers whilst engaging Government agencies on flexible and or alternative payment solutions. The company was engaging customers with outstanding debt and also running various promotions to encourage customers to settle their water and sanitation bills.

Committee's Observations and Recommendations

The Committee is disappointed that LWSC was unable to pay suppliers on time and urges the Controlling Officer to ensure that the measures put in place to improve the company's liquidity position yield the desired results. The Committee will await an update on the matter.

5.4 Operational Matters

i. Non-Revenue Water

The Controlling Officer responded that the following were the major reasons for non- revenue water

i. inadequate metering at customer points leading to wastage of water by unmetered customers who are on fixed charge;
ii. aged water meters leading to under-recording of water consumption;
iii. aged water network leading to high frequent leakages;
iv. vandalism of water infrastructure leading to loss of water; and
v. water theft through illegal connections.

The company had been and continued to implement the interventions outlined below.

i. Metering
   a. 35,960 water meters were installed as at July, 2020.
   b. The company had procured a state of the art meter test bench which was being used to carry out random meter testing in order to ascertain the accuracy of the water meters.

ii. Aged water network
   a. Water networks in fourteen out of seventy two district metered areas were being fully rehabilitated under the Lusaka Water Supply, Sanitation and Drainage Project.
   b. In the remaining fifty eight of the seventy districts metered areas, the condition assessments of the water networks had been done and detailed designs for twenty one of them completed so that they were fully rehabilitated, subject to availability of funds.
   c. The company had implemented a computerised maintenance management system aimed at improving the tracking, occurrence and efficiency of leakage repairs.
   d. Leak detection equipment had also been procured to enhance leak detection and repairs.

iii. Vandalism and water theft

The company was relentless in dealing with vandalism and water theft. Any perpetrators who were caught were prosecuted; or penalised or surcharged.

Committee's Observations and Recommendations

The Committee notes the response and acknowledges the measures that LWSC has put in place to address the query. The Committee resolves to await an update on the reduction of non revenue water.

ii. Metering Ratio

The Controlling Officer responded that the low metering ratio was due to inadequate resources to fund a sustainable metering programme for procurement of new meters for new water connections and to replace malfunctioning and obsolete meters. The company had continued to mobilise resources to finance procurement of meters and 35,960 meters had been installed with effect from 2019. The company was in the process of developing an investment proposal for the procurement of water meters using different models of financing such as public private partnership (PPP) in order to achieve and maintain a 100 per cent metering ratio. In addition, the company continued to engage with the National Water Supply and Sanitation Council (NWASCO), the regulator, for possible revision of the meter rental charge because the existing charge was no longer cost reflective. Ideally, the meter rental charge was designed to cover the cost of replacement of a meter over its life cycle.

Committee's Observations and Recommendations

The Committee notes the response and will await an update on the achievement of the 100 per cent metering ratio.

iii. Commercial Customers Billed Under Domestic Tariff

The Controlling Officer informed the Committee that the following were the reasons why some commercial customers were billed under the domestic customer tariff category:

i. failure by customers to report change in consumption category; and
ii. delay in detecting changes to consumer categories by the company.

Nonetheless, the Controlling Officer requested the Committee to note that not all accounts bearing business/institutional names related to properties under the commercial consumer category.

The company reviewed all the thirty four accounts cited during the period under review, out of which eighteen were amended from domestic to commercial consumer category in November, 2019. The company was recovering the loss in revenue arising from under billing amounting to K51, 621.03 and K 38,799.11 had since been recovered, leaving a balance of K 12,821.92 in accordance with the revised charges.

The rest of the sixteen accounts required no action as they were correctly captured as either domestic or commercial properties. The company had since assigned the responsibility of checking and updating customer consumer billing categories on a monthly basis to billing and revenue officers, who were the meter readers.

The company conducted a database clean up exercise where all properties in Lusaka city were visited and customer records updated accordingly. The company had enhanced customer sensitisation on the requirement to report any change to property usage through Business Messaging System (BMS) and water committees in peri urban areas.

Committee's Observations and Recommendations

The Committee notes the response and will await a progress report on the collection of the balance of K 12,821.92.

5.5 Failure to Collect Debt

The Controlling Officer responded that the accumulation of debt was mostly attributed to the following:

i. poor payment culture of customers, especially domestic customers and Government institutions;
ii. alleged inadequate funding to Government institutions leading to their failure to settle utility bills; and
iii. challenges in disconnecting sensitive institutions such as hospitals, prisons, police camps and military camps, among others.

However, in 2020, the Government paid K49.5 million through a debt swap and K54.2 million cash.

The company endeavoured to ensure receivables were managed as per Credit Control and Debt Management Policy revised in March, 2019. The company had put in place the measures outlined below.

i. Provided for enhanced debt management teams in each of the branches and zones that ensured that the debt management policy was enforced. These had been put on performance management contracts.
ii. Enhanced the centralised revenue collection and debt management team whose key function was to manage Government and selected key institutions.
iii. Enhanced customer engagement and awareness on the need to pay water and sanitation bills.
iv. Promotion of payment plans with customers who had huge balances on their accounts.
v. Installed a number of prepaid meters at some Government institutions and plans to install some more. This would enable LWSC to collect revenue prior to consumption.
vi. Commenced a meter separation exercise on facilities such as hospitals, the military and police camps by separating individual staff houses from the institutional facilities. This would enable the company to disconnect and collect revenue from the individual households.
vii. Enhancing customer engagement and awareness on the need to pay water and sanitation bills.

Committee's Observations and Recommendations

The Committee takes note of the response from the Controlling Officer and requests a progress report on the collection of all the outstanding debts.

5.6 Procurement of Goods and Services

i. Wasteful Expenditure on the Prepaid Meters

The Controlling Officer clarified that out of the 9000 batch procured in 2015, only 963 were uninstalled as at 2018. Further, the 4,085 cited in Table 5.11 as pre-paid meters with faulty batteries in 2018 were actually post-paid meters. The correct numbers of pre-paid meters uninstalled in 2018 was 1,338. Therefore, the total uninstalled prepaid meters in the period under review was 6,088 as shown below:

Year	Total prepaid meters uninstalled
2016	**127**
2017	**4623**
2018	**1338**
Total	**6,088**

The 6,088 uninstalled prepaid meters included 5,110 which were not part of the 9000 cited batch procured in 2015, but were procured prior to 2015.

The Controlling Officer explained that only 963 uninstalled pre-paid meters were from the 9,000 batch procured in 2015. Below is a breakdown of prepaid meters removed by batch.

	Total prepaid meters with faulty batteries	From batch of prepaid meters purchased before 2015	From Batch of 9000 prepaid meters purchased in 2015
2016	**127**	**121**	**6**
2017	**4,623**	**3,957**	**666**
2018	**1,338**	**1,047**	**291**
Total	**6,088**	**5,110**	**963**

Therefore, only 963 pre-paid meters out of the 9,000 procured in 2015/2016 were uninstalled in the audit period of 2016 - 2018 as opposed to the 8,836 cited. Further,418 out of the 963 pre-paid meters were uninstalled under the Lusaka Water Supply Sanitation and Drainage Project to facilitate installation of uniform meters in the selected District Metered Areas (DMAs) for proper meter management such as planning for replacement and water demand management The remaining 545 out of the 963 meters had battery related issues. The batteries had since been delivered and were being installed on meters for re-deployment back into service.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

ii. Undelivered Building Materials

The Controlling Officer responded that LWSC made full payment of the total order value after part delivery of the blocks primarily due to human error where the payment terms on the purchase order were erroneously captured as cheque on delivery rather than thirty days credit as approved by the procurement committee. Secondly, despite the order being cheque on delivery which would have meant that payment was made on delivery, the payment was made because at the time, cheque on delivery also represented cheque with order in the system.

The company made a claim for damages for breach of contract and/or specific performance (delivery of blocks) regarding the supply of 13,825 x 8 inch concrete blocks worth K68, 986.75 which the Pyramids Works Limited failed to deliver, despite receiving payment for the same. The court ordered that Pyramid Works Limited pay LWSC the judgment sum of K68, 986.75 with interest and costs in 2016.

An application to pierce the corporate veil in order to hold the respective Directors of Pyramids Works Limited personally liable was heard by the High Court on July, 27, 2017. The Court ruling was being awaited.

The Controlling Officer informed the Committee that the responsible officer at that time had since left the company. However, in order to avoid recurrence, the LWSC had since issued an internal circular to the Purchasing and Supplies Manager to ensure strict adherence to internal procurement procedures. An application was made to the Zambia Public Procurement Authority

(ZPPA) to permanently bar the supplier and the supplier had since been permanently barred. The Controlling Officer reported that the wall fence was completed in July, 2020.

Committee's Observations and Recommendations

The Committee expresses concern at the query and wonders what had prompted LWSC to pay the full amount before delivery of the blocks. The Committee takes note of the efforts that have been made to correct the situation. Additionally, the Committee recommends that the officer in question who had since left the company should be reported to the police. The Committee will await a progress report.

iii. Irregularities in the Procurement of a Vacuum Tanker

The Controlling Officer acknowledged that the transaction involving this procurement was deemed fraudulent. The verification into the transaction revealed that the three officers entrusted with pre-shipment inspection at the time exhibited gross misconduct and were dismissed. The payment was made on the basis of fraudulent supporting documentation which had purported that the equipment had actually met the specifications of clause 28. 1 of the contract and had been duly accepted by the Technical Department.

The Committee was further informed that the Company entered into a consent settlement with Peace Cops Investments Limited on 4th August 2020, where the latter was to pay LWSC K100,000, bear the cost of repair of the Hino truck and provide a two year warranty. LWSC had since established an integrity committee and launched policies on anti-corruption and code of conduct and ethics to sensitise staff against corruption and fraud. Further, the observation on the performance bond had been noted. The company regretted the error in the omission to compel the supplier to comply with the requirements of the contract to furnish the performance bond.

Committee's Observations and Recommendations

The Committee expresses dismay at the fraudulent manner in which the procurement of the vacuum tanker was carried out and urges the Controlling Officer to caution management against its lack of seriousness with regard to company resources. The Committee further recommends that disciplinary action should be meted out against the officers who failed to execute their duties. The Committee will await an update on the matter.

iv. Procurement of a Vacuum Jetting Combination Truck

The Controlling Officer responded that the contract was extended as requested by the supplier to allow them complete the manufacturing of the specialised truck. This was in line with clause GCC 27.1 of contract. Following the failure of the truck, the supplier was contacted and the subsequently engaged the manufacturer. The report from the manufacturer indicated that the truck was originally designed as a vacuum tanker and was only modified into a vacuum/ jetting combination unit in order to comply with the technical specification of Lusaka LWSSC. In view of this, the modified load could not be supported by the initial frame designed for a vacuum tanker.

LWSC had rejected the truck because it still did not meet the minimum technical specifications even after the repairs were done, because the frame was not suitable for a vacuum/ jetting combination unit; and had demanded for a replacement or full refund. However, there had been no feedback from the supplier. The company had since commenced action for full refund against Multi-Industries Limited in the courts of law.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the court action.

5.7 Project Management – Implementation of the Six Miles Water Project

The Controlling Officer responded that the company had not yet secured title deeds for the Farm No. L11011 in Chibombo district for the purchase of 4.52 acres of land because there was a caveat on the parent title placed on 31st July, 2014 by a known client who bought part of the land (not the LWSC subdivision) from the owner. The caveat was placed after LWSC had paid the vendor. The Committee was informed that the company was in the process of securing title for the land and had obtained consent to subdivide the land through a vesting order from the High Court to allow the Registrar of the High Court to execute documents on behalf of the vendor.

The process to remove the caveat had since commenced to enable the company register its subdivision and obtain title. The company had commenced action against the caveator for a court order to remove the caveat.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's response and will wait an update on the issuance of the certificate of title.

i. Construction of Boreholes - Wasteful Expenditure

The Controlling Officer responded that the non-securing of the site against vandalism was an oversight and clarified that K 1,676,546.65 was spent on drilling of boreholes and construction of two control panel houses (pump houses) broken down as follows:

a. K 1,598,546.65 -drilling of the boreholes; and
b. K 78,000 - construction of the two control panel houses.

Only the super-structure (above the slab) of the two control panel houses and the borehole end cap had been vandalised and the engineers' estimates placed the value at K 387,833.49.

The Committee was informed that the company was in the process of:

a. securing the perimeter of the land where the boreholes and control panel houses were constructed;
b. finishing off construction of the pump houses considering that the foundation was still intact and only the walls had been vandalised; and
c. constructing a guard house and sanitation facilities for the plant operators at the site.

The company would complete the project as soon as financing was secured and a project proposal had since been developed for financial support. The company had also developed a project implementation manual which was guiding how projects were conceived and executed, which manual included a chapter on environmental and social management procedures.

