



REPUBLIC OF ZAMBIA

REPORT

OF THE

PUBLIC ACCOUNTS COMMITTEE

ON THE

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES
AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL YEAR ENDED 31ST
DECEMBER 2015**

FOR THE

FIRST SESSION OF THE TWELFTH NATIONAL ASSEMBLY

Appointed by the Resolution of the House on 10th October 2016

Printed by the National Assembly of Zambia

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REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2015, FOR THE FIRST SESSION OF THE TWELFTH NATIONAL ASSEMBLY APPOINTED BY RESOLUTION OF THE HOUSE ON 25TH SEPTEMBER 2015

Consisting of:

Mr H Kunda, MP (Chairperson); Mr A Chiteme, MP; Mr M Mbulakulima, MP; Mr C Mweetwa, MP; Mr T J Kasonso, MP; Mr M C Munkonge, MP; Ms D Mwape, MP; Mr K Simbao, MP and Ms B M Tambatamba, 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 and other Statutory Institutions for the Financial Year ended 31st December 2015.

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 as provided for under *Article 212(5) and (6) of the Constitution of Chapter 1 of the Laws of Zambia, as amended by Act No. 2 of 2016* as well as *Standing Order No. 153(3)*, Standing Orders of the National Assembly, 2016.

Meetings of the Committee

3. Your Committee held ten meetings to consider the Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the Financial Year Ended 31st December, 2015.

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 seventeen institutions that were subjects of the audit report. Additionally, the Secretary to the Treasury was requested to comment on all the twenty seven institutions who failed to submit audited financial statements .

This Report contains the observations and recommendations of your Committee and includes proposed remedial measures to correct identified irregularities. The Report is in four parts: Part I deals with the Auditor-General's comments and the response from the Secretary to the Treasury; Part II captures the responses from Controlling Officers on the individual audit queries; Part III contains your Committee's general observations and recommendations arising from the Auditor General's Report; and Part IV is an annex on the comments by the Secretary to the Treasury on the recommendations of the Public Accounts Committee which have been implemented or partially implemented.

PART I

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

Introduction

Auditor General's Comment

The Auditor General reported that the Audit Report on the Accounts of selected Parastatal bodies and Other Statutory Institutions for the Financial Year ended 31st December 2015, had been issued in line with the provisions of the *Constitution of Zambia, Chapter 1 of the Laws of Zambia, as amendment Act No. 2 of 2016, the Public Finance Act No 15 of 2004 and the Public Audit Act of 2016*. The Report contained paragraphs on seventeen institutions.

Treasury Response

The Secretary to the Treasury submitted that the facts were as stated in the Report of the Auditor General and the Treasury acknowledged that the audit of accounts of the seventeen parastatal bodies and other statutory institutions for the Financial Year Ended 31st December 2015 was done within the provisions of the *Constitution of Zambia and the Public Finance Act No. 15 of 2016 and the Public Audit Act of 2004*.

The Secretary to the Treasury further acknowledged the Information Communication Technology (ICT) systems audit that the Office of the Auditor General had implemented to improve on the efficiency and effectiveness of service delivery.

Scope of Audit

Auditor General's Comment

The Auditor General informed your Committee that the Report was a result of a programme of test checks and reviews of audited accounts of selected organisations for the financial year up to 31st December 2015.

He explained that in preparing the Report, draft paragraphs were sent to the Controlling Officers and Chief Executive Officers of the affected organisations for comments and confirmations of the correctness of the facts presented. Where comments were received and varied materially with the facts presented, the paragraphs were accordingly amended.

Treasury Response

The Secretary to the Treasury submitted that the interaction of the Auditor General with Chief Executive Officers through their Controlling Officers upheld good corporate governance values in the management of parastatal bodies and other statutory institutions entrusted with the responsibility of managing public resources.

The Secretary to the Treasury in this regard, thanked the Office of the Auditor General for availing vital information in his Report to assist Parliament in its oversight responsibilities with respect to the management of public resources.

Internal Controls

Auditor General's Comment

Specific mention was made of the non-preparation of the financial statements, failure to remit statutory contributions, weaknesses in procurement procedures, irregular payments and poor financial performance, among other issues, by the respective organisations. These were clear indicators of internal control lapses in most parastatal and statutory organisations.

Treasury Response

The Secretary to the Treasury submitted that the Treasury assigned the Controller of Internal Audit to review internal control systems in parastatal bodies and other statutory institutions.

