

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES FOR THE YEAR ENDED 31 DECEMBER, 2011 FOR THE SECOND SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON 2 OCTOBER, 2012

Consisting of:

Mr V Mwale, MP (Chairperson); Mr H H Hamududu, MP; Mr J Zimba, MP, Ms M Imenda, MP; Mr M Mbulakulima, MP; Mr C Matafwali, MP; Mr E J Muchima, MP; Mr A Milambo, MP; and Mr P Mucheleka, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report on the Report of the Auditor-General on the Accounts of Parastatal Bodies for the Year ended 31 December, 2011.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held eleven (11) meetings to consider the Report of the Auditor-General on the Accounts of Parastatal Bodies for the Year ended 31 December, 2011.

Procedure adopted by the Committee

4. With technical guidance from the Auditor-General, the Accountant-General and the Controller of Internal Audit, your Committee considered both oral and written submissions from Controlling Officers and Chief Executive Officers of the twenty-one (21) institutions that were cited in the Audit Report. Your Committee further requested the Secretary to the Treasury to comment on the issues raised with regard to all the twenty-one (21) institutions.

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

Your Committee regrets to report that due to the failure by the Controlling Officers to submit timely responses on Outstanding Issues to the Secretary to the Treasury, your Committee is unable to submit its appendix on Outstanding Matters.

Auditor-General's Comment

5. The Auditor-General reported that the Report of selected Parastatal Bodies for 2011 was submitted to the President for tabling in the National Assembly in accordance with the Constitution of the Republic of Zambia and the *Public Audit Act*, Cap 378 of the laws of Zambia.

Scope of Audit

- i) The Report was a result of a programme of test checks and reviews of the audited accounts of selected organisations for the financial years up to 31 December, 2011. Due to limited financial resources, the programme of work was restricted to twenty-one organisations.
- ii) In preparing the Report, draft report paragraphs were sent to the Controlling Officers of the organisations' parent ministries and Chief Executive Officers for confirmation of the correctness of the facts presented. Where the comments were received and varied materially with the facts presented, the relevant items were amended appropriately.
- iii) Specific mention was made of non-preparation of financial statements, failure to remit statutory contributions, poor financial performance and weakness in procurement procedures in the respective organisations.

CONSIDERATION OF SUBMISSIONS

SUBMISSION BY THE SECRETARY TO THE TREASURY

6. The Secretary to the Treasury appeared before your Committee and made comments on the findings in the Auditor-General's Report as set out below.

a) Introduction and Statement of Responsibility(Paragraph 1)

The Secretary to the Treasury stated that the facts were as set out by the Auditor - General in the Report and acknowledged that the audit of accounts of the twenty-one Parastatal Bodies was done within the provisions of the Constitution of Zambia and the Public Audit Act CAP 378 of the Laws of Zambia.

b) Audit Scope and methodology(Paragraph 2)

On the scope of the audit, the Secretary to the Treasury submitted that the Government appreciated that the Auditor - General undertook test checks and reviews of audited accounts for the years ending 31 December, 2009 to 2011 of the twenty-one selected parastatal organisations.

Furthermore, the Auditor-General's interaction with the Chief Executives through their Controlling Officers was encouraging as it enhanced the values of good corporate governance in the management of the Boards by providing checks and balances in the management of public resources.

The Secretary to the Treasury assured your Committee that the Treasury would increase the funding to the Office of the Auditor-General so that the office could widen its audit scope.

c) Internal Control (Paragraph 3)

The Secretary to the Treasury observed that disclosure was made in the Audit Report of non-preparation of financial statements, failure to remit statutory contributions, weaknesses in procurement procedures, unaccounted for funds, irregular payments and poor financial performance by respective parastatal organisations. These were clear indicators of internal control lapses in most of the parastatal bodies.

The Secretary to the Treasury assured your Committee that the Treasury was aware of most of the highlighted weaknesses in internal controls and the Controller of Internal Audit had been assigned to review the systems in the parastatal bodies.

The Secretary to the Treasury then submitted on each of the highlighted weaknesses as set out below.

i) **Failure to Prepare Financial Statements**

The Secretary to the Treasury submitted that there had been a minimal improvement regarding irregularities relating to failure to prepare financial statements as evidenced in the Auditor - General's Report of 2011 in that only five institutions from the twenty-one audited had been cited compared to ten in 2009 and six in 2010. Of the five, three institutions had a backlog of all the years under review (2009 to 2011) while two of them were for 2011 whose delay was due to unresolved issues with appointed external auditors.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the Secretary to the Treasury to put in place measures compelling all Parastatal Bodies in Zambia to be up to date in the preparation of financial statements as it is the only way Parliament and the people of Zambia will know what is happening in these institutions. Your Committee notes that this has been a long standing matter on which the Treasury should have taken concrete steps. Your Committee urges the Auditor-General to keep the matter in view in future audits.

ii) **Poor Management of Contracts**

The Secretary to the Treasury submitted that the Treasury took note of this matter and would immediately extend measures which had been introduced in Ministries, Provinces and Other Spending Agencies (MPSAs) in relation to project implementation to parastatal bodies. The measures would include:

- the decentralisation of the procurement system through the issuance of circular No.1 of 2013 issued by Zambia Public Procurement Authority that would enhance the speedy implementation of projects;
- requiring management of respective institutions to appropriately prepare project appraisals and budget implementation plans before commencement of any project; this would ensure that all parastatals adhered to the designed budget implementation plans or framework that would enhance the speedy implementation and monitoring of projects; and
- requiring respective Boards to ensure that adequate funds were secured before any contract was signed for a project and a detailed financing schedule availed to the line Ministry and the Treasury.

Committee's Observations and Recommendations

Your Committee notes the submission by the Secretary to the Treasury and urges him to ensure that cases bordering on abuse of office and corruption are reported to investigative wings immediately they are discovered.

iii) **Failure to Constitute Boards of Directors**

The Secretary to the Treasury submitted that the matter was seriously being addressed by the Treasury through the enactment of the State owned Enterprise Policy and Act, and the harmonisation of all the Acts that establish statutory bodies. In the interim, the Secretary to the Treasury had requested all Controlling Officers to submit to the Treasury the status of Boards under their ministries so that, through the Minister of Finance, interventions are made

to ensure that Boards of Directors are immediately put in place to promote good corporate governance in the management of parastatals.

Committee's Observations and Recommendations

Your Committee notes that this is a very sad state of affairs and is the main reason why most parastatal bodies are under performing and involved in financial irregularities. Your Committee urges the Government, through the Secretary to the Treasury, to ensure that the appointment of Boards of Directors is done at the right time to avoid creating inertia in the management of the institutions.

iv) Poor Financial Performance

The Secretary to the Treasury submitted that this was an area of great concern to the Treasury as most of parastatals did not declare dividends to the Treasury despite being funded adequately. The Treasury intended to include performance indicators for management teams that would address matters of poor financial performance, hence the impending launch of the Zambia State Owned Enterprise Policy. He added that the Zambia Development Agency had been requested to prepare a status report on the loss making parastatal bodies that had earlier been earmarked for privatisation.

Committee's Observations and Recommendations

Your Committee takes note of the submission by the Secretary to the Treasury but observes that the Government has been working on the proposed legal and policy framework for too long. Given that poor financial performance of parastatal bodies is widespread, your Committee urges the Secretary to the Treasury to ensure that the proposed legal and policy framework is put in place without further delay.

(v) Poor Management of Infrastructure

The Secretary to the Treasury submitted that the Treasury intended to carry out a review and revaluation of all assets in Parastatal Bodies so that a comprehensive recapitalisation programme could be put in place with the support of the private sector using the Public Private Partnership (PPP) Programme which was currently being enhanced. In the interim, the Treasury would draw up comprehensive guidelines through the Investment and Debt Management Department on the management of infrastructure.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Secretary to the Treasury to ensure that the assurance made is implemented. Further, your Committee urges the Office of the Auditor-General to keep the matter in view in future audits.

vi) Poor Management of Loans and Advances

The Secretary to the Treasury submitted that this was clear mismanagement of resources by management appointed to oversee the parastatals and could not be condoned. It was therefore, imperative that the respective Boards of Directors whose composition included Controlling Officers immediately take action on all erring officers cited in the Report as well as those found wanting but were not cited in the Report. The Treasury would engage Controlling Officers under whose portfolios the parastatals fell.

Committee's Observations and Recommendations

Your Committee concurs with the Secretary to the Treasury that this anomaly is purely due to poor management in the concerned parastatal bodies and urges him to take measures to ensure that the practice is stopped.

vii) Lack of Strategic Plans

The Secretary to the Treasury submitted that no organisation could operate without strategic plans and expect to produce results at the end of each financial year or specific period. The Treasury would ensure that all parastatal bodies drew up strategic plans immediately.

Committee's Observations and Recommendations

Your Committee agrees with the Secretary to the Treasury on the importance of institutions having strategic plans and hopes that this would be used as a performance indicator when it comes to consideration of appointments of Chief Executive Officers and persons to serve on the Boards of Directors in Parastatal Bodies.

viii) Poor Management of Pension Funds

The Secretary to the Treasury submitted that the Treasury would immediately issue instructions to all parastatal bodies to abide by the regulations of the Pensions and Insurances Authority Act in the management of pensions funds. On the financial challenges faced by the Public Service Pension Fund, the Secretary to the Treasury informed your Committee that Government was aware of the challenges faced by the Fund and a committee had been set up to look at the harmonisation of pension schemes in the Country.

Committee's Observations and Recommendations

Your Committee takes note of the Secretary to the Treasury's submission and urges the Auditor-General to keep the matters in view in future audits.

ix) Questionable Investments

The Secretary to the Treasury submitted that this was a serious omission on the part of management as all investment requires the authorisation of the Treasury and Board of Directors. Therefore, any management team involved in the matter shall be sanctioned in line with the Public Finance Act and any other Government regulations.

Committee's Observations and Recommendations

Your Committee, in concurring with the Secretary to the Treasury on the need for all investments to be approved by the Board of Directors, urges him to ensure that all investments are scrutinised to ensure that they are in the best interest of the institutions and the nation.

x) Non-remittance of Statutory Contribution

The Secretary to the Treasury submitted that the Treasury intends to intervene through using debt swaps between the affected institutions such as Zambia Revenue Authority, NAPSA and parastatal bodies as a way of re-capitalisation and of cleaning up the statements of financial position (balance sheets).

Committee's Observations and Recommendations

In noting the Secretary to the Treasury's submission, your Committee observes that debt swaps, though welcome, are not a sustainable solution to the matter and, therefore, urges the Government to find a more lasting solution such as recapitalisation of these bodies or by converting the debts into capital. Your Committee also urges the Secretary to the Treasury to include the statutory contributions in the grants given to the Parastatal Bodies. Your Committee awaits a progress report on the matter.

xi) Failure to collect Revenue

The Secretary to the Treasury submitted that the Treasury would immediately undertake to harmonise the parastatal financial regulations with the Government Financial Regulations of 2006 so that all revenues due to the Government were collected, accounted for and deposited into Control 99.

Committee's Observations and Recommendations

Your Committee expresses concern that the same parastatal bodies that are experiencing liquidity problems are the culprits when it comes to poor debt management and misuse of revenue. Your Committee urges the Secretary to the Treasury to ensure that measures are put in place to collect and account for revenue.

xii) Inadequately Supported Payments

The Secretary to the Treasury submitted that the Treasury would harmonise the parastatal financial regulations with the Government Financial Regulations of 2006 to avoid disagreements as to what documents were required to support a payment.

Committee's Observations and Recommendations

Your Committee notes that failure to ensure that all payments are accompanied by adequate supporting documents is mainly due to poor management and weak internal control systems and, therefore, urges the Secretary to the Treasury to engage the parastatal bodies on the need to correct the situation.

xiii) Irregular Payments

The Secretary to the Treasury submitted that this was clear laxity by supervising boards and management of the parastatal bodies as all payments must be approved by them. In this regard, necessary disciplinary action should be taken against officers involved to deter others from perpetrating such vices in future. The Treasury would engage Controlling Officers under whose portfolios the parastatal bodies fell to ensure that recoveries, disciplinary action or prosecution, as the case may be, could be effected.

Committee's Observations and Recommendations

Your Committee takes note of the Secretary to the Treasury's assurance that necessary action will be taken against officers involved in financial malpractices, and will accordingly await a progress report on the matter.

xiv) Unaccounted for Funds

The Secretary to the Treasury submitted that the laxity by supervising Boards and management teams of parastatal bodies caused the failure to account for funds and, therefore,

any officer involved should be reported to the law enforcement agencies for further investigations.

Committee's Observations and Recommendations

Your Committee notes with concern that the failure to account for revenue is tantamount to theft and this irregularity has been going on for a long time without decisive action being taken by the Treasury. Your Committee, therefore, urges the Secretary to the Treasury to take stringent measures to address the situation. The Auditor-General is urged to keep the matter in view in future audits.

xv) **Unaccounted for Stores**

The Secretary to the Treasury submitted that the Treasury would undertake a review of the accounting procedures and financial regulation in all parastatals in order to harmonise them with the Public Finance Act of 2004 and its Financial Regulations of 2006.

Committee's Observations and Recommendations

Your Committee expresses concern that the management of some parastatal bodies are failing to account for stores, which is unacceptable as it makes it difficult to establish whether or not the goods or services received were used for the intended purpose. Your Committee urges the Secretary to the Treasury to ensure practical steps are taken to improve stores management in the Country.

xvi) **Unretired Imprest**

The Secretary to the Treasury submitted that this was clear laxity by management of the parastatal bodies as all imprest must be retired within the stipulated time of 48 hours and failure to which immediate action should be taken to recover the outstanding balance of the imprest, instead of waiting for the Auditor - General's Office to raise it as a query.

Committee's Observations and Recommendations

Your Committee expresses concern that failure to retire imprest is still rampant in some Parastatal Bodies and urges the Secretary to the Treasury to engage Boards of the companies so that the situation could be addressed.

xvii) **Failure to remit Revenue to Control 99**

The Secretary to the Treasury submitted that the Treasury was currently undertaking Non Tax Revenue reforms which included the review of accounting for revenue collections from parastatal Boards. An example was the action taken on the Energy Regulation Board and Zambia Information Communication and Technology Authority where the two institutions were compelled to deposit revenue in Control - 99. In cases where there was a conflict in the Acts establishing the parastatal organisation, Statutory Instruments would be brought before the House for harmonisation.

Committee's Observations and Recommendations

Your Committee notes that failure to remit funds to Control 99 is a very serious omission and the Secretary to the Treasury is urged to implement the measure indicated to your Committee without further delay.

xviii) **Delayed Banking**

The Secretary to the Treasury submitted that this was a clear case of teeming and lading by the cashiers. In this regard, instructions would be issued to each institution to immediately use the new systems being piloted to account for non tax revenue by depositing directly into a transit account or using point of sales systems.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Secretary to the Treasury to engage the Boards and management of the parastatal bodies to implement payment systems that enable clients to make payments at the bank.

xix) **Wasteful Expenditure**

The Secretary to the Treasury submitted that this was a case of clear laxity by supervising Boards and management of the parastatal bodies as all expenditures must be approved by them. The Controlling Officers should follow up on all the matters by taking disciplinary action against officers involved to deter others from perpetrating such vices in future.

Committee's Observations and Recommendations

Your Committee notes that wasteful expenditure is a very serious irregularity as no value is obtained from the money expended and your Committee urges the Secretary to the Treasury to ensure that all government institutions take stringent measures that will minimise wasteful expenditure.

xx) **Over Payments to Contractors**

The Secretary to the Treasury submitted that these were serious omissions which should be reported to investigative wings for further investigations since these bordered on corruption by officers involved in the payments.

Committee's Observations and Recommendations

Your Committee expresses concern that management teams and Boards in some of the parastatal bodies are not keen to report the matter of over payments for further investigation which is delaying or even preventing the prosecution of the offenders. Your Committee urges the Secretary to the Treasury to engage the Boards on this matter so that overpayments could be avoided and where they occur recoveries are made. Particularly, the Secretary to the Treasury is urged to ensure that the Controlling Officer who represent Government on the Board prepare and submit regular reports on measures being taken to prevent overpayments.

Action Taken on Specific Companies

On some specific action taken to strengthen internal controls, the Secretary to the Treasury submitted as outlined below.

- **MOFED (Tanzania)**

The Secretary to the Treasury submitted that an on-the-spot follow up action was taken by a team from the Controller of Internal Audit led by himself, leading to the removal of the previous management and a decision had been made to advertise the positions.

Committee's Observations and Recommendations

Your Committee observes that the Company has faced a lot of challenges most of which relate to poor corporate Governance. Your Committee also observes that there are a lot of irregularities at that Company which mostly border on fraud and abuse of authority. Therefore, although noting the action taken by the Secretary to the Treasury to remove the management of the Company, your Committee urges him to ensure that all aspects of good corporate governance are put in place for the Company to operate efficiently. Secondly, your Committee urges the Controlling Officer to ensure that all matters raised in the Auditor-General's report that border on fraud and abuse of office should immediately be reported to investigative wings for further investigation and possible prosecution of offenders.

- **Food Reserve Agency**

The Secretary to the Treasury submitted that he had assigned a team of internal auditors who were currently on the ground and a report on their findings shall be submitted in due course.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to await a progress report on the outcome of the audit.

- **Mpulungu Harbour Corporation Ltd**

The Secretary to the Treasury submitted that based on the internal audit findings by the Treasury, the investigative wings were brought in to carry out further investigations and the matter was before the Courts of Law.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to await a progress report on the outcome of the court process.

- **St George Fisheries in Mpulungu**

The Secretary to the Treasury submitted that from the recommendation of the internal audit report, the Company was merged with Mpulungu Harbour Corporation and would proceed to evaluate the assets.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to await a progress report on the matter.

- **Zambia National Broadcasting Corporation**

The Secretary to the Treasury submitted that from the findings and recommendations arising out of the internal audit, management at the Corporation had since made some internal re-organisation.

Committee's Observations and Recommendations

Your Committee notes the submission and requests the Auditor-General to undertake audit verification on the matter. Your Committee awaits a progress report on the matter.

In concluding his submission, the Secretary to the Treasury stated that the Ministry of Finance had found it expedient to come up with a policy for the supervision and performance monitoring of State Owned Enterprises. This policy framework would provide guidance on key corporate governance policies and procedures that would ensure that the Government, through the Treasury, took a more systematic approach to exercise its ownership rights across all its enterprises. This would invariably contribute to the better performance of State Owned Enterprises and enable the Government to maximise returns on its assets and investments. The Government would launch the Zambia State Owned Enterprise Policy before the end of 2013. Going forward, the Government will cause the enactment of the *State Owned Enterprises Act* that would seek to legitimise the State ownership of all State Owned Enterprises and harmonise all pieces of legislation governing the operations of State Owned Enterprises.

Committee's Observations and Recommendations

Your Committee notes that the Government has been working on the matter for a long time and is glad to note that the policy framework will be launched before the end of the year. Your Committee also urges the Secretary to the Treasury to ensure that the legal framework is also reformed to suit the new policy. Your Committee awaits a progress report on the matter.

COPPERBELT UNIVERSITY AUDIT QUERY

PARAGRAPH 4

Funding

The Controlling Officer agreed that a total provision of K263,898,154,000, was made by the Government to cater for various activities against which amounts totalling K189,426,408,000 were released resulting in an underfunding of K74,471,746,000. The University Management had over the years discussed the matter with relevant government authorities and made several presentations in an effort to find a lasting solution to the matter relating to underfunding. University Management was hopeful that the question of funding public universities would soon be addressed, a situation which was expected to give the University financial stability.

The Controlling Officer added that in order to assist the Copperbelt University (CBU) overcome the financial challenges it was facing, the Government was exploring ways of funding public universities. The Government performed two roles in that it was a major sponsor of students at public universities and at the same time had to provide grants to the same institutions for their operations. One of the options under consideration was to engage corporate institutions and persuade them to sponsor less privileged students. In order to ensure that university education was affordable, the Government could not allow public universities such as CBU to charge economic fees. A possible compromise would be to allow public universities to have two streams of students so that one of the streams could be charged economic fees.

Unfortunately, due to the instability that was experienced at public universities which ultimately affected the academic calendars, public universities do not attract foreign students who could be charged economic fees.

Committee's Observations and Recommendations

Your Committee observes that the queries that were raised in the audit report on Copperbelt University are mainly attributed to the poor financial status of the University. Your Committee is, therefore, concerned that the Government has initiated plans to construct more public universities and upgrade some existing public colleges into universities when the current public universities are facing serious funding challenges. Your Committee, therefore, strongly urges the Government to put in place a new sustainable system of funding public universities that will ensure that they fulfil their role of providing quality higher education and research.

Review of Operations

7. An examination of accounting and other records maintained at the University for the financial years ended 31 December, 2009 to 2011 revealed the issues set out hereunder.

a) **Failure to Submit Annual Report to the Minister for 2009, 2010 and 2011**

The Controlling Officer submitted that the delay in submitting audited financial statements for the financial years 2010 and 2011 was mainly due to a prolonged dispute and settlement of audit fees demanded by Messrs PAX Consultants, the then appointed external auditors, for audit of the financial years 2008 and 2009. The issue was only settled in 2011 with intervention by the Office of the Auditor-General, by which time audit of the financial years 2010 and 2011 could not be completed on time. Management made the assurance that such an occurrence would not arise owing to the steps taken to normalise the situation.

Following the appointment of Messrs Grant Thornton as new auditors, to audit financial statements for 2010, 2011 and 2012, the state of the audit was as follows:

- i. Financial Year 2010 – the audit had been completed and adopted by the University Council; the report was being printed and would be submitted by the end of July 2013;
- ii. Financial Year 2011 – the draft audit would be submitted to the Council for adoption at the next meeting scheduled for Friday, 28 June 2013; once adopted, CBU Management planned to print and submit to the Minister by end of July 2013;
- iii. Financial Year 2012 – the audit had commenced and was planned to be completed within July 2013; Management planned to print and submit by end of August 2013.

Committee's Observations and Recommendations

Your Committee resolves that the matter should be closed subject to the University submitting to the Auditor-General audited financial statements and copies of annual reports for 2009, 2010 and 2011 for verification.

b) **Financial Performance - Statement of Comprehensive Income for the years ended 31 December, 2009 to 2011**

The Controlling Officer submitted that the Institution's financial results for the period under review had been deteriorating. Staff costs during the period under review were as reported. The poor financial results were mainly due to underfunding as highlighted hereunder.

	2011 K'000	2010 K'000	2009 K'000
Government Grant	72,034,289	43,279,305	51,634,183
Staff Costs	136,640,703	118,610,831	100,614,761
Underfunding	(64,606,414)	(75,331,526)	(48,980,578)

The current funding status remained unchanged. The funds made available for the 2013 budget was Kr60.02 million against the actual budgeted expenditure on personal emoluments of Kr266.20 million, thereby giving a deficit of Kr206.20 million.

The University had over the years grown both in terms of number of schools and programmes, effectively requiring additional teaching and administrative staff. At the time of the audit, the University Management was in the process of reviewing the establishment to reflect the growth. The Controlling Officer further submitted that other than employee costs, the Institution also provided for penalties and interest on unremitted Pay-As-You-Earn (PAYE). The Institution had been unable to remit statutory obligations on account of underfunding.

The University Council approved the Institution's revised establishment from 947 in 2009 to 1,342 on Tuesday, 27 November, 2012. Actual staff and establishment as at 31 May, 2013 was as shown below.

	Establishment	Actual	Variance
Management and Senior Staff	82	58	24
Academic Staff	594	285	309
Administrative and Technical Staff	276	184	92
Unionised Staff	390	379	11
Total	1,342	906	436

The Controlling Officer admitted that as at the time of the audit, the University had more staff than the approved establishment mainly because approval to employ was received late.

Committee's Observations and Recommendations

Whilst appreciating the inadequacy of the grant that the University received from the Government, your Committee is disappointed that the University only regularised the staff establishment after it was queried by the Auditor-General. Your Committee therefore, urges the Controlling Officer to caution the University management for failing to seek approval before employing staff.

c) Financial Position - Statement of Financial Position for the Period 2009 to 2011

Liquidity

The Controlling Officer agreed with the Auditor-General that the liquidity position of the University had been worsening from net current liabilities of K218,668,089,000 in 2009 to net current liabilities of K314,453,491,000 in 2011. And that although the current ratio improved from 2:0.07 in 2009 to 2:0.22 in 2011 it was below the generally accepted ratio of 2:1.

The Controlling Officer submitted that the major contributing factor for the institution's worsening financial position was inability to service statutory obligations - such as PAYE and National Pension Scheme Authority (NAPSA) contributions - on account of underfunding. The Controlling Officer further submitted that the Institution's current ratio continued to worsen which was of great concern. The worsening liquidity was on account of underfunding, giving rise to inability to service statutory obligations, trade creditors and contractual obligations. This situation effectively resulted in an ever-worsening accumulation of debts.

The University management had continued to pursue a long lasting solution to funding challenges with the Government. Once the question of funding public universities had been resolved, most of the issues raised would be addressed and the Institution's financial position would be stabilised.

Committee's Observations and Recommendations

Your Committee reiterates its earlier recommendation that the Government should develop a sustainable funding system for public universities. Your Committee urges the Auditor-General to keep the matter in view in future audits.

i. Overdraft Facility - Mortgaging of the University Stand

The Controlling Officer submitted that the overdraft facility was necessitated by underfunding of personal emoluments. In an effort to ensure that net salaries were paid on time, the University management with the approval of the Council and Secretary to Treasury arranged for the overdraft facility in 2005. The facility was intended to be for a short period in the hope that the Government would address the question of funding to public universities to facilitate meeting monthly gross personal emoluments.

Realising that funding of public universities would take time to resolve, the University management with Council approval, negotiated with the Zambia National Commercial Bank (ZANACO) in 2010, to substitute the main campus with the following properties:

- a. Plot No. 2484, 60 Kuomboka Drive, Parklands
- b. Plot No. 5337 Chinyunyu Close, (CBU Guest House), Riverside
- c. Plot No. 5243 Kaminda Drive, Riverside
- d. Plot No. 5880 Lulamba Drive, Riverside

Unfortunately, the Institution did not have title deeds for Plot No. 2484, 60 Kuomboka, therefore the Bank could not substitute the security. In 2012, the University management included Plot No. 428 Choma Avenue, Parklands, having resolved legal matters involving the property. The Bank could not change the security since the Institution was in the process of obtaining title deeds for the property. In an effort to finalise the matter, management submitted the available title deeds to the Bank in January, 2013. The Bank had resolved and agreed to effect the change by July, 2013.

Committee's Observations and Recommendations

Your Committee observes that with low funding of public universities, the liquidity position will continue to be poor and your Committee, therefore, re-emphasises the need for the Government to revise the way public universities are funded. This should include the way academic fees are determined so that a balance can be struck between affordability by students and better liquidity position of universities.

On the pledged assets, your Committee observes that the 'No Objection' letter of 2009 from the Secretary to the Treasury was silent on the issue of collateral. In order to have a clear record on the matter, your Committee recommends that the University management should avail the Auditor-General all letters from the Secretary to the Treasury for audit verification.

ii. *Failure to settle Terminal Benefits*

The Controlling Officer submitted that employees' terminal benefits referred to as owing as at October, 2012, amounting to K83.087 billion were actually accounting accruals. Actual benefits due to employees who qualified for retirement as at October, 2012 amount to K35.0 billion. The increase in provisions was on account of cumulative number of employees reaching retirement age and improvements in salaries.

As one of the University's accounting policies and in compliance with International Accounting Standards, the Institution provided for and recognised as expenses in the Statement of Comprehensive Income, long-term employee benefits for employees who had served a minimum of twenty (20) years in the Institution and those who had attained the age of fifty-five years.

The accruals were calculated in accordance with existing conditions of service and that employees who reached their retirement age continued to be in service until such a time as funds became available. The Government, through the Ministry of Education, Science, Vocational Training and Early Education, had centrally budgeted Kr63.24 million under Programme 5007; Dismantling of Arrears activity number 8 for the institution's arrears. The amount due to retirees as at 31 May, 2013 stood at Kr40.12 million.

It was hoped that once these funds were released, the Institution would be able to pay some of the retirees. Affected employees were still working for the University.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer and the University management to have the figures reconciled with the Auditor-General and report progress on the settlement of the retirement benefits arrears.

iii. *Non-remittance of Statutory Contributions*

The Controlling Officer submitted that the unfortunate situation was principally on account of non-funding of gross personal emoluments and if not addressed, the situation was likely to continue worsening cumulatively. Arrangements had been made to clear arrears due to NAPSA by end of December, 2013. Discussions with the Government to resolve the issue of the growing PAYE indebtedness were continuing.

Committee's Observations and Recommendations

Your Committee observes that funding of net salaries by the Government is the major reason for the increase of outstanding amounts for PAYE and NAPSA contributions. In order to avoid affecting the pension benefits of staff, your Committee strongly urges the Government to ensure that all outstanding NAPSA contributions are settled through a budget provision. Your Committee, further, demands an update on the settlement of rates due to the local authority and PAYE.

iv. *Lack of Title Deeds*

The Controlling Officer submitted that of the six properties owned by the Institution, four title deeds were available as shown below.