Committee's Observations and Recommendations

The Committee notes the response and will await an update on the completion of the construction of the boreholes.

ii. Construction of Water Transmission Line, Ground Reservoir and Booster Station at Six Miles

The Controlling Officer responded that works on the project had actually commenced and the contractor issued an Interim Certificate Payment (IPC) No.1 amounting to K 2,082,455.14. The payment of K226,200 was for work done as at the IPC date and balance the of K1,856,255.14 for materials bought and delivered on site. The Controlling Officer also explained that the contract price was K10, 417, 616.18 and not K15, 181,562 as stated in the audit observation.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's response and resolves to await an update on the matter.

6.0 NKANA WATER AND SEWERAGE COMPANY LIMITED

Audit Findings

An examination of financial and other records maintained at Nkana Water and Sewerage Company Limited for the financial years ended 31 December, 2017 and 2018 revealed various irregularities to which the Controlling Officer responded as set out below.

6.1 Income

The Controlling Officer submitted that the budgeted income for the years 2017 and 2018 was provided in the course of the audit. He further submitted that Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee expresses disappointment that management claims to have provided the documents with respect to budgeted incomes and wonders why the query was not closed. The Committee directs that disciplinary action should be meted against all officials and their supervisors who failed to avail the documents to the auditors during the audit exercise. The Committee will await an update on the matter.

6.2 Information Communications Technology - Missing Receipts on the System

The Controlling Officer responded that the receipting sequence being referred to was generated from Savannacom, the mobile payment aggregators and not EDAMS Billing System. The receipt numbers were generated using a time stamp, that is, current date and time was converted into a receipt number when posting a transaction. This was a computer technique known as 'hashing'. This technique did not generate sequential numbers and therefore, there were no missing receipts.

The company engaged the integrator, Savannah Communications Limited who had since updated the system of generating mobile payment receipts from time stamp based to sequentially based system.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

6.3 Financial Analysis

i. Financial Performance - Statement of Comprehensive Income

a. Profitability

The Controlling Officer responded that an analysis of administrative expenses as illustrated in the Audited Financial Statements for 2018 was provided in C1 below:

C1: Administrative Expenses Analysis

	2018 (ZMW 000)	2017 (ZMW 000)	2018	2017
Credit Losses (Prov. For bad debt)	32,993	35,461	21%	26%
Depreciation	30,320	32,260	19%	24%
Exchange loss	13,176	-	8%	0%
Labour	62,015	56,301	40%	42%
Other	16,985	11,085	11%	8%
Total	155,489	135,107	100%	100%

Source: Schedule II and note 8 of the 2018 audited Financial Statements

The Controlling Officer explained that credit losses as well as depreciation in total comprised 50 per cent of administrative expenses in 2017 and 40 per cent in 2018. The depreciation was generated from investment made under Nkana Water Supply and Sanitation Project Phase I (NWSSPI) which was concentrated on improving production capacity. The outlay that was made in distribution was insignificant to generate adequate sales that could cover investment costs such as depreciation and interest. The credit losses were also substantial due to the high default rate among domestic consumers in low income communities who made up more than 60 per cent of the customer base. The increase of 10 per cent on labour costs was as a result of the annual inflationary adjustment for the year 2018.

The Controlling Officer informed that Committee that the company had begun implementing Nkana Water Supply & Sanitation Project Phase II (NWSSPII) under which it was planned to improve capacity to generate adequate sales that would cover all costs. Through this project, the company had invested in 20,518 prepaid meters which were used to collect past debt and curb further growth of debt in these areas. Further, 10,000 automatic meter readers had been installed in high cost areas with the intention of enforcing debt collection through the automated disconnection features. These strategies had been implemented to reduce credit losses.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

ii. Statement of Financial Position

a. Liquidity Position

The Controlling Officer responded that the low current ratio, the payable days as well as the negative working capital were affected by the following:

i interest and capital repayments that had become due for the loans the entity took over from Kitwe City Council (KCC) as well as Asset Holding Company- Mining Municipal Services (AHC-MMS);

ii low revenue collection ratio due to high default rate among Government consumers and domestic consumers in low-income communities who made up 25 per cent and 36 per cent, respectively, of the customer debt; and

iii low cost consumers make up 60 per cent of the total customer base.

The Controlling Officer informed the Committee that the Government of the Republic of Zambia, through the Ministry of Finance, was engaged and had since agreed to convert NWSC's two on-lent loans denominated in foreign currency to the Zambian Kwacha. The Government had also agreed to extend the loan repayment period and the process of formalising the agreement was in progress.

In order to improve revenue collection, the company had invested in 20,514 prepaid meters, which were used to collect past debt and curb further growth of debt in these areas. Further 10,000 automatic meter readers had been installed in high cost areas as a measure to enforce debt collection through the automated disconnection features. These projects were being funded through NWSSPII.

The Controlling Officer reported that the current ratio had improved from 0.6 reported in 2018 to 1.63 as at April, 2020, mainly as a result of the debt stock restructuring.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await an update on the implementation of the measures put in place to improve the company's liquidity position.

b. Receivable Days

The Controlling Officer responded that the reasons for the increase in receivable turnover days were:

i unwillingness to pay, mainly by customers in the low cost areas; and
ii delay in settling of outstanding water bills by Government and grant aided institutions.

In order to reduce receivable turnover days, the company had put in place the following measures:

i. installation of 20,514 prepaid meters at some Government institutions, including the Copperbelt University and low-cost areas to enhance collections and recovery of debt;
ii. provision of flexible terms to customers with huge outstanding bills;
iii. conducting promotions to encourage customers to pay; and
iv. customer engagement and sensitisation on the need to pay bills.

For staff debt, demand notices were issued to affected employees with the option to settle the arrears though payroll. As at 31st August K132,721 was collected, reducing the arrears to K51,715 as at 31st August, 2020 from K184,436 as at 31st December, 2018. The Committee was informed that NWSC paid water allowance on the current debt for all employees according to the conditions of service. Any debt that remained over and above the water allowance was expected to be settled by the employee through the payroll. Going forward, employees would not be allowed to register accounts in arrears on the employee water allowance payment schedule.

As a result of the interventions, the debtor's growth rate decreased from 35 per cent in 2016 to 16 per cent in 2019 as illustrated in the Table below.

Debtor's growth rate 2016-2019

	Dec	Dec	Dec	Dec	Dec
Year	2015	2016	2017	2018	2019
Trade Debtors	141,378	191,296	237,669	292,954	339,000
Growth rate		35%	24%	23%	16%

Source: Audited Financial Statements

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

c. Return on Capital Employed

The Controlling Officer responded that the negative Return on Capital Employed was attributed to inadequate sales, which were not able to cover investment and finance charges fully. The company still recorded high water losses due to dilapidated water network infrastructure and commercial losses arising from unmetered customers, illegal connections and vandalism of infrastructure. Non revenue water was 48 per cent in 2017 and 46 per cent in 2018.The company had planned to rehabilitate and replace the aged and dilapidated infrastructure and leaking distribution pipe network; meter all customer properties; as well as embark on a database clean up aimed at addressing commercial losses. These interventions were expected to reduce non revenue water and consequently lead to increased sales revenue.

The Government had provided funding of approximately US$200 million through the NWSSP II to support investment in the above strategies.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await an update on the measures put in place to improve the company's return on capital employed.

6.4 Operational Matters

i. Comparative Performance in the Water and Sanitation Sector

a. Non - Revenue Water

The Controlling Officer responded that non revenue water was high compared to NWASCO's benchmark of 25 per cent, mainly due to old and dilapidated water network infrastructure and commercial losses arising from unmetered customers, illegal connections and vandalism of infrastructure.

The following measures had been put in place in order to reduce non revenue water beyond 2020:

i. rehabilitation and replacement of the aged and dilapidated infrastructure and leaking distribution pipe network;
ii. metering of all customer properties;
iii. the company had embarked on a data base clean-up aimed at addressing commercial losses; and
iv. continuous customer sensitisation to curb illegal connections as well as vandalism of infrastructure.

The Government had provided funding of approximately US$200 million through the NWSSPII to support investment in the above strategies.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await an update on the measures put in place to reduce the company's non revenue water.

b. Metering Ratio

The Controlling Officer responded that the metering ratio benchmark of 100 per cent could not be met due to delayed commencement of implementation of NWSSPII which was supposed to fund the metering programme in place to achieve the target. It was expected that the project would start in 2016 but it only commenced with priority works in 2018.

With support from NWSSP II, the company procured and installed meters, which increased the metering ratio from 85 per cent to 90 per cent and had targeted to achieve a 100 per cent by end of 2020.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await a progress report on the achievement of 100 per cent metering ratio.

c. Collection Efficiency Standard

The Controlling Officer responded that the collection efficiency benchmark of 85 per cent could not be achieved due to the following:

i. unwillingness to pay by customers, mainly the low cost consumers; and
ii. delay in settling of outstanding water bills by Government and grant aided institutions.

In order to improve collection efficiency, the company was implementing the following measures:

i. installation of 20,514 prepaid meters in low cost areas and 10,000 automatic meter readers in high cost areas;
ii. customer engagement and sensitisation on the need to pay bills;
iii. provision of flexible terms to customers with huge outstanding bills and
iv. encouraging customers to pay through various mobile platforms such as MTN, AIRTEL and ZAMTEL.

Management had also engaged the Ministry of Finance to consider liquidating the debt owed by various Government and grant aided institutions and so far the Government had made a payment of K15,000,000 in form of cash and K35,852,526.16 in form of a debt swap with ZESCO towards institutional arrears outstanding as at 31st December, 2018.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and awaits a progress report on whether the measures put in place to improve the collection efficiency have yielded the desired results.

ii. New Connections without Evidence of Payment of Connection Fees

The Controlling Officer responded that as per NWSC policy, all new connections were paid for before connection. The 792 new connections in question were for customers who did not have the new connection payment showing on their accounts. The payments were, however, received at offline paypoints where manual receipts were issued and later posted in the billing system to the new connections control account and not to individual customer accounts. The control account was reconciled and amounts receipted on the 792 accounts identified were matched to the respective customer details.

In order to avoid posting of new connection payments to the control account, the company had automated the new connection procedure so that payments were credited directly to customer accounts instead of the control account.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

6.5 Procurement Matters

i. Supply and Delivery of Procurement Module – Wasteful Expenditure

The Controlling Officer responded that the SUNFLOW procurement module was procured to automate the purchase requisitioning process, which included budget tracking of requests in order to do away with the paper, based on approvals of purchase requisitions.

During the implementation stage, it was noted that all the process flows apart from the budget tracking were operational and the vendor was informed. It was during this period that the Procurement Manager who was the Project Manager left the organisation and the two subsequent Managers did not last long in the organisation, resulting in delayed implementation of the system.

Eventually, this culminated in the non-renewal of the support contract and the project was suspended, waiting for a stable and retainable workforce within the procurement department.

The following action plans had been instituted:

i. an agreement had been reached with the vendor to have the system upgraded to the latest version as part of the licence and system support;
ii. a revised system flowchart had been submitted to the vendor for amendment and to address the budget tracking problem;
iii. renewal of license fees to enable resumption of the project for NWSC to start using the system; and
iv. conduct another training for users before going live.

Committee's Observations and Recommendations

The Committee expresses disappointment that the supply and delivery of the procurement module resulted into wasteful expenditure and urges the Controlling Officer to warn Management against a recurrence of this query. The Committee directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

ii. Supply of Aluminium Sulphate – Lack of Performance Security

The Controlling Officer noted the query and regretted the fact that the performance security was not furnished by the supplier in accordance with the provisions of the contract, despite numerous efforts made to compel the firm to make the document available. In order to avoid recurrence of similar lapses, the company had begun ensuring that all contracts were only operationalised after suppliers submitted performance securities.

The Controlling Officer informed the Committee that the amount paid in the sum of K535,050.00 was only equivalent to the total quantity of 1,845 by 50 kg bags of aluminium sulphate supplied so far. This was done in order to pave way for the termination of the contract and to ensure that the supplier could make no further claim. As observed, the contract was ultimately terminated as a remedial measure in view of the poor delivery record that had grossly deviated from the agreed schedule. It was regrettable that the company could not effect further punitive measures through encashment of the performance security in view of its absence.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to strongly caution Management to ensure that more due diligence is carried out before entering into any contracts. The Committee notes the response and directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

7.0 NORTH - WESTERN WATER SUPPLY AND SEWERAGE COMPANY LIMITED

Review of Operations

An examination of accounting and other records for North-Western Water and Sewerage Company, for the Financial Years ended 31st December 2016, 2017 and 2018 revealed various irregularities, to which the Controlling Officer responded as set out below.

7.1 Governance Matters

i. Lack of Board of Directors

The Controlling Officer submitted that the Board was dissolved on 30th May, 2016. He further submitted that this was the year when the Ministry of Water Development Sanitation and Environmental Protection was established and was operationalised in 2017. Consequently, the transition from the Ministry of Local Government and Housing then to the new Ministry further delayed the appointment of the new Board of Directors for North Western Water and Sewerage Company. He further submitted that the board was appointed on 1st November, 2018.