In addition the Board of Directors and Management had been engaged to enhance Internal control systems and adhere to the *Public Finance Act No.15 of 2004*, and the Financial Regulations of 2006, in the management of public funds.

Committee's Observations and Recommendations

Your Committee observes with concern that despite the Secretary to the Treasury assuring your Committee time and again that concrete measures would be undertaken to strengthen the evidently weak internal control systems in statutory bodies and other statutory institutions, public funds have continued to be abused as evidenced by the increase in the number of queries contained in the Auditor General's Report over the years. Your Committee therefore, reiterates its position that the Secretary to the Treasury should take practical steps and strengthen the internal control systems in these institutions in order to arrest the current state of affairs. Your Committee awaits a progress report on the matter.

Institutions that have not Submitted Audited Financial Statements

Auditor General's Comment

There were twenty- seven statutory and parastatal bodies that had not produced audited financial statements for the financial years up to 31st December 2015.

Treasury Response

The Secretary to the Treasury submitted on each of the institutions that were cited for not producing audited financial statements as set out below.

- **Citizens Economic Empowerment Commission**

The Secretary to the Treasury noted the failure by the Commission to submit the audited financial statements for the years 2013 to 2015 with regret. He reported that the Commission had been guided by the Office of the Auditor General to acquire external audit services from a private audit firm. Therefore, the audit of the financial statements was expected to begin by May 2017. The Secretary to the Treasury further informed your Committee that he would ensure that the concerned Controlling Officer executed performance contracts with the Board of Directors of the institution with the production of audited financial statement as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Institution to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the Institution to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Kaizen Institute of Zambia**

The Secretary to the Treasury submitted that while it was true that the institute had never prepared financial statements since its inception, it was worth noting that operationalising the Institute had been a challenge due to inadequate funds. In this regard, the failure to produce audited financial statements had been mainly due to lack of qualified staff to handle the financial matters of the institution.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to prevail upon the management of the Company in order to regularise its financial operations without further delay. Your Committee further urges him to ensure that qualified accounting personnel are employed in order to expedite the process of preparing the financial statements. Your Committee will, therefore, await a progress report on the preparation of all the outstanding reports for the period under review.

- **Hotel and Tourism Training Institute Trust**

The Secretary to the Treasury informed your Committee that the financial statements for the years 31st December 2013 to 2014 had since been audited with the 2015 and 2016 Accounts currently being audited.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Trust to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are finalised without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the Trust to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Tobacco Board of Zambia**

The Secretary to the Treasury informed your Committee that the audit process for the 2014 and 2015 financial years was already underway. In this regard, the Auditors had been engaged and were on site currently auditing the periods in question. The same firm of Auditors had also been given the responsibility to audit the 2016 financial statements to bring the books of TBZ up to date.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Board to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further

urges the Secretary to the Treasury to caution the management of the Board to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Food Reserve Agency**

The Secretary to the Treasury informed your Committee that management was seriously addressing this matter, as evidenced by the progress made so far. He submitted that the financial statements had been audited and signed up to the financial year ending December 2012. With regard to the financial year ending 31st December 2013, fifty percent of the work had been done and the auditors were on site auditing the 2014 financial statements. It was, therefore, projected that the exercise would be concluded within the first quarter of 2017.

The audit for the financial year ending 2014, would also be concluded by June 2017. The delay in completing the audit of the financial statements on time was caused by the process of obtaining professional clearance for the auditors and the demand by the previous board members to get indemnity before they could sign the financial statements.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Agency to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the Agency to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Nitrogen Chemicals of Zambia**

The Secretary to the Treasury submitted that the Institution could not submit the audited financial statements because at the time of the audit, the institution was still being audited. Your Committee was informed that the accounts for the institution were still undergoing the audit process.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Institution to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and Management of the Institution to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Times Printpak**

The Secretary to the Treasury confirmed that the institution had not been producing audited financial statements for the past eight years. He, however, informed your Committee that the irregularities had been corrected as both the 2014 and 2015 audited financial statements had been since been produced.

Committee's Observations and Recommendations

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

- **Zambia Medical Regulatory Authority**

The Secretary to the Treasury submitted that the audit of the financial statements for the Zambia Medical Regulatory Authority was being undertaken by the Auditor General. He, however, explained that in the year 2012, the Office of the Auditor General advised the institution to engage a private audit firm to carry out the audit for the years 2012 to 2015. Unfortunately, during this period there was no Board in place to appoint the auditors to audit the financial statements in question. Nonetheless, the Board was constituted in 2015 and a private audit firm was engaged to audit the financial statements for the years 2012 to 2015 in the same year.