Property	Status
a) Plot No. 2484 Kuomboka Drive	Not available
b) Plot No. 5337 Chinyunyu Close	Available
c) Plot No. 5243 Kaminda Drive	Available
d) Plot No. 5880 Lulamba Drive	Available
e) Plot No. 4662 Jambo Drive	Available
f) Plot No. 428 Choma Avenue	Not available

The University Legal Counsel had been assigned to follow up title deeds for Plot Nos. 2484 Kuomboka Drive and 428 Choma Avenue. The University management was expecting to get title deeds for the two properties by the end of September, 2013. The Controlling Officer further submitted that delays in obtaining title were historical in that the properties were transferred as a block from the former Zambia Institute of Technology. Since the Ministry of Lands had endorsed the transfer, this was considered to be good enough to claim ownership.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the title deeds for the two Government properties are obtained without any further delays. Your Committee awaits a progress report on the matter.

ELECTORAL COMMISSION OF ZAMBIA AUDIT QUERY

PARAGRAPH 5

Accounting and Other Irregularities

8. An examination of accounting and other records at the Headquarters and selected districts for the financial year ended 31 December, 2011 carried out in May, 2012 revealed the issues set out hereunder.

a) Irregular Payment of Allowances to Commissioners

The Controlling Officer responded that the allowances were approved by the Republican President and the approval was available for verification.

Committee's Observations and Recommendations

Your Committee strongly advises the Controlling Officer to avoid the tendency of making documents available when summoned to appear before your Committee. The Controlling Officer is urged to have the approvals verified by the Office of the Auditor-General after which the matter is recommended for closure.

b) Failure to Pay Tax on Allowances

The Controlling Officer reported that the Commission had since made a resolution to start paying all taxes that were due on any such allowances with effect from January, 2013. Minutes of the Commission meeting on this resolution as well as the memorandum advising members of staff were available for verification. All allowances that were applicable were being subjected to tax.

Committee's Observations and Recommendations

Your Committee appreciates the action taken to normalise the irregularity regarding the paid

allowances. Your Committee is, however, disappointed that the Commissioners and the Director allowed the situation to continue unabated. The Controlling Officer is urged to ensure that all taxes due are recovered and have all relevant documents verified by the Office of the Auditor-General.

c) **Questionable Variations of Contract between ECZ and Universal Print Group**

The Controlling Officer responded that inasmuch as the reasons for the reprints of ballot papers included the omissions by the supplier, the amounts paid only covered the omissions by the Commission. The reprints that were done to remedy the omissions by the supplier were not charged to the Commission. The Commission only paid for reprints that were as a result of omissions by the Commission.

Your Committee heard that the said amount included the cost of printing ballot papers for by-elections that were held shortly after the tripartite elections. The by-elections were as a result of deaths of candidates after ballots had already been printed for the tripartite elections as well as a resignation after the results were announced by the Commission. The Controlling Officer stated that the UPG had the most competitive unit prices and justified direct contracting for the by-elections. The provisions for direct contracting as per Procurement Act were strictly adhered to in order to ascertain value for money. Further, the Procurement Act empowered the procurement entity to determine its own percentage variation limit depending on the nature of the goods or services.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to provide proof that the reprints that were paid for were attributable to the Electoral Commission of Zambia and such proof should be submitted to the Auditor-General for verification. The Controlling Officer is strongly advised to ensure that such costly omissions were minimised. The matter was closed subject to audit verification.

d) **Inadequately Supported Payments - K106,831,800**

The Controlling Officer responded that the receipts for the various activities were now available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Management to avail supporting documents at the time of the audit which can be attributed to poor supervision on the part of the Controlling Officer. Your Committee urges the Controlling Officer to take disciplinary action against the officers who caused the anomaly and to avail the traced supporting documents to the Auditor-General for verification.

e) **Unretired Imprest - K89,420,000**

The Controlling Officer submitted that the necessary retirement documents from members of staff had since been compiled and were now available for verification.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification whilst the Controlling Officer is urged to take disciplinary action against the officers responsible for the failure to provide the documents at the time of the audit.

f) **Irregular Payment of Practitioner and Retention Allowance**

The Controlling Officer responded that this was a Condition of Service that was determined by the Commission for its members of staff in line with Section 12 of the *Electoral Commission Act, No 24 of 1996*. However, the Commission had since resolved to harmonise all allowances with the exception of the non-private practice allowance, as directed by the Secretary to the Cabinet, by incorporating them in one lump sum as a basic salary amount. The Controlling Officer further stated that both the non-private practice and retention allowances for the members were approved by the Republican President in 2005. This information was available for verification.

Committee's Observations and Recommendations

Your Committee observes that a circular regarding payment of non-practice allowance as well as recruitment and retention allowance was issued by Cabinet Office to guide all Government funded institutions and it was unfortunate that the Commission, despite being guided in the previous year has not taken into consideration the circular. Your Committee, in reiterating its earlier recommendation, directs that ECZ as a Government agency should adhere to circulars issued by Cabinet Office. Your Committee awaits a progress report on the matter.

g) **Unaccounted for Election Materials**

The Controlling Officer responded that the stores records had since been updated with items that had been collected from the districts and received by Stores. There remained a deficit of only one motor bike in Shangombo District and 7,296 lanterns which were lost and/or stolen during the disturbances in some constituencies in Lusaka District on the polling day. Some tables and chairs were also lost during the same uproar and were reported to the Police. He stated that the Commission was still waiting for a police report from Lusaka City Council who had distributed the election materials in Lusaka.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Lusaka City Council submits the police report to facilitate resolution of the query. The Controlling Officer is further urged to have the updated stores records verified by the Office of the Auditor-General. The Committee awaits a progress report on the matter.

h) **Missing Components of the Registration Kits**

The Controlling Officer responded that the missing components for the registration kits were stolen from two locations as follows:

- i. at Head Office, by a member of staff on a short term contract and the matter was currently before the Courts of Law; documentation in this respect, including the Police Report, was in the custody of the Court and could not be accessed until the case was concluded.
- ii. at Lusaka City Council Civic Centre during the collation of results for three constituencies for the 2011 tripartite elections, violence erupted and the equipment went missing in the confusion that ensued; the matter was reported to the Police by Lusaka City Council and the Police Report was being awaited.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to report progress on the case involving a

member of staff that was before the Court. The Controlling Officer, as in the earlier case, is urged to ensure that the Lusaka City Council submits a police report. The Controlling Officer is urged to update the information and specify which components were attributable to the member of staff and those that went missing in the election period. Your Committee awaits a progress report on the matter.

i) **Missing Power Kits**

The Controlling Officer reported that there are now 990 kits accounted for in Stores. Nine kits were stolen during the fracas in Lusaka on poll day. The loss was reported to the police. The Police Report was being obtained by the Lusaka City Council. One kit was also reported lost in Chililabombwe and the Police report was available.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to have the number of complete power kits verified and the police report is obtained from Chililabombwe. They await a progress report on the police report being availed from Lusaka City Council.

LOCAL AUTHORITIES

a) **Unretired Imprest - K354,617,740**

The Controlling Officer submitted that of the seven local authorities that had unretired imprest, only Kabwe and Petauke had responded while responses were awaited from Serenje, Katete, Lukulu, Shangombo and Mansa local authorities. The Commission had since written to them to urgently provide satisfactory explanations by June 30, 2013.

Committee's Observations and Recommendations

In noting the submission, your Committee is concerned with the failure by the Electoral Commission of Zambia to secure retirements from the concerned local authorities and urges the Controlling Officer to ensure that the matter is resolved. Your Committee urges the Controlling Officer to avail the retirement details that have been submitted to the Auditor-General for verification.

b) **Missing Payment Vouchers-K260,469,331**

The Controlling Officer submitted that out of the three local authorities that had missing payment vouchers, only Solwezi had responded while responses were awaited from Livingstone and Isoka local authorities. The Commission had since written to them to urgently provide satisfactory explanations by June 30, 2013.

Committee's Observations and Recommendations

In noting the submission, your Committee is concerned with the failure by the Electoral Commission of Zambia to secure responses from the two local authorities and urges the Controlling Officer to ensure the matter is resolved. Your Committee awaits a progress report on the matter.

c) **Inadequately Supported Payments-K5,623,504,255**

The Controlling Officer submitted that none of the six local authorities that were queried for inadequately supported payment had responded and the Commission had since written to them to urgently provide satisfactory explanations by June 30, 2013.

Committee's Observations and Recommendations

Your Committee expresses concern that none of the local authorities that were queried for having inadequately supported payments had responded. In this regard, the Controlling Officer is urged to ensure that the matter is addressed. Your Committee awaits a progress report on the matter.

d) Unaccounted for Fuel - K594,724,227

The Controlling Officer submitted that of the eight local authorities that were queried for unaccounted for revenue only Kasama had responded and the Commission had since written to the others to urgently provide satisfactory explanations by June 30, 2013.

Committee's Observations and Recommendations

Your Committee notes that failure to account for revenue is a serious omission as it is tantamount to theft and should be reported to investigative wings without further delay. The Controlling Officer should work with the Local Government Service Commission to ensure that officers responsible for the omission are disciplined. Your Committee awaits a progress report on the matter.

e) Irregular Drawing of Fuel-K122,376,998

The Controlling Officer submitted that while Kasama and Petauke had responded, Mpika, Mbala and Isoka had not and the Commission had since written to them to urgently provide satisfactory explanations by June 30, 2013.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that documents in respect of Kasama and Petauke are submitted to the Auditor-General for verification. Further, the Controlling Officer was urged to pursue the other local authorities who had not responded so that responses could be submitted and verified by the Auditor-General.

f) Failure to prepare Bank Reconciliation Statements

The Controlling Officer submitted that all the five local authorities concerned were written to and only Ikelengi District Council had responded and responses were being awaited from Katete, Zambezi, Kaoma and Lukulu Districts.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to work with her counterpart in the Ministry of Local Government and Housing in implementing internal control and accounting systems. Your Committee resolves to await a progress report on the matter.

g) Failure to Prepare Cash Books

The Controlling Officer submitted that both Zambezi and Lukulu districts had not responded on the matter.

Committee's Observations and Recommendations

Your Committee urges the Controlling officer to work with the Controlling Officer Ministry of Local Government and Housing to employ internal control and accounting systems. Your Committee resolves to await a progress report on the matter.

h) Incomplete Details on Acquittal Sheets for Election Officers - K61,690,999

The Controlling Officer submitted that Lundazi and Petauke District Councils had provided explanations on the matter while responses were being awaited from Nyimba District Council.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to avail the acquittal sheets to the Auditor-General for verification and provide a progress report on the local authorities who had not yet responded.

i) Overdrawn Bank Accounts-K15,901,737

The Controlling Officer submitted that neither of the two local authorities that were queried for overdrawn accounts had responded and the Commission had since written to them to urgently provide satisfactory explanations by June 30, 2013.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

j) Over Expenditure-K100,907,325

The Controlling Officer submitted that neither the Zambezi nor the Mufumbwe Council that were queried for over-expenditure had responded and the Commission had since written to them to urgently provide satisfactory explanations by June 30, 2013.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

k) Questionable Retirement of Imprest -Solwezi Municipal Council

The Controlling Officer submitted that the Council had provided the explanations which were available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to avail documents in respect of the questionable retirement of imprest to the Auditor-General for verification. Your Committee awaits a progress report on the matter.

l) Lukulu District Council

i. Failure to prepare Payment Vouchers - K2,138,813,494

The Controlling Officer submitted that the Council had not provided the required explanation despite being written to.

ii. *Unsupported Allowances Paid to Uniformed Officers-K30, 835,000*

The Controlling Officer submitted that the Council had not provided the explanation despite being written to.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter subject to audit verification.

m) **Unapproved Expenditure - Shangombo District Council - K52,085,570**

The Controlling Officer submitted that the Council had not provided the required explanation despite being written to.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

n) **Unacquitted Expenditure - Livingstone City Council-K42,181,000**

The Controlling Officer submitted that the Council had not provided the required explanation despite being written to.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

General Observations and Recommendations on Local authorities

Your Committee observes that the Electoral Commission of Zambia (ECZ) owing to its heavy reliance on local authorities when conducting elections will continue to experience principal-agent problems as evidenced by the cited cases. Considering the huge amounts involved, the Controlling Officer is strongly urged to liaise with both the Ministry of Local Government and Housing, and the Local Government Service Commission on appropriate disciplinary action that could be taken against councils and officers that delay in resolving queries to minimise future occurrences. The Controlling Officer is further urged to have the available documents verified by the Auditor-General and report progress on the status of each council.

**ENERGY REGULATION BOARD (ERB)
AUDIT QUERY**

PARAGRAPH 6

Review of Operations

9. A review of accounting and other records at the Energy Regulation Board for the financial years ended 31December, 2008 to 2011 revealed the issues set out hereunder.

a) **Financial Performance - Statement of Comprehensive Income**

i. *Surplus/(Deficit)*

The Controlling Officer submitted that with effect from 1 January, 2013, the financing arrangement for the ERB changed from appropriation-in-aid to being a Government grant aided institution and as such all the license fees were paid to the Government whilst the ERB was funded through a monthly grant that was based on

its budgetary requirements. Your Committee was, therefore, assured that such surpluses may not arise in future.

Committee's Observations and Recommendations

Whilst noting the submission of the Controlling Officer, your Committee is concerned that the surpluses were not channelled to other needy areas. However, your Committee resolves to close the matter since there is a new payment arrangement in place.

ii. *Irregular Payment of Talk Time Allowances – K311,904,990*

The Controlling Officer explained that the expenditure for talk-time allowances was duly authorised by the Board. Therefore, authority to pay the talk-time allowances was drawn from the Board's approval. However, following the recommendation by the Auditor-General's Office that the approval ought to be backed by the conditions of service, the facility was withdrawn.

Committee's Observation and Recommendation

Your Committee is concerned that the Board approved a facility that is outside the conditions of service and the Controlling Officer is, therefore, urged to ensure that amounts irregularly paid are recovered. Your Committee awaits a progress report on the matter.

iii. *Questionable Conditions of Service for Executive Director - K59,029,275*

The Controlling Officer explained that the contract of employment for the Executive Director provided that the position should be entitled to one mobile phone on post-paid billing. The ERB paid the mobile phone service provider for the Executive Director's phone bills. It was further explained that, although there was no cap, the average monthly bills were K3,472,310 per month. Furthermore, it was clarified that the months when the bills were high coincided with the period when the Executive Director had travelled out of the country on official duties and was using the roaming facility.

Committee's Observations and Recommendations

While resolving to close the matter, your Committee notes that the phone bills were too high and urges the Controlling Officer to determine the amount to be incurred at any given period.

iv. *Inadequately Supported Payments - K2,337,995,954*

The Controlling Officer explained that the transaction being referred to had supporting documents which included invoices, goods received notes and payment vouchers. However, some of them did not have receipts from the payees.

Committee's Observation and Recommendation

Your Committee expresses concern that the said documents were not adequately supported with receipts and urged the Controlling Officer to take action against the officers responsible for the omission. The Controlling Officer is further urged to ensure that the missing receipts are found and availed for audit verification and provide a progress report.

v. *Unretired Imprest - K48,594,858*

The Controlling Officer submitted that of the unretired imprest amounting to K10,500,000 and K25,500,000 had relevant acquittals while relevant explanations were provided for the amount of K5,350,000. This is equivalent to a total of K41,350,000 of the unretired imprest amount and a further K4,494,858 had been recovered through the payroll. The balance of K2,750,000 would be recovered through the payroll from the employee.

Committee's Observation and Recommendation

Your Committee is concerned with the failure by management to have imprest retired as per financial regulations and resolves not to close the matter until all the imprest is retired. Your Committee further urges the management at ERB to ensure that it recovers all outstanding imprest through the payroll from the officers involved without further delay and disciplinary action should be taken against the erring officers to avoid a repeat of the problem.

vi. *Lack of Enabling Act establishing the Strategic Reserves Fund*

The Controlling Officer explained that the draft legislative amendments to the ERB Act included a section relating to the establishment of a fund for purposes of the development of the Energy Sector. It was further explained that the Office of the Attorney-General, however, advised that separate legislation providing for the management of the strategic reserves fund should be developed. The Ministry had, therefore, commenced the drafting of a separate legislation relating to management of Strategic Petroleum Reserves Fund and that significant progress would be made on this matter by the end of 2013.

Committee's Observation and Recommendation

Your Committee is concerned over the inertia by the Ministry to prepare a legal framework to govern the acquisition of the strategic fuel reserves. Your Committee, therefore, resolves not to close the matter until the enactment of the law giving effect to the operations of the strategic Petroleum Reserves Fund is done. Your Committee awaits a progress report on the matter.

vii. *Lack of Enabling Act Establishing the Rural Fuel Subsidy Fund*

The Controlling Officer explained that the draft legislative amendments to the ERB Act included a section relating to the establishment of a fund for such other purposes as may be prescribed. It was further explained that the Office of the Attorney-General, however, advised that separate legislation providing for the management of the strategic reserves fund should be developed. The Ministry has, therefore, commenced the drafting of a separate legislation relating to management of Rural Fuel Subsidy.

Committee's Observation and Recommendation

Your Committee is concerned that the ERB has not come up with a legal framework to govern the Rural Subsidy Fund several months after operationalising the Fund. Your Committee awaits a progress report on the matter.

b) **Financial Position - Statement of Financial position**

i. *Liquidity*

	2008 K'000	2009 K'000	2010 K'000	2011 K'000
Current Assets	20,756,665	23,727,572	32,860,493	42,704,444
Current Liabilities	11,217,109	15,290,951	15,937,337	23,094,922
Working Capital	9,539,556	8,436,621	16,923,156	19,609,522
Current Ratio	1.9	1.6	2.1	1.8

The Controlling Officer explained that the ERB's working capital was due to the increase in the current assets by K22 billion between 2008 and 2011 and the current liabilities also increase albeit by a much lower amount of K12 billion. The increase in the assets was generally as a result of the revenue received from licenses which translated into increased cash balances and debtor balances. It was further explained that the change in the financing arrangement of the ERB to the Government grant-aided institution, this problem was likely to change as all the license fees collected would be deposited directly into the Government Bank account.

Committee's Observation and Recommendation

Following the response by the Controlling Officer in this regard, your Committee resolves to close the matter.

ii. *Failure to Implement a Debt Collection Policy*

The Controlling Officer submitted that some oil marketing companies (OMCs) and ZESCO Limited had routinely delayed in paying the license fees to the ERB despite several reminders and demand notices which were normally sent to erring licensees.

Committee's Observation and Recommendation

Your Committee notes that despite the ERB sending reminders and demand notices, some licensees did not comply. It, therefore, recommends that the Controlling Officer institutes enforcement action against the erring institutions forthwith and resolves to await a progress report on the debt collection.

c) **Inadequately Supported Payments - Strategic Reserves Fund**

The Controlling Officer explained that ERB made payments from the Strategic Reserves Fund (SRF) account on the authorisation of the Ministry of Mines, Energy and Water Development. The Ministry would henceforth require the suppliers of goods and services being paid from the Strategic Reserves Fund to provide receipts against payments made.

Committee's Observation and Recommendation

Your Committee resolves to close the matter subject to audit verification.

Accounting and other Irregularities

10. An examination of Information Technology (IT) records, accounting and other records at the Examinations Council of Zambia (ECZ) headquarters, selected District Education Board Secretary's Offices (DEBS) and learning institutions for the financial year ended 31 December, 2011 revealed the matters set out below.

a) **Irregularities in the Management Information Systems - Faim System**

i. *Candidates Awarded Examination Results Despite Being Absent for Subjects*

The Controlling Officer admitted that at the time of release of the 2010 Grade 12 results, Munogo Taonga with Examination Number 2791210081 was marked absent in Geography.

The Controlling Officer added that the candidate had a component mark missing. Examination regulations did not allow partial grading of marks that was why the candidate was graded absent. However, the School made a follow-up and submitted the marks for Geography Paper 3 which was a school based assessment conducted and marked at School/Centre. The resolution of the missing mark was done thereafter.

Your Committee was further informed that it was true that at the time of the release of the 2010 Grade 12 results two candidates - Kafute Lewis, Examination Number 2790510013 and Kamana Webby, Examination Number 2790510084 - were absent from Agricultural Science. The candidates were absent in one component, Agricultural Science Paper 2.

The ECZ had not established the source of the marks for the component paper as records (Attendance Register and the Project submission register) showed that the candidates did not submit the projects and this meant that they were absent. The candidates were, therefore, not supposed to have marks in Agricultural Science Paper 2 and subsequently should not have been graded.

The results for the two candidates in Agricultural Science had been declared null and void and the School had been written to withdrawing the certificates for the candidates for correction. Investigations had continued to find the person involved in this impropriety of awarding marks. Upon conclusion of the investigations, the appropriate process of handling malpractices would be followed by the appropriate committee of the Council.

In the last case, the candidate, Chiyeso Mumba, Examination Number 2793480010, used two examination numbers (2793480010 and 2790480010) during the 2010 Grade 12 English Examination. Your Committee was informed that when a candidate used two examination numbers, the marks were split. After the School informed the ECZ that the candidate wrote using two examination numbers, the Council resolved the query by combining the two sets of results using one number.

Committee's Observations and Recommendations

Your Committee is greatly concerned over the weak security of the information system in that it can be accessed and marks awarded to candidates who were absent

during the Agricultural Science Examination. Your Committee therefore urges the Controlling Officer and management at ECZ to enhance the security features of the system. In addition, stern disciplinary action should be taken against officers who will be found culpable. All relevant documents regarding the other two cases for Geography and English should be submitted to the Auditor-General for verification.

ii. *Candidates Registered Under GCE with more than Four (4) Subjects*

The Controlling Officer confirmed that some candidates registered under GCE had more than four subjects. Investigations had revealed that the extra subjects were written under protest and registered after the release of the 2010 Grade 12 examinations. The Council has noted that some GCE candidates wanted to write more than four subjects so as to meet the requirement of the five 'O' levels to be admitted into tertiary education institutions or to enter the formal labour market.

The Council was considering increasing the number of subjects to a maximum of six though this matter had not yet been approved by the relevant ECZ committee. The Controlling Officer informed your Committee that historically, there were very few young people that wrote GCE. Over time, the number of young people entering for GCE had increased, giving rise to the demand for more than four subjects. Draft examination regulations had since been developed to deal with the matter but were yet to be approved.

Committee's Observations and Recommendations

In resolving to close the matter, your Committee urges the Controlling Officer and ECZ management to provide the Auditor-General with documents supporting the submission that the extra subjects were written under protest and that the draft examination regulations have been approved. Your Committee awaits a progress report on the matter.

b) **Missing Payment Vouchers - K52,827,000**

The Controlling Officer confirmed that at the time of the audit and verification, three payment vouchers in amounts totalling to K52,827,000 were missing. Two payment vouchers amounting to K42,252,000 had since been traced. The third payment voucher amounting to K10,575,000 was still missing. The cause was the poor filing system. Measures had been put in place to ensure that documents were properly filed in order to avert a recurrence of the situation.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer and the ECZ management against the failure to properly secure accounting documents. Your Committee, therefore, urges the Controlling Officer to avail the traced documents to the Auditor-General's Office for verification and awaits a progress report on the missing voucher.

c) **Irregularities in the Examinations Printing Contract**

The Controlling Officer submitted that the ECZ awarded a contract for printing, packaging and delivery of examination papers to Stephen Austin & Sons Limited at a contract price of £1,267,547 on 11 May, 2011. Your Committee was informed that the amount £1,267,547 was provisional as the quantities causing this amount were just estimates as candidate entry statistics were not yet finalised. This amount was broken down as shown below.

Estimated Figures

Lot	Qty	Unit price (£)	Price (£)
1A	2,914,717	0.146,147	425,977
2A	4,210,679	0.128,772	542,218
3A	1,936,487	0.154,585	299,352
Totals	9,061,883		1,267,547

The Controlling Officer submitted that estimates were usually used to kick start the procurement process so as to avoid delaying examinations. Your Committee was informed that the final contract price was arrived at during a visit to Steven Austin & Sons on 1 June, 2011. The actual figures, as tabulated below, were submitted during the visit.

Actual Figures

Lot	Qty delivered to the Printer	Price (£)
1A	2,940,530	429,749.60
2A	4,612,570	593,969.80
3A	2,359,275	364,708.50
Totals	9,912,375	1,388,427.90

Your Committee was further informed that minutes of the meeting held on 1 June, 2011 formed part of the contract. Therefore, the amount of £1,388,427.90 was the contract price at 1 June, 2011 as the amount reflected the cost of the final quantities. It followed that there was no overpayment of £81,464 as was reported.

The payment of £1,349,011 was for the actual quantities of question papers printed and delivered as tabulated below.

Actual Printed Papers

Lot	Quantity Printed	Price (£)
1A	2,940,530	429,750.00
2A	4,503,283	579,897.00
3A	2,195,320	339,364.00
Totals	9,639,133	1,349,011.00

The £1,349,011 paid to the printer was less by £39,416.90. This discrepancy was caused by errors in quantities quoted in the minutes which appeared to be either arithmetical or an estimate of what was expected at the time of the meeting on June, 2011.

With regard to the printing of less Grades 9 and 12 examination papers than the required numbers, this was acknowledged in the email communication between Examinations Council of Zambia and Steven Austin & Sons Limited dated 13 December, 2011 where discrepancies were clarified and hence the reduction in the amount paid by £39,416.90.

The Council had constituted a committee which reviewed and approved the quantities before signing of the contract containing the actual quantity of question papers to be printed in an effort to prevent a similar occurrence in the future. Where a variation in quantities to be printed may be necessary, the Council would ensure that an addendum to the initial printing contract was signed.

Committee's Observations and Recommendations

Your Committee observes that the matter could have been resolved at the time of audit. Your Committee strongly advises the Controlling Officer and management at ECZ to always cooperate closely with auditors. They are urged to reconcile the number of printed examinations papers and the amounts paid. The Committee resolves to close the matter subject to audit verification.

d) Irregular Opening of GCE Exam Centre

The Controlling Officer admitted that an illegal GCE centre in the name of Muchunga was opened in Kitwe. Candidates numbering 243 were recruited and registered by the School authorities using this illegal centre. However, this was discovered by the Examinations Council of Zambia. Consequently, management took immediate action as shown hereunder.

- (i) Investigations were instituted in conjunction with the Provincial Education Office to identify the people behind the fraudulent activities. The investigations revealed that Muchunga was an illegal examination centre in Copperbelt Province as it used a centre number 1173 for Muchinga High School in the then Northern Province (today Muchinga Province).
- (ii) The Examinations Council of Zambia refunded all the candidates the examination fees that they had paid.
- (iii) The mentioned Examinations Council of Zambia employee was requested to explain the role he played in the matter. The officer responded by declining any involvement in the matter. Considering the time lapse between 2011 when the matter occurred and 2013 when he was written to, it was difficult to pursue him further in the absence of a parade to identify the said officer.
- (iv) To prevent such from occurring again, the Head of Department - Examination Administration had been cautioned to ensure that all receipts and distribution of materials from one department to another were well documented so as to have an audit trail.
- (v) The Head of Department – Information Technology was cautioned to put controls in place in the FAIM System in order to have audit trails in the database.
- (vi) A decision had been made to ensure that all examination processing activities be done under the Examinations Administration Department.

Committee's Observations and Recommendations

Your Committee appreciates the decision to refund all the candidates their examination fees that were paid through the centre in question but regrets that the investigations did not conclusively find anyone culpable at ECZ. In this regard, your Committee calls upon management of ECZ to involve the law enforcement agencies so that this matter is thoroughly investigated. Your Committee, further, urges the Controlling Officer and management to introduce an online application facility and a feature that will enable applicants to track their own applications. Your Committee resolved to close the matter subject to audit verification.

e) **Inspection of Districts**

A visit to selected District Education Board Secretary (DEBS) offices revealed the matters set out below.

i. *Failure to Reconcile District Accounts*

The Controlling Officer submitted that at the time of audit, ECZ had not reconciled district examination fees collected in bank accounts. However, the Council had since commenced the reconciliation of the bank accounts starting with 2013.

The Council had also put in place measures to facilitate easy reconciliation of examination fees collection bank accounts effective 2013. In addition, effective 2013, banking operations had been realigned by closing down all district accounts and centralising banking using a single account for each of the banks used in fee collection. The intervention would also ensure close monitoring of cash inflows and thereby facilitate timely reconciliation of accounts.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution the Council against the failure to adhere to financial regulations. The Controlling Officer and ECZ management are further urged to expedite the reconciliation of the district accounts and report progress on the matter.

ii. *Over-Banking of Revenue*

The Controlling Officer submitted that the amount indicated as overbanking was actually not overbanking but deposits that could not be traced to specific depositors in districts that were sampled by auditors. This arose as a consequence of not reconciling bank accounts as some districts deposited fees in another district bank account. He further submitted that the matter could have been easily dealt with if all districts were considered where overages in one district would correspond to a deficit in another. The Examinations Council of Zambia had since streamlined the system of banking examination fees by having one bank account where all fees are deposited. It was envisaged that the measure would address the lapses that had been observed by auditors.