Committee's Observations and Recommendations

The Committee observes with concern the failure by the appointing authority to appoint the Board of Directors timely. Consequently, the oversight functions of the board such as preparation of annual reports and holding of Annual General Meetings (AGMs) were not undertaken during the absence of the board. The Committee urges the Executive to ensure that a framework is formulated which will help circumvent the unnecessary board appointments which often are unjustifiable. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General subject to which the matter should close.

ii. Questionable Payment of Interest on the Managing Director's Loan

The Controlling Officer submitted that the Auditor General's observation was agreed to and regrettable. He further informed the Committee that the loan was irregularly paid due to misinterpretation of the clause on gratuity backed loan.

The Controlling Officer further submitted that the contract for the officer involved had since been terminated and documentary evidence was available to that effect. Furthermore, the condition of allowing staff to obtain gratuity backed loans had also been abolished and the K183, 898.00 interest charged on the loan would be deducted from the Managing Director's benefits. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee strongly urges the Controlling Officer to caution the board and management against wanton disregard of the financial regulations as noted in the manner the payment of gratuity was handled. Furthermore, the Committee directs that the total amount of questionable interest charged on the loan should be recovered from the individual in question. The Committee also directs that all monies paid in relation to the loan arrangements charged by the bank which were refunded by the company should be recovered without fail. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General. The Committee resolves to await an update on the matter.

iii. Unauthorised Travel Abroad

The Controlling Officer submitted that travelling abroad without authority was an oversight. As a result, out of the K106,389.00, amounts totaling K50,167.00 were paid to the Managing Director for two different travels outside the country while the K56,222 was paid to five other officers on different travels outside the country. Documentary evidence was available to that effect. He further added that amounts totaling K50,167 involving the former Managing Director would be deducted from his benefits while amounts totaling K56,222 which related to the other officers would not be deducted from their salaries as they had been granted authority by the

Managing Director. In future, authority to travel abroad would be sought from the Ministry through the Board.

Committee's Observations and Recommendations

The Committee is disappointed with the response that the disregard of the guidelines from the Office of the Secretary to the Cabinet for all Public Service officers travelling on duty outside Zambia was an oversight. The Committee finds it unacceptable that the Managing Director also decided to disregard the guidance from the Permanent Secretary, Ministry of Water Development, Sanitation and Environmental Protection in his minute No. MWDSEP/ dated 15th December 2017, to seek authority from his Office when travelling abroad. The Committee directs that apart from only recovering the money spent by the Managing Director, the Controlling Officer should ensure that even the amounts spent by the officers are reimbursed by the Managing Director who disregarded the guidance provided. Further, disciplinary action should be taken against the Managing Director. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General. The Committee will await an update on the matter.

7.2 Income

The Controlling Officer submitted that the Auditor General's observation that the company did not have budgets for the income collected in Table 7.2 below, at the time of the audit was correct and regrettable. He further submitted that the budgets were available at the time of the audit but were not availed for audit. Documentary evidence was available to that effect.

Table 7.2: Income Collected

SN	Source	2018 K	2017 K	2016 K	Total K
1	Billing Collections	23,845,644	23,611,319	18,623,807	66,080,770
2	Other	2,414,498	1,295,041	907,551	4,617,090
	Total	**26,260,142**	**24,906,359**	**19,531,358**	**70,697,860**

Committee's Observations and Recommendations

The Committee expresses concern over the lackadaisical manner in which management handles issues relating to Financial Regulations. The Committee condemns the practice of availing supporting documents after an audit and directs that it should be discontinued forthwith. The Committee directs that disciplinary action be meted out against all officers who failed to avail the documents during the audit. Further, all documents in support of the submission should be submitted to the Office of the Auditor General for verification, subject to which the matter should close.

7.3 Operational Matters

i. Non-Preparation of Financial Statements

The Controlling Officer submitted that it was regrettable that the financial statements for the three years (2016-2018) were not prepared. He further submitted that the delay in preparing the cited financial statements was as a result of the system challenge that the company faced. He further added that the financial statements for the Financial Year ended 31st December, 2016 were not ready due to challenges experienced with the accounting system as it was failing to produce financial reports as required. The financial reports were an input into the production of the financial statements. With regard to the 2017 financial statements, the delay was due to the fact that the closing balances for 2016 financial statements formed the opening balances for the preparation of the 2017 Financial Statements. The 2018 financial statements would be prepared after the 2017 financial statements had been finalised.

The Committee also learnt that management had engaged a consultant to work on the system in 2017; however, the consultant took long to resolve the system challenge and only completed working on the system in the third quarter of 2018, subsequent to which the posting of the backlog of the transactions into the accounting system commenced. Draft financial statements for the year ending 31st December, 2016 had been prepared while the 2017 financial statements were being prepared.

Committee's Observations and Recommendations

The Committee expresses concern over the failure to prepare financial statements and directs the Controlling Officer to ensure that all the documents in support of the submission are submitted to the Office of the Auditor General for verification. The Committee will await an update on the matter.

ii. Poor Debt Management K 25,888,894

The Controlling Officer submitted that the accumulation of debt was as a result of the customers being on post-paid billing system and unwillingness by most of them to pay the debt. The company did not have a dedicated debt collection officer to pursue the debts. Below is the Table showing the analysis of these accounts.

Table 7.3: Debt Outstanding

SN	Customer Category	2018 K	2017 K	2016 K
1	Domestic	8,752,323	7,939,870	9,131,000
2	Commercial	2,674,365	2,415,615	2,278,113
3	GRZ Institutions	14,462,206	12,591,660	13,034,532
	Total	**25,888,894**	**22,947,145**	**24,443,645**

He further submitted that out of the outstanding debt, as at June, 2020, Government had paid a total of K17,341,501.89 of which K3,841,501.89 was paid through debt swap with ZESCO. The debt settled included the bills that had accumulated from January, 2019 to June, 2020, leaving a balance of K283,393.78 as at 30th September, 2020. Documentary evidence was available to that effect. The other two customer categories owed the company K11,426,688.00 as at December, 2018. Out of this amount, K1,379,878.05 was settled, leaving a balance of K10,046,809.95. The debt had nevertheless grown to K14,624,142.04 as at September, 2020.

To recover the outstanding debt, the following strategies had been put in place to:

a. Negotiation - engagements had been made with the customers to have the debt paid;
b. demand notices - the company also issued demand notices in an effort to collect debt;
c. debt swap - debt swap was being implemented with institutions like ZESCO, ZAMTEL, local authorities and other Government institutions, so as to manage the debt. Out of the K14,462,206.00 owed by Government as at 31st December, 2018, K3,841,501.89 was paid through a debt swap with ZESCO, while K10,620,704.11 was paid in cash as at July 2020; and
d. litigation - in pursuit to collect debt, legal action had been taken on some defaulting customers.

Furthermore, management was in the process of strengthening the Debt Collection Section by reviewing the commercial policy and organisation structure. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee is disappointed to note that it took the Auditor General for management to formulate strategies on how to collect the money from its debtors. The Committee also finds it unacceptable that the company was operating without a dedicated debt collection officer. In this regard, the Committee urges the Controlling Officer to ensure that management attends to the issue of debt collection with the seriousness that it deserves and to ensure that all the strategies to that effect are implemented expeditiously. The Committee will await a progress report on the matter.

iii. Failure to Remit Collections - Water Sales Kiosks

The Controlling Officer submitted that kiosk vendors' under remittance of the collections was as a result of non revenue water due to late reporting of leakages, inaccurate dispensation of water into customers' containers as there was no standard measurement. The water was sold in 20 litre customer containers. For example, a container labeled 20 litres might not be 20 litres when filled to capacity; but could be 25 litres, thereby causing a loss of 5litres of water as non revenue water. As a result, the amount of water deemed sold was not commensurate with the amount of money collected.

To resolve this challenge, the Controlling Officer submitted that the following measures had been undertaken:

a. the community and the vendors were being sensitised to be reporting leakages promptly and the company had increased the enforcement on the monitoring of the kiosks; and

b. the company was reviewing the management model of the kiosks and was prioritising individual water connections to customers and phasing out manned post-paid kiosks in preference to prepaid kiosks using tokens instead of containers.

Committee's Observations and Recommendations

While noting the progressive measures that management had put in place, the Committee is concerned over the discrepancy between the Controlling Officer's submission and the Auditor General's observation. The Committee directs the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification. The Committee will await an update on the matter.

iv. Failure to act against Defaulting Customers

The Controlling Officer submitted that the Auditor General's observation as shown in Table 7.4 was correct and regrettable. He submitted that the failure to disconnect water for GRZ accounts had been due to the sensitivity of some facilities such as health facilities, correctional facilities, airports, schools etc. The Government had, therefore, instructed not to disconnect.

Table 7.4: Defaulting Customers

SN	Details	Customers	Amount K
1	Outstanding Accounts due for Service withdrawal	885	488,276
2	Outstanding Accounts due for Service Disconnnection	561	11,160,516
	Total	**1446**	**11,648,792**

To resolve this challenge, the company was implementing the following measures:

a. the company was currently issuing demand notices and entering into payment plans with customers;
b. the company had been taking defaulting customers to court after engagement;
c. the company was planning to install prepaid meters on government institutions when there were adequate resources; and
d. the company was in the process of putting in place a dedicated team, separate from meter readers, to be carrying out service withdrawals, disconnections and restorations.

Committee's Observations and Recommendations

The Committee observes with concern the failure by management to implement the Commercial Policy. While noting the sensitivity of certain government institutions, the Committee holds the view that government entities must pay for the services provided considering that the company incurs expenses in order to provide the services. In this regard, the Committee strongly urges the Executive to desist from giving directives that disadvantage the utility companies without providing a sustainable solution with regard to accrued debt. The Committee directs the Controlling Officer to enhance supervision of the entity to ensure that all outstanding debt is collected. The Committee will await an update on the matter.

v. Comparative Performance in the Water and Sanitation Sector

A review of the NWASCO reports in relation to the performance of NWWSSC for the period from 1st January, 2016 to 31st December, 2018 revealed the following:

i. Non Revenue Water

The Controlling Officer submitted that the loss of revenue through non revenue water was due to dilapidated water supply infrastructure which the company had failed to overhaul due to the huge investments required. He further submitted that the accepted benchmark for non revenue water was between 20 per cent and 25 per cent. During the period under review, the company's non revenue water was higher than the sector benchmark as it ranged between 28 to 32 per cent.

He further submitted that the company had enhanced the repair of leakages as a stop gap measure. The company was carrying out feasibility studies and preparing designs to overhaul the dilapidated water supply infrastructure (Solwezi Water and Sanitation Project and Integrated Small Town Water Supply and Sanitation Project) funded by the Dutch Government and African Development Bank in conjunction with the Ministry of Water Development, Sanitation and Environmental Protection**.** Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee observes with concern that the company was deprived of revenue estimated at K 37,765,352 due to non revenue water. The Committee resolves to await an update on implementation of the strategies that will in turn help reduce the percentage of non revenue water.

ii. Sanitation Coverage

The Controlling Officer submitted that the Auditor General's observation that the sanitation coverage was below the sector benchmark as outlined in the Table below was true. He further submitted that the lack of investment in sanitation had led to the low coverage. The last minor investment was in 2006, which targeted only rehabilitation of existing sewerage ponds and not new customer connections.

Table 7.6: Sanitation Coverage

Period	Benchmark	Sanitaion Coverage	Variance
2016	80%	21%	59 %
2017	80%	22%	58 %
2018	80%	19%	61%

The Committee learnt that the company was carrying out feasibility studies and preparing designs to develop sanitation infrastructure which would increase sanitation coverage under the Integrated Small Town Water Supply and Sanitation Project funded by the African Development Bank in conjunction with the Ministry of Water Development, Sanitation and Environmental Protection.

Committee's Observations and Recommendations

The Committee is appalled by the dismal sanitation coverage which averages 20 per cent in comparison to the 80 per cent sector benchmark. The Committee finds this unacceptable as it negatively affects access to sanitation services and compromises public health. The Committee directs the Controlling Officer to enhance supervision of the entity, and to ensure that management implements all the set out strategies to avert the problem. The Committee will await an update on the matter.

c. **Increase in Customer Complaints**

The Controlling Officer submitted that the increase in customer complaints was due to increased number of customers while maintaining the same production capacity, which resulted in low water pressure and reduced hours of supply. He further submitted that this had been due to lack of capitalisation and dedicated power supply to water treatment facilities that were being subjected to load management. To improve the rate of resolving the customer complaints, the company was carrying out feasibility studies and preparing designs to expand the water treatment plants in order to increase water production which would result in increased hours of supply and increased water pressure under the Integrated Small Town Water Supply and Sanitation Project funded by the Dutch Government and African Development Bank in conjunction with the Ministry of Water Development, Sanitation and Environmental Protection**.** Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all the documents in support of the submission to the Auditor General for verification, subject to which the matter should close.