Committee's Observations and Recommendations

Your Committee resolves to keep the matter open until all the audited financial statements for the period under review are submitted to the Office of the Auditor General for verification. In this regard, a progress report will be awaited by your Committee.

- **National Housing Authority**

The Secretary to the Treasury reported that the financial statements for the National Housing Authority for the years 2011 to 2015 were delayed as a result of delays in appointing auditors for finalising the accounts for 31st December 2011.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Authority to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee, further, urges the Secretary to the Treasury to caution the Board and Management of the Authority to avoid recurrence of this serious breach of financial regulations. Your Committee awaits a progress report on the matter.

- **Zambia Forest and Forestry Industries Corporation**

The Secretary to the Treasury explained that the delay was caused by the expiry of the Board's tenure of office. The Board had to be reconstituted through the Industrial Development Corporation to which the Corporation had been transferred. Following the guidance from the IDC that the tenure of office of the current Board must continue, the draft audited financial statements for the year 2015 were considered at the last Annual General Meeting held in February 2017 and were available for audit verification.

Committee's Observations and Recommendations

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

- **Zambia Education Publishing House (ZEPH)**

The Secretary to the Treasury submitted that the Institution was unable to submit the audited financial statements for the years 2009 to 2015 because it was still in the process of preparing these accounts. However, the following activities were being undertaken in order to prepare the accounts up to 2015:

- the institution's external auditors were currently finalising the audit of the books of accounts for the years 2005 to 2007. These were expected to be ready by the end of March 2017; and

- on instruction from the board, the Institution engaged an accounting firm to speed up the preparation of the accounts for the years 2008 to 2015. However, this exercise could not commence towards the end of 2016 as the 2008 opening balances audited by the external auditors were required.

The Secretary to the Treasury further submitted that the preparation of the accounts for the years 2008 to 2015 was planned to start in April 2017 and was expected to take a period of four months. An external audit of these accounts would then follow.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by ZEPH to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of ZEPH to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Chambeshi Water and Sewerage Company**

The Secretary to the Treasury submitted that the failure by the Company to submit the audited financial statements for the years 2012 to 2015 was noted with regret. He explained that this was as a result of loss of financial information caused by the crushing of the accounting software. However, the accounting software was replaced by a newly acquired package in 2013. The implementation and training of staff further delayed the preparation of the financial statements.

The Secretary to the Treasury further submitted that available pieces of information were being put together and the financial statements for the period 2012 to 2015 would be ready for audit by 31st March 2017. Meanwhile, the Institution was backing up financial information by storing it on external discs on a monthly basis.

Committee's Observations and Recommendations

Your Committee is disappointed that the Company did not have a back up information system, making it vulnerable to loss of its critical information. Your Committee strongly urges the Secretary to the Treasury to work closely with the Board and management of the Company in order to avoid recurrence of this irregularity. Your Committee will await a progress report on the preparation and verification of the financial statements in question.

- **Lukanga Water and Sewerage Company**

The Secretary to the Treasury submitted that there was a delay in auditing the financial statements for 2015. He explained that external auditors were scheduled to commence the 2015 audit in early 2016, but the Company received correspondence that staff at the Auditor General's Office were due to go and audit the Company. It was, therefore, agreed with the external auditors that the audits would commence after the Auditor General's exercise. In this regard, immediately after the Auditor General's audit completed, the external auditors moved in and undertook the audits before the end of 2016. In view of the foregoing, the audited financial statements for the year ending 2015, were available for audit verification.

Committee's Observations and Recommendations

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

- **Nkwame Nkurumah University**

The Secretary to the Treasury explained that the non-preparation of the audited financial statements was due to the non-availability of a governing council after the upgrading of the college to a university.

Committee's Observations and Recommendations

Your Committee observes with concern the inordinately long time it has taken to resolve this issue and particularly urges the Controlling Officer in the Ministry of Higher Education to attend to it as a matter of urgency. Your Committee will keep the matter open until all the audited financial statements for the period under review are submitted to the Office of the Auditor General for verification. A progress report will, therefore, be awaited by your Committee.

National Trust Fund for the Disabled Persons

The Secretary to the Treasury submitted that the Trust's audited financial statements for the year 31st December 2015 were currently ready and available for audit verification.