Committee's Observations and Recommendations

Your Committee observes that the matter was linked to the non reconciliation of district accounts and urged the Controlling Officer to take disciplinary action against the officers who did not perform their duties to reconcile the accounts. The Controlling Officer and ECZ management are further urged to ensure that all reconciled accounts are verified by the Auditor-General.

Funding

It was revealed in the audit that in the Estimates of Revenue and Expenditure, a total authorised provision of K3,257,394,877,333 was made to cater for the purchase and storage of National Food Reserves under the Strategic Food Reserves programme for the financial years ending 31 December, 2009, 2010 and 2011 against which a total of K4,884,394,877,333 was released resulting in overfunding of K1,627,000,000,000.

The Controlling Officer submitted that the overfunding was necessitated by the need for the Government to purchase excess maize to increase food security for the nation and also to increase income for small scale farmers and put the maize in safe storages. This was done through supplementary funding to the Agency through the then Ministry of Agriculture and Co-operatives. The Ministry had over the years been disadvantaged in that the budget ceilings were not determined by the Ministry of Agriculture and Livestock but by the Ministry of Finance.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

Review of Operations

11. An examination of financial and other relevant records carried out in September, 2012 revealed weaknesses to which the Controlling Officer responded as set out below.

a) **Questionable Payment of Sitting Allowances**

The Controlling Officer submitted that during the audit period, only minutes for the Board meetings were availed to the auditors when in actual fact the minutes of committee meetings were also required. As regards payment of K145,000,000 as sitting allowances, this was paid in relation to the same minutes which were not availed to the auditors. Otherwise, the payment was made within the budget provision and approved rates for the allowances.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

b) **Irregular Payment of Kilometre and Night Allowances to Board Members-K228,360,040**

The Controlling Officer submitted that payment of all Board and committee sitting allowances was based on the approved Food Reserve Agency budget and rates and it was considered that the Minister's approval was not needed. Management had since been requested to normalise any future changes in the rates by seeking approval from the Minister. In future, all Board allowance budget lines would be submitted to the Minister for approval before expending.

Committee's Observations and Recommendations

Your Committee notes that the payment of the allowances was irregular and therefore urges the Controlling Officer to ensure the allowances that were irregularly paid are recovered. Your Committee resolves to close the matter.

c) **Irregular Payment- HMC Waterdigitings International Limited-K70,000,000**

The Controlling Officer submitted that following the Government policy pronouncement to consider GMB of Zimbabwe to rehabilitate the Bwana Mkubwa and Natuseko grain silos after successful completion of the Lusaka silo, approval was sought from the then Zambia National Tender Board (now ZPPA) and a 'no objection' was granted to allow GMB to carry out the silo rehabilitation phase II which was granted on TB/210/1/1 dated 29 October, 2009. It was against this background that the Agency went ahead to pay HMC Waterdigitings, a local contractor that was sub-contracted by GMB to carry out some works on the Lusaka grain silo. However, since the project did not take off, the Agency was still pursuing the matter with GMB.

Committee's Observations and Recommendations

Your Committee is concerned at the fact that such a large sum of money was paid for works that were not done which points to was a serious lapse on the part of FRA management. Further, your Committee takes great exception to the fact that the Agency made a payment to HMC Waterdigitings, a company with which the Agency had no contractual obligation. Your Committee urges the Controlling Officer to ensure that the money is recovered by pursuing all available channels and submit a progress report on the matter.

d) **Failure to produce Audited Financial Statements and Annual Reports**

The Controlling Officer submitted that the Agency's activities since its creation had kept on growing due to changes in its mandate which resulted in the increase of volumes of transactions. The demands created by the increased activity and mandate of FRA were not supported with increased capacities such as staffing levels and infrastructure. This resulted into a backlog of unprocessed data which had to be inputted for audit, hence the delay in finalising prior years' audits.

Other than the reason above, one of the causes of delay in finalising prior years' audits was the fact that the historical accounts could not be signed by the previous Board which wanted to be indemnified on qualified accounts for the financial years 2003 to 2005 as well as obtaining the professional clearance for the incoming auditors.

However, following the appointment of a new Board, management submitted financial statements for 2003 to 2008 and a new plan in which it was envisaged that the entire backlog up to 2012 audits would be completed by July, 2013. All the audit schedules for 2009 to 2012 were ready and would be provided to the incoming auditors following professional clearance which was obtained from the outgoing auditors.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification. However, your Committee expresses concern at the Agency's failure to adhere to audit requirements. Your Committee strongly urges the Controlling Officer to caution officers tasked with the responsibility of producing financial statements and annual reports to ensure that they are prepared on time.

e) **Lack of Tenancy Agreements**

The Controlling Officer submitted that the Agency had purchased a lot of grain during the periods 2010/2011 and 2011/2012 seasons which required secure storage and this became a challenge as the storage space available was not adequate. Therefore, the Agency decided to recall all the storage facilities that had been rented out (leased out).

Due to this decision, the Agency did not renew the agreements that had expired during the period and gave notice of termination for those that were on long lease. However, the clients occupying the facilities resisted moving out and a number of tenants took the matter to court and this led to most tenants occupying the storage facilities beyond the tenancy agreement period. The Agency had stopped leasing out secure storage facilities due to increased purchased quantities of crop in the recent years.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

f) Failure to Collect Debts or Possession of Mortgaged Properties-K2,440,686,918

The Controlling Officer submitted that after the court ruling, the Agency expected the various organisations to pay the fees. Unfortunately, this did not happen. The Agency gave written notices to the defaulters to make payments towards the debts. The Agency had since proceeded to engage the services of a certified bailiff in a bid to sell the repossessed properties by public tender and to ascertain the condition and developments on the properties in readiness for advertisements in the print media. This process had taken a longer time to complete than anticipated due to the volume of work arising from preliminary processes that had to be fulfilled for each property, such as searches and physical visits.

The Controlling Officer further submitted that in addition, court processes were being filed at different times due to the high filing fees and subsequently judgments were also being delivered by the courts progressively. More importantly, it would have been expensive for the Agency to commence the exercise of repossessing the properties in piecemeal. It meant, therefore, that it was more prudent for the Agency to have a number of judgments and then hand them over to a bailiff. He, however explained that all the judgments the courts were awarded with costs and interest to the Agency from date of judgment to date of payment, implying therefore, that the Agency would not suffer any financial loss.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the recovery of the debts.

g) Missing Payment Vouchers-K935,859,068

The Controlling Officer submitted that the Agency had multiple audits during the period, which resulted in misfiling of documents. During this time, there were three audit teams, comprising external auditors, who had been working to clear a statutory audit backlog for the period of five years, a forensic audit team from the Auditor-General's Office and a team from the Office of the Controller of Internal Audit at Ministry of Finance. As a result, documents had to be shared to various audit teams and this led to misplacement and misfiling of documents.

The Controlling Officer further submitted that the missing vouchers had been misfiled in different folders, which could not be traced during the audit. The Registry Officer had since been cautioned. The vouchers had been traced and filed properly.

Committee's Observations and Recommendations

Your Committee is concerned with the misplacement of documents as in some instance it has been used to conceal fraud. Your Committee is also of the view that the loss of documents during audit showed an apparent failure on the part of management to handle the audit

processes. Your Committee urges the Controlling Officer to ensure that such a situation does not recur in future. Your Committee resolves to close the matter subject to audit verification.

h) Inadequately Supported Payments - K3,202,586,440

The Controlling Officer submitted that misfiling by the Registry officer led to missing supporting documents. The Registry Officer had since been cautioned. All supervising officers had been directed to routinely supervise their officers. Further, the Agency used cheque distribution registers which were signed by clients as proof of payment at the time of collecting cheques rather than demanding for receipts from service providers. The Agency, therefore, relied on the cheque register acknowledgement which detailed the full names of recipient, date of collection, cheque number, amount and national registration card number. Where supporting documents were in a form other than receipts, these were available.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against the officer(s) who failed to ensure safe custody of the supporting documents as required by financial regulations. Your Committee also urges the Controlling Officer to ensure that receipts are demanded for at all times. The Controlling Officer is directed to avail the supporting documents to the Office of the Auditor-General for audit verification before the matter can be closed.

i) Non-provision of Records - Payments to Transporters-K9,974,033,155

The Controlling Officer submitted that the supporting documents were filed in different folders, which could not be traced during the audit and the Registry Officer had been cautioned. He explained that the Agency had multiple audits during the period, which resulted in misfiling of documents. During this time, there were three audit teams, comprising external auditors, who were working to clear a statutory audit backlog for the period of five years, a forensic audit team from Auditor - General's Office and a team from Controller of Internal Audits at Ministry of Finance. As a result, documents had to be shared to various audit teams and this led to misplacement and misfiling of documents.

The Controlling Officer further submitted that the missing documents were stored in a warehouse which contained a huge quantity of empty grain bags and other marketing requisites and, therefore, could not be accessed at the time. These documents were now accessible and so far 70% (K6,981,802,180) of the missing supporting documents had been found and were ready for audit review. Efforts were being made to recover the remaining missing documents amounting to K2,992,201,047. A Registry for transportation of documents had also been created to manage record keeping. The Registry was managed by the Registry Officer.

Committee's Observations and Recommendations

Your Committee expresses concern at the submission that the missing documents were stored in empty grain bags and wondered how accountable documents can be handled in such a laissez-faire manner. Your Committee finds this to be an unacceptable state of affairs which should not recur in future and hopes that a more organised filing system would be developed at the Agency. Your Committee urges the Controlling Officer to take disciplinary action against the officer(s) who failed to ensure safe custody of the supporting documents as required by Financial Regulations. Your Committee also urges the Controlling Officer to avail the recovered supporting documents to the Office of the Auditor-General for audit verification and to ensure that, as a matter of urgency, the remaining missing documents are recovered.

j) **Unretired Imprest-K1,243,131,226**

The Controlling Officer submitted that the imprest documents were stored in a warehouse which contained a huge quantity of empty grain bags and other marketing requisites and therefore could not be accessed at the time of audit. The imprest documents had since been traced and fully retired. The retirement documents were available. Additionally, the Controlling Officer stated that a system had been put in place in which before an officer was issued with another imprest, the officer must retire the previous imprest.

Committee's Observations and Recommendations

Your Committee observes that failure to retire imprest was a very serious irregularity and urges the Controlling Officer to take disciplinary action against the accounting staff who failed to make necessary follow-ups for the imprest to be retired. Your Committee also urges the Controlling Officer to caution the officers who failed to retire the imprest timely. Your Committee expresses concern at the manner in which financial documents were stored and urges the Controlling Officer to take disciplinary action against the officer(s) who failed to ensure safe custody of the supporting documents as required by Financial Regulations. Your Committee resolves to close the matter subject audit verification.

k) **Questionable Awarding of Contract**

The Controlling Officer submitted that on 15 November, 2007, the Board held its 58th meeting to review the second quarter ending 30 September, 2007. During the meeting, in the management report under the Procurement and Stores Unit, it was reported that authority had been granted to award contracts to suppliers of empty grain bags which included Chimsoro Polymers Limited. During the said meeting, the Board Chairperson who was also proprietor of Chimsoro was not in attendance and sent apologies. The meeting was chaired by the Vice Chairperson at the time.

Further, paragraph 6 (1) of the schedule to the Food Reserve Agency Act Cap 225 of the Laws of Zambia provides as follows; "if any person is present at a meeting of the Agency or any Committee at which matter that person or his spouse is directly or indirectly interested in a private capacity, that person shall as soon as is practicable after the commencement of the meeting, declare such interest and shall not, unless the Agency or the Committee otherwise directs, take part in any consideration or discussion of, or vote on, any question touching that matter."

As the Chairperson was not present at this meeting there was no requirement for him to declare interest as provided in the Act. However, during the said meeting, the Board resolved that dealings with the Chairperson's Companies should be reduced to a minimum to avoid suspicions and allegations of corruption.

Committee's Observations and Recommendations

Your Committee observes with concern that the Chairperson of the Board should have declared interest even if he was not present in the meeting which made the final determination. In resolving to close the matter, your Committee urges the Controlling Officer to impress on the Board and the Management to ensure tenets of good corporate governance are adhered to in order for the Agency to operate in a professional manner at all times.

1) **Weaknesses in Grain and Properties Management**

i. *Failure to provide Evidence of Loan Repayment-K854,323,442,164*

The Controlling Officer submitted that the bank statements could not be availed at the time of audit because the banks were unable to provide the statements despite the Agency requesting for them on several occasions. The Agency did not have details of individual entries as they were posted directly to the Agency's account by the banks. The documentary evidence on the loan repayment for both Finance Bank and Standard Chartered Bank had since been submitted and were available for audit review.

Committee's Observations and Recommendations

Your Committee expresses concern that the Agency failed to avail evidence of the loan repayment during the entire audit process which was unacceptable and cautioned the Management against laxity in attending to audits.

ii. *Excess Purchase of Crops-K1,557,523,300,000*

The Controlling Officer submitted that during periods of bumper harvest, the Agency was normally directed by the Government through policy pronouncements to purchase and secure the marketable surplus maize. The revision in the purchase quantity levels resulted in what had been highlighted in the Auditor - General's Report which caused a lot of strain on the capacity of the Agency.

Committee's Observations and Recommendations

Your Committee observes that as long as the FRA will continue to respond to Government directives instead of keeping to its core mandate of being a strategic food reserve as per the FRA Act, wasteful expenditure of this nature will continue. Your Committee is also concerned that the excess expenditure of K1,557,523,300,000 has not been approved by Parliament and urges the Controlling Officer to ensure that this expenditure is regularised. Your Committee advises the Controlling Officer to ensure that the FRA keeps to its mandate and guard against the Agency being used for reason outside its mandate.

iii. *Excess Stock Losses-K1,094,997,216,502*

The Controlling Officer submitted that ideally, stock procurement should be done according to available usable space. However, Government policy pronouncements (that is, for the Agency to buy all the maize) during seasons of bumper harvest, resulted in purchasing quantities above the planned strategic food reserves.

Inadequate storage facilities also resulted in exposure of the grain to adverse weather conditions leading to losses due to deterioration. Poor road infrastructure also meant that the Agency had not been able to move stocks to safe storage in a timely manner, resulting in further losses. Creation of numerous satellite depots in far flung and remote areas meant that stocks were further at risk in the areas. In cases where warehouse managers had been engaged and losses had been established, termination of warehouse contracts were effected and measures to recover losses had been put in place through a pledged performance bond on the part of warehouse managers.

The Agency had submitted a detailed investment plan to the Government indicating the funding requirements for construction of new storage facilities and rehabilitation

of existing ones to avoid future losses. In addition, the Agency had procured and distributed to all districts enough Ultra-Violet (UV) stabilised empty grain bags (21 million bags in total) to ensure that farmers, sub-standard grain bags were not used for bagging maize that was bought. The Agency had since established a security unit as part of its establishment with officers trained in military and investigations skills to safeguard its interests and reduce pilferages, as opposed to the past when it would outsource such services.

Committee's Observations and Recommendations

Your Committee observes that the loss of over K1 trillion worth of stock is highly unacceptable and urges the Controlling Officer to take all necessary steps to ensure that such wastage of resources is avoided in future. Your Committee also observes that although directives were given by the Government to purchase excess crop, the wastage and poor management was purely due to negligence on the part of technocrats who did not put in place measures to ensure that the crop did not go to waste. Your Committee therefore urges the Controlling Officer to take disciplinary action against officers who failed to prevent the crop from going to waste. Further, the Controlling Officer is urged to prepare a loss report as required by financial regulations. Your Committee awaits a progress report on the matter.

iv. *Warehouse Management- Poor Stacking*

The Controlling Officer submitted that the poor stacking was a result of a number of factors such as use of farmers' grain bags that were not suited for the FRA stacking regime. The FRA grain bags were of the same standard while farmers' bags varied in size and quality making proper stacking very difficult. The Agency had since purchased and distributed enough FRA standard empty grain bags.

As of 2012/2013 marketing season, the Agency increased its presence on the ground 2012 by way of engaging marketing assistants and depot clerks at district and satellite depot levels respectively to closely supervise the purchasing and stacking of the stock. It was envisaged that this would mitigate the levels of improperly stacked maize and lead to better managed stacks.

Committee's Observations and Recommendations

Your Committee finds the submission by the Controlling Officer unacceptable and a clear indication of poor supervision and urges the Controlling Officer to caution the supervising officers who failed to undertake their duties of ensuring proper staking of the crop. Your Committee closes the matter but urges the Auditor-General to keep the matter in view in future audits.

m) **Property Management**

i. *Poor State of Storage Facilities- Silos*

The Controlling Officer submitted that the Agency had in the past submitted proposals and budgets for the rehabilitation of silos and other storage facilities. However, funds had not been forthcoming.

The Agency had started the process of rehabilitation of the five disused silos. The tendering process to engage a firm of contractors for the rehabilitation of the Ndola and Kabwe grain silos had been completed. The consultancy works for the rehabilitation of Chisamba, Kitwe and Monze grain silos were on going and expected

to be completed in July, 2013. Thereafter, a tendering process to engage a firm of contractors would commence. In addition, to further develop the Agency's storage capacity, a detailed investment plan had been drawn up and was being used to lobby for financial support from the Government, donors and the private sector through the Public Private Partnership.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the rehabilitation works of the silos.

ii. *Construction of Hard Standing Slabs*

The Controlling Officer agreed with the audit that eleven contractors who were paid K9,790,607,998 had abandoned the work while nine who were paid K3,320,771,239 had commenced the works. He submitted that the Agency had since terminated all contracts for the non-completed slabs and commenced legal proceeding to recover its investment. The Agency had also started the process of upgrading the slabs into sheds. Under the 2013 budget, the Agency intended to upgrade twenty-seven slabs. The engineering designs had been completed and the tender for the upgrade had been floated. Evaluation of the bids had been done and recommendation for contract award had been completed.

Committee's Observations and Recommendations

Your Committee expresses concern at the fact that such large amounts of money were released without any works done. Your Committee finds it unacceptable that the Controlling Officer tried to justify a situation which was evidently fraught with irregularities. Your Committee observes that if the money that was paid out had been guaranteed, there should have been no loss to the FRA. Your Committee urges the Controlling Officer to report the matter to investigative wings so that the procurement can be probed for possible abuse of office. Further disciplinary action should be taken against the officers that made the payment without guarantees. Your Committee awaits a progress report on the matter.

iii. *Overpayment to Contractor-K41,227,653*

The Controlling Officer submitted that the first adjustment by K36,788,030 which was approved by the Tender Committee was a correction of the bidding prices as stipulated in the bidding documents. The bid was adjusted for arithmetic errors and addition of the Value Added Tax.

The second variation of K41,227,653 was for additional works given to the contractor for refurbishment of the Registry under Purchase Order No. 2618.

Committee's Observations and Recommendations

Your Committee notes that the Agency did not obtain necessary procurement approvals for the additional works on the Registry and the payment was, therefore, irregular. Accordingly, your Committee recommends that disciplinary action should be taken against the officers responsible for this irregular payment. Further, the matter should be reported to the law enforcement agencies for further investigations and possible prosecution.

- iv. *Wasteful Expenditure- Rehabilitation and Repair of Electric Fence at Old Mkushi Slabs*

The Controlling Officer submitted that at the time of the visit by the auditors the fencing had been vandalised by the local community.

The Agency had been advised to construct boundary block walls which were more costly but difficult to vandalise instead of an electric fence. FRA management had been cautioned for negligence.

Committee's Observations and Recommendations

In resolving to close the matter, your Committee expressed concern at the wastage of resources on a non-durable fence and counselled the Controlling Officer to ensure that a more permanent fence that is not susceptible to vandalism is erected. Your Committee resolves to close the matter subject to audit verification.

- v. *Failure to avail Title Deeds*

The Controlling Officer submitted that the matter of title deeds had been a challenge for the Agency for many years. This was mainly due to the way property under the Agency was handed over by the Government, which was by way of a Statutory Instrument (SI 145 of 1996), a development which had been successfully challenged in court before. Further, the prohibitive cost of obtaining title and poor cash flows had resulted in the Agency budgeting for the activity in the past but failing to implement on account of lack of funds.

He further submitted that the Agency had, however, engaged the Ministry of Lands through the Office of the Surveyor-General and was in the process of delineating the properties for the purpose of obtaining title deeds. The list of properties was still being compiled by the Agency to facilitate the process of processing title deeds.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the matter

MOFED TANZANIA LIMITED AUDIT QUERY

PARAGRAPH 9

Review of Operations

12. A review of accounting and other records for MOFED Tanzania Limited for the period July 2011, to May, 2012 revealed the weaknesses to which the Controlling Officer responded as set out hereunder.

a) Financial Position

- i. *Failure to Recognise Assets*

Mukuba Depot-Plot 237

The Controlling Officer submitted that this piece of land was procured by the Ministry of Transport and Communications from TAZARA Limited. At the time of procurement, it was discovered that the piece of land had been offered to TAZARA on a 'Right of Occupancy', which was a state precedent to getting the certificate of

Title and stipulates the conditions and terms of that occupancy. The certificate of Title should have had been followed by processing a Title Deed by TAZARA, for them to have had gained ownership of the piece of land. MOFED, in its quest to take full ownership after the purchase of the piece of land by the Ministry, carried out a search on the state of ownership of the piece of land which revealed the above stated status. Desiring to regularise the ownership of various properties, MOFED engaged Messers Stephen Maige Land Consultancy Services (T) Limited, on 11 November, 2011. Among the terms of reference (TOR) for the consultancy, was to establish the ownership status of Mukuba Depot Plot 237.

The consultant did, therefore, advise on the way forward for MOFED to acquire title to plot 237. MOFED commenced the process and was requested by the Ministry of Lands, Housing and Human Settlement Development to pay a quantum sum of 54,057,000 Tanzanian Shillings, (T.shs.54,057,000) in June, 2012. MOFED had not, however, provided for such money in its 2012/13 budget. It was planned that the sum of money would be provided for in the 2013/14 budget which was to be approved by the Board soon. The said sum of T.shs. 54,057,000 would be amortised into the value of the property once the certificate of title was issued to MOFED. It was only after the completion of the process that the Title Deed would be issued to MOFED, and only then would they be compliant with International Accounting Standard (IAS) 16.

Plot 1661- Masaki

With regard to plot 1661, the Controlling Officer informed your Committee that the official search by the consultant revealed that the ownership of the properties were still in ZAMCARGO Limited. ZAMCARGO was a ZCCM subsidiary that once operated the Mukuba Depot. The original title deed of this property could not be traced as it was not handed over to MOFED by the successive companies after ZAMCARGO. The consultant guided that there was need to, first and foremost, have the original certificate of Title replaced before the change of ownership could be effected. The duplicate certificate of ownership could technically only be applied from the Ministry of Lands in Tanzania by the Title holder, ZAMCARGO. A situation arose, therefore, where there was need to prove that MOFED was the successor to the company ZAMCARGO Limited among other requirements. This proof could only be provided through a legal instrument swearing that MOFED was in the line of successors of ZAMCARGO. To this effect, MOFED Tanzania Limited requested the Ministry of Justice in Zambia and Ministry of Finance, as the Government lawyers and owners of the company MOFED, respectively, to issue this legal instrument. Once the legal instrument known as a Deed of Transfer would be issued, the process would be as follows:

- replacement of the lost Title Deed for Plot 1661, into ZAMCARGO Limited (Duplicate Certificate of ownership);
- transfer of Title from ZAMCARGO Limited, into the successor company MOFED;
- valuation of the property at Plot 1661 to determine the current market value; and
- recognition of the validate value of Plot 1661 into the books of accounts for MOFED.

Plot 316

The Controlling Officer submitted that the official search by the consultant revealed that the ownership of the property was in the name of Copper Services Industry Bureau Limited (CISB). This was another company which was owned by the former

ZCCM that was succeeded by ZAMCARGO. In April, 2001, MOFED had started the process of regularising the issuance and change of ownership of title from CISB to MOFED Tanzania Limited. The same process that had been tabulated on Plot 1661 was followed by MOFED in 2001. For some unclear reasons, the process was not completed until the engagement of Messers Stephen Maige (land consultant) in 2011 which revived the process. To this effect, MOFED swore an affidavit to the effect that they be registered as the new owners of Plot 316, since the legal instrument to transfer the properties from CISB into MOFED was issued by the Government of the Republic of Zambia on 30 April, 2001. Once this was done, the same four stage process tabulated with regard to the Masaki property would be followed.

The Controlling Officer also submitted that it was only upon the transfer of ownership of all these properties legally into the company name MOFED that the same would legally be recognised in the books of account for MOFED Tanzania Limited. In the absence of proof of ownership of the properties, it would be a contravention of the International Accounting Standard (IAS) 16 to recognise these properties in our books. He hoped that this detailed explanation would give a clear position of these properties.

Committee's Observations and Recommendations

Your Committee expresses concern over the long period it has taken MOFED Tanzania Limited to start the process of acquisition of title deeds for the properties which were taken over as far back as the year 2001. The Controlling Officer is urged to expeditiously follow up the issue seriously as the properties risk being taken away by unscrupulous officers. Your Committee awaits a progress report on the matter.

ii. *Questionable Write-Off of Debtors Figure-K300, 170,000*

Your Committee was informed by the Controlling Officer that the adjustment was effectively a translation difference arising from the different monthly translations of the debtors' book which was also inadvertently carried in the operational currency at the adjusted amount which in essence carried an inherent exchange gain. He stated that they would pass the correcting entries to recognise the exchange difference in the financial year 2011/2012 as a prior year adjustment for 2009/2010 financial year in liaison with external auditors as they agreed the adjusted opening positions. He explained that the transaction was, however, not done through a journal voucher, hence it could not be traced or any supporting documents found.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that adequate supporting documents are availed during audits so that queries of such nature could be resolved during the audit process. The matter is recommended for closure subject to audit verification.

b) **Loss of Revenue**

i. *Failure to Invoice Containers – Estimated loss K959, 400,000 (US\$191,880)*

The Controlling Officer stated that the observations made in the audit report on this matter arose as a result of not having linked all processes on container entries to the services to be provided and final invoicing. He explained that in the new system, containers would come in with goods or cargo that would be trans-shipped into another container. The containers that brought in cargo were normally not brought

down from the trucks, but were off loaded from the rump using forklifts. After being emptied, the trucks were then allowed to exit with the containers. The cargo off loaded would later be loaded into another container that was then shipped out. All the activities were recorded by the company's clerks who later issued an advice note to the Accounts Department for the final billing.

The lapse had been that there was no linkage to easily trace the container that brought in some cargo to the bill on the final invoice. Even though both service activities were kept in one file, it would be difficult for an outsider to be able to tell how the final invoice had all the activities captured and billed.

The container that was stuffed with the cargo would equally bear the cost of offloading a service that was done on a container that exited. All the services that were carried out on the container that left, would, therefore, be reflected on the invoice (final) that was usually billed to the container that was used to ship out the cargo. As a result, the container that came in with the goods would not be reflected on the final bill despite both job cards on the two containers being kept in the same file. It was because of this lapse that the 479 containers were reflected as not having been invoiced.

MOFED Management appreciated the difficulties that tracing the records had created and had, therefore, decided to source for a computer based programme that would have mandatory fields that would link the gate entry of a container to the two job cards, the loaded container and the final invoice.

Committee's Observations and Recommendations

Your Committee questions the correctness and reliability of the response by the Controlling Officer because MOFED failed to provide the information during the audit process. The Controlling Officer is urged to ensure that internal control measures are strengthened to curb fraudulent activities. Your Committee awaits a progress report.

ii. *Failure to collect Revenue K745,170,800*

The Controlling Officer submitted that MOFED management had put in place an aggressive debt collection programme. The programme was, however, being hampered by a myriad of problems including the cited companies had since changed their addresses and some bills had been disputed. Currently, management was reconciling and assessing, all debts with a view to recommending some of the debts that could apparently not be recovered, for possible write off through the Board of Directors.

Committee's Observation and Recommendation

Your Committee is not satisfied with the Controlling Officer's response that there has been sufficient effort by the company to recover the debts. Your Committee, therefore, cautions the Controlling Officer against rushing to recommend a debt write-off but urges him to ensure that all debts are recovered expeditiously. Your Committee awaits a progress report on the matter.

iii. *Irregular Awarding of Waivers*

The Controlling Officer stated that the policy document on the waiver was available for verification. In its Report to the First Session of the Eleventh National Assembly,

your Public Accounts Committee recommended that the approved policy should be availed to the Auditor-General's Office for verification. Your Committee also recommended that, disciplinary action should be taken against the officer(s) who authorised the waivers without approval from the Board. A review of the situation revealed that, as of November, 2012, the status had not changed in that MOFED did not have an approved policy on waivers and granting of discounts to customers, contrary to the Controlling Officer's submission and no disciplinary action had been taken against officers who authorised such waivers. It was, further, observed that the situation had continued even during the period under review as fourteen customers were given 100% storage charge waivers and one customer was given 50% in amounts totalling K362,140,000 (US\$72,428) in March and November, 2011.