7.4 Failure to Deduct Tax on Entertainment, Furniture and Talk Time Allowances

The Controlling Officer submitted that the Auditor General's observation was noted and agreed to. He indicated that it was an oversight on the part of the company, and that in future, the company would adhere to the Conditions of Service.

Committee's Observations and Recommendations

The Committee is concerned about the unsatisfactory response provided by the Controlling Officer and finds the failure to deduct tax inexcusable. To this effect, the Committee recommends that disciplinary action be instituted against all officers responsible for this irregularity, including the supervisors who authorised payment of the allowances and failed to ensure that statutory obligations were deducted. The Committee further directs that deductions should be effected as a matter of urgency to recover the taxes in question and the Committee will await a progress report on the matter.

7.5 Failure to Remit Statutory Obligations K 11, 193,377

The Controlling Officer submitted that the query arose as the company had cash flow challenges caused by low revenue generation. The Committee learnt that the company was only paying K10,000 monthly to ZRA towards the debt without paying monthly obligations and K5,000 to NAPSA towards outstanding debt whilst paying monthly obligations as they fell due.

Table 7.7: Outstanding Statutory Obligations

SN	Details	Amount K	Penalties K	Total K
1	PAYE	6,652,992	441,602	7,094,594
2	Pension Contributions	2,133,777	1,965,006	4,098,783
	Total	**8,786,769**	**2,406,608**	**11,193,377**

Committee's Observations and Recommendations

While noting the response, the Committee is concerned over the meager repayment amounts and expresses concern that the company will fail to clear its outstanding obligations and will eventually accrue more penalties. The Committee urges the Controlling Officer to engage the Treasury to find a lasting solution with respect to the arrears and further recommends that management should ensure that cash flow challenges are expeditiously resolved to avoid recurrence of the query. The Committee will await an update on the matter.

7.6 Failure to Settle Outstanding Bills K 8,676,294

The Controlling Officer further informed the Committee that the failure to settle outstanding premiums was due to the financial challenges the company had been experiencing. He further submitted that the company had put in place monthly standing orders with banks in order to clear these premiums. Documentary evidence was available to that effect.

The Controlling Officer also submitted that it was regrettable the Nissan Hard Body which was involved in a road traffic accident was confiscated by the insurance company who declined to compensate the company due to non payment of insurance premiums.

Committee's Observations and Recommendations

The Committee is concerned to note that the company is failing to honour its creditor's bills. In this regard, the Committee strongly urges the Controlling Officer to ensure that management puts its operations in order, as it is unacceptable for a statutory institution to lose an asset due to failure to honour obligations. The Committee resolves to await an update on the matter.

7.7 Procurement

i. Contract to Provide Security and Cleaning Services

The Controlling Officer submitted that it was regrettable that the irregularity arose merely due to management's oversight. He further submitted as outlined below.

a. Security Services

The value for security services was estimated at K 23,254.00/month or K 558,096.00 for two years. The open bidding method should have been used as highlighted in the audit report. This was an oversight for advertising for two years instead of one year. The company had since advertised for one year through open bidding. All adverts for security services were now being advertised for a period of one year. Documentary evidence was available to that effect.

b. Cleaning Services

The contract was to run for a period of one year and the amount of K283, 448.40 was within the prescribed limit for simplified bidding. However, at contract termination, the company owed the supplier of the services arrears for six months and made a decision to extend it for another one year. This was an oversight on the part of the company. In future, all adverts for cleaning services would be advertised for a period of one year.

Committee's Observations and Recommendations

The Committee is extremely perturbed by the laxity and disregard of the *Public Procurement Act No.12 of 2008* exhibited by the company. The Committee directs that disciplinary action should be meted out against all officers responsible of the irregularity and on all the supervisors who failed to ensure that the Act was adhered to. The Committee will await an update on the matter.

ii. Procurement of Calendars and Diaries

The Controlling Officer submitted that the irregularity arose due to an oversight on the part of the company. He further submitted that the company had now strengthened its procurement unit to ensure that such omissions were avoided in future. The company was currently ensuring that all procurement procedures were adhered to by making sure that all procurements had competitive quotations. Furthermore, where direct bidding was required, management would ensure that a No Objection was sought from the Zambia Public Procurement Authority (ZPPA). Additionally, the Managing Director's office had issued an internal memorandum providing guidance to the Procurement Unit and the need to adhere to laid down procedures and guidelines governing public procurements. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

While noting the response, the Committee reiterates its displeasure at management's laxity and disregard of the procurement procedures and guidelines. The Committee finds it unacceptable that the company was failing to honour its obligations to its creditors yet it had the luxury to spend K 235,200 on calendars and dairies. The Committee is disappointed with management's failure to wisely use its meagre resources. The Committee directs that disciplinary action should be instituted against all officers who failed to execute their duty and the supervisors who failed to ensure that the procurement guidelines were adhered to. The Committee will await an update on the matter.

7.8 Accounting Irregularities

i. Unaccounted for Stores

The Controlling Officer submitted that the cause for unaccounted for stores was misfiling of the disposal details. He further submitted that it was regrettable that at the time of the audit, the company could not avail the disposal details amounting to K276,817.00. However, disposal details amounting to K37,260.60 had been retrieved, leaving a balance of K239,556.40 outstanding. Documentary evidence was available to that effect. He further informed the Committee that the company had strengthened the filing system by conducting capacity building and employing more staff both in Finance and Human Resources Departments to handle stores related issues and the officer who was responsible for stores and records management was cautioned.

Committee's Observations and Recommendations

While the Committee notes that management cautioned the responsible officer and undertook capacity enhancement, it is disappointed that management failed to provide supporting documents to this effect. The Committee notes that some disposal details were located while the others are still missing. The Committee further expresses concern that the tendency to submit documents after an audit casts doubt on the authenticity of such documents. The Committee recommends that all documents should be submitted to the Office of the Auditor General and that failure to avail disposal of the outstanding stores documents should immediately call for recovery of the funds in question. The Committee will await an update on the matter.

iii. Unretired Imprest K 349, 786

The Controlling Officer submitted that the imprest retirements were misfiled and could not be traced at the time of audit. Out of the K349,786.00 imprest queried, K157,561.64 was retired, but the retirement documents were misfiled. The other K192,224.00 was not retired. The Controlling Officer submitted that the misfiled retirement documents in amount totaling K157,561.64 had been found. Recoveries for the unretired amounts totaling K192,224.00 had been effected through the payroll. He further submitted that the use of imprest to procure items whose value could be ascertained had been abolished. Furthermore, in future the per diem and fuel calculated using government formula would be paid directly into the bank accounts for respective staff travelling outside the work station.

Committee's observations and Recommendations

While noting the response, the Committee expresses concern on the failure to have proper filing systems in place. The Committee urges the Controlling Officer to impress upon management to ensure that proper filing systems are put in place. The Committee further recommends that whenever imprest is not retired within the stipulated time frame as provided for in the Financial Regulation No. 96 (1), recoveries should be instituted immediately as opposed to waiting for officers to retire the documents outside the stipulated period. The Committee will await an update on the full recovery of the unretired imprest.

iv. Unacquitted Funds

The Controlling Officer informed the Committee that it was regrettable that amounts totaling K179,220.00 were unacquitted funds. He further submitted that out of the K179,220.00 unacquitted funds queried, K28,170.00 was acquitted, leaving an amount totaling K151,050.00 unacquitted. However, the acquittal sheets for the acquitted funds were misfiled. The cause for non-acquittal of funds was the fact that employees would pay out other officers' imprest without making them acquit for the funds. Documentary evidence was available to that effect. To ensure that this query did not recur, management had commenced recoveries for the unacquitted amounts totaling K151,050.00 through the payroll and documentary evidence was available to that effect. He further submitted that in future non acquittal of funds would not arise as all payments would be made directly to the bank accounts for respective staff.

Committee's Observations and Recommendations

The Committee notes the response and emphasises the need to adhere to the Financial Regulation No. 45 (3). The Committee urges the Controlling Officer to ensure that all retirements of disbursed funds is done without fail. The Committee is disappointed that it took the Auditor General for management to recover the unacquitted amounts. The Committee further condemns the failure by management to put in place proper filing systems to avoid misplacement of vital accounting documents. The Committee directs that all documents in support of the submission should be submitted to the Auditor General. The Committee resolves to await an update on the full recovery of the unaquitted funds.

iv. Failure to Recover Salary Advances

The Controlling Officer submitted that the Auditor General's observations was correct and noted. He further submitted that the non recovery of advances was an oversight. The Committee was also informed that recoveries had been effected through the payroll except for four officers who had resigned. Documentary evidence indicating recoveries was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and expresses concern over management's lackadaisical attitude in the management of financial controls and related accounting issues. While the Committee appreciates that recoveries have been effected through the payroll, it strongly urges the Controlling Officer to enhance supervision of the entity as the Committee finds it unacceptable that failure to follow the financial regulations was merely an oversight on the part of management. The Committee directs that recoveries for the four officers who had since resigned should be instituted against the supervisors who failed to ensure that the recoveries were effected. The Committee resolves to await an update on the matter.

v. Irregular Use of Imprest to Procure Goods and Services K 1,201,488

The Controlling Officer submitted that the use of imprest to purchase goods and services whose value could be ascertained was an oversight. The company had discontinued issuance of imprest to staff for goods and services whose value could be ascertained. The company was now paying casuals through their respective bank accounts. Documentary evidence was available to that effect. Regarding the company money that was stolen from the Assistant accountant, recovery was being done from the officer through the payroll. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

While noting the Controlling Officer's response with respect to the recoveries that had been effected against the officer from whom the money was stolen, the Committee expresses disappointment over the failure by management to adhere to Financial Regulation No. 86. The Committee holds the view that the purported oversight was deliberate as the officers in question were interested parties to the flouting of the regulations. The Committee urges the Controlling Officer to caution management against disregard of the financial regulations and to ensure that this query does not recur. The Committee will await an update on the full recovery of the money in question.

vi. Failure to Honour Loan Obligation on Time

The Controlling Officer submitted that the company got a loan from Investrust bank in 2016 amounting to K10, 079, 383.00 in order to finance the Solwezi Water Supply Upgrade Project. The terms of the loan were that it would be serviced by the Project Account whose main source of funding was revenues from the mines. The delays by the mines to pay fees for the management services coupled by the reduction in company revenue due to load shedding caused the loan to be classified as non-performing. As a result of this, the bank charged interest amounting to K535,133 on overdue loan repayments. The Controlling Officer further informed the Committee that the company had put in place strategies to ensure that the account was always sufficiently funded. The company had increased the management fees for the operation of the Water Supply and Sanitation System for the mines, which had helped the company to be current with the loan repayments.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all the documents in support of the submission to the Auditor General. The Committee will await an update on the liquidation of the outstanding loan amount.

vii. Missing Payment Vouchers K 253, 913

The Controlling Officer submitted that the cause of the missing payment vouchers was misfiling. He further submitted that out of the twenty eight missing payment vouchers worth K253,913.00, twenty one vouchers had been found, leaving a balance of seven vouchers worth K 44,620.31. The company had improved on the filing of the current and future transactions while searching for the missing ones. The company had since cautioned the officer who was responsible for filing. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee is extremely appalled with the response. The Committee directed that disciplinary action should be meted against the officer and the supervisor who failed to execute their duties. The Committee further directs that the outstanding amount with respect to documents in question should be reimbursed. The Committee resolves to await an update on the matter.

viii. Unsupported Payments K1,209,559.00

The Controlling Officer submitted that the payments were unsupported due to lapse in the procurement and payment processes. He further submitted that out of the total amount of K1,209,559.00 worth of unsupported payment vouchers at the time of the audit, payment vouchers worth K424,701.13 had been supported leaving a balance of K784,857.87. He further informed the Committee that management was strengthening internal controls and had reprimanded the officer who was responsible for filing. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee finds it unacceptable that some of the documents were only located after the audit and condemns the tendency of availing documentary evidence after an audit has already been conducted. The Committee directs that the Controlling Officer should impress upon management to ensure that it puts in place a proper filing system and further recommends that disciplinary action should be meted out against the officer who failed to file the accounting documents. The Committee further directs that all documents in support of the submission which have been located so far should be submitted to the Office of the Auditor General for verification. The Committee resolves to await an update on the matter.