Committee's Observations and Recommendations

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

- **Northern Technical College**

The Secretary to the Treasury submitted that the financial statements for the year 2014 were audited and certified by the Office of the Auditor General in 2016. He informed your Committee that the Northern Technical College collected the final copies of the audited financial statements on 23rd September 2016.

Your Committee was further informed that the 2015 financial statements, which were fully finalised with the year 2014 comparative figures, had already been approved by the Board and arrangements were being made with the Office of the Auditor General to undertake the compliance and certification audits of the financial statements.

Committee's Observations and Recommendations

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

- **Zambia Institute of Mass Communication**

The Secretary to the Treasury submitted that the Institution was lagging behind in producing the audited accounts, as far back as 2008. He informed your Committee that on 27th March 2015, ZAMCOM requested the Auditor General for authority to engage a private auditor and on 8th April 2015, the Auditor General authorised the request.

Your Committee was further informed that ZAMCOM submitted to the Auditor General, both the engagement letter and management letter as directed by the Auditor General for the audit of 2013 and 2014. In addition, ZAMCOM had also submitted the audited accounts for 2008 to 2012.

The Secretary to the Treasury further submitted that ZAMCOM had been undergoing a renewal exercise following a forensic audit conducted by the Office of the Auditor General in 2010. Among the issues that arose at the time of the audit, was a seven year backlog of unaudited accounts dating back to 2007. The Board of Trustees and management with the assistance from the Ministry of Finance, seconded an accountant to the Institute, who had been working to clear the backlog since 2013. So far, accounts relating to seven financial years had been audited and the 2015 accounts were currently awaiting the Board's approval.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Institute to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the Institute to avoid recurrence of this serious breach of financial regulations. Your Committee awaits a progress report on the matter.

- **Public Service Pension Fund**

The Secretary to the Treasury submitted that the institution was unable to submit the audited financial statements for the years 2005 to 2008 because at the time the Auditor General was auditing the books, the external auditors were still auditing. He further submitted that the Board had engaged another audit firm to speed up the audit for the years 2009 to 2015. However, this exercise could not commence in 2016 as the 2008 opening balance was required to start the work.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Fund to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the Fund to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Luapula Water and Sewerage Company**

The Secretary to the Treasury reported that the Luapula Water and Sewerage Company had prepared the financial statements for the period 2008 to 2011. However, these statements had not yet been audited due to the Company's inability to raise audit fees. The Secretary to the Treasury further submitted that the preparation of the financial statements for the period 2012 to 2014 was in progress. He explained that the delay in the completion of these financial statements had been due to high staff turnover in the Finance Department. He informed your Committee that during the same period, three Finance Directors left the company and this negatively affected the process of preparing the financial statements.

As a way forward, the Treasury would ensure that the concerned Controlling Officer executed performance contracts with the Board of Directors of the institution with the production of audited financial statements as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

- **Western Water and Sewerage Company**

The Secretary to the Treasury submitted that the Report could not be availed to the Office of the Auditor General at the time of the audit because the accounts were still being audited. However, the audited financial statements for the Company for the Financial Years 2013 to 2015 were currently ready.

Committee's Observations and Recommendations

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

- **Local Authorities Superannuation Fund**

The Secretary to the Treasury submitted the status of the financial statements for the year ended 31st December 2015 as follows:

- i) the draft financial statements for the year ended 31st December 2015 were prepared during the year 2016;
- ii) the Auditors commenced the audit of the draft financial statements in September 2016 after signing the engagement letter; and
- iii) the draft financial statements would be presented to the Audit and Risk Committee and the Board for approval on 23rd February and 3rd March 2017.

With regard to the previous years, the Secretary to the Treasury submitted that all the financial statements up to 2014 had been audited by KPMG Chartered Accountants and were approved by the Board.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Fund to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the Fund to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **Engineering Services Corporation**

The Secretary to the Treasury explained that the privatisation of the Engineering Services Corporation (ESCO) in 2003 saw the selling of office properties including the head office which housed the server for the central processing of accounts data. This resulted into challenges in the preparation of computerised accounts. However, the accounts for 2012 to 2015 were produced and awaiting the ESCO Board to be appointed in order for them to be approved.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Corporation to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee, further, urges the Secretary to the Treasury to caution the Board and management of the Corporation to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

- **NIEC School of Business**

The Secretary to the Treasury assured your Committee that he would impress upon the Controlling Officer concerned to ensure that the Board of Directors of the institution adhered to the Financial Regulations that required the institution to annually produce audited financial statements.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the institution to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the institution to avoid recurrence of this serious breach of financial regulations. Your Committee awaits a progress report on the matter

- **Zambia – China Mulungushi Textiles Limited**

The Secretary to the Treasury submitted that the audited financial statements for the financial year 2005 were available for audit verification, while those for the years 2006 to 2012, were awaiting certification by the auditors due to matters surrounding the going concern of the institution. The Secretary to the Treasury further informed your Committee that the financial statements for the period 2013 to 2015, were ready, but not audited because of the financial challenges that the Company was facing.