Further, the Controlling Officer submitted that MOFED management presented a Board paper at the Board's 12th sitting on 15 December, 2012 on trade discounts and debt waiver policies. The Board considered the two proposed policies and deferred its decision on them due to insufficient details on the market analysis of the industry. Management was currently working on the same policies with a view to presenting them to the Board at its next sitting once the papers were ready. Management decided to regularise the trade and discount policies, as they were imperatives in the industry. The trade policy was meant to assist the Company to attract customers while the Waiver policy was meant to, among other things, help clean up the company's books and make debt management easier.

Committee's Observations and Recommendations

Your Committee is concerned at the failure by the Controlling Officer to carry out his duties expeditiously in accordance with the laid down guidelines and regulations. Your Committee reiterates its earlier recommendation that officers who approved the waiver without necessary authority be disciplined. Further, the Controlling Officer is urged to ensure that the revision of the debt/waiver policy is done promptly. Your Committee awaits a progress report on the matter.

c) Engagement of Consultant on Issuance of Title Deeds

The Controlling Officer submitted that when the consultant on the issuance of Title Deeds for the various MOFED properties was engaged, MOFED did not have a procurement unit or a professional officer who could give guidance. As a result, management erred in the procurement of the service. Management had since engaged a professional procurement officer, and a Procurement Tender Committee had since been set up. All procurements for all goods and services were now subjected to a formal procurement process. Management acknowledged the errors in spending over and above the budgeted provision and also the lack of authority from the Board to spend UDS64,000 over and above the approved budget. Management would present the matters to the Board at an appropriate sitting for appropriate action. Management assured the Auditors-General's Office that such lapses would not be allowed to recur in MOFED.

Committee's Observation and Recommendation

The Controlling Officer is urged to ensure that all procurements are done in accordance with procurement procedures and where such a function is not available in the organisation, the Zambia Public Procurement Authority should be consulted for guidance. The Controlling Officer is, further, urged to ensure that authority should be sought for the over expenditure of US\$64000 and the matter is recommended for closure subject to audit verification.

d) **Questionable Dealings – Nakonde Dry Port**

i. *Failure to maintain Correspondence File*

The Controlling Officer submitted that most correspondence on the Nakonde Dry Port was taking place outside the ambit of MOFED official structures. The officer, who was dealing with the matter from MOFED, never formalised the communication channels, despite using MOFED letter heads. However, immediately the matter was observed, MOFED collected copies on various correspondences on the matter and had since bound the same into an official file.

Committee’s Observation and Recommendation

Your Committee is concerned with regards the poor corporate governance at MOFED Tanzania. Your Committee is disappointed that an officer would work independently without management’s supervision and further notes that no action has been taken against him. Your Committee takes note of the Secretary to the Treasury’s submission that the management which presided over this matter has been removed and the positions advertised but recommends that this matter should be reported to the investigative wings for further investigations. Your Committee, therefore, awaits a progress report.

ii. *Memorandum of Understanding between the Government and ZAMESCO*

The Controlling Officer submitted that the MOU was entered into by the Ministry of Communications and Transport.

Committee’s Observation and Recommendation

Your Committee expresses concern that the Controlling Officer was unable to respond adequately to the matters raised in the audit. Your Committee notes that the questions still remain as to why there were no records showing how ZAMESCO Limited was identified as a partner. It was also not clear why the concession period was not stated in the MOU and there was no evidence that the Concession Agreement was signed. Your Committee, therefore, recommends that the matter be reported to the law enforcement agencies for further investigation and possible prosecution of culprits. Your Committee awaits a progress report on the matter.

iii. *Unauthorised Change of Ownership Record*

The Controlling Officer submitted that MOFED management presented the matter for Board guidance at its 12th Board sitting. The Board had deliberated on the matter in its subsequent sittings and had since resolved to report the matter to appropriate Investigative wings for further investigations. Your Committee awaits a progress report on the matter.

Committee’s Observations and Recommendations

Your Committee concurs with the resolution of the Board and urges the Controlling Officer to ensure that the matter is expeditiously reported to investigative wings of Government for investigations and possible prosecution of culprits. Your Committee awaits a progress report on the outcome of the investigations.

iv. *Irregular Offer of Residential Plot*

The Controlling Officer submitted that the Board had resolved to report the matter to the Government investigative wings for further investigations. Your Committee awaits a progress report on the matter.

Committee's Observations and Recommendations

Your Committee concurs with the resolution of the Board and urges the Controlling Officer to ensure that the matter is expeditiously reported to investigative wings of Government for investigations and possible prosecution of culprits. Your Committee awaits a progress report on the outcome of the investigations.

e) **Questionable Advance of MOFED Funds - K505,040,000**

The Controlling Officer submitted that the matter was handled between MOFED management and the Ministry's Procurement Committee. The matter would be presented to the Board for guidance.

Committee's Observations and Recommendations

Your Committee is concerned that the amount in question was paid thirty days before the contract was signed and without approval of the Board which was irregular. Your Committee, therefore, urges the Controlling Officer to ensure that the officers who authorised these transactions are disciplined while the transaction should be normalised expeditiously. Your Committee awaits a progress report on the matter.

f) **Procurement of a Reach Stacker contract price of K2,525,200,000 (US\$505,040).**

i. *Irregular Payment for Reach Stacker*

The Controlling Officer submitted that the contract for the procurement of the reach stacker provided for the special terms of the contract which tabulated the mode of payment. The payments should have been made in three instalments of 10%, 80% and 10% respectively. However, the local agent, SWAB Trading Company wrote to MOFED on 19 September, 2011 requesting that full settlement of the bill on the machine be made as the equipment was marooned in Hong Kong. This prompted the management to release the full payment as requested by the Agent.

Committee's Observations and Recommendations

Your Committee notes that the decision by MOFED management to pay the full amount before completion of the contract is a very serious irregularity and calls for disciplinary action against all officers involved. The Controlling Officer is urged to ensure that such irregularities are curbed in future by ensuring strict adherence to contractual terms agreed upon by the parties. Your Committee closes the matter subject to audit verification.

ii. *Questionable Single Sourcing of Reach Stacker*

The Controlling Officer submitted that the organisation, MOFED, sought the assistance of the Ministry's Procurement Committee and the procurement of the reach stacker was done through the Ministry. This was because at the time MOFED did not have qualified procurement officer.

Committee's Observation and Recommendation

Your Committee notes that there are a lot of unanswered questions on this procurements mainly due to the manner in which the procurement was handled..Your Committee directs that the matter be reported to the investigative agencies for further investigations and possible prosecution of offenders. Your Committee awaits a progress report on the matter.

g) Contracts with Net Solutions Limited

The Controlling Officer informed your Committee that management of MOFED procured the services of Net Solutions in October of 2011 to facilitate the company's connectivity. Net Solutions were supposed to maintain and service the company's ICT equipment. ASYCUDA⁺⁺ was a system run and maintained by the Tanzania Revenue Authority (TRA) for tax purposes of business entities. Net Solutions was, therefore, expected to create an interface of the ASYCUDA⁺⁺ system from TRA with MOFED. The availability and sustenance of the ASYCUDA⁺⁺ was the sole responsibility of TRA. The role of Net Solutions in providing connectivity to the ASYCUDA⁺⁺ for MOFED was by the laying, maintenance and provision of a platform for MOFED to access the ASYCUDA⁺⁺ system. Net solutions, therefore, was not expected to provide a link to the ASYCUDA⁺⁺ as it was the preserve of TRA, but merely to provide the ICT infrastructure and services, which enabled a company's connectivity to other ICT services, like the ASYCUDA⁺⁺. It was in this line that MOFED contracted Net Solutions to provide the ICT infrastructure and maintenance of ICT equipment to keep a live connectivity to TRA tax services.

A close examination of the wording in the contract and the arithmetical additions showed a discrepancy in the wording. MOFED management queried Net Solutions in September, 2012 on the discrepancies on the contract sum USD39,407.64 versus a total payment of USD176,210-62 which translated into an over payment of USD106,071-68. The contractor, Net solutions, conceded the mistakes in the wording of the contract against the arithmetical total of the contract.

Committee's Observation and Recommendation

Your Committee recommends that the amount overpaid be recovered in full expeditiously and cautions the Controlling Officer to ensure that the officers involved in overpayment are disciplined. Your Committee also urges the Controlling Officer to ensure strict observance of procurement procedures. Your Committee awaits a progress report.

h) Board and Ministry Related Transactions

i. Irregularities in Payment of Board Sitting Allowances

The Controlling Officer submitted that observations were noted and management stated that the Board meeting and committee meetings were held consecutively, being a directive from the full Board meeting. The extra day was actually for the Board Committees. In September, 2011 the Chief Operations Officer was paid the USD 1,200, which was meant for transmission to the then Director of the Board who had since confirmed that she received the money. Management was making arrangements to have the confirmation documented and authenticated by the recipient. A letter had since been written and a response was being awaited as confirmation of receipt. The meeting of April, 2012 was the 10th Board meeting of MOFED and the then Chief Executive Officer was in attendance as he was only relieved of his duties in July, 2012. The Chief Executive Officer acts as the secretary to the Board in the current Company arrangement.

Committee's Observation and Recommendation

Your Committee notes the submission but urges the Controlling Officer to ensure that supporting documents are availed to the Office of the Auditor-General to clear the matter. The matter is, therefore, recommended for closure subject to audit verification.

ii. *Irregular Payment of Travel and Sitting Allowances K47,250,000 (US\$9,504)*

The Controlling Officer submitted that management had established that the three officers from the Ministry of Transport, Work, Supply and Communication had authority by Cabinet to travel on MOFED business, through Cabinet authority received on 4 January, 2012. The US\$450 sitting allowance paid to the members was for the meetings held at MOFED. MOFED paid a rate of 80% of the Board sitting allowance for any committees constituted on MOFED business.

Committee's Observation and Recommendation

Your Committee expresses concern at the failure by MOFED management to avail authority details about the matter at the time of audit. Your Committee urges the Controlling Officer to ensure that management is proactive and avoid unnecessary audit queries. The matter is recommended for closure subject to audit verification.

iii. *Irregular Payment of Sitting Allowances to the Special Board of Survey K180,000,000 (US\$36,000)*

The Controlling Officer submitted that the Board of Survey was constituted by the then Ministry of Finance and Economic Development and included officers from the then Ministry of Transport, Communications, Works and Supply. The team had authority to undertake the board of survey and did request that the company MOFED meets the cost of the exercise. Management took note of the concerns of the audit but wished to clarify that there would be need for the intervention of the Ministry of Finance to ascertain the status as well as composition of the appointed team to be able to tell the legality of the payment. However, the Board of Survey did conduct the evaluation and the sales were conducted and raised a total of Tshs.225,737,900. Management took note of the observation and had since sought the indulgence of the Ministry of Finance on the matter.

Committee's Observation and Recommendation

Your Committee urges the Controlling Officer to ensure that all funds are recovered from the officers who received this payment and await a progress report on the matter.

i) **Procurement of Civil Works**

i. *Questionable Contract Terms on Construction of the Kitchen – Hamisi Mwinyi*

The Controlling Officer submitted that management acknowledged that the procurement procedure was not followed on the procurement of the works. The Company had no qualified procurement personnel at the time to advise. The attempt to bring the procurement to the Tender Committee fifteen months after the commencement of the works was an attempt to regularise the matter. Management would, therefore, prepare a Board paper to seek Board guidance and discussion to address the expenses that had been incurred on the item.

Committee's Observation and Recommendation

The Controlling Officer is urged to ensure that all procurements are done in accordance with procurement procedures and where such a function is not available in the organisation, the Zambia Public Procurement Authority should be consulted for guidance. The Controlling Officer is further urged to ensure that authority is sought for the irregular expenditure after which an update should be availed to the Office of the Auditor-General for verification.

ii. *Renovation of a Slab at Mukuba Depot K291, 582,720 (Tsh88,358,400)*

The Controlling Officer informed your Committee that management would present the matter before its Board for guidance.

Committee's Observation and Recommendation

Your Committee recommends this matter to investigative wings for further investigation and therefore awaits a progress report on the matter.

iii. *Construction of Inland Container Depot Gate*

The Controlling Officer submitted that MOFED irregularly procured the services as there was neither a tender procedure followed nor contract entered into and therefore management would equally present the matter to the Board for guidance.

Committee's Observation and Recommendation

Your Committee urges the Controlling Officer to involve the investigative wings to fully investigate all contracts and procurements engaged in by the MOFED management during the period under review. Your Committee awaits a progress report on the matter.

j) **Lack of Ownership Records – Fork Lifts**

Your Committee was informed by the Controlling Officer that procurement of the forklifts was an operating lease which subsequently was converted into a financing lease. This was, however, not sanctioned by the Board. Management would, therefore, present the matter before the Board for regularisation and consequently the same would be updated in the Asset Register.

Committee's Observation and Recommendation

Your Committee notes the submission but, however, due to the agency of the irregularity recommends that the Controlling Officer should involve the investigative wings to fully investigate all contracts and procurements engaged in by the MOFED Management during the period under review. Your Committee awaits a progress report on the matter.

k) **Staff Related Matters**

i. *Irregular Engagement of Human Resource Consultant*

The Controlling Officer submitted to your Committee that management engaged a Human Resources Consultant with a view to establish the human resources function in MOFED constructively under a contract of employment as evidenced by the terms of engagement, vis-a-vis gratuity and a salary. These were wrongly construed as

consultancy fees. It had actually been established that the Human Resources function was a necessary requirement in MOFED, and to this effect, the Board Task Force on the organisational chart had included it in the proposed new structure. Management did not see it prudent to sever the current contract ending in June, 2013 as it would have cost the organisation more. It was hoped that the new MOFED structure would by then be duly authorised and the right procedure and titles would be followed. The exercise by the Board would address most of MOFED's organisational staffing levels and irregularities, as MOFED would have formal structure levels.

Committee's Observation and Recommendation

Your Committee expresses concern at the manner the whole issue was handled. Your Committee calls upon the Board of MOFED to expeditiously deal with the matters before it so as to avert such irregularities. Your Committee awaits a progress report on the matter.

ii. *Irregular Employment of Officers*

- **Operations Officer**

- Failure to meet the Required Qualifications

The Controlling Officer submitted that management was of the considered opinion that, it would be prudent to allow the officers' contract to turn to their end, as it would be costly to sever the contracts. However, MOFED was currently crafting a new Human Resource Policy to go hand in hand with the Board's guidance, and would, to a large extent, address such short comings such as qualifications for officers.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the regularisation of the recruitments and the appointment of qualified personnel to these positions.

- **Irregular Increment of Salary**

Your Committee was informed that MOFED had drafted a salary structure which management hoped would redress the cited irregularities. The same was being processed for consideration by the Board.

Committee's Observation and Recommendation

Your Committee calls for disciplinary action against officers who adjusted the salary without the authority of the Board and requests to be availed an update on the matter.

- **Safety Officer**

- Failure to Meet the Required Qualifications

The Controlling Officer submitted that the matter would be considered for regularisation by the Board.

Committee's Observation and Recommendation

Your Committee expresses concern against such practices in future and awaits a progress report.

1) Other Irregularities

i. *Failure to Collect Debt-K4,469,628,100*

The Controlling Officer submitted that it had dawned on management that the debt owed to MOFED had many facets. Some of the bills were disputed by clients and therefore, needed to be reconciled. Some of the companies that owed MOFED had wound up and could not be traced while some of the clients had requested for waivers because of the global financial meltdown.

Management had, therefore, resolved to reconcile all disputed bills and thereafter, agree with the debtors on a payment plan. For the companies that could not be traced, management would present the matter before the board for a possible write off. Management had equally resolved to suspend credit facilities to most defaulting companies, especially those who were not showing any efforts to make good their debt.

Committee's Observation and Recommendation

Your Committee advises that the Controlling Officer should not rush to write off these debts but ensure that all debts are collected expeditiously. Your Committee awaits a progress report.

ii. *Failure to maintain Property*

The Controlling Officer submitted that renovation to MOFED properties had been phased in the company's mid to long term plans. In the budget, renovations to residential houses had been earmarked.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to facilitate urgent renovations in order to maintain the value of the property. Your Committee awaits a progress report on the matter.

iii. *Inadequately Supported Payments K702,655,481*

The Controlling Officer submitted to your Committee that management had since commenced an exercise to trace and file the missing supporting documentation.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure to avail supporting documents and urges the Controlling Officer to ensure that supporting documents are traced availed to the Auditor-General for verification. Your Committee also urges the Controlling Officer to take disciplinary action against the officers responsible for the omission. Your Committee awaits a progress report on the matter.

iv) *Unretired Imprest K455,610,000 (US\$91,122)*

The Controlling Officer submitted that management had since taken steps to ensure that officers with outstanding imprest retired it. Deductions had since commenced for some of the outstanding imprest through the payroll.

Committee's Observations and Recommendations

Your Committee expresses concern that the Management failed to manage the imprest according to financial regulations and urges him to ensure that officers who caused the anomaly are disciplined. Your Committee awaits a progress report on the matter.

MPULULUNGU HARBOUR CORPORATION LIMITED AUDIT QUERY

PARAGRAPH 10

Review of Operations

13. A review of accounting records and other relevant documents relating to cargo throughput conducted in October, 2012 revealed the matters set out below.

a) Non Injection of Capital

The Controlling Officer submitted to your Committee that the issue of capital injection would be addressed by the shareholders through an annual general meeting to be called by the Company once the financial statements were audited by October, 2013. The Controlling Officer further stated that authority was given for him to constitute a Board of Directors for the harbour to look into all its operations. Management would take necessary measures to ensure that the shareholding structure was amended in line with the appropriate Government guidelines on shareholding for parastatal bodies.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that a new Board of Directors for Mpulungu Harbour is constituted as per authority granted. Secondly, the issue of the shareholding of the Company should be expeditiously attended to in order to normalise the operations of Mpulungu Harbour. Your Committee awaits a progress report on the matter.

b) Failure to Prepare Financial Statements

The Controlling Officer submitted to your Committee that the financial statements had been prepared up to the financial year ended 31 March, 2012. The statements were available for audit by the Office of the Auditor General. The Company was in the process of preparing the 2012/2013 financial statements which would be ready by 31 August, 2013. These would also be made available for audit as soon as they were ready. The Board of Directors at its meeting held on 5 April, 2013 resolved and directed management to formulate terms of reference for the engagement of external auditors in consultation with the Office of the Auditor - General. The Controlling Officer further stated that they were in the process of engaging external auditors for subsequent audits.

Committee's Observations and Recommendations

Your Committee urges the Controlling officer to ensure that terms of reference are finalised in consultation with the Auditor-General to avoid recurrence of similar incidences. The matter is recommended for closure subject to audit verification.

c) Under-charging of Cargo Shipments

Your Committee was informed that, in order to mitigate the challenge of under-charging of cargo shipments, management had changed the procedure of submission of source documents to accounts for preparing invoices. Under the new procedure, the letter of transport and a document that acknowledged how much cargo had been loaded on the ship was attached to the tally sheets raised by the operations department. The two documents were sent to Accounts for raising the invoice. For the loss already suffered, the matter was reported to the Drug Enforcement Commission. All the officers involved had since been arrested and were appearing before the Magistrate Court in Mpulungu.

Committee's Observations and Recommendations

While noting that the matter is before the courts of law, your Committee observes that the Company has lost a lot of the much needed revenue. Your Committee is of the view that strong internal control needs to be put in place to avoid such losses in future. Your Committee awaits a progress report on the matter.

d) Lack of a Fixed Assets Inventory - St George Fisheries Assets

The Controlling Officer submitted that St George Fisheries (formally Chani Fisheries) was currently under Interim Management by Mpulungu Harbour Corporation Limited in accordance with the letter from Zambia Development Agency (ZDA) dated 24 April, 2012. The assets at St George Fisheries Limited were verified by Mpulungu Harbour Corporation Limited and Zambia Development Agency (ZDA). He added that an appropriate asset register would only be created once the intention to merge St George with Mpulungu Harbour Corporation Limited was finalised.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the assets for St George fisheries are revalued and approval sought from relevant authorities for Mpulungu Harbour to start using the assets before they go to waste. Your Committee awaits a progress report on the matter.

e) Failure to Pay Interest on Concession Fees and Port Charges US\$25,884.01

The Controlling Officer submitted that repossession of the Harbour was currently the subject of arbitration between the Government and Mpulungu Harbour Management Limited, the former concessionaire. Therefore, the interest accrued would be taken into consideration through the arbitration process.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

Accounting and Other Irregularities

14. An examination of accounting and other records for the financial years ended 31 December, 2009, 2010 and 2011 revealed the matters set out below.

a) **Income**

The Controlling Officer submitted that the Ministry wrote to the Ministry of Finance for supplementary funding to pay salary arrears to workers at Bangweulu and Mweru Transport Boards. Unfortunately, the Ministry of Finance was unable to release supplementary funding and advised the Ministry to vary funds from slow moving programmes. Variations were done within the budget for the Ministry with prior consultation with Ministry of Finance.

The Ministry experienced irregular funding for the year ended December, 2010 and in fact was not funded for some months during the year, resulting in the Ministry's inability to fund the grant aided institutions. However, with effect from 2012, funding to grant aided institutions was done directly from the Ministry of Finance while debiting the Ministry's expenditure head. As a result of this measure, funding to grant aided institutions such as Bangweulu and Mweru Water Transport was guaranteed, based on the budgetary provisions respectively.

The reduction in revenue for the two institutions was as a result of, among others, strike action by workers in the month of May, 2011 at Mweru Water Transport Board while with Bangweulu Water Transport Board it was due strike action by workers in the month of May, 2011 and constant breakdown of the water vessel which had outlived its economic useful life. Furthermore, the two harbours lacked the necessary tools and equipment. The tools and equipment available were near obsolete, resulting in constant breakdowns. As a result, the two Boards were not able to fulfil their respective mandates as expected.

Committee's Observations and Recommendations

Your Committee notes that the two Water Boards are highly indebted financially and are only surviving on revenue from guest houses and restaurants whose businesses were not part of their core business. Your Committee urges the Controlling Officer to monitor usage of funds that are sent to the Boards and that supplementary allocations are made only where necessary to avoid over funding. Your Committee, further, urges the Controlling Officer to ensure that equipment and tools are purchased for the two institutions so that full operation and execution of their mandate can be resumed. Your Committee also recommends that the two Water Boards should be restructured and properly funded so that they are able to carry out their mandate, which is to provide water transport to the people of Mweru and Bangweulu catchments. Your Committee awaits a progress report on the matter.

b) **Use of Private Printed Receipt Books and Non Maintenance of a Register of Accountable Documents**

The Controlling Officer regretted the lapse in compliance with prescribed regulations and guidelines and explained, however, that measures had been put in place whereby the two institutions were now using GRZ receipt books collected from the Strong Room Superintendent at Ministry of Finance. In addition, the register of accountable documents for Bangweulu Transport Water Board was availed to the Auditors for verification and the matter was resolved as per verification report dated 7 January, 2013.

Committee's Observations and Recommendations

Your Committee is concerned with the use of privately printed receipt books which can easily lead to fraudulent activities by accounting officers and/or cashiers. Your Committee urges the Controlling Officer to caution the management for failing to ensure correct receipts were used. Your Committee awaits a progress report on the matter.

c) **Failure to Remit Government Revenue to Control 99 K1,144,938,854 (K384,184,384 - Mweru and K760,754,470 - Bangweulu)**

The Controlling Officer submitted that he regretted the non-compliance to prescribed regulations and guidelines. However, the Ministry had applied to the Secretary to the Treasury to retain the same revenues to supplement the grants to the two institutions. The current level of Government interventions in terms of financing was not adequate to meet the monthly commitments of wage bills and operations, hence the need for the two institutions to use the resources. As the Ministry revised the *Inland Waterways Act Cap 466*, the two institutions would be transformed into water transport statutory bodies that would generate their own revenues for their operations.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to seek authority before utilising the revenue at source and emphasises the need for such authority to be sought promptly in future. The Controlling Officer is therefore urged to push for the expeditious review of the *Inland Waterways Act Cap 466* to enable the two water boards generate their own revenue. The matter is recommended for closure subject to audit verification.

d) **Questionable Status of the Water Transport Boards**

The Controlling Officer reported that the two Institutions were established through a Ministerial directive to provide water transport services to the islands of Lake Mweru and Bangweulu. However, there were no records to show the exact terms of their establishment. They were supervised by the department of Maritime and Inland Water Ways but they had no legal status. However, the Ministry was in the process of reviewing the *Inland Water Ways Act, Cap 466 of the laws of Zambia* and the legal status of the Institutions would be normalised. The revised Act would transform the Institutions into statutory bodies that would be responsible for the provision of water transport services on the two lakes. It was anticipated that the Act would allow them to raise their own resources from various sources, such as the commercial market, donor funding and strategic partnerships such as Public-Private Partnerships (PPP).

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to expedite the review of the legal framework which will clarify the two Water Boards' existence and mandates, and, therefore, resolves to await a progress report on the matter.

e) **Inadequate Staffing Levels**

The Controlling Officer acknowledged that the staffing levels were inadequate. However, the level of Government intervention was not adequate to support all positions in the establishment register. Further, some positions could not be filled due to lack of operational equipment. These included boat captains, assistant boat captains and marine mechanics. The positions of administration officer, stores officer and accounts clerk were vacant due to

inadequate funding. These positions would be filled in when the Institutions were recapitalised and funding improved.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the matter.

f) Failure to provide Water Transport Services

The Controlling Officer acknowledged that the two Institutions failed to provide water transport services as stated by the Auditors. This was because the two vessels at the respective institutions had both broken down. The two Institutions would only resume providing water transport services after they were recapitalised. This recapitalisation would include procurement of vessels, among other things. However, there was no provision for recapitalisation in the 2013 budget. The Ministry had engaged the Ministry of Finance to consider providing supplementary funding to purchase the vessels. Unfortunately, the Treasury was unable to provide the funding and had advised the Ministry of Transport, Works, Supply and Communication to vary funds from its 2013 budget allocation. The boat at Bangweulu was docked in water due to lack of a dry docking facility. This was part of the harbour infrastructure. There was no harbour infrastructure due to inadequate funding to the water transport sector. The boat last worked in 2009.

Committee's Observations and Recommendations

Your Committee notes with great concern that the boat could be damaged due to the poor storage arrangement, and therefore urges the Controlling Officer to explore ways to expeditiously sell the boat so that Government resources are not completely lost. Further, your Committee urges the Government to ensure that the two water boards are urgently recapitalised. Your Committee awaits a progress report on the matter.

g) Harbour Facilities

The Controlling Officer agreed with the observation that the harbour facilities were inadequate. This was due to lack of necessary harbour infrastructure like landing bay, floating jet dry dock facilities, warehouse and marine workshop at the institutions. He stated that only KR180,000 had been allocated in the 2013 budget for harbour infrastructure for both Institutions. This amount was inadequate. The situation would only improve once there was adequate funding to the water transport subsector. The subsector was one of the four modes of transport, besides rail, air and roads but was unfortunately, the least funded. The Controlling Officer, further, acknowledged that they were using a private landing bay. This was because they did not have their own landing bay. Further, there were no agreements made with the owner of the private landing bay. However, management had since engaged the owner of the private place to formalise the use of the privately owned landing bay. He also acknowledged that the Institutions had no rescue boats as they were never procured. These would only be bought when the sector received adequate funding.

Committee's Observations and Recommendations

Your Committee is concerned that the two Companies were failing to fulfil their mandates of providing water transport because the boats have broken down. Your Committee, therefore, urges the Controlling Officer to consider revamping the operations of the two Companies by recapitalising them. As for the old boats, the boards should consider selling them before the condition deteriorated due to poor storage facilities. Your Committee awaits a progress report on the matter.

h) **Unrepaired Vehicle - Mweru Water Transport Board**

The Controlling Officer submitted that despite the High Court disposing of the matter in favour of the Government, the matter was still outstanding as Gibson and Gibson had failed to honour the Court judgment. The Ministry had since written to the Attorney General for guidance.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to actively pursue the matter with the Attorney-General's Office and follow it up to its logical conclusion. Your Committee, therefore, awaits a progress report on this matter.

**NKANA WATER AND SEWERAGE COMPANY LIMITED
AUDIT QUERY**

PARAGRAPH 12

Review of IT Operations for the Period 2009 to 2011

15. A review of the NWSCL Management Information Systems and other records maintained at the headquarters revealed the issues set out below.

a) **Failure to put in Place a Board of Directors**

The Controlling Officer submitted that during the period under review, there was no board in place as the previous board had been dissolved and the new board was still in the process of being vetted. He, however, reported that the Board of Directors had since been appointed.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Government to ensure that Boards of Directors are put in place for all parastatals in a timely manner in order to enhance corporate good governance. Nevertheless, your Committee closes the matter subject to audit verification that the Board has been appointed.

b) **Lack of IT Strategic Plan**

The Controlling Officer submitted that during the period under review, the company's IT strategic plan was not yet in place as it was not approved by the Board. However, the Company had since prepared a separate IT strategic plan which was awaiting board approval.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification that the strategic plan has been prepared and approved by the Board of Directors.

c) **Failure to Operationalise the Automated Payment Function for New Account Connection, Disconnection and Reconnection Fees**

The Controlling Officer submitted that the Function was not fully operational as the module needed to be modified to meet the Company's specific needs in line with its debt management policy. Since the time of the audit, the Developer had upgraded the system and the Company had since activated the Automated Payment Function. User training and sensitisation had also been conducted.