7.9 Litigation Costs – Wasteful Expenditure

During the period under review, the company had various litigation cases. A review of files and respective court rulings revealed the following:

i. Kobra Mining Security Limited Vs NWWSSCL

The Controlling Officer submitted that it was regrettable that the company paid K100,000 as legal fees. He further submitted that the company failed to settle the outstanding debt at the end of the contract as the projected cash flows could not be supported by the actual cash flows realised by the company in the course of operations. As a result, the company entered into a time to pay agreement with the supplier to liquidate the amount outstanding. However, the company still could not fulfill its obligation due to financial constraints. Consequently, the company was taken to court by Kobra Mining Security Limited for failure to pay. The Committee further learnt that the when the matter was taken to court, the company opted for the consent judgment as it proved to be less costly as opposed to full trial. The Controlling Officer further informed the Committee that management had was working on engaging a full time legal counsel to give advice on such matters. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee observes with extreme concern the manner in which management handled the issue concerning Kobra Mining Security Limited. The Committee agrees with the Auditor General that the legal expenses were a waste of resources which could have been avoided had management been proactive in paying the outstanding service fees. The Committee directs that in future, management should be more prudent and avoid wasteful expenditure. The Committee resolves to await an update on the recruitment of a legal counsel.

ii. Imperial Plastics Limited Vs NWWSSCL

The Controlling Officer submitted that it was regrettable that the company paid K135,000.00 as legal fees. The company had challenges with cash flows, thereby failing to settle the outstanding debt of K1,202,125.00. Consequently, the company was sued and negotiated a consent judgment as opposed to a full trial. The Controlling Officer further submitted that the company was in the process of engaging a full time legal counsel to advise on such matters and documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee is disappointed to note that management failed to make a prudent decision to recruit a legal counsel as opposed to hiring private lawyers. The Committee agrees with the Auditor General that the wasteful expenditure on legal fees could have been avoided had management been more proactive both in negotiation and payment of the outstanding debt. The Committee directs that all documents in support of the submission be submitted to the Office of the Auditor General and the Committee resolves to await an update on the recruitment of a legal officer.

iii. Musweli Chakujimbulwila Vs NWWSSCL

The Controlling Officer submitted that it was regrettable that the company paid K26,150 as legal fees when the company refused to pay K1,350. He further submitted that failure to pay the K1,350 to the supplier of fuel was because the company did not authorise the acquisition of the fuel on credit by the officer. Paying the said amounts would have been legalising the illegality and the company did not want to create a wrong precedent. The Committee was also informed that the involved officer was summarily dismissed without benefits and the case was reported to the Police. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

While noting the progressive decision undertaken by management to summarily dismiss the officer in question without benefits and further to report to the police, the Committee finds it irresponsible that management opted not to pay K 1,350 but rather to allow the matter to be taken to court and to pay K 26,150. In this regard, the Committee strongly recommends that this money should be recovered from all the supervisors who made the decision to allow the company to pursue the matter in court as opposed to paying for the fuel and then punishing the offending officer. The Committee resolves to await an update on the matter

7.10 Management of Assets

i. Lack of Title Deeds

The Controlling Officer submitted that the failure to obtain title deeds was an oversight. He further submitted that the company had commenced the process of acquiring title deeds for all the properties. Documentation for processing titles had been approved by the councils while others had moved to Ministry of Lands and Natural Resources. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee is appalled by management's failure to acquire title deeds due to an oversight. The Committee observes management's lack of seriousness and recommends that disciplinary measures should be instituted on the officers responsible for the oversight. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General and the Committee will await an update on the acquisition of the title deeds.

ii. Failure to Update the Asset Register

The Controlling Officer submitted that management acknowledged the Auditor General's observations and submitted that failure to update the Asset Register was a lapse. Management had since updated the asset register and that all the districts had updated their asset registers. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

While noting the strides made, the Committee is disappointed that officers fail to perform the duties for which they are employed while drawing a salary. The Committee recommends that the Controlling Officer should ensure that disciplinary action is taken against all officers and supervisory staff responsible for the lapse. All documents in support of the submission should be submitted to the Office of the Auditor General. The Committee resolves to await an update on the matter.

iii. Failure to Obtain White Books from the Bank

The Controlling Officer submitted that the failure was a lapse on the part of the company. Management had since obtained the white books in question and documentary evidence was available to that effect.

Committee's Observations and Recommendations

While noting the response, the Committee is concerned about the calibre of the staff managing the company. The Committee urges the Controlling Officer to ensure that measures are put in place to avoid recurrence of the query. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

7.11 Staff Related Matters

i. Irregular Payment of Long Service Bonus K 720, 139

The Controlling Officer submitted that it was regrettable that long service bonus in amounts totaling K720,139.00 were paid to the Managing Director (K481,568.00) and the Director Finance (K238,571.00). This was due to misinterpretation of the clause on Long Service Bonus. He further informed the Committee that this clause had been done away with in all management conditions of service. Furthermore, contracts for the two officers involved were terminated**.** The company would recover funds from one officer as the other officer was deceased.

Committee's Observations and Recommendations

The Committee reiterates its observation on the lackadaisical approach to managing of the entity. The Committee resolves to await an update on the recovery of the funds. The Committee is also of the view that with respect to the deceased officer, management should endeavor to recover the money in question from the deceased's estate through his administrator. The Committee will await an update on the matter.

ii. Failure to Fill Vacant Positions

The Controlling Officer submitted that the company was unable to implement the approved organisational establishment of 228 due to a poor liquidity position. He further submitted that 148 positions were filled leaving eight seven vacant as at 31st December, 2019. The Controlling Officer further submitted with regard to the key eight vacant positions as outlined below.

a. **Internal Auditor**

The position had been filled and documentary evidence was available to that effect.

b. **Information Technology Officer**

This position would be filled once the revenues improved. In the mean time, the function was being handled by the Assistant Information Communication Technology Officer.

c. **Head Procurement Unit**

The position had been filled in an acting capacity by the current procurement officer who had been handling the function of procurement. Documentary evidence was available to that effect.

d. **Legal Counsel**

The role of legal Counsel had been combined with that of the Company Secretary. The position had since been re-advertised after the job offer was turned down by the best candidates. Documentary evidence was available to that effect

e. **Manager Human Capital Development**

This function had been merged with the function of Manager Human Resources and Administration.

f. **Director Business Development**

This function was being handled by the Business Development Officer.

g. **Project Manager**

This function was being handled by the Technical and Maintenance Manager.

h. **Head Peri Urban**

Currently the functions were being handled by the various district heads.

Committee's Observations and Recommendations

While noting the response, the Committee urges the Controlling officer to ensure that the merging of roles does not have a negative impact on the effective operations of the company. The Committee further directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the mater should close.

iii. Irregular Payment of Internet Service K 18, 108

The Controlling Officer submitted that payment for internet services at the Managing Director's residence was an oversight. The service had since been withdrawn and recovery of the amounts totaling K18,108 relating to 2016-2018 financial period would be effected from his benefits.

Committee's Observations and Recommendations

The Committee observes with sadness the blatant disregard of financial controls and the wanton wastage of the company's meagre resources by management. The Committee directs a full recovery of the funds in question and will await an update on the matter.

8.0 SOUTHERN WATER AND SEWERAGE COMPANY LIMITED

Review of Operations

An examination of financial and other records maintained at the Southern Water and Sewerage Company Headquarters for the period from January 2016 to December 2018 revealed the various irregularities, to which the Controlling Officer responded as outlined below.

8.1 Governance – Board of Directors

The Controlling Officer submitted that the board was dissolved in 2016 by the then Ministry of Local Government and Housing. In the same year the Ministry of Water, Development, Sanitation and Environmental Protection was established. The transition from the Ministry of Local Government and Housing to the Ministry of Water, Development, Sanitation and

Environmental Protection delayed the appointment of the board of directors. The board of directors was appointed on 1st November; 2018. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee observes with concern the failure by the appointing authority to timely appoint the Board of Directors. The Committee further urges the Executive to ensure that a framework is formulated which will help circumvent the unnecessary delays to appoint boards which are often unjustifiable. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

8.2 Income

The Controlling Officer, in agreeing with the Auditors General's observation, submitted that the company generated income from sales of water and other sources in amounts totaling K225,547,491 against the budget of K256,487,897, resulting in a negative variance of K30,940,406.

He further informed the Committee that the company could not generate the budgeted income due to load shedding, which reduced the number of supply hours. Additionally there was cash flow constraints due to customers' failure to meet their bills on time and consequently affected the pace at which maintenance of the dilapidated infrastructure was undertaken, to reduce non revenue water which could have helped to generate more income**.** The Controlling Officer further submitted that to resolve the challenge of load shedding which had negatively impacted income generation, the company had embarked on the installation of solar systems for plant operations. Furthermore, to improve debt recovery, the company had set up a dedicated Debt Collecting Unit (DCU), using the existing staff**.** Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes management's innovative strategies to resolve all the challenges related to income generation. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

8.3 Financial Analysis

i. Financial Performance – Statement of Comprehensive Income

The Controlling Officer submitted that the Statements of Comprehensive income for the Financial Years ended 31st December 2016 to 2018 were as shown in Table 8.3 below.

Table 8.3: Statements of Comprehensive Income

Details	2018 K	2017 K	2016 K
Turnover	77,053,644	70,247,621	59,541,772
Cost of Sales	(55,152,642)	(53,120,608)	(41,639,489)
Gross profit	21,901,002	17,127,013	17,902,283
Other Operating Income	14,749,179	14,966,116	11,639,677
Other Operating Expenses	(35,869,906)	(32,567,601)	(31,897,723)
Operating profit (loss)	**780,275**	**(474,472)**	**(2,355,763)**
Finance costs	(258,484)	(780,384)	-
Comprehensive (loss) Income year for the	**521,791**	**(1,254,856)**	**(2,355,763)**

Source: Southern Water and Sewerage Company Ltd Financial Statements for the financial years ended 31st December 2016. 2017 and 2018

a. Profitability

The Controlling Officer submitted that the company incurred losses of K2,355,763 in 2016 and K1,254,856 in 2017 while in 2018 a profit of K521,791 was recorded. The losses in 2016 and 2017 were attributed to high cost of sales and other operating expenses in comparison to the turnover and other operating income. He further submitted that the reasons for this were the following:

i. increase in expenses due to increase of input costs, mainly electricity, water treatment chemicals, maintenance of old plant and equipment; and
ii. wide geographical spread of Southern Water and Sanitation Company Limited (SWSC) catchment area (twenty one cost centres) which were supposed to be manned by a minimum of four staff to facilitate shift work. This resulted in high labour costs. In this vein, he submitted that eight centres were profit making while thirteen centres were loss making.

He further submitted that the company was currently implementing the measures aimed at reducing expenditure as outlined below.

a. Use of solar energy

The company had embarked on energy cost reduction measures such as the installation of solar systems for plant operations.

b. Installation of dosing equipment
The company had purchased and installed the dosing equipment which resulted in efficient use of chemicals.

c. Economies of Scale
The company had partnered with Lusaka Water Supply and Sanitation Company Limited to procure chemicals in bulk which had resulted in cost reduction.

d. Drilling of boreholes
The company had embarked on using underground water instead of surface water by drilling forty two boreholes in various districts as a measure to reduce the chemical and electricity consumption.

e. Staff Costs
The company had automated seven solar powered water treatment plants which had reduced the requirement for labour.

f. Temporarily freeze on new recruitments
Management was reassigning existing staff to take up vacant functions without employing new staff.

Documentary evidence was available to evidence all the strategies that had been implemented.

Committee's Observations and Recommendations

The Committee is elated to note that management is implementing progressive strategies to resolve the prevailing challenges. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

ii. Financial Position

The Controlling Officer submitted that the Statements of Financial Position as at 31st December 2016 to 2018 were as shown in Table 8.4 below.

Table 8.4: Statements of Financial Position

2018 2017 2016 Details	K	K	K
Non -Current Assets			
Property Plant and Equipment	239,884,123	245,501,201	186,932,863
Investment in Subsidiary	750,000	750,000	750,000
	240,634,123	**246,251,201**	**187,682,863**
Current Assets			
Inventories	2,392,738	1,459,121	2,309,949
Trade and other receivables	26,291,008	20,195,372	13,288,574
Cash and bank	1,615,077	1,744,939	673,088
	30,298,823	**23,399,432**	**16,271,611**
Total Assets	**270,932,946**	**269,650,633**	**203,954,474**
Equity and Liabilities			
Capital and Reserves			
Share capital	20,000	20,000	10,000
Revaluation Reserve	14,523,452	16,575,904	18,628,356
Accumulated Losses	13,543,171	13,021,380	10,985,235
	28,086,623	**29,617,284**	**29,623,591**
Non-Current Liabilities			
Long terminal benefits	23,885,941	18,710,533	15,060,407
Obligation under finance lease	-	126,687	1,444,728
Capital grants and Capital Contributions	178,051,952	183,677,737	121,626,171
	201,937,893	**202,514,957**	**138,131,306**
Current Liabilities			
Obligation under finance lease	164,136	1,488,994	1,334,418
Trade and other payables	40,744,294	36,029,398	34,429,356
Bank overdraft	-		435,803
	40,908,430	**37,518,392**	**36,199,577**
Total equity and liabilities	**270,932,946**	**269,650,633**	**203,954,474**

Source: Southern Water and Sewerage Company Ltd Financial Statements for the financial years ended 31st December 2016. 2017 and 2018

a. Current Ratio

The Controlling Officer submitted that the current ratio for the company was as outlined in Table 8.5 below.

Table 8.5: Current Ratio

SN	Detail	2018 K	2017 K	2016 K
1	Current Assets	30,298,823	23,399,432	16,271,611
2	Current Liabilities	40,908,430	37,518,392	36,199,577
3	Current Ratio	0.7	0.6	0.5

The Controlling Officer further informed the Committee that as a result of the poor ratios, the company had challenges to meet its short-term obligations as and when they fell due. The cause of the low current ratios was an increase in receivables due to failure to pay by some customers and increase in liabilities because of outstanding arrears accumulated over the years on ZESCO, PAYE, NAPSA and suppliers. To resolve these challenges, in 2019 management undertook to implement the following measures:

i. Debt Collecting Unit

In an effort by the company to improve debt recovery, the company had set up a dedicated Debt Collecting Unit (DCU), using the existing staff.

ii. Use of solar energy

In order to reduce the electricity liabilities the company embarked on energy cost reduction measures such as the installation of solar systems for plant operations.

iii. Drilling of boreholes

This measure had reduced the chemical and electricity consumption.

iv. A tripartite debt swap involving Southern Water and Sanitation Company Limited, ZESCO and GRZ was facilitated by Ministry of Finance for the arrears accrued as at December, 2018. The total amount swapped was K5, 996,099.43 and the Treasury released K3, 750,979.42 to SWSC. This reduced the company's outstanding debt (Accounts Receivables) by ZMW 9,747,078.85.

Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the measures that have been put in place to help improve the current ratio. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

b. Receivable Days

The Controlling Officer submitted that the Auditor General's observation was true as outlined in Table 8.6 below.

Table 8.6: Receivable Days

SN	Detail	2018 K	2017 K	2016 K
1	Receivables	26,291,008	20,195,372	13,288,574
2	Turnover	77,053,644	70,247,621	59,541,772
3	Receivable days	125 days	105 days	81 days

In addition, the receivables increased from K13, 288,574 in 2016 to K26, 291,008 in 2018 representing a 98 per cent increase. The Controlling Officer informed the Committee that the increase in receivables was due to failure by customers to pay their bills as they fell due and lack of a dedicated debt collection unit. In an effort to resolve the challenge, management implemented the following measures:

i. the company has set up a dedicated Debt Collecting Unit (DCU), using the existing staff. in an effort to improve debt recovery;
ii. engagement of communities to sensitise them on the need to settle outstanding arrears;
iii. the company had signed performance contracts with staff responsible for revenue collection to encourage them to collect 100 per cent of current billing and arrears;
iv. the company had been sending monthly reminders to all customers through text messages; and
v. a tripartite debt swap involving Southern Water and Sanitation Company Limited (SWSC), ZESCO and GRZ was facilitated by the Ministry of Finance for the arrears accrued as at December, 2018. The total amount swapped was K5, 996,099.43 and Treasury released K3, 750,979.42 to SWSC. This reduced our outstanding debt (Accounts Receivables) by ZMW 9,747,078.85.

Committee's Observations and Recommendations

While noting the response and the strategies that have been put in place, the Committee urges the Controlling Officer to ensure that these measures yield positive results to help improve the receivable days from 125 days to thirty days, which is the company's allowable collection days. The Committee will await an update on the matter.

8.4 Operational Matters – Comparative Performance in the Water and Sanitation Sector

A review of the NWASCO reports in respect of Southern Water and Sewerage Company for the period from 1st January, 2016 to 31st December, 2018 revealed various irregularities, to which the Controlling Officer responded as set out below.

i. Non Revenue Water

The Controlling Officer submitted that the Auditor General's Observation as outlined in Table 8.7 below was noted and agreed to.

Table 8.7: Non-Revenue Water

SN	Details	2018	2017	2016	Total
1	Total Water Production (m3)	21,730,414	21,080,757	21,033,964	63,845,135
2	Total Water Billed (m3)	11,446,687	11,744,941	13,691,869	36,883,497
3	NRW (m3)	10,283,727	9,335,816	7,342,095	26,961,638
4	NRW %	53%	35%	35 %	
5	Benchmark (%)	25%	25%	25 %	
6	Revenue Loss on NRW (K)	79,588,797	33,387,445	30,598,954	143,575,196

The Controlling Officer submitted that the causes of non revenue water were as set out below.

a. Dilapidated water distribution systems in most towns which required a complete overhaul.
b. Wastage by customers who were not metered.
c. Illegal connections.
d. Inadequate data capturing tools to manage the distribution system pressure to reduce pipe bursts/leakages.

The Committee learnt that to resolve these challenges, management was undertaking the following measures:

a. In the short term, the company had mapped the water network with Geographical Information System GIS that had enhanced speedy leak repairs.
b. In the long term, a feasibility study was being conducted by Korea Engineering Consultants Corporation funded by African Development Bank in five towns (Kalomo, Choma, Monze, Mazabuka and Siavonga) for rehabilitation of water and sanitation infrastructure which would include mainstreamed non revenue water reduction.
c. The company ring-fenced revenue from Maamba town which was being used to procure meters and fittings in order to reduce wastage by unmetered customers. So far 1,000 meters had been installed in Mazabuka.
d. The company had partnered with a consortium of Dutch drinking water companies, Vitens Evides International (VEI), on a mentorship programme to reduce non revenue water through replicating best practices.
e. Management had put in place a non revenue water reduction strategy and was piloting this strategy in three towns, namely Mazabuka, Choma and Kazungula with the view of replicating achievements in these areas to the rest of the towns. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all documents in support of the submission to the Office of the Auditor General and will await an update on the implementation of the strategies to reduce non revenue water.

ii. Sanitation Coverage

The Controlling Officer informed the Committee that it was regrettable that sanitation coverage during the period under review was below the sector benchmark of 80 per cent as shown in Table 8.8 below.

Table 8.8: Sanitation Coverage

Year	Benchmark	Sanitation Coverage	Variance
2016	80%	56%	24 %
2017	80%	59%	21 %
2018	80%	62%	18%

The Committee further learnt that the causes of low sanitation coverage were as set out below.

a. Low capital injection in sanitation infrastructure development.
b. Rapid growth of planned and unplanned settlements without provisions for sanitation facilities.
c. Lack of an integrated planning approach between the commercial utilities and some local authorities when opening up new areas.

To resolve these challenges, management was implementing the following measures:

a. the company was implementing a pro-poor water and sanitation project in Malambo Compound in Zimba, Kalomo and Choma with support from Viten Evides International under the WaterWorx Project. The project would help increase sanitation coverage in Zimba.
b. the company had started engaging the local authorities for inclusion in planning for new areas.
c. the company had engaged cooperating partners in addressing some of these sanitation challenges by applying to the Green Climate Fund (GCF) for water and sanitation financing. The company had also partnered with GIZ for capacity building in Citywide Sanitation Planning.
d. The company was administering a sanitation surcharge to generate capital for sanitation coverage improvement. So far works undertaken using the sanitation surcharge included: sewer network rehabilitation in Monze and Livingstone (Police Camp)
e. In the long term, a feasibility study was being conducted by Korea Engineering Consultants Corporation funded by African Development Bank in five towns (Kalomo, Choma, Monze, Mazabuka and Siavonga) for rehabilitation of water and sanitation infrastructure which would include mainstreamed non revenue water reduction.

Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee observes with concern that the company has very low sanitation coverage. The Committee notes the response and directs the Controlling Officer to impress upon management to expeditiously implement all the strategies as sanitation has a direct impact on public health. The Committee will await an update on the matter.

iii. Metering Ratio

The Controlling Officer submitted that the Auditor General's observation was as outlined below and regrettable.

Table 8.9: Metering Ratio

Year	Benchmark (%)	Metering Ratio (%)	Variance (%)
2016	100	76	24
2017	100	78	22
2018	100	76	24

He further submitted that the following were the reasons for failure to meet the metering ratio benchmark:

a. Inadequate capital funds for metering.
b. The low metering ratio in the period under audit which closed at 76 per cent was due to the company receiving applications for water services surpassing the meters in stock.
c. Theft of 1,000 meters in Livingstone for brass metal.

To ensure that this problem was resolved, management undertook to implement the following:

a. the company had bought and installed 960 domestic water meters in all new water connections using the ring fenced meter charge;
b. the company would ensure that all future project proposals included the metering component**;** and
c. management would prosecute meter thieves (One individual was serving a sentence of twenty five years).

Committee's Observations and Recommendations

The Committee observes with concern that the failure to meter leads to revenue loss through wastage of water by un-metered customers. The Committee urges the Controlling Officer to impress upon management to expeditiously implement all the strategies to reduce the percentage of unmetered customers. The Committee will await an update on the matter.

8.5 Missing Information on Customer Master Data

The Controlling Officer submitted that the Auditor General's observations were true as indicated in Table 8.10 below and were regrettable.

Table 8.10: Missing Information on Customer Master Data

SN	Missing Details	No. of Customers
1	Physical Address	342
2	Meter Number	227
	Total	**569**

He further submitted that the causes for missing contact details for the customers were as indicated below.

i. The customer addresses were missing due to lack of designated property numbers by the local authority on certain areas and properties mostly in low cost and peri urban areas.
ii. The fifteen missing names were due to data capture errors emanating from the bulky manual documents.
iii. The 438 missing meter numbers were due to data capture omissions.

The Controlling Officer further submitted that to resolves these challenges, management undertook to implement the following measures:

i. all missing customer details (names, addresses and meter numbers) had been captured and updated in the billing system
ii. the Navision Billing System had since been configured to object further processing and opening of new customer accounts if any of the mandatory customer details were missing such as customer name, address and meter number. This had been made possible as a result of a new module into Navision Billing System called Customer Change Module (CCM) introduced in 2019. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee observes with concern that as a result of missing information on the Customer Master Data, customers could not be located for billing purposes and recovery of debt. However, the Committee notes that this has since been resolved. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

8.6 Procurement of Meters K4, 852,459

i. Delayed Delivery of Meters

The Controlling Officer submitted that it was regrettable that the supplier partially delivered 1,089 water meters on 16th April 2019, which was thirty-four weeks after the delivery date.
He further submitted that the supplier delayed to deliver the water meters because the contract provided for the 20 per cent advance payment which was not effected by the financing institution due to financial constraints, thereby causing the delay and non delivery of the meters. The Controlling Officer informed the Committee that even though the supplier was not paid the 20 per cent advance payment the supplier delivered 1,089 water meters. The supplier was only paid for the quantity delivered. For the balance of 3,139 water meters, the supplier had not delivered due to non-payment of K298, 046.42 for the water meters supplied.

Committee's Observations and Recommendations

The Committee observes with concern that the supplier delayed to supply the water meters due to failure to honour the advance payment timely by the financing institution as prescribed in the contract. The Committee urges management to follow up the matter with the financing institution The Committee will await an update on the matter.

ii. Failure to Avail Payment Details

The Controlling Officer submitted that management failed to avail the payment details because the financing institution paid directly to the supplier.

Committee's Observations and Recommendations

The Committee notes the response and is displeased that this information was not provided at the time of audit. The Committee directs that the Controlling Officer should submit all the documents in support of the submission to the Office of the Auditor General for verification, subject to which the matter should close.

8.7 Failure to Remit Statutory Obligations K 2,380,022

The Controlling Officer submitted that it was regrettable that management failed to remit statutory obligations as outlined in Table 8.11 below.

Table 8.11: Unremitted Statutory Obligations

SN	Name of Institution	Type of Payment	2018 K
1	Zambia Revenue Authority	PAYE	1,723,452
		Withholding Tax	19,127
2	National Pension Scheme Authority	Pension	637,443
	Total		**2,380,022**

He further informed the Committee that failure to remit statutory contributions was due to inadequate funds that led the company to run a net payroll. To resolve this challenge, the company had gone into a payment plan with NAPSA in order to liquidate arrears and current tax obligations. The outstanding balance of K637,443.00 was paid as follows K210, 169.38 on 11th January, 2018 and K273,783.62, on 16th January, 2019. Furthermore, in 2020 the Ministry of Finance paid the utility company the bills owed by Government institutions and the proceeds were used to pay NAPSA arrears totaling to K2,293,343.84. The company had also paid the withholding tax. In an effort for the company to improve debt recovery, the company had set up a dedicated Debt Collecting Unit (DCU), using the existing staff. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee is saddened to note that management failed to remit statutory obligations due to inadequate funds. The Committee urges the Controlling Officer to enhance supervision of the company to avoid the tendency of accruing penalties due to failure to settle statutory obligations timely. The Committee directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

9.0 WESTERN WATER AND SEWERAGE COMPANY LIMITED

An examination of financial and other records for the financial years ended 31st December 2015, 2016, 2017 and 2018 carried out in October 2019 revealed various irregularities to which the Controlling Officer responded as outlined below.