Committee's Observations and Recommendations

Your Committee closes the matter subject to audit verification that the system has been upgraded and the automated payment activated and is functioning.

d) Lack of Alternative Power Source

The Controlling Officer submitted that at the time of audit due to financial constraints, the Company was unable to procure a generator set to act as an alternative power source, even though the item was provided for in the budget. However, the Company had since procured a 30 KVA generator to serve as an alternative power system.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification that the alternative power source has been put in place.

e) Lack of a Disaster Recovery Site (DRS)

The Controlling Officer submitted that due to financial constraints, the company was unable to procure suitable equipment for a fully operational DRS. However, daily backups of all critical files were being done and kept off the site. He further stated that following the installation of a fibre cable, under the ADB funded Project, and purchase of suitable server and other accessories, the Company had now operationalised the DRS and all the critical systems had been installed.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification of the Disaster Recovery Site.

f) Lack of Local Area Network Firewalls

The Controlling Officer submitted that due to financial constraints, the company was unable to procure the required equipment for the network firewall at the time. He explained that in order to address the issue of security techniques and related management procedures to authorise access and control information flows to and from the networks, management had now installed and commissioned the Local Area Network firewalls.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter, subject to audit verification that the network firewall is functional.

g) Lack of Interface between the EDAMS and the Sun System

The Controlling Officer submitted that the lack of interface between the EDMAS and the sun system was due to the delay by the supplier to install the remaining components of the system. He added that the Company had also delayed in submitting the data inputs to the major developer of EDAMS based in South Africa to complete the interface between the EDAMS and Sun System. However, the submission of data inputs had since been completed and the interface was expected to be completed before the end of third quarter of 2013. He further reported that the Company had included key components in the IT strategic plan to cater for system review and processes.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter, subject to audit verification that the installation of the interface between the EDMAS and the Sun System is completed.

h) Weaknesses in Billing System Administration

i. Unmetered Customers with a Meter Number

The Controlling Officer submitted that the metered customers were put on unmetered tariff when their meters developed faults. The faulty meters were not immediately removed from the system until proper ground verifications were undertaken to establish whether or not affected meters could still be used. He explained that the Company conducted a full database clean up exercise and the issue had been completed and normalised.

Committee's Observations and Recommendations

Your Committee closes the matter subject to audit verification that the database clean up exercise has been completed and the matter of the unmetered customers resolved.

ii. Customers with Duplicate Accounts

The Controlling Officer submitted that the duplicate accounts in EDAMS were due to data migration from the previous billing system. However, all the accounts with duplicate plot numbers identified in the system during the database cleanup exercise were re-allocated or deactivated in the system.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter, subject to audit verification that the database clean up exercise has been completed and the matter of duplicate accounts resolved.

iii. Un-reconciled Statement of Debtors

The Controlling Officer submitted that the reconciliation of debtors between the EDAMS and SUN was in progress at the time of the audit. He added that the Company had finalised the reconciliation of the two systems.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter, subject to audit verification that the debtors outstanding amounts difference of K20,647,106,059 has been reconciled.

**NORTH-WESTERN WATER SUPPLY AND SEWERAGE COMPANY
AUDIT QUERY**

PARAGRAPH 13

16. A review of the NWSCL Management Information Systems and other records maintained at the headquarters revealed the issues set out below.

a) Inconsistence between MoU Provision and Actual Shareholding

The Controlling Officer submitted to your Committee that the Board of Directors resolved to change the basis on which the shareholding was based from the capital (value of assets) each participating Local Authority (LA) contributed at the time of the Company's inception to the income generating potential of each Local Authority based on the number of connections in each of the participating LA's area of jurisdiction.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter, subject to audit verification that the Board has changed the basis of the shareholding from the capital contributed by Local authorities to the income generating potential of each one of them.

b) Absence of Board of Directors

The Controlling Officer submitted to your Committee that the delay in appointing the Board was due to the vetting process that took long but the Ministry had since appointed the Board and functions were expected to normalise.

Committee's Observations and Recommendations

In closing the matter, your Committee observes that running the Company for such a long time without a Board of Directors was poor corporate governance which led to poor performance. Your Committee, therefore, urges the Controlling Officer to be proactive in order to avert the inertia created by the absence of the Board. Your Committee resolves to close the matter subject to audit verification.

c) Financial Performance - Statement of Comprehensive Income

Details	2011 K'000	2010 K'000	2009 K'000	2008 K'000
Gross Profit	9,898,698	5,380,917	4,340,203	3,722,926
Other Income	596,978	1,406,856	289,050	155,325
Finance Income	3,178	6,058	22,941	12,711
	10,498,854	6,793,831	4,652,194	3,890,962
Operating Expenses	10,769,115	8,511,177	7,122,149	8,285,123
Loss before tax	(270,261)	(1,717,346)	(2,469,955)	(4,394,161)
Retained loss	(270,261)	(1,717,346)	(2,469,955)	(4,394,161)

i. Operating Expense Higher Than Gross Profit

Although gross profit increased from K3,722,926,000 in 2008 to K9,898,698,000 in 2011, and losses reduced from K4,394,161,000 in 2008 to K270,261,000 in 2011, it was observed that the operating expenses were more than the gross profit, as indicated from the statements above.

ii. *Losses*

The Controlling Officer submitted to your Committee that the Company had been making losses since inception mainly because the customer base was too small to justify economic viability. Further, the Company had no mandate to charge an economic tariff for its services as it was regulated by the National Water Supply and Sanitation Council (NWASCO). The Controlling Officer further submitted that another contributing factor was because when the Company started operating in the year 2000, the Government did not provide working capital which resulted in high operating expenses as it had inherited rundown infrastructure while critical maintenance could not be done on time to curb the prevalence of non-revenue water.

Your Committee was also informed that in order to reverse the situation, Management had implemented programme aimed at, among other things, reducing non-revenue water from around 60% to 30% by the end of December, 2012. Further, the Company had undertaken an aggressive customer recruitment drive that had increased the customer base from 2,300 at inception in 2000 to 9,147 in December, 2012. As a result of these measures, the Company had experienced an increased turnover from K6.95 billion in 2008 to K15.61 billion in 2012 representing an increase of 124.6%. The gross profit has increased from K3.7billion in 2008 to K11.24 billion in 2012 representing an increase of 208%. Further, from a loss of KR4.39 million in 2008 to a profit of KR231,089 in 2012 as per draft audited Financial Statements for 2012 which were awaiting Board approval. The organisation was positioned for sustainable growth as it had started posting operating surpluses.

Committee's Observations and Recommendations

Your Committee notes the measures that management has taken to improve the viability of the Company but observes that there still exist a lot of challenges which require urgent attention. Your Committee, therefore, urges the Controlling Officer to engage the Treasury on the need to inject more funding in the Company. Your Committee awaits a progress report on the matter.

iii. *Unaccounted for Revenue-K40, 193,455*

The Controlling Officer submitted to your Committee that the deposit slips for K40.2 billion were misfiled after the external audit was concluded. The revenues appeared on the bank statements as having been deposited and the bank reconciliations for the respective periods bore testimony. The bank reconciliations were cleared by the external auditors and the Office of the Auditor General. Further, management had procured a 20 foot container for use as storage facilities which would free space in the stores building to be used for archiving purposes of accountable documents.

Committee's Observations and Recommendations

Your Committee finds the misplacement of accountable documents unacceptable and urges the Controlling Officer and management to put in place measures to avert the recurrence of the anomaly. Management is also urged to take disciplinary action against the officers who misplaced the documents in question. The matter is recommended for closure subject to audit verification.

iv. *Inadequately Supported Payments-K3,002,903,763*

The Controlling Officer submitted to your Committee that management had challenges in securing supporting documentation for the various payments due to the distances between Solwezi and the locations of various suppliers. Payments would normally be made through bank transfers and/or depositing cheques on behalf of suppliers in a supplier's bank account to facilitate smooth despatch of goods to Solwezi. This posed challenges in the collection of receipts and other necessary documents from the suppliers after payments were made. To resolve the matter, management managed to trace some documents from the archives and asked for copies from the various suppliers resulting in the resolution of K1,840,837,000 out of the total of K2,965,072,000 leaving the balance of K1,059,234,000 as unresolved. To curb the irregularity, no payment was made without the necessary documentation.

Committee's Observations and Recommendations

Your Committee finds the submission by the Controlling Officer unacceptable and urges him not to defend irregularities but to be firm and insist that supporting documents are obtained and kept as per financial regulations. Your Committee resolves not to close the matter until all the missing documents are found and verified by the Office of the Auditor-General.

v. *Unretired Imprest-K169,704,555*

The Controlling Officer submitted to your Committee that Company Management had challenges in administering retirements due to the geographical spread of the areas of operations coupled with poor postal services in the Province. Bus transport was often used for courier services for imprest retirement forms from other districts to head office in Solwezi and more documents ended up being lost on the way leading to huge incidences of unretired imprest. However, management undertook a clean-up exercise in staff imprest accounts and left K66,309,000 as unresolved. On the outstanding accounts, deductions from affected employees commenced in September of 2012.

Committee's Observations and Recommendations

Your Committee finds the submission by the Controlling Officer unacceptable and urges him not to tolerate indiscipline in the management of imprest by impressing upon management to put measures in place to correct the situation. Your Committee resolves not to close the matter until all the imprest is retired and verified by the Office of the Auditor-General. The Controlling Officer is also urged to ensure that management takes disciplinary action against the officers who delayed in retiring the imprest. Your Committee awaits a progress report on the matter.

vi. *Unaccounted for Stores-K201,241,920*

The Controlling Officer submitted to your Committee that 83.14% of the total outstanding amount of K115,108,000 related to procurements of services which according to Company policy did not pass through the stores system due to their intangible nature. Fuel equally did not pass through Company Stores for security reasons as it is filled in the vehicles from the filling/service stations. Stores details for K19,401,000 for goods received had not been traced.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer for not appreciating the substance of the query as all procurement transactions need to be supported adequately and availed for audit whenever required. Your Committee urges the Controlling Officer to strengthen internal controls at the Company by ensuring that internal audit function is put in place.

d) Depletion in General Reserves

The Controlling Officer submitted to Your Committee that the loss making position of the Company from inception to the financial year 2011 had depleted all the reserves. This was compounded by the fact that existing shareholders in the Company had no additional capital to invest. The Controlling Officer further submitted that the sector had remained unattractive to the private sector due to high regulation prevailing in the sector, coupled with the numerous challenges facing the sector.

To boost the reserves, the Company had come up with a Strategic Plan for the period 2011-2015 with growth rates in revenue of 124% from 2008 to 2012 and the Company had finally started posting surpluses which was a step in restoring the depleted reserves. Further, management was conducting stakeholder meetings as the preliminary step in the application for a tariff adjustment towards the end of 2013. This would give the Company a new lease of life in its long journey to profitability, commercial viability and sustainability.

Committee's Observations and Recommendations

Your Committee notes the measures that management had taken to improve the viability of the Company but observes that there still exist a lot of challenges which cannot be handled. Your Committee, therefore, urges the Controlling Officer to engage the Treasury on the need to inject fresh funding into the Company. Your Committee awaits a progress report on the matter.

e) Financial Position for the period 2008 to 2011

Liquidity

i. Weakness in Collection of Receivables

The Controlling Officer submitted, in respect of Government debt, that management faced challenges collecting debts owed by Government institutions in the Province resulting in the debt rising to about 35% of the Company's annual billings. The institutions often took more than a year to clear their bills despite constant reminders. However, the Government had been engaged at various levels and there were positive indications that it would dismantle the debt. On other debts, the Controlling Officer submitted that of the K3.85 billion owed by other customers, K1.8 billion related to current billing which was due in August 2012 whilst K2.01 billion related to debts brought forward. As a result of enforcing a stringent Credit Management Policy, substantial progress had been made in recovering the old debts. Further, to enhance collections, the Company was in the process of procuring pre-paid meters. The Company had also acquired a more efficient billing system called Pastel Evolution – Municipality Billing.

Committee's Observations and Recommendations

Your Committee resolves to close the matter but urges the Office of the Auditor-General to keep the matter in view in future audits.

ii. *Increase in Payables*

The Controlling Officer submitted that payables were mostly driven by the volume of activity mostly in terms of turnover. In 2008, payables were 96% of turnover whilst in 2011, payables were 68% of turnover signifying an improvement in the management of payables. Management had managed to liquidate debts owed to most of its suppliers as a result of a slight improvement in its cash flows and management's policy was to keep payables below 60% of turnover on average.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

iii. *Non-payment of Statutory Contribution-K7,677,337,823*

The Controlling Officer submitted that management had challenges in meeting its obligations as and when they fell due from inception to the end of the year 2010. This was because the Company could not generate enough cash flow to pay members of staff and remit statutory contributions. To address the matter, the Company had entered into payment agreements with NAPSA and Zambia Revenue Authority where the Company was paying current obligations on due dates while paying agreed amounts towards the old debt. There was no increase in terms of interest costs on the old debt.

Committee's Observations and Recommendations

Your Committee notes the measures that management has put in place and resolves to close the matter subject to audit verification.

f) **Poor Infrastructure – Solwezi Main Water Works Pump House**

The Controlling Officer submitted that the Solwezi Main Works Pump House was due for demolition after the new one was built. The space was converted into a storage facility for used items. Management would in the next two months, carry out appropriate works on the structures to make it safe for the staff.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

g) **Failure to Obtain Title Deeds**

The Controlling Officer stated that management started the process of acquiring title deeds with the local authorities concerned in 2008 and the Company engaged the Ministry of Lands to survey some of the properties. The process with the Ministry of Lands to obtain title deeds for all the property on the books of the Company had taken too long due to bureaucracy in the processes. Management was in the process of engaging a lawyer to spearhead the process.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter.

h) Failure to Adopt ICT Standards and Frameworks.

The Controlling Officer submitted to your Committee that the failure to adopt ICT standards and frameworks was due to nonexistence of the Board at the time of audit. The road map had been drawn for progressive implementation of ICT Standards and Frameworks and the Company had since applied for membership subscription at ISACA to enable Institution access the COBIT standards and framework.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company has continued to operate without recourse to ICT standards due to the absence of the Board of Directors to make a decision on the matter. Your Committee urges the Controlling Officer to ensure that the Board of Directors is expeditiously put in place and ICT standards adopted. Your Committee awaits a progress report on the matter.

i) Lack Of It Steering Committee

The Controlling Officer submitted to your Committee that the IT steering committee was not in place due to nonexistence of the Board which had the mandate to endorse the appointment of such a committee. The Company has put in place an interim IT steering committee which has been tasked to formulate the IT policies and IT strategic plans for 2013. However, the committee would only be formally instituted with authorisation from the Board of Directors once in place.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company failed to constitute an IT steering committee due to the absence of the Board of Directors. Your Committee urges the Controlling Officer to ensure that the Board of Directors is expeditiously put in place without further delay. Your Committee awaits a progress report on the matter.

j) System Owners Carrying out System Administration

The Controlling Officer submitted to your Committee that it was an oversight on the part of those charged with the responsibility of carrying out systems administration and the Company was currently analysing the system to separate the two functions. A user guide manual would be developed to assist in systems control and execution function.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution the management for this oversight and resolves to await a progress report on the normalisation of the situation.

k) Lack of segregation of duties

The Controlling Officer submitted to your Committee that lack of segregation of duties was due to financial difficulties and once the financial base improved, management would employ an officer who would in turn help to segregate the critical duties.

Committee's Observations and Recommendations

Your Committee observes that it is good practice in the management of ICT systems to have segregation of duties as it provides security checks. Your Committee is concerned that this has not yet been attained by the Company and urges the Controlling Officers to take measures to correct the situation and provide a progress report.

l) **Lack of Contract for the Domain Name, Web hosting and Company Mail.**

The Controlling Officer submitted to your Committee that the contract with ZAMNET was misplaced by an officer who had since been separated from the Company. Further, the Company had written to ZAMNET obtain the copies of the contract.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor management of important documents and urges the Controlling Officer to ensure the Company puts measures in place to correct the situation. Your Committee awaits a progress report on the matter.

m) **Lack of Support and Maintenance Contracts**

The Controlling Officer submitted to your Committee that the support and maintenance contracts were misfiled in a different box file at the time of audit. The Management had secured both the Dove payroll and Pastel Accounting packages (support and maintenance contracts) or Service Level Agreements with the Company.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor management of important documents and urges the Controlling Officer to ensure that the Company puts measures in place to correct the situation. Your Committee awaits a progress report on the matter.

n) **Failure to Insure IT Equipment**

The Controlling Officer submitted to your Committee that the Company was unable to pay for its insurance due to liquidity problems, however, all ICT equipment were insured on 18th September 2012.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to audit verification that the ICT equipment has been insured.

o) **Lack of Service Level Agreements (SLAs)**

The Controlling Officer submitted to your Committee that it was an oversight on the part of management and the IT steering committee had since drafted the SLA between the users and IT staff. The NWWSC is unable to immediately implement the SLA but until such a time when the Company was restructured to include IT department.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

p) **Lack or Non Operation of Audit trail Function on the systems**

The Controlling Officer submitted to your Committee that the Company had engaged the system providers on the non-functionality of the audit trail who were upgrading the system to address the issues raised.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

q) **Poor User Account Management**

The Controlling Officer submitted to your Committee that the Management engaged Company called VPN in the districts to review all user account management, and all the users were able to log in to the system using domain accounts which are controlled from head office and have all the desired features as password complexity, maximum password duration. The Management had introduced inbuilt mechanism to monitor the operative user account management.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

r) **Lack of Support for the Piano System**

The Controlling Officer submitted to your Committee that the Piano billing software was provided free of charge at the time when the Company was not financially able to purchase an off billing system. The management had since started the process to acquire an off the shelf billing software.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

s) **Lack of Business Continuity Plan (BCP) and Disaster Recovery Site (DRS)**

The Controlling Officer submitted to your Committee that Management had commenced the process of developing the Business Continuity Plan (BCP) and Disaster Recovery Site (DRS) which would be based on risk and understanding of potential business impacts.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

t) **Poor Administration of Backups**

- *Lack of Back- Up Policy*

The Controlling Officer submitted to your Committee that Management was informally storing its back up on the CDs without a proper policy on data management and after use in place. The management had since begun the process to implement the backup policy.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

- *Non Availability of Offsite Storage Facility for Backups*

The Controlling Officer submitted to your Committee that management did not maintain offsite storage facility for backups due to weak institutional and human resource capacity. The management has made efforts to have the Offsite storage Facility for backups installed at another location as observed by the Auditors.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

- u) **Lack of Change Management Procedures**

The Controlling Officer submitted to your Committee that management was working on documenting and formalising of change management procedures.

Committee's Observations and Recommendations

Your Committee is concerned that it has taken too long to come up with change management procedures which is unacceptable and urges the Controlling Officer to ensure that the Management attends to the matter without further delay.

- v) **Lack of Access Control List**

The Controlling Officer submitted to your Committee that the Company has made efforts to maintain an Access Control List (ACL) to restrict and monitor clients on the entire network.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

- w) **Lack of Data Integrity on the System**

The Controlling Officer submitted to your Committee that Management had made effort to have 724 accounts numbered while 1453 duplicate accounts were rectified. Further, eight (8) accounts were completed with full details and 159 accounts were being billed.

Committee's Observations and Recommendations

Your Committee notes the measures that have been put in place to clean up customer data on the system as a way of creating integrity in the system. In closing the matter, your Committee urges the Controlling Officer to ensure that the Company continues undertaking measures aimed at enhancing the integrity of the customer database.

Accounting and Other Irregularities

17. Your Committee learnt that a review of accounting and other records for the financial year ended 31 December, 2011 revealed the matters set out below.

a) **Estates – Headquarters**

i. *Missing Firearms*

The Controlling Officer submitted that firearms reported to be missing were not actually missing as three were collected and one was sold by the Office of the Administrator General and Official Receiver at the cost of K360,000. The proceeds were given to the beneficiary. Your Committee further learnt that the error was made at the collection point as the beneficiaries were made to sign in the subject files by the examiners and not the asset register kept by accounts. Therefore, the asset register showed that the firearms were not collected while individual estates files had records to show that the firearms were collected by the beneficiaries. In view of the fact that the firearms were not actually stolen or missing, it was not necessary to report the matter to the police.

The Controlling Officer further added that the Auditors' observation that the office only recorded the type of asset, the date deposited in the Office and the date it was taken away was correct. However, due to lack of expertise in the area, the Office was unable to record the serial numbers of the firearms. Nonetheless, the Auditor's advice had been noted and with the help of the police, the Office was currently able to record the serial numbers of any firearms deposited with them.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification of the serial numbers for the twelve (12) firearms.

ii. *Inadequately Supported Payments K219,927,772*

The Controlling Officer submitted that most of the payments were supported but the documents in question were misfiled in the estate files or subject files to which those payments related. However, out of the thirty five payments in question, twenty four receipts amounting to K171,209,450.16 had been found leaving a balance of eleven totalling K48,718,322. Therefore, efforts to locate the remaining receipts had continued and the Controlling Officer had since written to all the institutions whose receipts could not be located in order to confirm receipt of payment. As of June, 18, 2013, the Zambia Revenue Authority had confirmed receipt of two cheques amounting to K35,700,000 leaving a balance of nine receipts totalling K13,018,322. In addition, the Ministry had reshuffled staff in the registry unit with a view of improving the filing system.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer to improve the filing system and ensure that such explanations are provided to Auditors at the time of audit. Your Committee urges the Controlling Officer to ensure that all the remaining documents are traced. Your Committee awaits a progress report on the matter.

b) **Receivership**

Your Committee was informed that site visits and an inspection of records maintained by the Administrator General and Official Receiver on the companies revealed irregularities in the payment of allowances and procurements from the receivership accounts, as well as failure to recover rental arrears from residential units and social assets as set out below.

i. *Payment of Lunch Allowance at Unauthorised Rate K13,150,000*

The Controlling Officer submitted that the Public Service Management Division Circular No B8 of 2003 did not apply on this query as the companies mentioned were public limited corporations (In Receivership). Further, *Section 335(2) of the Companies Act, Chapter 388 of the laws of Zambia* gave the Receiver, while exercising his duties, discretion to pay any amounts he considered fit for the betterment of the Company in receivership. Furthermore, Section 2.2 sub-section 2.2.3 of the Receiver's Deed of Appointment authorised the Receiver to meet receivership expenses as defined by the applicable receivership law. In this case, the Receiver's committee was comprised of civil servants and non civil servants and in order to accommodate the non civil servants, the Receiver found it prudent to pay the rate slightly higher than that provided in the Public Service Management Division Circular No B8 of 2003. The Controlling Officer further stated that the rate used was actually lower than what was applicable to some Parastatals.

Committee's Observations and Recommendations

Your Committee is concerned with the continued payment of lunch allowance at unauthorised rates despite the Office of the Auditor - General indicating the discontinuation of the practice in previous audits (2010). Your Committee, therefore, urges the Controlling Officer to ensure that all funds paid in excess of the authorised allowance are recovered from the officers concerned and disciplinary action taken against the officer who approved the payments. Your Committee awaits a progress report on the matter.

ii. *Failure to recover Rental Arrears from Housing Units and Social Assets K605,819,673*

Your Committee was informed that in paragraph 4 of the Auditor - General's report for 2010, on the accounts of parastatal bodies, mention was made on uncollected house rental revenue from housing units of Mansa Batteries Limited (in liquidation) in amounts totalling K300,960,000 as of December, 2010. A review of the situation in November, 2012 revealed that the amount had increased to K423,909,000.

The Controlling Officer submitted that this was due to the Government's directive given at that time. However, the matter came up in the 2010 Audit Report and it was tabled before the Public Accounts Committee in the year 2012. Therefore, the matter had since been resolved.

The Controlling Officer further submitted that tenants in Luanshya had not been paying rentals on time because the sitting tenants had, on several occasions, appealed for political intervention to waive payment of the rentals as in the case of house rentals. They had received political backing which came in form of instructions to put the collection of rental arrears on hold. Despite receiving the instructions, the Administrator General continued to make efforts to recover the outstanding amounts. As of 18 June, 2013, a sum of K194,757,360, had been recovered leaving a balance of K607,167,584, of which an amount of K138,400,000 was owed by ZESCO. Your

Committee also learnt that currently, the Administrator General owed ZESCO K3,850,415,482.46 in electricity bills and ZESCO was currently negotiating for a debt swap with the Administrator General. Furthermore, the assets had since been advertised for sale with a condition that sitting tenants should first clear the outstanding rentals before being offered the assets for purchase.

Your Committee further heard that in November, 2012, fresh demand letters for rentals were issued to the tenants occupying Mansa Batteries properties. Out of K423,909,000 an amount of K90,740,000, had so far been recovered. However, your Committee was assured that the Office of the Administrator General would ensure that the remaining amount is collected and once the houses were about to be sold, a condition of clearing the rentals first would be effected on sitting tenants. If the houses would be sold to non sitting tenants then legal action would be taken against defaulting tenants.

Committee's Observations and Recommendations

Your Committee is concerned with the political interference in the work of the Administrator General and Official Receiver's Office (AG & OR) which would defeat the purpose of the Office's existence. It, therefore, recommends that the Government should desist from issuing statements and instructions that will dilute its own efforts in delivering services in an equitable manner to its citizens and also strengthening its functional offices in all sectors. Further, your Committee urges the Administrator General and Official Receiver's Office to recover the remaining amounts without further delay and resolves to await a progress report on the matter.

c) Mansa Batteries (In Receivership)

i. Poor Storage of Chemicals

The Controlling Officer submitted that experts from the Zambia Environmental Management Agency (ZEMA) had been engaged to check and advise on the method of storage and disposal of chemicals. The Agency had responded by presenting their budgetary requirements in order to undertake this important exercise. The funds would be made available to the Agency once the Ministry was funded.

Committee's Observations and Recommendations

Your Committee expresses concern over the casual manner in which officers were handling government assets and potentially toxic chemicals. The Controlling Officer is, therefore, urged to urgently engage ZEMA with a view to urgently resolve the issue of disposal of chemical materials. The matter is recommended for closure subject to audit verification.

ii. Encroachment on Land of Former Mansa Batteries

The Controlling Officer submitted that the reported developments on the land were illegal in as far as they were on Mansa Batteries land. He explained that for a person to put up a legal structure, they needed a certificate of title and an approved plan from the Municipal Council. Therefore, anyone who decided to put up structures without authority did so at their own risk. The Auditor's concerns were valid and as such the Receiver was studying the situation with a view of establishing who had offered the plots to the developers.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to expeditiously pursue the matter in order to identify the genesis of the encroachment and stop the illegal developments without further delay. Your Committee, therefore, resolves to await a progress report on the matter.

iii. *Spark Guest House*

- **Failure to Recover Debts - K42,973,786**

Your Committee was informed by the Controlling Officer that demand letters were delivered to all debtors, the majority of whom were government departments. Out of K42,973,786, a total of K14,551,000.36, had since been paid leaving a balance of K28,422,785.64.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all debts are recovered expeditiously in order to keep the Spark Guest House afloat financially. Therefore, your Committee awaits a progress report on the matter.

- **Use of Funds at Source and Unaccounted for Funds (K155,034,693 and K27,263,748, respectively)**

The Controlling Officer stated that the matter was raised in the previous Audit Report for 2010, and the Ministry appeared before the Public Accounts Committee (PAC) over the same matter in the year 2012. The background to the matter was given as stated hereunder.

When the Administrator General was appointed Receiver for Mansa Batteries (In Receivership), he thought it prudent, for control purposes, to transfer all bank accounts of Spark Guest House to Lusaka, considering the distance between Lusaka and Mansa. Conversely, due to the nature of business, a restaurant and bar required fresh rations and all stock had to be bought on a daily basis, however, a release of funds from Lusaka to Mansa was taking too long. Therefore, this compelled the caretaker to use part of the funds at source. It was regrettable that the caretaker, not being a civil servant, was not orientated in government procedures and financial regulations.

Your Committee further heard that immediately after they appeared before the PAC, as advised, the Ministry decided to transfer control of the bank account back to Mansa. Currently, the caretaker had since been orientated in government accounting procedures and all the unaccounted amounts had been accounted for.

Committee's Observations and Recommendations

Your Committee is concerned that the caretaker is not oriented in government financial regulations which should serve as a guide in his execution of duties. Your Committee describes this as a case of serious negligence on the part of the supervising officers which should not be allowed to continue. The Controlling Officer is, therefore, urged to ensure that measures are taken to ensure adherence to financial regulations by offering training programmes

and orientation to both old and new officers entrusted to handle public finances.

d) **RAMCOZ (In Receivership)**

i. *Administrator-General's Liquidators' Fees*

The Controlling Officer submitted that this was raised in the last Audit. It went before the PAC and was referred to the Secretary to the Treasury, who was the principal, to seek guidance from the Attorney General, whose response referred them to the Secretary to the Treasury. They were still awaiting the response and this payment was done before the 2008-2010 Audit was conducted.