9.1 Governance

i. Lack of a Board of Directors

The Controlling Officer submitted that the Board of Directors was dissolved in 2015 and the following year 2016, the Ministry of Water Development Sanitation and Environmental Protection was formed. The transition from Ministry of Local Government and Housing to the newly created Ministry of Water Development Sanitation and Environmental Protection delayed the appointment of the Board of Directors. He further informed the Committee that **s**ince there was no Board during the period under review, the Annual General Meeting could not be held. The new Board of Directors was appointed in October, 2018 and oriented on 17th December, 2018 and documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee reiterates its recommendation on the need for the Executive to formulate a framework which will circumvent the delay to appoint Boards of Directors. The Committee directs that all documents should be submitted to the Office of the Auditor General, subject to which the matter should close.

ii. Lack of a Risk Management Policy

The Controlling Officer submitted that during the period under review, the company had no Risk Management Policy. The development of the Risk Management Policy framework started in 2015. The Committee was also informed that the company presented the Draft Risk Management Policy to the Board for approval. However, the draft Risk Management Policy that was developed could not be approved by the Board as it was dissolved in the same year, 2015. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee finds it unacceptable that the company was operating without a Risk Management Policy. The Committee observes that failure to have this framework in place means that risks are not identified timely and this may result in failure to effectively manage such risks. In this regard, the Committee strongly urges the Controlling Officer to ensure that the board approves the policy timeously. The Committee will await a progress report on the matter.

9.2 Income

The Controlling Officer informed the Committee that generally, the budgeted revenue was inclusive of grants from Government and other cooperating partners. The Committee was also informed that the root causes of the variance between the budgeted and the actual income were those outlined below.

a. As noted from the table, in 2015 the variance of K 6, 389, 700.00 was recorded due to lack of grants from the Ministry and cooperating partners.
b. In 2016, the variance was relatively low at K 3, 552, 515.00 due to the grant received from the Ministry.
c. In 2017 the variance was reduced further to K 2, 612, 535.00 due to the grant received from the Ministry.
d. In 2018, the budgeted revenue was inclusive of the operational grant from AfDB project, however the Project delayed to commence, as a result no grant was released, hence the variance of K 9, 657, 859.00
e. High loss of water (High non revenue water) due to old and dilapidated water network infrastructure also contributed to the variances during the period under review

To resolve these challenges, the company had since started receiving grants from Government and other cooperating partners; management had since engaged an officer who was trained in water demand to manage non revenue water and the company had embarked on replacing old meters that were under-registering the consumptions in a quest to reduce commercial losses which were losses as a result of a meters not recording the actual consumption of water**.**

Committee's Observations and Recommendations

The Committee notes the response and directs the Controlling Officer to submit all documents in support of the submission to the Office of the Auditor General, subject to which the matter should close.

9.3 Information Communication Technology (ICT)

i Lack of IT Steering Committee

The Controlling Officer submitted that the Lack of IT steering committee was due to Management oversight. The company had put in place the IT Steering Committee and documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee is perturbed and finds it unacceptable that management was operating without an IT Steering Committee. The Committee condemns this laxity and strongly directs that disciplinary action should be instituted against all officers and their supervisors who failed to execute their duties. The Committee resolves to await an update on the matter.

9.4 Operational Matters – Comparative Performance in the Water and Sanitation Sector

i. Non Revenue Water

The Controlling Officer submitted that the company failed to reach the sector benchmark with respect to non revenue water as indicated in Table 9.3 below.

Table 9.3: Loss of Revenue through NRW

Details	2018	2017	2016	2015	Total
Total Water Production (m3)	8,300,000	6,800,000	6,500,000	5,700,000	27,300,000
Total Water Billed (m3)	3,280,000	3,370,000	3,010,000	3,160,000	12,820,000
NRW (m3)	5,020,000	3,430,000	3,490,000	2,540,000	14,480,000
NRW %	**62%**	**51%**	**54%**	**44%**	
Benchmark (%)	25%	25%	25%	25%	
Revenue loss on NRW (K)	**37,900,814**	**19,856,926**	**15,083,346**	**8,629,482**	**81,470,568**

He further submitted that the causes were were as outlined below.

a. Dilapidated water distribution systems in most towns which required a complete overhaul.
b. Wastage from some unmetered customers.
c. High frequency of pipe bursts due to inadequate tools to manage the pressure in the water network.
d. Illegal connections and water theft.

To resolve these, the following were the measures that had been undertaken:

i. the company was implementing a Maintenance Management System which allowed for regular checking of the system to lessen failure. breakdowns that lead to loss of revenue through non revenue water were therefore avoided*;*
ii. the company was undertaking timely repairs of leakages and bursts;
iii. the company was sensitising members of the public on the importance of reporting leakages and also the consequences of vandalising the water supply infrastructure;
iv. government on behalf of Western Water and Sewerage Company had contracted a loan from Africa Development Bank (AfDB) under the Integrated Small Towns Water Supply and Sanitation Programme (ISTWSP) for the development and rehabilitation of water supply infrastructure which would ensure the reduction of non revenue water; and
v. under AfDB there was a component of metering all the unmetered customers.

Committee's Observations and Recommendations

The Committee observes with concern that non revenue water deprives the company of the revenue to help improve its operations. The Committee notes the response and urges the Controlling Officer to impress upon management to implement all the measures earmarked to reduce non revenue water. The Committee further directs that all documents in support of the submission should be submitted to the Office of the Auditor General, and the Committee will await an update.

ii. Water Supply Service Coverage

The Controlling Officer submitted that the query arose due to inadequate capital investment to expand the water reticulation network to bring on board new customers. He further submitted that there were limited and dilapidated water distribution systems in most towns which could not allow extra connections to be made.

Table 10: Supply Service Coverage

Year	Water Service Coverage (%)	Acceptable Benchmark
2015	50	80% - 90%
2016	63	
2017	63	
2018	54	

The Committee learnt that to resolve the challenges the Government, on behalf of Western Water and Sewerage Company, had contracted a loan from Africa Development Bank (AfDB) under the Integrated Small Towns Water Supply and Sanitation Program (ISTWSP) for the development and rehabilitation of water supply infrastructure which would ensure complete overhaul and expansion of the water service coverage. Furthermore, the company had been engaging the respective local councils to consider utilising part of the Constituency Development Funds to finance some network extension in some unserviced areas. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

While noting the response, the Committee expresses concern that failure to ensure that individual households are connected to kiosks, public stand posts and shared/yard taps implies that most customers have no access to clean water and, therefore, compromising public health. The Committee urges the Controlling Officer to impress upon management to follow through on the alluded to project to ensure that the customers are connected to the network. The Committee will await an update on the matter.

iii. Metering Ratio Benchmark

The Controlling Officer submitted that the Auditor General's observation was as indicated in Table 11. He further submitted that the query arose due to inadequate capital investment to procure meters in order to meter unmetered customers**.**

Table 11: Metering Ratio

Year	Metering Ratio	Benchmark	Comment
2015	86%	100%	Less than required
2016	87%	100%	Less than required
2017	67%	100%	Less than required
2018	80%	100%	Less than required

The Controlling Officer submitted that with support from KfW, the company managed to install meters to some unmetered customers which had since improved the metering ratio from 80 per cent in 2018 to 92 per cent in 2019. Documentary evidence was available to that effect. He further informed the Committee that Government on behalf of Western Water and Sewerage Company has contracted a loan from Africa Development Bank (AfDB) under the Integrated Small Towns Water Supply and Sanitation Program (ISTWSSP) for the development and rehabilitation of water supply infrastructure which had a component of metering all the unmetered customers through ISTWSSP. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes with concern that the company's failure to improve the metering ratio impacted negatively on its ability to bill based on the customer's consumption. The Committee is, however, elated to note that management improved the metering ratio to 92 per cent and calls for more concerted efforts in this direction. The Committee further, urges the Controlling Officer to ensure that all documents in support of the submission are submitted to the Office of the Auditor General, subject to which the matter should close.

iv. Network Failures Per 100km

The Controlling Officer submitted that the Auditor General's observation was as indicated in Table 12 below and was regrettable. He further submitted that the query arose due to old and dilapidated water distribution systems in most towns which required a complete overhaul. Additionally, inadequate resources, to timely repair leakages, were other challenges.

Table 12: Network Failure per 100km

Year	Networks Failures Per 100km
2015	0
2016	13
2017	19
2018	216
Total	**248**

To resolve these challenges, the company had intensified sensitisation efforts to the public through radio programmes to report on any leakages in the network and was periodically undertook network inspection. Furthermore, government on behalf of Western Water and Sewerage Company has contracted a loan from Africa Development Bank (AfDB) under the Integrated Small Towns Water Supply and Sanitation Program (ISTWSSP) for the development and rehabilitation of new water supply infrastructure.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the matter.

9.5 Accounting Irregularities

i. Unaccounted for Cash Withdrawals K 74,736

The Controlling Officer submitted that the query arose due to weak internal controls during the period under review. He further submitted that out of the K 74, 736, amount totaling to K 37, 128 had been recovered from the accrued leave days of the officer responsible and the officer had been written to pay back the balance amounting to K 37, 608. Documentary evidence was available to that effect. He further submitted that the company had since developed a draft risk management policy to test and enhance the internal controls. With regard to the officer who collected K 14, 035.00, the Committee was informed that he was out of the country at school in Sweden and was not accessible, however the matter was being handled and recoveries would be effected through payroll.

Committee's Observations and Recommendations

The Committee notes with grave concern that management did not follow up with the officers in order for them to retire the funds in question. While noting the response, the Committee strongly recommends that apart from deducting the money from the officers in question, disciplinary action should be meted out against all the supervisors who failed to execute their duties. The Committee also finds it unacceptable that it had to take the auditors for management to note the query. The Committee resolves to await an update on the matter and on the matter pertaining to the officer who is studying in Sweden and owes the company.

ii. Unretired Accountable Imprest K 328, 697

The Controlling Officer submitted that the query arose due to weakness in the internal controls. To resolve the challenge, efforts were made to reconcile the imprest schedule and two transactions which where duplicated amounting to K25, 007.40 which were normalised (Item number one and Item twenty five with the same amount of K12, 933.98 and also Item sixteen and Item twenty three with same amount of K12, 073.42). After removal of the duplicated amount, the unretired imprest reduced to K303, 689.60. He further informed the Committee that out of the K 303, 689.60 unretired imprest, imprest amounting to K186, 086.64 had been retired, leaving a balance of K117, 602.96. Additionally, management had also written to staff with unretired imprest balance of K 117,602.96 and recoveries to be effected by September 2020. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee is appalled with the response, as in one breath the Controlling Officer is indicating that the query arose due to duplication and hence there was no abrogation of the Financial Regulations, while in the other breath, deductions are being made. The Committee is extremely disappointed that the outstanding amount is quite significant in magnitude in comparison to what has been alleged to have been retired. The Committee strongly recommends that disciplinary action should be instituted with immediate effect against the officials who failed to retire imprest. The Committee will await an update on the matter.

iii. Failure to Remit Statutory Contributions K 8,635,791

The Controlling Officer submitted that it was regrettable that management failed to pay the. To resolve this query, management had proposed payment plans with ZRA and a commitment of K15, 000.00 was paid every month for the outstanding dues. Documentary evidence was available to that effect. He further informed the Committee that the company had made payment to Workers' Compensation Control Fund Board towards dismantling of arrears and plans were underway to develop a payment plan to settle the remaining balance. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and directs that all documents in support of the submission should be submitted to the Office of the Auditor General for verification. The Committee will await an update on the matter.

iv. Unaccounted for Revenue K 1,403,820

The Controlling Officer submitted that unaccounted for revenue was as a result of deposits slips which were not available due to mis-filing. The Controlling Officer submitted that to resolve the query, the following measures had been undertaken:

a. out of the Unaccounted for Revenue of K 1, 403, 820, amounts totaling K 851, 859.53 had been reconciled leaving a balance of K551, 960.47. Documentary evidence was available to that effect;
b. disciplinary action had been taken against the responsible officers and documentary evidence was available to that effect;
c. the company had conducted in-house training and built capacity to improve the filing system;
d. The company had since introduced point of sale machines for prompt banking at pay points in the districts.

Committee's Observations and Recommendations

The Committee notes the responses and resolves to await an update on the outstanding unaccounted for revenue.

v. Delayed Banking of Daily Sales Collections K 179,789

The Controlling Officer submitted that the query arose due to inadequate internal controls in relation to timely banking.

To resolve the query, the Controlling Officer submitted that management had undertaken the following measures:

a. the company had since introduced point of sale machines for prompt banking at pay points in the districts;
b. the company had entered into a contract with a mobile payment solutions company to minimise cash handling and delayed banking, hence the company had further sensitised

the customers and members of the public on the availability of mobile platforms for payment of water bills. Documentary evidence was available to that effect; and

c. internet banking to timely monitor the transactions (daily deposit)

Committee's Observations and Recommendations

The Committee observes with concern the failure by management to bank the daily sales in line with Financial Regulation No. 121 (1). The Committee finds the reasons advanced by the Controlling Officer unjustifiable as management could have done better to ensure that the officers responsible banked the money in time. The Committee directs that disciplinary measures should be instituted against all officers responsible for this anomaly with immediate effect. The Committee further directs that the money in question should be recovered with immediate effect as no commitment was given by both the Controlling Officer and management. The Committee will await an update on the matter.

9.6 Lack of Title Deeds

The Controlling Officer submitted that failure to obtain title deeds was an oversight. He further submitted that the company had engaged the local authorities to formalise the process of acquiring title deeds for both inherited and new properties. Further, the company had obtained funds from the AfDB to enable it obtain title deeds under Integrated Small Towns Water Supply and Sanitation Program (ISTWSSP). Documentary evidence was available to that effect. Furthermore, a circular had been written to all the commercial water utility companies to direct them to acquire title deeds for all their properties. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and resolves to await an update on the matter.

9.7 Projects - Emergency Works In Districts K 2,936,502

During the period under review, the Ministry of Water Development, Sanitation and Environmental Protection released amounts totaling K2, 936,502 as support towards implementation of projects to improve the delivery of water services in Mongu, Kaoma, and Kalabo districts.

Several irregularities were observed, to which the Controlling Officer responded as set out below.

i. Misapplication of Funds-Kaoma K74,146

The Controlling Officer submitted that during the period under review, company revenues in amounts totaling K 2,643, 325.36 was deposited in the project account. Therefore, K 74, 146 was drawn from the deposited company revenues meant for operations. He further submitted that reconciliation had been done separating the company revenue deposits and project funds.

Furthermore, the company had opened and maintained a dedicated bank account for project activities. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

While noting the response, the Committee finds it strange that management was using a project account to bank the funds from daily sales which were meant for operations. The Committee directs that the management should ensure that all the measures that have been instituted are adhered to and that the query should not recur. The Committee directs that all documents should be submitted to the Office of the Auditor General, subject to which the matter should close.

ii Unaccounted for Project Materials-Kaoma K 11,630

The Controlling Officer submitted that the query arose due to negligence on the part of the Senior Procurement Officer to establish systems and controls and that there was no proper records management at district level to receipt and dispose materials during the period under review. Materials went direct from the central stores to the sites. He further submitted that management undertook the following measures to resolve the query:

a. the company had put in place a proper records management system to track movements of materials and documentary evidence was avaible to that effect;
b. the company undertook orientation of the key district staff on proper records management; and
c. the contract for the officers responsible came to an end and it had not been renewed. However, a letter had been written through the lawyer for the recoveries of the missing materials. Documentary evidence was avaible to that effect.

Committee's Observations and Recommendations

While the Committee notes that management did not renew the contract for the officers responsible, and that a letter had been written through the lawyer for the recoveries of the missing material, the Committee is disappointed that the supervisors did not execute their duties diligently. The Committee, therefore, recommends that the Controlling Officer should ensure that disciplinary measures are instituted against the officers' supervisors immediately. The Committee will await an update on the matter.

9.8 Staff Related Matters

i. Double Payment of Salaries K 45,730

The Controlling Officer submitted that the cited salary payments to five officers were not double payments but payment of salaries using cash. The company did not pay the officers via their respective bank accounts after running payroll. A verification exercise conducted to ascertain the double payment revealed that the officers did not get any salary payment through their bank account aside the paid salaries by cash. Furthermore, the company had since stopped the payment of salaries through cash and engaged ZANACO for the payment of salaries through PayFlex (online payment of salaries). Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and directs that all documents in support of the submission should be submitted to the Office of the Auditor General, subject to which the matter should close.

ii. Payment of Salaries to an Officer who Resigned K 69, 346

The Controlling Officer submitted that after the officer resigned, he was on the payroll for one month, hence being paid his salary amounting to K 15, 524.32 and that it will be recovered from his benefits. He further submitted that the other amounts totaling to K53, 821.86 paid to the officer were his salary arrears for six months that had accrued prior to his resignation. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and directs that all the money paid wrongly should be recovered with immediate effect. The Committee will await an update on the matter.

iii. Irregular Increase of Salary

The Controlling Officer submitted that there was an oversight on the part of the company to approve the increment without authority from the Board. In this regard, the irregular increase of the salary would be deducted from the employee's benefits. Documentary evidence was available to that effect.

Committee's Observations and Recommendations

The Committee notes the response and directs that apart from deducting the money in question; the Controlling Officer should ensure that disciplinary measures are instituted against all the supervisors who failed to follow the due process in awarding salary increments. The Committee will await an update on the matter.

iv. Outstanding Staff Obligations K 3,112,634

The Controlling Officer submitted that the non-payment of the outstanding staff obligations was due to financial constraints. The company had started dismantling the outstanding staff obligations and so far K 898, 641.86 had been paid towards staff emoluments.

Committee's Observations and Recommendations

The Committee notes the response and directs that all documents in support of the submission should be submitted to the Office of the Auditor General and the Committee will await an update on the dismantling of the total outstanding staff obligations.

PART III

10.0 GENERAL RECOMMENDATIONS

Following the Committee's interactions with the Controlling Officer from the Ministry of Water, Sanitation and Environmental Protection and Chief Executive Officers for the commercial water utilities that were cited in the Special Report of the Auditor General on the Accounts of Water and Sanitation Companies for the Financial Year Ended 31st December, 2018, the Committee observed a number of overarching challenges in the operations of the water utility companies. In order for these commercial water utilities to effectively perform their statutory function of providing water and sanitation services, the Committee observes and recommends as outlined below.

i. The Committee observes that one of the main problems that water utility companies face is the absence of boards to give them strategic direction. The Committee observes that the absence of boards for extended periods of time is at variance with the tenets of good corporate governance and has negative implications on accountability and business performance.

ii. The Committee, therefore, recommends that the Ministry of Water, Sanitation and Environmental Protection should ensure that, without fail, all water utility companies have governing boards and that there should be no lapses in between the end of tenure of one board and the appointment of a new one.

iii. The Committee observes that a number of water utility companies attributed their audit queries on what they term as "oversight on the part of management". This is highly unacceptable and a reflection of the poor attitude with which serious matters are approached.

iv. The Committee strongly urges the Controlling Officer to ensure that not only are there functioning boards in all the water utility companies, but that the boards have implementable stringent performance assessment systems for management and that disciplinary action is taken whenever lapses occur.

v. The Committee observes that there are a lot of inefficiencies in the provision of water and sanitation services, and that water utility companies are failing to meet the operational benchmarks provided by NWASCO. The Committee further observes the importance of access to clean water and sanitation services cannot be overemphasised and should not be a privilege of the few who live in urban centres, which is in fact at variance with Sustainable Development Goal No. 6 on provision of clean water and sanitation to all.

vi. The Committee strongly urges the Controlling Officer to ensure that all water utility companies improve, without fail, the efficiency in the provision of their services, so that all citizens have access to safe water, sanitation and hygiene. This is one of the most basic requirements for human health.

vii. The Committee observes that although water utility companies are operating as commercial entities and should, therefore, be profit making, they are facing a myriad of challenges and hence are making constant losses. The Committee further observes that the water utility companies attribute their failure to optimise their performance to old and dilapidated infrastructure, and to poor recapitalisation.

viii. The Committee urges the Controlling Officer to ensure that as a matter of urgency, water utility companies devise and implement recapitalisation plans to help improve their infrastructure, so as to enhance their operations.

ix. The Committee observes that a major weakness of the water utility companies is the huge debt owed by customers, with Government and quasi-Government institutions being the biggest debtors. The Committee further observes that the debt has a negative impact on the liquidity position of these water utility companies.

x. The Committee recommends that water utility companies should develop more effective debt management systems, and enhance their debt collection strategies.

xi. The Committee observes that the overarching challenge among the water utility companies is that of high non revenue water, amounting to K1. 4 billion, owing to the dilapidated infrastructure.

xii. In this regard, the Committee urges the Executive to assist these water utility companies to devise and raise funds for recapitalisation to improve their infrastructure in order to enhance their operations and service delivery.

11.0 CONCLUSION

Water utility companies play an essential role in economic and social development. Vibrant utilities are a prerequisite for effective service delivery and sustainable development. In this regard, the Government is ultimately responsible for ensuring universal access to safe water and sanitation. This can only be delivered if the resources availed to the utility companies are managed prudently and in an accountable and transparent manner. Sadly, water utility companies in Zambia are marred with various weaknesses such as poor corporate governance, low operational performance, dilapidated infrastructure, failure to prepare financial statements and poor financial performance.

In light of this, it is important that these challenges are addressed to enable the companies fulfill their mandates of providing water supply and sanitation services to the populace, and contribute to the attainment of Sustainable Development Goal (SDG) No 6 on provision of clean water and sanitation.

The Committee wishes to pay tribute to all the witnesses who appeared before it and made both oral and written submissions. It also wishes to thank you, Mr Speaker for your invaluable guidance throughout the Session. The Committee also expresses gratitude to the Office of the Clerk of the National Assembly and her staff for services rendered to it during the Session. The Committee is confident that the observations and recommendations contained in this Report will be favourably considered and fully implemented by the Executive, in the interest of the nation.

Appendix I – List of National Assembly Officials

i. Ms C Musonda, Principal Clerk of Committees
ii. Mr H Mulenga, Deputy Principal Clerk of Committees (FC)
iii. Mrs C K Mumba, Senior Committee Clerk (FC)
iv. Mr E I C Chilimboyi, Committee Clerk
v. Mrs D C M Mukwanka, Committee Clerk
vi. Mrs V B Tembo, Typist
vii. Mr M Chikome, Committee Assistant
viii. Mr D Lupiya, Committee Assistant
ix. Mr M Kantumoya, Parliamentary Messenger

Appendix II – List of Witnesses

i. **MINISTRY OF FINANCE**
Mr F K Yamba, Secretary to the Treasury
Mr K Mulenga, Chief Accountant
Mr E Manunga, Principal Accountant
Mr M Moyo, P/Budget Analyst
Mr B Ngandu P/ Economist

ii. **MINISTRY OF WATER DEVELOPMENT, SANITATION AND ENVIRONMENT PROTECTION**

Mr M Sakala, Permanent Secretary

Ms N Kalaluka, Director Finance

Mr O Katooka, Director Water Supply and Sanitation

Mr K Mapani, Head- Procurement Supply Unit

Ms M Mukutu, Principal Internal Auditor

Ms S Mooto, Principal Accountant

Ms F S Simumba, Assistant Director

iii. **CHAMBESHI WATER AND SEWERAGE COMPANY LIMITED**

Mr G Kaunda, Board Chairman
Mr P Simukoko, Finance Manager

iv. **EASTERN WATER AND SEWERAGE COMPANY LIMITED**

Mr M K Tembo, Board Chairperson
Mr A Mulinda, Managing Director
Mr M Simbuwa, Commercial Manager
Mr R Nonde, Financial Manager
Mr E Chanda, Accountant

v. **LUAPULA WATER AND SEWERAGE COMPANY LIMITED**

Mr K Chense, Managing Director
Mr K Chama, Senior Human Resources and Administration
Mr R Kalima, Head of Department-Finance
Mr S Twaba, Board Member

vi. **LUKANGA WATER AND SEWERAGE COMPANY LIMITED**

Ms J C Kasamanda, Acting Board Chairperson

Mr B Mayeya,Finance Manager
Mr T Nangoma, Ag Commercial and Business Development Manager
Mr Y Sinyangwe, Managing Director

vii. **LUSAKA WATER SUPPLY AND SANITATION COMPANY LIMITED**

Mr J Kampata, Managing Director
Mr J Chiyombwe, Director Infrastructure
Mr C Makala, Acting Director Finance
Mr H Kanini, Manager Procurement
Ms S Luwisha, Legal Counsel
Mr C Chikamba, V/Board Chairperson

viii. **NKANA WATER AND SEWERAGE COMPANY LIMITED**

Mr S Simukanga, Board Chairperson
Mrs D Makwaba, Managing Director
Mrs F Banda, Director Finance
Mr E Munsaka, Audit Committee Chairperson

ix. **NORTH WESTERN WATER SUPPLY AND SEWERAGE COMPANY LIMITED**

Hon. D Chingimbu, Board V/Chair
Mr J Chilufya, Acting Managing Director
Mr A Mungo,Acting Director Finance
Eng. M Kabika, Ag Director Engineering

x. **SOUTHERN WATER AND SEWERAGE COMPANY LIMITED**

Mr G Monde, Managing Director
Mr R Siamunene, Chairman
Mr C Lungowe, Finance Manager

xi. **WESTERN WATER AND SEWERAGE COMPANY LIMITED**

Hon P Mulasikwanda, Board Chairperson
Mr O Liato,Acting Manager Director
Mr B C Hamusokwe, Finance Manager
Mr K Njekwa, Commercial Manager

xii. **NATIONAL WATER AND SUPPLY COUNCIL**

Mr K Chitumbo, Director
Mr A Mwansa, Legal Counsel

xiii. **WATER AID AND WASH FORUM**

Ms P Chisanga, Country Director
Ms C Chifunda, Head of Policy
Mr B Muyovwe, Forum Coordinator
Ms M Phiri, Board Chairperson
Mr B Chanda, Head of Finance
Mr A Sakala, Technical Manager
Mr K Nkonge, Photographer