Committee's Observations and Recommendations

Your Committee is concerned that the practice had continued despite concerns raised by your Committee. In the view of your Committee and taking into account the opinion rendered by the Attorney General, all payments that had hitherto been made as liquidator's fees to the Administrator General and Official Receiver and staff are irregular. In this regard, your Committee directs the Controlling Officer to recover the amounts without undue delay, and to ensure that the practice of creating allowances which are not backed by law is discontinued immediately.

ii. *Letting Out of Social Assets without Lease Agreements*

The Controlling Officer acknowledged that social assets had no lease agreements. The reason for this was that his Office had been of the opinion that lease agreements were not necessary as the properties were up for sale. The assets had since been advertised and the bids were opened. The Office was in the process of offering them to the highest bidders.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against making assumptions which might result in loss of government resources. He is, therefore, urged to ensure that advice is sought from the Office of the Attorney-General before engaging or leasing out a property to individuals or institutions in future. The matter is recommended for closure subject to audit verification.

**PUBLIC SERVICE PENSION FUND (PSPF)
AUDIT QUERY**

PARAGRAPH 15

Review of Operations

18. An examination of accounting and other records held at PSPF for the financial years ended 31 December 2009, 2010 and 2011, revealed the matters set out hereunder.

a) **Funding from Government**

The Controlling Officer acknowledged that there were instances of under/overfunding during the period under review, however, there was no excess funding in 2009 as mentioned in the Report. He explained further that the underfunding in the year 2010 was K63, 689,533,000 while the over funding was K406,813,019,000 in the year 2011. He noted that what appeared to be overfunding in the year 2009, included funds received for the prior year and the figure was adjusted for the funds which were received in the subsequent year.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

b) Lack of a Strategic Plan

The Controlling Officer submitted that although the 2004 to 2008 strategic plan for the Fund had expired, it was rolled-over because the potency of the plan still remained as there were no fundamental policy changes. He noted however, that the rollover of the strategic plan was not formalised. The Controlling Officer further submitted that when PSPF crafted the expired strategic plan in 2003, it was envisaged that the next plan was going to be based on the pension reforms. The reforms did not take place during the period of the strategic plan. The delay in approving the reform delayed the development of the second strategic plan.

Your Committee was also informed that in 2013, Cabinet approved comprehensive pension reforms in the pension industry and a technical committee on pension reforms had since been set up to spearhead the reforms. Now that the reforms had been approved, a strategic plan was being developed and as at March 2013, a situational analysis report was done which was due to be tabled before the stakeholders on 26 April to 27 April 2013. It was envisaged that the strategic plan would be in place by the end of 2013.

Committee's Observations and Recommendations

Your Committee observes that it was poor corporate governance on the part of the management and the Board not to have reviewed the old strategic plan and formalise it. Your Committee notes steps being taken to address the matter and resolves to await a progress report.

b) Actuarial Valuation Report

The Controlling Officer acknowledged that the actuarial deficit had grown to K11.678 trillion as at 31 December 2008. He noted that one of the key recommendations presented by the Actuary required amendments to the current benefit and contribution structures of the Fund which in turn required fundamental policy changes by the Government, who sponsor the scheme. The Controlling Officer informed your Committee that if the Government had implemented the actuarial recommendations as early as year 2000, the deficit would not have grown to the current levels. Among the recommendations included was the reopening of the scheme to new entrants as closure of the Fund to new entrants to the public service had worsened the situation by increasing the dependency ratio on the system. Given the magnitude of the amount, it was not possible to liquidate it at once but could be liquidated over a planned period of time.

The Secretary to the Treasury, when he appeared before your Committee, acknowledged the challenges being faced by the Fund and informed your Committee that a committee had been put in place to review all pension schemes in the Country with a view of harmonising them.

Committee's Observations and Recommendations

Your Committee observes that the matter will not be addressed unless the Government carries out pension reforms to address the matters raised by the Controlling Officer in his submission. Your Committee, therefore, urges the Government to urgently come up with a policy decision on the plight of the pensions schemes in the Country.

c) **Statement of Changes in Net Assets Available for Benefits**

i. *Excess General Administration Cost*

The Controlling Officer explained that in 2009, the general expenses increased by about 27% and by 2010, management reduced the cost to 23%. Whereas the bank charges increased by 79% owing to the volume of pension payment transactions that increased in 2011 when the Government released K406 billion as supplementary funding, the Fund was able to reduce costs by 3%. The Fund operates an activity based budgeting system and administration costs were driven by the number of retirees and deceased members' files that were processed in a particular year. The 2009 and 2010 increases were attributable to decentralisation of pension inquiry services to twelve (12) offices and six (6) offices respectively. To curb costs, the Board had restricted administration costs to 10% of contributions and investment income every year. Further, the Fund had established an electronic interface with banks to avoid manual transmissions of pension payments which attract a higher fee compared to electronic transfers.

Committee's Observations and Recommendations

Your Committee notes that the matter should have been explained to Auditors during audit and urges management to take audits seriously. Your Committee resolves to close the matter subject to audit verification.

ii. *High Frequency of Board Meetings: Sitting Allowances-K1,323,595,331*

The Controlling Officer submitted to your Committee that although the Act provided for the Board to meet at least three times every twelve months, years 2009 to 2011 were peculiar because of the need to clear outstanding claims. The Fund accessed unprecedented K406 billion supplementary funding in 2011, which resulted in 1,544 retirees receiving their lumpsum pension benefits which were pending for more than 365 days.

Committee's Observations and Recommendations

Your Committee finds the over expenditure by the Board amounting to K451,995,331 on sitting allowances unacceptable given the financial challenges the Fund is facing. Your Committee resolves to close the matter but urges the Controlling Officer and management to ensure prudence in the management of funds.

iii. *Insolvent Pension Fund*

The Controlling Officer submitted that as at December, 2012, the independent actuaries were in the process of finalising the draft report. The delay was largely due to the incomplete data on some members, this was on account of the sensitivity of the data. The report had since been completed.

Committee's Observations and Recommendations

Your Committee expresses concern that the report was delayed and urges the management of the Company to ensure that the actuarial reports are prepared as provided for by the Act. Your Committee resolves to close the matter subject to audit verification.

iv. *Increasing Dependence Ratios*

The Controlling Officer stated that the ideal dependency ratio for PSPF was 1:5 (i.e. one pensioner to 5 serving members). The dependency ratio of the Fund had deteriorated from 1:2.2 in 2010 to 1:1.86 in 2011. This was as a result of the closure of the scheme to majority of membership and if the scheme was not opened to new entrants, the situation would worsen.

Committee's Observations and Recommendations

Your Committee observes that the matter would not be addressed unless the Government carried out pension reforms to address the dwindling membership of the Fund. Your Committee, therefore, urges the Government to urgently come up with a policy direction on the plight of the pension schemes in the Country. Your Committee resolves to await a progress report on the matter.

e) **Statement of Net Assets available for Benefits – Year Ended 31 December 2009 - 2011**

i. *Investments in Excess of 20% of Net Assets*

The Controlling Officer explained that the statement of net assets available for benefits should be read in conjunction with the disclosure note on the actuarial position of the Fund for the years in question. It was not possible to over invest when assets value was out stripped by liabilities. The spirit of the provision conformed to professional investment management principle meant to realise a diversified portfolio for risk management purposes. In this regard, the investment portfolio was well balanced and the Fund therefore had conformed to the spirit of the Act.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to audit verification.

ii. *Questionable Investment – PG Bisonite-K48,946,596,550*

The Controlling Officer acknowledged that Bisonite Zambia had not been performing as expected but insisted that the investment was not questionable. He noted that PSPF invested a further K2 billion in Bisonite Zambia in 2012 and in order to minimise the losses, the PSPF Board as a principal equity holder reconstituted the Bisonite Board and approved the new Board turnaround strategy which included the financial injection of K2 billion and the recruitment of new management.

Committee's Observations and Recommendations

Your Committee finds the insistence by management that the investment is viable unreasonable as the Company had been performing poorly for a very long time. By keeping on investing in the non performing company, management had proved that they are not good custodians of the members' money. Your Committee, therefore, urges the Controlling Officer to take action to protect the interests of the members. Your Committee awaits a progress report on the matter.

iii. *Failure to obtain Title Deeds - Solwezi Plots*

The Controlling Officer submitted to your Committee that the Fund acquired 127 plots in Mushitala area of Solwezi at the total cost of K142.69 million in year 2004. This amount included service charges and survey fees and the Fund was in possession of offer letters from the Ministry of Lands but could not process titles as there were no survey diagrams. In 2009, it was discovered that the Council had engaged a private surveyor a Mr M L Bwalya from Mac Web Surveying Limited who could not release the fifty (50) approved survey diagrams that belonged to the Fund because he had not being paid by the Council. It was further discovered that part of the land had been invaded by illegal squatters while some plots were on a graveyard leaving only twenty (20) plots.

The Controlling Officer further submitted that the Council had allocated 60 alternative plots to the Fund from the original 127 plots through a letter signed by the Town Clerk dated 18 December 2012. Further, the Council had made an undertaking to ensure that the remaining sixty-seven plots were given to the Fund as soon as land is available as contained in the letter dated 9May 2013 signed by the Town Clerk. The Fund was awaiting the survey and the issuance of Certificate of Title Deeds by the Ministry of Lands for the 60 plots. Efforts are being made to ensure that the process is expedited. The K123,700,000 which was paid to the Solwezi Municipal Council had gone toward settlement of service charges for the sixty plots.

Committee's Observations and Recommendations

Your Committee is concerned that the matter has taken long to address and urges the Controlling Officer to pursue the remaining sixty-seven plots and obtain title of the sixty allocated plots. Your Committee awaits a progress report on the matter.

f) **Lengthy Processing Time for Lump Sum Pension Payment**

The Controlling Officer acknowledged that the waiting time for receipt of the lump sum pension benefits was taking more than 308 days on average and noted that this was because of inadequate funding which was as a result of under budgeting and closure of the scheme to 80% of its original membership. Retirees and beneficiaries are put on monthly pension within the Board's approved processing time of thirty working days.

Committee's Observations and Recommendations

Your Committee observes that the matter will only be addressed when the Government carries out pension reforms to address the dwindling membership in the Fund. Your Committee, therefore, urges the Government to urgently come up with a policy direction on the plight of the pension schemes in the Country as a lot of disservice was being done to members who are being made to wait for a long time to get their benefits. Your Committee awaits a progress report on the matter.

g) **Delayed Monthly Pensions Returns – ZAMPOST.-K1,229,876,674**

The Controlling Officer submitted that the Fund claimed the interest from ZAMPOST which unfortunately had not been paid. Further, the Fund was slowly disengaging from dealing with ZAMPOST by partnering with other organisations.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management pursues the matter until the amounts due are paid. Your Committee awaits a progress report on the matter.

h) Staff Costs

i. *Irregular Payment of PAYE-K1,344,397,630*

The Controlling Officer submitted that although it appeared that the Fund paid PAYE on behalf of employees on leave pay, commutation and kilometre allowances, the tax was computed on the grossed amount and the net was what was paid to the employees.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

ii. *Poor Administration of Loans*

The Controlling Officer submitted that under the prevailing Conditions of Service, employees of PSPF were entitled to enjoy all the loans provided that they were within the 30% threshold of the basic salary take home pay threshold for both Unionised and Non Unionised staff and 40% for Senior Managers. The employees whose net pay was below the 30% threshold was attributable to the medical bills which they paid back at 4% whenever they fell sick or when their registered dependant fell sick. As part of the Conditions of Service, the Fund paid the full amount to the medical institution and recovered the 4% from the employee's salary. Measures had been put in place to ensure that future loans and advances did not result in net pays below 30% threshold.

Committee's Observations and Recommendations

Your Committee expresses concern that management failed to administer the loans as per guidelines and urges the Controlling Officer to caution management to ensure that the 30% threshold requirement is adhered to all times. Your Committee resolves to close the matter subject to audit verification.

i) Inadequately Supported Payments-K158,631,620

The Controlling Officer submitted to your Committee that some of the payments were made to radio stations for the airing of PSPF programmes under the decentralisation programme whose receipts had not been located. The others consisted of payments made through the cashier whose acquittal schedules in some instances were not traced. To stop the practice, receipts were obtained for all payments to suppliers of goods and services and payment vouchers were filed together with the receipts, so that it was quicker to trace them. Further, all payments made through the cashier were accompanied by a schedule on which recipients of the money signed against their names.

Committee's Observations and Recommendations

Your Committee expresses concern that the Fund failed to keep receipts and schedules as per financial regulations and urges the Controlling Officer to ensure the missing documents are found and presented for audit. Your Committee also urges management to take disciplinary action against the officer who misplaced the documents. Your Committee awaits a progress report on the matter.

j) **Unretired Imprest-K34,821,200**

The Controlling Officer submitted to your Committee that five transactions worth K34,821,200 were made through the cashier on behalf of staff who signed for the money from the cashier but unfortunately in some instances the receipts/ acquittal documents had not been traced. Some of the traced documents were available for verification. The rest of the amounts were being recovered from the affected staff.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

**RURAL ELECTRIFICATION AUTHORITY (REA)
AUDIT QUERY**

PARAGRAPH 16

Review of operations

19. A review of accounting and other records maintained at the Authority's Head Office for the financial years ended 31 December 2009, 2010 and 2011 revealed issues regarding the financial performance of the Authority as set out hereunder.

a) **Financial Performance**

i. *Failure to finalise Accounts*

The Controlling Officer explained that due to the poor quality of work done by the Auditors engaged by REA with the approval of the Office of the Auditor-General, the audited financial statements were late. However, the Controlling Officer reported that the 2011 Audited Financial Statements were finally approved by the Board and were ready for scrutiny.

Committee's Observations and Recommendations

Your Committee notes the response from the Controlling Officer and resolves to close the matter subject to audit verification.

ii. *Poor Performance*

The Controlling Officer explained that the increase in the staff costs were as a result of the recruitment of additional staff, promotions and payment of gratuity to some members of staff. In addition, the new salary structure came into effect on 1 January, 2010.

Committee's Observations and Recommendations

While resolving to close the matter, your Committee is concerned with the high staff costs and recommends that the Authority should come up with measures to minimise the costs.

iii. *Inadequately Supported Payments- K773,168,332*

The Controlling Officer responded that during the period under review, management of REA faced challenges in collecting receipts from suppliers of goods and services. In addition, there were challenges with the filing of documents such as invoices and acquittal sheets.

Committee's Observations and Recommendations

Your Committee is concerned with the inadequately supported payments and urges the Controlling Officer to put in place systems to address the matter. Your Committee also urges the Controlling Officer to take disciplinary action against the officers responsible for the query. Your Committee awaits a progress report on the recovery and audit verification of the missing documents.

iv. *Unretired Imprest-K178,022, 000*

The Controlling Officer explained that during the period under review, the management of the Authority had challenges enforcing the system of ensuring that all imprest obtained by officers was retired within the stipulated time.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the management to have the imprest retired as per financial regulations and urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee further urges the Controlling Officer to ensure recoveries are effected from the officers involved and avail evidence to the Office of the Auditor-General.

v. *Irregular Payment of the CEO's Electricity Bills - K11,500,000*

The Controlling Officer admitted the irregular payments and was pursuing the recovery of electricity bills.

Committee's Observations and Recommendations

Your Committee is concerned with the irregular payment of the electricity bills and recommends that the funds should be recovered. Your Committee awaits a progress report on the matter.

vi. *Irregular Drawing of Fuel by Non - REA Vehicles - K63,723,786*

The Controlling Officer explained that during period under review, REA did not have sufficient transport to enable officers to undertake various assignments. As such, in an effort to ensure smooth operations, members of staff were allowed to use their personal vehicles on official assignments. It was explained that from 2010, the fleet of vehicles belonging to REA had increased and therefore, the use of personal vehicles for official duties had stopped.

Committee's Observations and Recommendations

While resolving to close the matter, your Committee is greatly concerned with the laxity in management of public resources and finds the practice of using personal vehicles unacceptable and, therefore, recommends that REA should put in place controls to ensure efficient fuel management. Your Committee awaits a progress report on the matter.

vii. *Irregular Engagement of Gardener*

The Controlling Officer submitted that the Ministry acknowledged the anomaly and is making efforts to recover the K13,272,000 from the former Chief Executive Officer.

Committee's Recommendations and Observations

Your Committee is concerned with the irregular engagement of the gardener and urges the Controlling Officer to adhere to the terms of the contract. Your Committee also urges the Controlling Officer to recover the money and provide documentary evidence to the Office of the Auditor-General for verification.

TAZAMA PIPELINES LIMITED AUDIT QUERY

PARAGRAPH 17

Review of Operations

20. A review of audited accounts and other relevant documents for financial years ended 31 March 2009 to 31 March 2011 conducted in May 2012 revealed the matters set out below.

a) Financial Performance

i. Failure to declare Dividends

The Controlling Officer explained that in order to enhance the operations of TAZAMA Pipelines Limited, the Governments of Tanzania and Zambia signed a Convention which regulates how the Company should operate. The agreement has been understood to mean that no dividend shall be declared hence no dividend has been paid to the shareholders since inception.

Committee's Observation and Recommendation

Your Committee notes that the agreement is meant to allow the Company plough back the profits thereby reduce the tariffs. Regrettably, this has not been the case because the tariffs have continued to increase and yet the Company has not been declaring dividends. Further, your Committee notes that the agreement was meant for a specific period of time only and may not apply now. In this regard, your Committee recommends that the convention should be revisited since it has long expired so that the Company should begin to declare dividends. Your Committee awaits a progress report on the matter.

ii. Increase in Staff Related Costs

The Controlling Officer explained that staff related costs were mainly driven by the provision for retirement and gratuity benefits amounting to K11,877,000,000 which were not paid during the period under review. The increases in expenses were attributed to depreciation charges for the tank farm, plant and machinery due to the revaluation of fixed assets which were done during 2011 financial year.

Committee's Observations and Recommendations

Your Committee notes the submission and closes the matter.

b) Financial Position - Statement of Financial Position for the Years Ending 31 March 2009, 2010 and 2011

The Controlling Officer admitted that the Company operated with negative working capital through the period. Your Committee was informed that during the implementation period of petroleum sector rehabilitation project, the Government of the Republic of Zambia procured loans from the international lending institution to help finance the project. The loans were on

lent to TAZAMA and were being serviced by the Ministry of Finance and were eventually written off by lenders under the HIPC initiative. However, the balances remained in the TAZAMA Books and some are treated as current liabilities in the Balance Sheet, and these were the amounts causing the current liabilities to be more than current assets. TAZAMA had engaged the Ministry of Finance to turn the loan into equity since they are no longer reflected in their books of accounts.

Committee's Observation and Recommendation

Your Committee notes that cancellations of debts during HIPC did not mean that the loans should be expunged from the books of account. The idea was to allow the savings arising from the cancellation of the debt to be ploughed into poverty reduction programmes. Your Committee recommends that the Company should minimise the overheads which appear to be very high and resolves to close the matter.

c) Lack of Title Deeds

The Controlling Officer explained that the houses at Kigamboni in Tanzania had no title deeds as the Ministry of Lands in that country had stopped issuing title deeds since the area was being planned for a city re-development programme with the view to demolishing all houses and building and compensation be paid to the owners. Further, the Tank Farm had no title deeds because the land belonged to Tipper Refinery. TAZAMA Limited negotiated with Tipper refinery and the Government of the United Republic of Tanzania to have Title Deeds issued for that portion of the land. The Government of the United Republic of Tanzania had given a favourable response.

Regarding the Iringa Pump Station, it was explained that the pump station and five houses have no Title Deeds. TAZAMA had submitted all required documentation to the Ministry of Lands in Tanzania and was awaiting the response.

Committee's Observations and Recommendations

Your Committee is concerned that this matter has taken long to resolve and urges the Controlling Officer to ensure that titles for the Tank Farm and the Iringa Pump Station are acquired without further delay. Your Committee awaits a progress report on the matter.

d) Failure to collect Outstanding Pumping and Agency Fees - K51,432,970,871 (US\$10,387,851)

The Controlling Officer explained that the unpaid pumping and agency fees had been paid in full. Currently, payments were made on time.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

e) Failure to Declare Interest - Board Member

The Controlling Officer explained that the matter had been noted and remedial steps would be taken to avoid conflict of interest.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

f) **Other irregularities**

i. *Overtime Claims and Payments - K5,557,724,590*

The Controlling Officer admitted the problem and promised to introduce the register. It was also explained that the excess expenditure on overtime was mainly due to the extra hours worked on the Ilula project in Tanzania where the pipeline team was laying new pipelines.

Committee's Observations and Recommendations

Your Committee notes the response from the Controlling Officer and closes the matter.

ii. *Non-remittance of Statutory Obligations*

The Controlling Officer explained that the principal amount owed to NAPSA was paid in full and the Company was current on payments of the principal amounts. However, the Company accrued penalties and interest during the long refinery shut down period. TAZAMA had taken note and had negotiated with NAPSA and came up with a payment plan.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter.

iii. *Non-adherence to Capping on Education Allowance*

The Controlling Officer explained that the matter was noted and that corrective measures would be put in place.

Committee's Observation and Recommendation

Your Committee notes the response but recommends that adequate measures be put in place to avoid the repeat of the problem and to make the necessary recoveries without further delay.

g) **Irregular procurement of Goods and Services and Works**

i. *Goods and Services Procured Outside the Approved List of Suppliers - K952,478,288*

The Controlling Officer acknowledged the anomaly and informed your Committee that the list of approved suppliers had since updated.

Committee's Observation and Recommendation

Your Committee is concerned with the failure by the Company to update the supplier list and urges the Controlling Officer to caution the management for the lapse. Your Committee resolves to close the matter subject to audit verification of the suppliers list.

ii. *Failure to follow Tender Procedures - K9,953,140,350*

The Controlling Officer admitted the anomaly and explained that it had since signed a contract with Total Tanzania. The Controlling Office assured your Committee that in future care would be taken to ensure that contracts are signed on due dates.

Committee's Observation and Recommendation

Your Committee notes that failure to follow tender procedures is a very serious omission and urges the Controlling Officer to ensure that disciplinary action is taken against the officers involved. Your Committee resolves to close the matter but requests the Office of the auditor-General to keep the matter in view in future audits.

iii. *Circumvention of Tender Procedures*

The Controlling Officer admitted that there was an anomaly but explained that the purchase was unavoidable as it was an emergency case involving repairs of multiple leaks on the pipeline section in Tanzania.

Committee's Observation and Recommendation

Your Committee notes the response and closes the matter.

**WESTERN WATER AND SEWERAGE COMPANY LIMITED (WWSCL)
AUDIT QUERY**

PARAGRAPH 18

Review of WWSCL IT Operations for the Period 2009 to 2011

21. A review of the WWSCL Management Information Systems and other records maintained at the headquarters in Mongu revealed the matters set out below.

a) **Lack of a Board of Directors**

The Controlling Officer reported that the process of nominating and vetting Board Members took long. However, the new Board of Directors had since been appointed by the Minister of Local Government and Housing.

Committee's Observations and Recommendations

Your Committee strongly urges the Government to ensure that the appointment of Boards of Directors is done without undue delay in order to promote good corporate governance in the parastatal companies. However, your Committee notes the response and closes the matter subject to audit verification that the Board of Directors has been appointed.

b) **Failure to Adopt ICT Standards and Frameworks**

The Controlling Officer reported that the Company lacked ICT capacity during the period under review. He explained that a road map had since been drawn up for the progressive implementation of ICT Standards and Frameworks and the Company's Billing/ICT officer had since applied for membership subscription at ISACA to enable the Company access the COBIT Standards and Framework. He, further, reported that management had since assigned a senior officer to monitor its compliance.

Committee's Observations and Recommendations

Your Committee notes the response and closed the matter subject to audit verification the ICT Standards and frameworks have been put in place.

c) **Lack of IT Strategic Plan**

The Controlling Officer reported that management of the Company had included ICT issues in the Corporate Strategic Plan and did not have a separate ICT Strategic Plan at the time of audit. However, an ICT Strategic Plan was being drawn up and was expected to be approved by the Board by 30 September, 2013.

Committees Observations and Recommendations

Your Committee notes the response and awaits a progress report on the approval of the ICT Strategic Plan by the Board of Directors.

d) **Lack of Segregation of Duties**

The Controlling Officer submitted that the Company had insufficient funds and capacity to create or establish an ICT Department. However, the Company had since outsourced key ICT services and, with improved funding, was in the process of creating an ICT unit and employing an ICT specialist to spearhead the implementation of the ICT Framework, Standards and Strategic Plan.

Committee's Observations and Recommendations

Your Committee notes the response and closed the matter subject to audit verification that duties have been sufficiently segregated through the outsourcing of key ICT services.

e) **Lack of Support and Maintenance Contracts**

The Controlling the Controlling Officer reported that the Company did not formally secure the support and maintenance contracts since the Company was negotiating with the suppliers at the time of audit. He, however, submitted that Western Water and Sewerage Company had now secured a formal support and maintenance contract with the vendor/suppliers of Dove payroll systems. A formal support and maintenance contract with the vendor/suppliers of Pastel Accounting was being negotiated.

Committee's Observations and recommendations

Your Committee notes the response and closes the matter subject to audit verification that the formal support and maintenance contract with the vendor/supplier of the systems has been secured.

f) **Lack of Insurance Cover for Information Technology (IT) Equipment**

The Controlling Officer submitted that currently, the Company's tariffs were not economical, hence the Company's failure to cover operations and maintenance costs such as insurance cover for IT. However, even with lack of financial capacity, the Company had obtained three quotations from insurance providers and was working round the clock to source for funds to insure the property.

Committee's Observations and Recommendations

Your Committee notes the response and implores the parent Ministry to assist the Company to mobilise resources to meet insurance costs without further delay. Your Committee awaits a progress report on the matter.

g) **Lack of Service Level Agreements (SLAs)**

The Controlling Officer submitted that the Company had insufficient ICT capacity. In this light, WWSC had outsourced ICT services to address capacity issues. The Company had formulated a draft ICT Service Level Agreement (SLA) which would be implemented before the end of the third quarter of 2013 after Board approval. The Company also planned to develop a comprehensive service charter which would be taken to the Board for approval.

Committee's Observations and Recommendations

Your Committee closes the matter subject to audit verification that draft service level agreement has been approved by the Board.

h) **Lack or Non-operation of the Audit Trail Function on the Systems**

The Controlling Officer submitted that the Company had insufficient ICT capacity. However, the Company had outsourced provision of ICT services to MC Computer Consultants to rectify the shortcomings that included the activation of the Pastel audit trail component while the Piano audit trail component was imbedded in the journal of the system and it showed all the transactions that had been made on the system by any users.

Committee's Observations and Recommendations

Your Committee closes the matter subject to audit verification that the Audit Trail is functional in the system.

i) **Poor User Account Management - Use of the Administrator Profile to carry out Business Processes**

The Controlling Officer submitted that the providers of the systems did not activate the user profiles. However, the service provider had since activated user profiles and users had their own user passwords and were assigned access limits. In addition, the inappropriate user profile on Dove Payroll system had been deleted.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification that that user profiles and passwords have been put in place.

j) **Lack of Alternative Power Source**

The Controlling Officer submitted that at the time of audit, management had paid for a 20 KVA generator but the supplier delayed in delivering the equipment. He added that the generator had since been delivered in January, 2013 and installed as an alternative power source.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification that the alternative power source has been put in place.

k) Lack of Designated Server Room

The Controlling Officer submitted that the Company had insufficient office space and had since set aside funds for construction of a Geographic Information System (GIS) office block which would include a server room. Construction was expected to commence by 30 September, 2013

Committee's Observations and Recommendations

Your Committee notes the response and awaits a progress report on the completion of the construction of the server room.

l) Lack of control over the Piano System

The Controlling Officer admitted that the Piano billing software was provided free of cost and the provider did not give full rights at the time when the Company was not financially able to purchase its own system. The Company had since made a decision to acquire an off-the-shelf billing software package and the process of acquiring one had been initiated. The Company had also sought financial support from the Ministry to acquire the new software.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a progress report on the acquisition of the new off the shelf software package.

m) Insecure Data Transportation Media

The Controlling Officer submitted that the Company did not have servers installed due to financial challenges. He added that WWSCL did not currently have a mail server and a company domain in place. However, the servers would be installed as the project to do the installation was under way.

Committee's Observations and Recommendations

Your Committee notes the response and resolves to await a progress report on the completion of the installation of servers and implementation of necessary security measures to safeguard the integrity of the system.

n) Lack of Business Continuity Plan (BCP)

The Controlling Officer submitted that the Company had insufficient capacity to undertake the exercise. However, the Company had since developed the Business Continuity Plan (BCP) for customer billing, cash collection and receipting.

Committee's Observations and Recommendations

Your Committee closes the matter subject to audit verification of the Business Continuity Plan.

o) **Lack of Change Management Procedures**

The Controlling Officer submitted that the Company had financial constraints and hence was unable to employ an ICT officer. As an interim measure, the Finance Director had since been assigned as user on PIANO and he would be responsible for authorisation for any changes made on the system.

Committee's Observations and Recommendations

Your Committee closes the matter subject to audit verification of the interim measures put in place.

p) **Lack of Access Control List (ACL)**

The Controlling Officer submitted that the Access Control List would be put in place when the servers were installed, process was already underway. The permit and deny statements would also be defined on the server.

Committee's Observations and recommendations

Your Committee awaits a progress report on the implementation of the Access Control List once the servers are installed.

WORKERS' COMPENSATION FUND CONTROL BOARD (WCFCB)

AUDIT QUERY

PARAGRAPH 19

Review of Operations

22. An examination of accounting and other records for the financial years ended 31 March 2008 to 2012 carried out in July, 2012 revealed the matters set out below.

a) **Failure to produce Audited Accounts and File Annual Report to the Minister**

The Controlling Officer acknowledged the provisions of Section 109 (4) of the Workers' Compensation Fund Act, No 10 of 1999 regarding audited financial statements of the operations of the Board. He admitted that due to the lack of the Board of Directors to consider and approve the audited financial statements for the year ended 31 March, 2011, financial statements and annual reports were delayed. However, when the draft financial statements for the year to 31 March 2011 were concluded, management submitted a copy to the Minister awaiting appointment of the Board of Directors which had since been appointed. Following the appointment of the Board in December, 2012, the Board had considered the financial statements for the year ending 31 March, 2011 and the statements had since been signed.

Committee's Observations and Recommendations

Your Committee urges the Government to expedite appointment of Board members in all parastatal organisations in order to promote good corporate governance. Your Committee is pleased that a Board of Directors has since been appointed at the WCFCB and, therefore, closes the matter subject to audit verification.

b) **Financial Performance - Consolidated Revenue & Expenditure Account for the years ended 31 March 2008 to 2010**

i. *Growth in revenue*

The Controlling Officer submitted that the increase in the number of employers was not symmetrical to the increase in the value of assessments. There was a net reduction in assessment income as newly registered employers in the period 2008/09 to 2009/10 had lower assessments compared to those of companies that closed or suspended operations as a consequence of the global financial crisis. Further, the mines and mine related companies cut down on staff drastically. As at 31 March, 2012, revenue had increased to K138 million from K92 million as at 31 March 2008. The increase was due to increased compliance.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification that the increase was not symmetrical to the increase in the value of assessment.

ii. *High Administrative Costs*

The Controlling Officer submitted that the process of reducing administrative expenditure to 30% of assessment income was an on-going exercise as enshrined in the Board's Strategic Plan for the period 2010 to 2015. Further, Management had come up with a cost saving management strategic paper as one of the strategies. Management had, therefore, shown strict discipline in expenditure.

Committee's Observations and Recommendations

Your Committee is satisfied with the reduction in the proportion of costs going to administrative expenses and closes the matter subject to audit verification of reduced administrative costs.

c) **Liquidity-Financial Position as at 31 March 2008 to 2012**

The Controlling Officer submitted that it was correct that the bulk of the current assets were in debtors. He stated that among the measures put in place to improve the liquidity position of the Board was the enhanced prosecution efforts and data cleaning so that only existing employers were assessed. Further, the Board had engaged professional debt collectors; to improve debt collection. He added that the bulk of the debt was due to debts from local authorities and parastatals such as TAZARA, ZAWA and NCZ who owed the Board huge sums of money.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the management of the WCFCB steps up efforts aimed at recovering all debts owed to the institution. Your Committee awaits a progress report on the matter.

d) **Staff Related Matters**

i. *Irregular Engagement of Staff*

The Controlling Officer acknowledged the irregular manner in which the appointments were done and clarified that the appointments were made from within

serving staff without a consequent increase to the staff establishment. He added that following its installation, the Board of Directors of the institution took a decision in May, 2013 to abolish the positions of Manager - Special Duties (Lusaka), Manager - Strategic Planning and Assistant Head - Audit and Risk Services. Further, the decentralisation exercise had addressed all issues of staff placement and compliment and these would consequently be need and activity driven.

The Controlling Officer explained that the extra three Inspectors at Lusaka branch were appointed in cognisance of the need to enhance revenue collection, service delivery and overall compliance through an increased inspectorate.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification of the restructuring and decentralisation exercise.

ii. *Self Liquidating Motor Vehicle Policy - Wasteful Expenditure*

The Controlling Officer submitted that management reviewed the Conditions of Service and had since proposed to the Board an alternative motor vehicle scheme to replace the self-liquidating scheme which was cheaper. The Board had since passed a resolution on the same.

Committee's Observations and Recommendations

Your Committee notes the submission but directs that the wasteful expenditure be recovered from all the concerned officers. Your Committee awaits a progress report on the matter.

iii. *Irregular Payment of Kilometre Allowances*

The Controlling Officer submitted that management reviewed the Condition of Service and immediately discontinued the practice of paying kilometre allowance until the facility was reviewed by the Board of Directors.

Committee's Observations and Recommendations

Your Committee notes the submission and directs that all the irregularly paid allowances be recovered without delay. Your Committee awaits a progress report on the matter.

iv. *Irregular Payment of Entertainment Allowances*

The Controlling Officer submitted that management had since stopped the practice immediately it was brought to its attention. The matter was due to be presented to the Board of Directors for its guidance. The amounts had not been recovered as they were part of the conditions of service at that time and most of the affected officers had since been separated from the institution.

Committee's Observations and Recommendations

Your Committee cautions the management of WCFCB against introducing Conditions of Service arbitrarily. Further, your Committee stresses that all such matters should only be dealt with, in the duly prescribed manner. Your Committee urges the Controlling Officer, to review the payment of Entertainment Allowances by

either recovering the irregular payments or regularising it with the Board of Directors. Your Committee awaits a progress report on the matter.

e) **Eroded Pension Benefits due to Non Review of Assessment on Employers and Non Review of Pensions and Allowances**

The Controlling Officer submitted that one pre-condition to the review of pensions and allowances was an up-to-date actuarial valuation exercise. The actuarial valuation was due for the three years ended 31 March, 2011. He added that an Actuary needed to be appointed to carry out the valuation, but the appointment process was protracted for over a year and was only concluded on 2 April, 2013. Further, the financial statements which should form part of the basis for the actuarial valuation were also delayed. In addition, management had made recommendations to the Ministry of Labour and Social Security for a review *the Workers' Compensation Act, No. 10 of 1999*, in respect of provisions that affected the manner of calculation of benefits with a view to improving future benefits. It was expected that after the actuarial valuation, management shall be presenting a pension increase policy and making appropriate recommendations to the Board of Directors with a view to making improvements in future benefits.

Committee's Observations and Recommendations

Your Committee notes the submission and would await an update on the completion of the actuarial valuation and progress on the review of the Act with particular regard to the provisions on the calculation of the benefits.

f) **Inadequately Supported Payments-K5,141,932,169**

The Controlling Officer submitted that management had put in place a monitoring mechanism to ensure that no payment was made without adequate supporting receipts from vendors. He explained that traditionally, the Board had not issued receipts to vendors once goods were supplied as some suppliers were based outside Ndola. In such instances, cheques were posted to various locations for collection by suppliers. This matter was noted during the audit and to this effect, vendors were asked to bring receipts at the time of collecting their payments. Additionally, all items purchased on Order were currently only paid for where there was a valid Goods Received Note (GRN) without exception. Further, management had endeavoured to retrieve the other supporting documentation as requested.

Committee's Observations and Recommendations

Your Committee closes the matter subject to audit verification of the systems put in place to adequately support the documents.

g) **Unretired Imprest-K142,537,830**

The Controlling officer submitted that management had noted the auditors' observation and wrote to all affected staff to retire the outstanding imprest within the month of September, 2012, failure to which payroll deductions were effected. Subsequent to this, deductions of overdue imprest were effected on 31 December, 2012. Further, as a matter of policy, all imprest outstanding at the monthend was deducted through the payroll the subsequent month without recourse to the affected employee. He added that the computerisation of the records of the institution had also enhanced efficiency and facilitated regular monitoring of all financial transactions by the Chief Executive Officer.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification that the imprest was retired and recovered from the affected officers in line with Government Financial Regulations.

h) Pension Fund - Failure to carry out the Actuarial Valuation in time

The Controlling Officer submitted that actuarial valuation could not be conducted due to lack of an appointed Actuary. There was no appointed Actuary for a long time due to the protracted tendering process which was only concluded in April, 2013 after the Attorney General cleared the contract with the Government Actuarial Department (GAD) of the United Kingdom. Further, the lack of audited accounts for the year ending 31 March, 2011 financial statements also contributed to the delay. Management was expected to immediately commence the Actuarial Valuation for the tri-annual period ended 31 March, 2011.

Committee's Observations and Recommendations

Your Committee expresses serious concern about the failure by the WCFCB to observe the law. Your Committee urges the Government to, in future, ensure that actuarial valuations are carried out timely in order to protect the interests of beneficiaries. Your Committee awaits a progress report on the actuarial report.

i) Construction of Semi - Detached Houses at North Gate Gardens

The Controlling Officer submitted that management of the WCFCB was pursuing the matter with the National Housing Authority (NHA). He explained that the main reason that the developers had advanced in seeking a variation in the delivery of the houses was the absence of water and sewerage at the site which they estimated that they could only reasonably put in place by January, 2013. However, as of 31 March, 2013, NHA-MKP had still not been able to service the plots with water and sewerage and hence the non delivery of houses, including the completed ones. In this regard, management of the WCFCB had continuously engaged NHA-MKP. To this effect, various meetings had been held and correspondence exchanged between the two parties.

Committee's Observations and Recommendations

Your Committee notes the submission and expresses satisfaction at the efforts made by the Institution in pushing for the delivery of the housing units. Your Committee awaits a progress report on the conclusion of the matter.

j) Irregular Procurement of IT Equipment

The Controlling Officer confirmed that all contracts of a fundamental, material, strategic and international nature were currently being submitted for the Attorney-General's review and advice before execution. On this procurement, he submitted that the goods were delivered based on the award notification as approved by the Procurement Committee and that the award was done before the Board officially started sending local contracts to the Attorney General's Office which the Board did after receiving advice that high value contracts had to be sent for the Attorney General's review. He noted further that the goods in question were imported goods and based on the notification of award, the supplier was obliged to order the goods and when they arrived in the country they proceeded to deliver the goods as they were not notified of the need to send the contract to the Attorney-General's Office, hence the time difference as observed. The difference of K62 Million was due to duties and taxes that were

approved later by Procurement Committee since that award was initially on Cost Insurance Paid (CIP) basis.

Committee's Observations and Recommendations

Your Committee expresses concern that management was apparently not in control of the procurement process as the supplier could deliver goods without the Institution's clearance. Your Committee strongly urges the management of the Institution to ensure that such an incident does not recur as it can be a recipe for anarchy. Your Committee, however, closes the matter subject to audit verification that the IT equipment has been supplied.

k) Receivables

i. Lack of Lease Agreements

The Controlling Officer submitted that most tenancy agreements had been done by the end of audit. The problem arose when the tenants took long to return signed agreements. As a result, the auditors could not view some of the sampled agreements as they had not been returned by the end of the audit. Management, through facilities managers, would now ensure that agreements were ready and signed before the commencement of a new financial year.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification that the tenancy agreement has been put in place.

ii. Failure to recover rentals

The Controlling Officer submitted that this was a historical problem that had besieged the Board for many years, particularly for Compensation House (Kasama) and the Kitwe-based properties. Management of WCFCB was cognisant of the fact that this problem could not continue unchecked and had since engaged facilities managers to manage the Board's property portfolio. Part of the terms of reference of the facilities managers was to collect both current rentals as well as arrears.

Committee's Observations and Recommendations

Your Committee notes the submission and will await a progress report on the recovery of the outstanding amount of K1,107,814,175.

iii. Failure to recover Debts from Local Authorities

The Controlling Officer submitted that local authority debts had been outstanding for a long time and have proved very challenging to collect. The enactment of the *Local Government (Amendment) Act No. 6 of 2010* by Parliament gave rise to the establishment of the Local Government Service Commission as per Part X Section 90 (1) of the Act. The law effectively exempted councils from the application of *the Workers' Compensation Act, No. 10 of 1999*. Despite the enactment of this law, local authorities still owed the Board a sum of ZMW17 million as at 31 December, 2010 in assessment arrears.

In view of debt owed to the Board by various local authorities, management, through the Ministry of Labour and Social Security, had arranged meetings with the Ministry of Local Government and Housing and the Ministry of Finance with a view to having

the debt liquidated. Other measures include that Local authorities making cash payments from monthly grants and debt swaps with land and/or buildings owned by local authorities and debt swaps with rates.

Committee's Observations and Recommendations

Your Committee notes the submission and will await a progress report on the recovery of all debts still outstanding from local authorities.

l) Cash and Bank - Unidentified Debits

The Controlling Officer submitted that management had engaged ZANACO Plc with a view to resolving most outstanding items appearing as debits on the Board's bank statement. An update on this engagement would be provided in due course.

Committee's Observations and Recommendations

Your Committee notes the submission and awaits progress report on the reconciliation of bank accounts in respect of the full amount referred to in the Auditor-General's report.

m) Lack of IT Representation at the Policy Making Level

The Controlling Officer submitted that proposals to have IT representation at directorate level were being prepared for consideration by the Board of Directors.

Committee's Observations and Recommendations

Your Committee notes the submission and awaits a progress report on the finalisation of the issue of IT representation at directorate level.

n) Poor Contracts Management

i. Lack of a Defects Liability Clause

The Controlling Officer submitted that management had taken note of the Auditor-General's recommendations.

Committee's Observations and Recommendations

Your Committee expresses concern that the contract had no defect liability clause which could have made it impossible to cover defects identified after the contract had been executed. Your Committee, therefore, urges the Controlling Officer to caution the officers who presided over this contract and to ensure that all contracts were referred to the Attorney-General's Chambers for guidance before signing. Your Committee resolves to close the matter but requests the Auditor-General to keep the matter in view in future audits.

ii. Irregular Maintenance Contract

The Controlling Officer submitted that the contract provided for a support person from RPC Data, a business soft specialist company, to be attached to WCFCB during the first year of operation, so as to provide prompt support on the new system and to facilitate skills transfer to WCFCB IT staff. He explained that there was no new contract entered into with RPC Data in December, 2011; support and maintenance was provided for, in the initial contract and was included in the contract total sum of

\$526,500. However, the auditor's observation had been noted and future agreements would be structured appropriately.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification that the maintenance contract was part of the initial contract.

o) Irregularities in the Claims/Pension/Revenue and Payroll Systems

i. Discrepancies between Claims Received and Claims Assessed

The Controlling Officer submitted that these were genuine claims, although they had not been captured on the old claims system. The old claims system had since been replaced by the Pension Administration System, and the procedure for new cases was such that assessment or payment could not happen without approval of a claim on the system.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification that the claims are genuine and new pension administration systems have been put in place.

ii. Claimants paid without appearing on the Claims Received Database

The Controlling Officer submitted that these were genuine claims although they had not been captured on the old claims system. The old claims system had since been replaced by the Pension Administration System, and the procedure for new cases was such that payment cannot happen without approval of a claim on the system.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification that the claims are genuine and the new pension administration system has been put place.

iii. Discrepancy between Pension Database and Post Office Database

The Controlling Officer submitted that the fifty eight persons were legitimately entitled to the pension, although the Pension Database had not been updated accordingly at the time. The old Pension system had since been replaced by the Pension Administration System, and the Post Office payment schedule was generated by the new system.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification that the discrepancy has been reconciled.

iv. Failure to Utilise Interface between the Pension System and the ZANACO Bank

The Controlling Officer submitted that new Pension Administration System had an interface with ZANACO and that this interface became functional as of August, 2012.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification of the interface between the pension administration system with ZANACO.

v. *Payments to Pensioners without Identification Numbers*

The Controlling Officer submitted that the 224 were correctly paid; the ZANACO payment schedule had since been updated with NRC number for all pensioners.

Committee's Observations and Recommendations

Your Committee notes and closes the matter subject to audit verification of the updated ZANAC payment schedules.

p) **Lack of Segregation of Duties on the System**

The Controlling Officer submitted that the old Pension system had weak controls and has been replaced by the Pension Administration System, with approval levels for data entry. A proposed new IT structure had been prepared and would be considered by the Board of Directors at its next meeting.

Committee's Observations and Recommendations

Your Committee notes the submission and awaits a progress report on the matter.

q) **Non-Cost Effective Payment Method – Crown Agents**

The Controlling Officer submitted that the use of conventional banks would be much more expensive. Nevertheless, management had engaged other financial players to establish whether there could be cheaper means of transferring funds, including the possibility of direct transfers to the beneficiaries. Currently, the Board's paying agent also acted as a representative of WCFB and performed other duties like the completion of Life Certificates and forwarding them to the Board.

Committee's Observations and Recommendations

Your Committee notes the submission and requests a progress report on the efforts being made to find a cheaper means of transferring the funds.

r) **Lack of Change Management**

The Controlling Officer submitted that a Change Management Procedure document had been prepared and awaited the Board's ratification.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a progress report on the ratification of the Change Management Procedure document by the Board of Directors.

s) **Lack of Business Impact Assessment (BIA) prior to formulating of the Business Continuity Plan (BCP)**

The Controlling Officer submitted that the business impact analysis was being developed in readiness for presentation to the Board of Directors for approval at its next meeting.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the approval of the business impact analysis by the Board of Directors.

t) **Failure to implement a Disaster Recovery Site**

The Controlling Officer submitted that an office at the Occupation Health and Safety Office in Kitwe had been allocated as the disaster recovery site; set up of this site was expected to be done during the quarter July-September, 2013.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the set up of the Disaster Recovery Site.

u) **Expired Fire Fighting Equipment**

The Controlling Officer submitted that a service provider was engaged to service the server room fire control equipment, but this equipment was found to be obsolete and a replacement was recommended. A new fire prevention system was subsequently included in the corporate budget submission for 2013/2014.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the installation of the planned new fire prevention system.

v) **Lack of Backup Power for the Server Room**

The Controlling Officer submitted that a standby generator for the Head Office server room was installed in November, 2012.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification that the standby generator has been installed.

w) **Lack of Local Area Network Firewalls**

The Controlling Officer submitted that a tender for supply and installation of a network firewall was awarded in March, 2013. Delivery was now being awaited.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification.

x) **Lack of Service Level Agreements (SLAs)**

The Controlling Officer submitted that a Service Level Agreement document had been approved by management and awaited ratification by the Board.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to audit verification that the Service Level Agreement has been approved by the Board of Directors.

Review of operations

23. A review of operations for the financial year ended 31 December 2009 to 2011 revealed weaknesses to which the Controlling Officer responded as set out below.

a) **Financial Performance**

The Controlling Officer informed your Committee that the observation by the Auditor-General that the administrative cost rose from K8.3 billion in 2009 to K14.1 billion in 2011 was correct and the main components included salaries, wages and staff costs, travel and subsistence, postage, telephone and fax and medical expenses.

The Controlling Officer further submitted that to streamline its operations and bring the costs down, management had, among the things, approached the shareholders for fresh capital injection to invest in the Company. Further, cost-saving measures including stringent control of costs at procurement stage, reporting of office profitability analysis on a monthly were being put in place. The Company was conducting a job evaluation exercise as part of organisational restructuring in an effort to control staff costs.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification. Your Committee however requests the Office of the Auditor-General to keep the matter in view in future audits.

b) **Financial Position: Doubtful Going Concern – Liquidity Position/Working Capital Management**

The Controlling Officer submitted that the bulk of the current liabilities related to statutory debts and this was due to under-capitalisation which had forced the Company to rely on occasional grants from the Government as investment capital. He noted, however that the Government of Zambia, as the sole shareholder in the Company had invested K25 million in the form of paid up share capital which was a considerably low level of shareholder investment in the Company. As a result of this, the Company lacked funding for operations, expansion and investment in infrastructure and production equipment.

The Controlling Officer further submitted that in an effort to address the problems being faced by the Company, management had approached the shareholders to recapitalise the Company by converting statutory debt into share capital and or through fresh capital injection. This would be invested in such areas as in new commercial printing equipment, ICT-based platforms for advertising and news distribution, vehicles for news gathering, marketing, courier services and newspaper distribution, and organisational restructuring.

The Controlling Officer added that other measures included the preparation of a new strategic plan for three years (2013 – 2015), which included a turn-around strategy in support of the recapitalisation and the sustainability of the company. Further, the Company had reviewed the newspapers' production times and system of delivering the newspapers on an on-going basis including the issue of adequate transport to ensure that there was an increase in the circulation figures. Additionally, Management had put all staff on a Performance Management System (PMS) in order to enhance productivity in the company. The Company was also in the process of securing a loan from a commercial bank to invest in distribution,

editorial, and marketing vehicles and commercial equipment in the absence of grants from the Government.

Committee's Observations and Recommendations

Your Committee takes note of the measures that have been put in place by the management of the Company and awaits a progress report.

c) **Capital Structure - Gearing (Debt – Equity ratio)**

The Controlling Officer submitted that management agreed that the Company needed recapitalisation and had approached the shareholders for recapitalisation.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the Company is adequately recapitalised and awaits a progress report.

d) **Unaccounted for copies of newspapers - K5,636,250,000**

The Controlling Officer submitted that overall the variance was K2,635,062,500 and not the reported K5,636,250,000 representing an 11 % percentage variance. This was because free and returned copied were not taken into consideration by the audit. The Controlling Officer however acknowledged that there was a weakness in that daily reconciliations were not being performed as pointed out by the auditors. Management had now put in place a system that facilitated reconciliation of the production volumes, sales volumes and returned volumes on a weekly basis.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company does not undertake regular reconciliations making it difficult to account for all the copies printed. Your Committee resolves to close the matter subject to audit verification.

e) **Non remittance of Withholding Tax on Commissions**

The Controlling Officer informed your Committee that the Company had been facing challenges in remitting withholding tax on commissions due to fact that the cash flow position had not been good. To address the matter, the Company had entered into a payment plan with ZRA. The Company had also written to the shareholders with regard to the recapitalisation by converting statutory debt into share capital since at present, in light of the poor financial position of the Company, the statutory debt could not be paid without financial assistance from the shareholders.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company was failing to remit the withholding taxes as provided for in law and urges the Controlling Officer to impress upon management to always owner its tax obligations. Your Committee awaits a progress report on the remittance of all the taxes.

f) **Staff Costs**

i. *Poor Administration of loans and advances*

The Controlling Officer informed your Committee that the correct position was that the number of officers who had net pays below 20% were twenty-two (22) and not fifty-five(25). This was because the mid-month pay had not been properly accounted for in the analysis. The Company had a system of paying employees twice in a month. Employees were paid a mid-month pay on the 10th and a second month end pay on the 25th of every month. The amounts paid on the 10th were, therefore, taken as part of the net pay figure. For the twenty-two (22) that were below the 20% level, these officers were given special advances to meet exceptional needs and/or for compassionate reasons. Management re-affirmed its commitment to ensuring that clauses (14.1) and (14.2) of the Conditions of Service were adhered to.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor management of loans and advances at the Company and urges the Controlling Officer to caution management against laxity in ensuring Conditions of Service and guidelines are followed without fail. Your Committee resolves to close the matter subject to audit verification.

ii. *Failure to deduct Tax on Allowances - K345,029,924*

The Controlling Officer stated that this had been corrected and education and fuel allowances were subjected to tax deductions and were being paid through the payroll.

Committee's Observations and Recommendations

Your Committee directs that all taxes that were previously not deducted should be recovered and remitted to ZRA. The Controlling Officer is urged to submit a progress report on the matter.

g) *Unaccounted for Assets - K58,937,928*

The Controlling Officer submitted that out of the twenty-four recorders, eight had been confirmed by the respective staff members and a schedule was available while one was in stores. Investigations were being undertaken to establish the whereabouts of the remaining recorders.

Regarding the cameras, the Controlling Officer submitted that the following were available at Lusaka and regional offices:

Committee's Observations and Recommendations

Your Committee expresses concern at the way the assets are being managed and urges the Controlling Officer to ensure the missing properties are found failure to which the matter should be reported to the law enforcement agencies for further investigations. Your Committee awaits a progress report on the matter.

h) **Lack of Contract - K1,323,392,365.35**

The Controlling Officer informed your Committee that the works done on printing the Times of Zambia were based on a verbal contract between Times of Zambia and Zambia Daily Mail Limited based on instructions received from the former Permanent Secretary, Ministry of

Information and Broadcasting Services. The terms and conditions of the verbal contract were exclusively known and regulated by the joint Technical Committee comprising staff from the two institutions, on strict instructions from the then Permanent Secretary. This was called a special project headed by the then Permanent Secretary at that time.

Committee's Observations and Recommendations

Your Committee expresses concern over the manner the matter was handled by the Ministry and cautions the Controlling Officer against such practices in future. Your Committee urges the Controlling Officer to investigate the matter further and establish the terms and conditions of the said oral contract and avail the same to the Office of the Auditor-General for verification.

i) **Inadequately Supported Payments-K1,632,852,911.27**

The Controlling Officer submitted that there had been a weakness in the filing system. At the time that payments were effected, all payments were made with adequate supporting documentation and during the period 2009 to 2011, internal audit conducted pre-audits of each payment before payments could be made. The misfiling of documents was being addressed through documentation of systems and procedures, staff training and periodic supervisor reviews of the systems including the filing systems. Management had put in place a system of obtaining receipts for all payments to suppliers.

Committee's Observations and Recommendations

Your Committee notes that the amount concerned is material and urges the Controlling Officer to send an internal audit team to establish what exactly transpired and assist the company in putting controls measures in place. Your Committee awaits a progress report on the matter.

j) **Unretired Imprest- K123,748,780**

The Controlling Officer submitted that the Company had given final warnings to the concerned staff to retire failure to which the advances would be recovered from their salaries. Furthermore, no travel advances were being issued to staff with unretired imprest.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that management failed to have the imprest retired as per financial regulations and only acted as a reaction to the audit. Your Committee urges the Controlling Officer to caution management at the company for their laxity in the management of the imprest. Further, the Controlling Officer should ensure that all outstanding imprest is retired or recovered without further delay.

Review of Operations

24. A review of accounting and other records carried out for the financial years ended 31 December 2009 to 2011 revealed weaknesses to which the Controlling Officer submitted as set out below.

a) **Failure to establish an Environmental Fund**

The Controlling Officer submitted that there was an Interim Environmental Fund in place from which ZEMA was expected to draw lessons for the permanent fund. Further, there were procedures that needed to be followed before the fund could be operational, among which included the development of a Statutory Instrument (SI) which would contain the rules and guidelines for operationalisation of the fund. This activity had been planned and budgeted for under the 2013 ZEMA budget.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to act proactively in the operationalisation of the Environmental Management Fund and urges the Controlling Officer to ensure that this is done as a matter of urgency. Your Committee awaits a progress report on the matter.

b) **Financial Performance- Statement of Comprehensive Income for the years 2009, 2010 and 2011.**

i. *Income*

The Controlling Officer submitted that the principal sources of income for the organisation included grants from the Government, which were provided for every year in the Yellow Book grants from cooperating partners to support specific projects; and statutory fees collected from industry and developers of projects for pollution control permits and environmental impact assessments.

The Controlling Officer noted that the grant from the Government had been provided consistently as per budget, although it had been static at K3.5 billion over the same period. The project grants depended on the number and scale of projects that were being supported by the cooperating partners. During the period under review, ZEMA was part of the implementing agencies of the Copperbelt Environment Project (CEP). During the implementation, ZEMA was able to access a lot of funds particularly in the years 2009 and 2010 when the project motor vehicles and environmental monitoring equipment were procured for ZEMA. Since projects had a life span, in the year 2010 when the project was coming to an end, the funds accessed reduced.

The Controlling Officer further submitted that statutory fees which ZEMA collected from industry and developers of projects that required undertaking the environmental impact assessments increased from K13.3 billion in 2009 to K22.3 billion in 2011. In years when agriculture productivity increased and copper prices rose, the fees from pesticides and environmental impact assessments tended to increase. The opposite was true when agricultural production and the prices of copper were depressed. The Controlling Officer also informed your Committee that historically, ZEMA's income had been largely supported by cooperating partners. However, in the recent past there had been minimal support from donors.

Further, despite the rate of inflation going down and the country recording positive economic growth, the cost of the goods and services continued to rise such that even when options for cost reduction were being implemented their impact was being wiped out by the rising costs of goods and services.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter. Your Committee, however, requests the Office of the Auditor-General to keep the matter in view in future audits.

ii. *Profitability*

The Controlling Officer submitted that this was also linked to what had been stated in (i) above as income had an impact on the profitability of the institution.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

iii. *Failure to collect Licence Fees*

The Controlling Officer submitted that, initially, the inspectorate who went out to inspect industry and other facilities used to issue the quotations and invoices. However, there was poor coordination between the Inspectorate and Accounts Departments. The latter were supposed to follow up on the collection of the fees. The flow of information was not well coordinated and this resulted in the challenges highlighted. Management had, however, taken measures to put in place systems that would enhance the coordination the databases of the licensable facilities and between the Inspectorate and Accounts Departments so that the information in all the departments would be the same.

The Controlling Officer further explained that the Accounts Department had started the implementation of Sage Pastel Evolution accounting software. With this software ZEMA would be able to generate invoices electronically, issue receipts electronically and follow up on clients whose accounts had outstanding balances.

Committee's Observations and Recommendations

Your Committee expresses concern at ZEMA's failure to collect the much needed license fees as prescribed by the ZEMA Act. Your Committee resolves to await a progress report on the collection of the K1, 473,307,420 and urges the Controlling Officer to ensure that the new system is correctly utilised for the purpose for which it was installed. Your Committee further urges the Controlling Officer to ensure that officers responsible for using the system are cautioned to perform their duties diligently.

iv. *Delayed Banking-K1,239,343,760*

The Controlling Officer submitted that the incidence took place in the Northern Region Office in Ndola. The officer who was at the centre was surcharged and in order to avoid future occurrences, officers responsible for the regional offices had been tasked with checking the daily receipts and banking to ensure that all receipts were deposited with the banks on a daily basis in accordance with the banking policy. In addition, ZEMA had put bank account details on the website to facilitate direct

depositing of license fees by clients in out laying areas directly with the bank.

Committee's Observations and Recommendations

Your Committee expresses concern at the apparent lack of supervision and weak controls that led to such a long delay in detecting delayed banking. Your Committee is of the view that this amounted to theft and the matter should have been reported to the Police. Your Committee, however, notes the measures taken by the Ministry and resolves to close the matter subject to audit verification.

v. *Unaccounted for Funds-K7,074,850*

The Controlling Officer submitted that management investigated the matter and established that the funds were misappropriated. Measures were taken to surcharge the officer who was responsible and the supervisors for not carrying out their duties diligently. Management had since commenced recovering the money from one of the officers. The institution lost the other officer through death. Further, the same measures that had been instituted in the regional offices had been instituted at the Head Office to ensure that the receipts for the day were deposited on a daily basis and checked by the Principal Accountant.

Committee's Observations and Recommendations

Your Committee expresses concern at the apparent lack of supervision and weak internal controls that led to the misappropriation of funds. Your Committee is of the view that this amounted to theft and the matter should have been reported to the Police. Your Committee, however, notes the measures taken by the Ministry and resolves to close the matter subject to audit verification.

vi. *Wasteful Expenditure on the License Information System (LIS)*

The Controlling Officer submitted that this was in accordance with the contract agreement which stipulated the payment schedule based on various deliverables by the Consultant. The Consultant complied with the terms of the contract with regard to deliverables up to the point where they were unable to complete the assignment. Management could not, therefore, initiate recovery of the money paid to Webnet GM Group as that would be in breach of the contract agreement. Management was considering utilising alternative measures to complete the consolidation of the LIS as its operationalisation would impact on the effective monitoring of licensed facilities and to their compliance to set environmental regulations and standards.

Committee's Observations and Recommendations

Your Committee expresses concern at the wasteful expenditure and requests a progress report on whether the License Information System was working.

vii. *Inadequately Supported Payments-K74,824,055*

The Controlling Officer submitted that this was due to poor record keeping and management had started scanning documents to keep electronic copies as well as make photocopies of the same to avoid recurrence of this matter.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor record keeping which is a direct

reflection on the incompetence of officers charged with this responsibility. Your Committee urges the Controlling Officer to ensure that the responsible officer(s) are strongly cautioned. Your Committee awaits a progress report on the recovery of all the missing documents.

viii. *Unretired Imprest-K7,390,000*

The Controlling Officer submitted that the imprest being referred to had since been retired. At the time of the audit, some officers from other institutions had not yet surrendered some receipts and the signed acquittal sheets and as such the partially complete documentation could not be availed to the Auditors. As a way forward, management would ensure that all the necessary documentation and signatures were obtained before people dispersed from meeting venues.

Committee's Observations and Recommendations

Your Committee observes that failure to retire imprest is a very serious omission and urges the Controlling Officer to caution the accounting staff who failed to make necessary follow-ups for the imprest to be retired. Your Committee resolves to close the matter subject to audit verification.

ix. *Irregular Payment of Rentals-K63,900,000*

The Controlling Officer submitted that management decided to pay the rental due to the urgent need to accommodate the officers but the Management had revised the Conditions of Service and the position would be regularised. The Conditions of Service had been revised and were awaiting Board approval.

Committee's Observations and Recommendations

Your Committee notes the measures put in place by the Management but urges the Controlling Officer to ensure that all the rentals that were irregularly paid were recovered from the concerned officers. Further, the Controlling Officer is urged to caution management for poor judgement on the matter. Your Committee awaits a progress report on the matter.

c) **Financial Position-Liquidity**

The Controlling Officer agreed with the audit that the liquidity ratio of the Company had improved from a negative working capital of K3,824,159,000 in 2009 to a positive working capital of K2,293,012,000 in 2011.

Committee's Observations and Recommendations

In closing the matter, your Committee urged the Company to continue implementing measures to enhance the Company's working capital.

d) **Irregular Acting Appointment of the Director**

The Controlling Officer submitted that the substantive Director had his contract terminated by the then Board, which put in place the Acting Director. However, before the Board could work out the issues related to the Director's office, it got dissolved by the Minister. There was no Board of directors for almost one year, until 10th December 2012 when the new Board was constituted. The contract for the Acting Director, (as Manager Inspectorate substantively) was renewed. Further, the newly constituted Board of Directors had already

commenced the process of recruiting a substantive Director General.

Committee's Observations and Recommendations

Your Committee observes that it has taken too long to appoint a substantive Director General which is against the spirit of good corporate governance. Your Committee, therefore, urges the Controlling Officer to address the matter without further delay. Your Committee awaits a progress report on the appointment of the Director-General.

e) Failure to carry out Environmental Impact Assessment

The Controlling Officer submitted that management would write to agencies such as the Road Development Agency (RDA) to request them to submit their annual work plans to ZEMA so that works that required environmental impact assessment (EIA) were specified to the Agency. The Agencies such as the RDA would in good time arrange to prepare EIAs for such projects.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Controlling Officer to ensure that ZEMA's monitoring activities are strengthened to ensure that anyone wishing to undertake a project does so within the confines of the law.

f) Weakness in implementation of the Environmental Management Act in Mining Activities

i. Heap Leaching Mopani Copper Mines

The Controlling Officer submitted that prior to the incidence that happened in Mufulira with respect to the heap leach, ZEMA had been monitoring the activities through inspections and mandatory submission of returns by Mopani Copper Mines and this was what led to the closure of the mine. ZEMA could not recommend relocation because the adverse impacts were not sufficient to warrant relocation; the suggested mitigation measures were deemed adequate for the mine to co-exist with the community as long as they were complied with.

However, ZEMA had taken further action by directing Mopani Copper Mines to, among other things, submit acid mist monitoring reports on a monthly basis to ZEMA and a total of eleven (11) reports so far had since been submitted to ZEMA. Further, Mopani Copper Mines Plc had since constructed a suitable acid mist/ vapour barrier on the southern part of the raffinate ponds. Additionally, Mopani Copper Mines Plc had formed the Butondo Multi-stakeholder Committee with the help of a non-governmental organisation known as Citizens for a Better Environment (CBE). The objective of the committee was to try and resolve the conflict that existed between the operations of the heap leach and the residents of Butondo Township based on the negative environmental impacts associated with the project. Some progress had since been made on the acid mist issue through open dialogue. Any issue pertaining to the impacts of the Heap Leach Project raised in these meetings had been addressed accordingly by ZEMA.

Committee's Observations and Recommendations

In resolving to close the matter, your Committee urges the Controlling Officer to ensure that ZEMA correctly carries out its mandate as stipulated in the Environmental Management Act. Your Committee urges the Office of the Auditor-General to keep

the matter in view in future audits.

ii. *Water Pollution into Kafue River by Konkola Copper Mines*

The Controlling Officer submitted that the problem of the Pollution Control Dam (PCD) was historical in nature. The PCD was opened in the 1980s in order to control sediment load into the Mushishima Stream which discharges into the Kafue River. As a result of heavy siltation, the Mushishima stream started flowing backwards. De-silting of the Mushishima stream was one of the Copperbelt Environment Project (CEP) projects. In order to control further siltation, the PCD had to be de-silted as well.

The Controlling Officer explained that during the dry months, the PCD did not overflow. However, in the rainy season, all the storm water upstream of PCD from Chikola, Chiwempala, Mwaiseni and the light industrial area including the Tailings Leach Plant (TLP) flowed through the Chingola stream into the PCD. Despite this situation, efforts had been made by Konkola Copper Mines (KCM) to reduce silt levels discharged into the Kafue River. The returns from KCM from 2006 to 2013 showed a downward trend of total suspended solids (TSS) in the Kafue River. ZEMA would continue monitoring the management of the PCD to ensure that the TSS in the Kafue River met the legal requirement.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Controlling Officer to ensure that ZEMA correctly carried out its mandate as stipulated in the Environmental Management Act.

iii. *Weakness in Controlling the Importation of Pesticides and Toxic Substances*

The Controlling Officer acknowledged the need to have presence in key borders such as Nakonde and was working out modalities on how to make its presence at the border after carrying out a feasibility study. The challenge was that ZEMA did not have the financial capacity to have presence at all major entry points in the country. With regard to ZEMA taking advantage of the Zambia Revenue Authority (ZRA) ASYCUDA system, efforts had consistently been made by ZEMA management for several years to have access to the ASYCUDA but this had yielded no fruits. However, there was a programme called ASYCUDA World that had been initiated to manage imports at entry points in Zambia. The programme was expected to be launched at the end of 2013. Once in place, imports would be managed properly because ASYCUDA World had certain benefits that the ASYCUDA Plus did not have.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter.

g) **The Greater Livingstone Tourism Area Action Plan (TAAP)**

i. *Irregular Construction of a Bridge Door Gazebo/Viewing Deck at Victoria Falls Bung by Zambezi Adrenaline Company*

The Controlling Officer submitted that ZEMA management would implement the resolutions of the Board. An initial letter was sent to the developer directing them to stop using the facility. Considering that the matter had legal implications, the ZEMA

Legal Department was relooking at how best to resolve the matter.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

ii. *Lack of Environmental Impact Assessment-Queens Park Hotel on John Hunt Way*

The Controlling Officer submitted that the developer had been written to by ZEMA directing them to prepare and submit an Environmental Impact Assessment report.

Committee's Observations and Recommendations

Your Committee expresses concern at the apparent failure by ZEMA to monitor the activities of projects as prescribed by the Environmental Management Act and urges the Controlling Officer to ensure that ZEMA improves its enforcement activities. Your Committee also urges the Controlling Officer to impose necessary sanctions against the developer and awaits a progress report on the matter.

h) **Use of Incomplete Environmental Impact Statement on Itezhi-Tezhi Hydro Electric Project**

The Controlling Officer submitted that the Environmental Impact Statement was an all-inclusive report which had outlined the components of the project. In addition to the main report, an addendum was submitted to update the EIS because of the change of scope of the project. The Controlling Officer admitted that the housing units and the water reticulation system were not covered in the environmental impact assessment reports. To this end, ZEMA had since written to ZESCO Limited directing them to submit an environmental impact assessment report for the additional infrastructure.

Committee's Observations and Recommendations

Your Committee expresses concern at the fact that the Environmental Impact Assessment was going to be submitted after the project had already commenced, an action which is contrary to the Act and urges the Controlling Officer to institute necessary sanctions against the erring organisation. Your Committee awaits a progress report on the matter.

ZAMBIA NATIONAL BROADCASTING CORPORATION (ZNBC) AUDIT QUERY

PARAGRAPH 22

25. An examination of accounting and other records maintained at the Corporation for the financial years ended 31 March, 2009, to 2011, revealed the following:

a) **Failure to reconstitute Board of Directors**

The Controlling Officer informed your Committee that the process of appointing the Board had since been initiated by the Minister of Information and Broadcasting.

Committee's Observations and Recommendations

Your Committee expresses concern that the Government failed to constitute the Zambia National Broadcasting Corporation Board since the previous one was dissolved in 2010 which is not in the spirit of good corporate governance. Your Committee, therefore, urges the Government to expeditiously attend to the matter. They await a progress report on the matter.

b) **Statement of Comprehensive Income for the Years Ended 31 March, 2009, 2010 and 2011**

i. *Profitability*

The Controlling Officer informed your Committee that the worsening profit situation was mainly because the advertising revenue was not sufficient to meet huge costs associated with a public broadcaster. Further, TV Levy compliance level was at 20% which meant that this source of revenue had not helped much to improve the financial position of the Corporation.

Committee's Observations and Recommendations

In noting the submission, your Committee resolves to close the matter but urges the Controlling Officer to ensure that concerted efforts are made to improve the Corporation's profitability.

ii. *Staff Costs to Turnover Ratio*

The Controlling Officer submitted that ZNBC, being a public broadcaster, did not operate as a 100% commercial institution. Over the same period, besides the launch of TV2, the Corporation had embarked on a programme called Rural FM and TV project to expand coverage so that the signal was accessed even in rural areas where the Corporation's operations were not necessarily financially viable. If, however, the Corporation did not expand into areas where there was no commercial viability, then costs would not be as they currently were. As a public broadcaster, ZNBC was expected to receive revenue grants from the Government to bridge the current financial gap and compensate for such operations. Such grants had not been received for many years.

Committee's Observations and Recommendations

Your Committee expresses concern at the state of staff costs at ZNBC and strongly urges the Controlling Officer to take concrete measures to correct the situation so that sufficient resources could be spent on operations of the Corporation. Nevertheless, your Committee resolves to close the matter.

iii. *Irregular Payment of Litigation Costs - K606,210,000*

The Controlling Officer submitted that the Corporation was sued by various people and organisations who felt injured and defamed by the "Stand Up for Zambia," documentaries. As a result, the Court ordered ZNBC to pay damages to the plaintiffs. The Controlling Officer further revealed that the Ministry of Information and Broadcasting Services had verbally instructed ZNBC to air the documentaries which were produced by a company called PBJ Productions.

Committee's Observations and Recommendations

In noting the submission, your Committee expresses concern at the revelation that the Ministry of Information and Broadcasting Services verbally instructed ZNBC to air the "Stand Up for Zambia" documentaries by PBJ Productions. Your Committee emphasises that ZNBC must exercise its full rights and enforce the indemnity clause in the contract with the client/agent in order to recover the amounts paid in legal fees. Your Committee awaits a progress report on irregularly paid litigation costs.

iv. *Irregular Refunds of Medical Bills - K884,135,181*

The Controlling Officer submitted that a private medical hospital had been engaged to provide health services to ZNBC employees on a trial basis and management would review its performance before the complete rollout of the scheme could be effected.

Committee's Observations and Recommendations

In noting the submission, your Committee resolves to wait for a progress report on the performance of the private medical hospital that has been engaged to provide health facilities. However, your Committee insists that the irregular payments made to staff must be recovered without further delay.

v. *Inadequately Supported Payments - K274,470,246*

The Controlling Officer stated that ZNBC had so far managed to trace supporting documents for payments amounting to K138,839,125.05 and efforts were still being made to locate supporting documents for the balance of K135,631,120.95.

Committee's Observations and Recommendations

Your Committee resolves to wait for a progress report on the recovery of the supporting documents for the balance of K135,631,120.95. Further, the Controlling Officer is urged to ensure that disciplinary action is taken against the officers responsible for the anomaly.

vi. *Unretired Imprest - K78,084,800*

The Controlling Officer stated that out of the total imprest of K78,084,800 issued to the officers, so far K41,821,903.14 had been retired, leaving a balance of K36,262,896.86. The Controlling Officer further informed your Committee that the outstanding K36,262,896.86 would be deducted from the respective officers' salaries. Further, management had also provided a dedicated officer to deal with all matters pertaining to imprest.

Committee's Observations and Recommendations

Your Committee observes that failure to retire imprest is a very serious omission and urges the Controlling Officer to caution the officers who failed to retire the imprest in a timely manner and to recover unretired imprest without undue delay. Your Committee will, in future, not take kindly to failure by the Controlling Officer to recover outstanding imprest as per financial regulations. Your Committee resolves not to close the matter until the outstanding imprest amounting to K36,262,896.86 is fully recovered.

vii. *Undelivered Goods and Services - K76,942,550*

The Controlling Officer informed your Committee that the payment made to Netstar was for the installation of motor vehicle security gadgets. However, the company only installed the gadgets to a few vehicles as the Corporation was still in the process of acquiring more vehicles. This matter was still being actively followed as the Corporation had new vehicles that required the facility. The Controlling Officer further informed your Committee that as regards the payment made to Oracle Digital,

the matter was reported to Zambia Police who were still investigating the case for possible prosecution.

On the other payments, the Controlling Officer submitted as set below.

- **Rematon Limited:** K33,500,023, The Corporation used to buy Broadcasting Equipment from Rematon Limited during the UNIP Government. At that time, the amount in the books was small but it had grown due to the depreciation of the Zambian kwacha against the US dollar. Due to changes of Government and management at ZNBC, the supplier could not be traced.
- **EOH Consulting :** The Corporation had contracted a South Africa based firm to supply TV levy collection software whereby the supplier had asked for an advance payment of K26,290,542. It was later discovered that the company had no capacity to provide the service, hence the contract was terminated. ZNBC tried to use the Zambia High Commission to seek a refund from EOH, but the attempt had not yielded positive results.
- **Transworld Television:** ZNBC used to buy TV content from this foreign based company. The K763, 370 shown as advance payment arose due to foreign exchange fluctuation which resulted into a foreign exchange loss at the time payment was made. It was not an advance payment.

Committee's Observations and Recommendations

In noting the submission, your Committee expresses concern over the fact that the Corporation paid for installation of security gadgets on motor vehicles which had not yet been procured as this was a recipe for financial irregularity. Your Committee awaits a progress report on the fitting of the security gadgets on the remaining vehicles.

Your Committee further advises the Controlling Officer to ensure that the two amounts pertaining to Rematon and Transworld are either paid off or cleared from the Corporation's books to avoid misrepresenting its financial position. As regards the payment to EOH Consulting, the Controlling Officer is requested to pursue recovery of the funds through the Zambian High Commission to its logical conclusion.

viii. *Unexplained Bank Statement Debits - US\$1,824.14*

The Controlling Officer submitted that the matter had since been resolved by the bank which had rectified the anomaly.

Committee's Observations and Recommendations

Your Committee strongly advises the Controlling Officer to ensure quick resolution of such issues and avoid similar queries in future, but resolves to close the matter subject to audit verification.

ix. *Non remittance of Statutory Contributions - K186,952,654,000*

The Controlling Officer informed your Committee that the sole shareholder, the Government of the Republic of Zambia, had been engaged with a view to settling the outstanding debt through recapitalisation. However, the Corporation had started dismantling the NAPSA debt

by paying arrears in installments while ensuring that current obligations were paid as they fell due in accordance with the Memorandum of Understanding between ZNBC and National Pensions Scheme Authority (NAPSA).

Committee's Observations and Recommendations

Your Committee awaits a progress reports on the full settlement of the debt.

c) Financial Position

Statement of financial position as at 31 March, 2009, 2010 and 2011

i. Liquidity Position

The Controlling Officer agreed with audit finding that the liquidity position continued to worsen from a deficit of K63, 205,224,000 in 2009, to K162, 624,571,000 in 2011. The increase in current liabilities was mainly attributed to the statutory contributions which stood at K60,892,749,000 in 2009, K131,549,509,000 in 2010, and K161,165,588,000 in 2011. The Controlling Officer noted that with reduced political interference and recapitalisation, the corporation would improve its liquidity position.

Committee's Observations and Recommendations

Your Committee expresses concern at the liquidity challenges faced by ZNBC and urges the Controlling Officer to ensure measures are put in place to correct the situation. Your Committee resolves to close the matter but urges the Auditor-General to keep the matter in view in future audits.

ii. Changes in Equity

The Controlling Officer concurred with the Auditor-General's recommendation that the Corporation must be recapitalised.

Committee's Observations and Recommendations

Your Committee urges the Government to take urgent measures aimed recapitalising the Corporation. Your Committee awaits a progress report.

d) Irregular Administration of the Staff Pension Scheme - K24,830,000

The Controlling Officer submitted that efforts had been commenced to find Pension Managers to be appointed by the ZNBC Board and ensure that rules and regulations of *the Pensions and Insurance Act, No 27 of 1997* were complied with. So far, management had held discussions with ZSIC, Professional Life Assurance and Madison Life for possible engagement.

Committee's Observations and Recommendations

Your Committee cautions the ZNBC management against such practices in future. Further, your Committee requests the Auditor-General to verify that all contributions made by employees are duly remitted to the pension scheme once it came into effect. Your Committee resolves to wait for a progress report on the engagement of the new pension fund manager for ZNBC.

Accounting and Other Irregularities

26. An examination of accounting records and other related records for the financial year ended 31 December, 2010 and 2011 revealed weaknesses to which the Controlling Officer responded as set out below.

a) **Income**

The Controlling Officer submitted to your Committee that this was the case because ZRA was using the accrual system of accounting as opposed to the cash accounting system used by Government. The Government funding for 2010 and 2011 included accrued income of K8.5 billion and K7.7 billion respectively. These were funds receivable but not received in the years accrued. Capital expenditure was not expensed as it formed part of the assets in the balance sheet.

Committee's Observations and Recommendations

Your Committee expresses concern that this was not explained to Auditors and cautions the management of ZRA against taking audits lightly. Your Committee resolves to close the matter subject to audit verification.

b) **Overfunding — Government Grants**

The Controlling Officer submitted that with regard to overfunding of Government grants, in 2010, K227 billion related to the annual budgetary allocation and K18 billion related to the legal suit for Sable Hand of which K9.5 billion was received in 2010 whilst K8.5 billion was accrued. As for the period 2011, K251 billion related to annual budgetary allocation and K15 billion was allocation for the modernisation project. In the total income of K274 billion, K1.8 billion related to performance funding and K5.9 billion related to an accrual of the Sable Hand legal suit. This would be brought to parliament for approval.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to audit verification.

c) **Staffing Levels**

The Controlling Officer submitted that the staffing levels had increased due to additional resources provided by the Government. During the period under review, the approved staff establishment was 1,380 while actual staff in place was 1,255. The difference between the approved staff establishment and the actual staff in place was due to budget constraints. The approved staff establishment as at end of May 2013 stood at 1,482 while actual staff in place was 1,416 as more resources were made available by Government.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer and ZRA Management to ensure that all vacancies are filled so that the Authority can perform its mandate effectively. Your Committee closes the matter but urges the Office of the Auditor-General to keep the matter in view in future audits.

d) **Irregular Sale of Motor Vehicle to Former Board Chairman**

The Controlling Officer submitted that through a letter dated 9 January 2012 the former Chairman submitted an application to buy the vehicle at the end of his tenure. The Minister of Finance approved the sale of the vehicle to him, as vehicles had been sold to some previous Chairmen of the Board of the Zambia Revenue Authority. The former Chairman, however, appealed for a waiver from taxes and at its meeting held on 15 March 2013, the Board reviewed the price of the vehicle. In so doing, the Board noted that the prices quoted by the car dealers in valuing the vehicle, for the purpose of computing the purchase price, was the market value and therefore included taxes. The taxes, however, remained payable by the former Chairman. As directed by the former Chairman, the refund was paid directly to the Customs Services Division to settle the outstanding tax.

Committee's Observations and Recommendations

Your Committee observes that a wrong precedence was set where chairpersons were allowed to purchase the utility vehicles they were using despite not being entitled. Your Committee urges Controlling Officer to ensure that this practice comes to an immediate stop. Your Committee resolves to close the matter subject to audit verification that the practice has stopped.

e) **Excess Expenditure**

i. *Corporate Social Responsibility*

The Controlling Officer submitted that this was as a result of a budget variation which was effected to cater for the Zambia International Trade Fairs and Zambia Show Society preparations at which the Authority was exhibiting. Currently all budget variations within the cost centres are approved by the Commissioner General while the variation between recurrent and capital expenditures are approved by the Board.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer and the ZRA management to cooperate with the auditors by availing documentary evidence on the variations.

ii. *Other Allowances*

The Controlling Officer submitted that the variations were due to under budgeting in related budget lines which were made to reallocate funds to areas where excess expenditure was reported within the same staff expenses. A total of K63.6 billion for the period 2010 to 2011 was reallocated within the same cost centres or budget lines. Currently all budget variations within the cost centres are approved by the Commissioner General while the variation between recurrent and capital expenditures are approved by the Board.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer and the ZRA Management to cooperate with the auditors by availing documentary evidence on the variations.

f) **Recoverable Staff Receivables Written off - K720,282,223**

The Controlling Officer submitted that the 2010 Annual Report approved by the Board

stipulated the treatment for impaired loan recoveries, which was the basis for the write off. That was, the Authority provided fully for recoveries over 120 days because historical experience indicated that recoverable that were past due beyond 120 days were generally not recoverable. However, the Authority had commenced recovery procedures of outstanding amounts from former employees whose whereabouts were known.

Committee's Observations and Recommendations

Your Committee observes that the ZRA management behaved irresponsibly on this matter as no serious efforts were made before the debts were written off. Further, Board approval was not obtained to support management action. Your Committee therefore, directs that the matter be tabled before the Board for determination. Your Committee awaits a progress report on the matter.

g) Procurement of Scanners

i. *Smiths Heimann S.A.S Contract*

The Controlling Officersubmitted that twenty (20) officers were trained by Smiths Hermann on-the-job training in various categories as stated in the contract. In the same contract, Smiths Hermann was to identify a local firm to be trained in the maintenance of the two scanners. Cargo Scan Systems Limited was identified and trained to operate and maintain the scanners. The contract with Cargo Scan was terminated on 26 January, 2012. ZRA staff are now operating the scanners.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to audit verification that the training of staff and the local firm was undertaken.

ii. *Cargo Scan Systems Limited – Failure to Operate within Stipulate Time*

The Controlling Officer submitted that with regard to the remedy claim provided for under clause 3.4 of the contract, each time Cargo Scan invoiced ZRA, down time was deducted from the final payment before certification of payment.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

iii. *Nuctech Company Limited Contract*

- *Failure to Train Staff*

The Controlling Officer submitted that an additional 107 members of staff had since been recruited and training would be conducted by Nuctech once the Final User Acceptance Testing was undertaken.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

- **Failure to Provide Certificate of Final Acceptance Test – Chirundu Border Post**

The Controlling Officer informed your Committee that User Acceptance Tests for the Chirundu and KatimaMulilo scanners were undertaken by the then contractor, whose contract was terminated before Acceptance Certificate could be issued. ZRA is currently in the procurement process of a contractor for User Acceptance Testing of the scanners which will become operational this year.

Committee’s Observations and Recommendations

Your Committee awaits a progress report on the matter.

- **Failure to Utilise Scanners**

The Controlling Officer submitted to your Committee that ZRA had actively pursued and engaged the contractor on their contractual obligations to pay for the connection of power to the scanner sites. The scanner at KatimaMulilo became operational in April 2013.

Committee’s Observations and Recommendations

Your Committee expresses concern that it has taken so long to resolve the matter and urges the Controlling Officer to pursue the matter so that the remaining scanner can also be operational for the Authority to obtain the benefits.

- **Delay in the Construction of Scanner Site at Mwami Border Post**

The Controlling Officer informed your Committee that the delay was due to failure to acquire land on time. Land has been acquired and construction works had since commenced.

Committee’s Observations and Recommendations

Your Committee notes the submission and resolves to close the matter.

iv. *Physical Inspection of Scanner Construction*

• **KatimaMulilo - Lack of Access Road to Scanner Site**

The Controlling Officer submitted that the access road had been completed in April, 2013 and the scanner was now operational.

Committee’s Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification.

• **Chaninda – Completed but not Operational**

The Controlling Officer informed your Committee that arrangements were being made to connect power to the scanner and acceptance testing would be undertaken immediately after the engagement of the contractor.

Committee's Observations and Recommendations

Your Committee expresses concern that the scanner has remained non operational for too long and urges the Controlling Officer to ensure that the matter is addressed without further delay.

CONCLUSION

27. Your Committee wishes to express its gratitude to you Mr Speaker and the Office of the Clerk for the support rendered to it when considering the Report of the Auditor-General on the Accounts of Parastatal Bodies for the Year ended 31 December, 2011. Your Committee further wishes to thank the Secretary to the Treasury, Controlling Officers, Chairpersons and other members of the Boards of Directors, and management teams of the institutions that were audited for their cooperation.

Finally, your Committee acknowledges the valuable input from the Office of the Auditor-General, the Accountant-General and that of the Controller of Internal Audit when considering submissions from the witnesses.

V Mwale, MP
CHAIRPERSON

July 2013
LUSAKA