Committee's Observations and Recommendations

Your Committee expresses concern at the current state of affairs at the company where financial statements have not been audited from 2005. Your Committee observes that this has been a long outstanding matter on which the Secretary to the Treasury should have taken concrete steps by now. In this regard, your Committee strongly urges the Secretary to the Treasury to follow up the matter and ensure that all applicable regulations are complied with by the company. Your Committee will await a progress report on the matter.

- **Zambia Capital Enterprises**

The Secretary to the Treasury submitted that the Institution failed to produce the audited financial statements for the years ended 31st December 2012 to 2015, owing to an exercise which was initiated in 2008, by the then Finance Manager to migrate from the accounting software, Sun System version 3.4, which the Company was successfully using for financial reporting, to a new and completely different accounting software called ACCPAC. This, therefore, meant training the Finance and Sales Departments and the purchasing section staff in the use of the software and the uploading of the data from Sun System 3.4 to ACCPAC.

The Secretary to the Treasury informed your Committee that a number of challenges were experienced during the training and the uploading of data and migration processes as the company

which was involved, Emerging Technologies Limited, had since closed. In view of the foregoing, the use of the Sun System 3.4 version was abandoned to concentrate on the new system instead of running the two systems in parallel, hence the accumulation of the backlog. To further aggravate the situation, there was an industrial unrest at the Company which culminated in the General Manager and Finance Manager being relieved of their duties and being replaced by seconded staff from the Ministry of Defence. During the same period, key staff responsible for preparing periodical financial statements, were also placed on leave.

However, the financial statements for 2009, 2010 and 2011, were prepared and audited. In 2016, with the help of the Industrial Development Corporation, a private audit firm was engaged to audit the years 2012 to 2013, which exercise was currently on going.

Committee's Observations and Recommendations

Your Committee notes the submission, but resolves to keep the matter open until all the audited financial statements for the period under review are submitted to the Office of the Auditor General for verification. A progress report will, therefore, be awaited by your Committee.

- **Mpulungu Harbour**

The Secretary to the Treasury submitted that the failure by Mpulungu Harbour to submit the audited financial statements for the year 2015, was regretted. In view of the above, the Treasury would ensure that the concerned Controlling Officer made certain that the Board of Directors of the institution adhered to the Financial Regulations that required the institution to annually produce audited financial statements for submission to the Treasury.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the institution to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding financial statements are prepared without any further delay. Your Committee further urges the Secretary to the Treasury to caution the Board and management of the institution to avoid recurrence of this serious breach of Financial Regulations. Your Committee awaits a progress report on the matter.

Paragraph 5

Overview of the Industrial Development Corporation of Zambia

a) Objectives of IDC

5. The Secretary to the Treasury submitted that the objectives of the IDC were as stated in the Auditor General's Report.

Committee's Observations and Recommendations

Your Committee notes with concern that whereas the objectives of the IDC are specific and multi-faceted in nature, there are no corresponding tangible outcomes registered since its establishment in 2014. Of particular interest is the objective of mitigating the financial burden of State Owned Enterprises away from the Treasury through viability and sustainability. Your Committee expresses worry that no single institution under the IDC has been de-linked from the Treasury in terms of financing its operations and

contributing to the Sovereign Wealth Fund. In this vein, your Committee urges the Secretary to the Treasury to engage other relevant stakeholders with the view to assessing the effectiveness of the corporation and take necessary actions with regard to improving its performance. Your Committee reiterates that the relevance of the IDC depends on how well it will contribute to its objectives of reducing the financial burden on the Treasury and contributing to the revenues of the Republic.

b) Ownership and Shareholding

The Secretary to the Treasury informed your Committee that the facts were correctly stated in the Auditor General's Report.

Committee's Observations and Recommendations

Your Committee notes the transfer of shares held by the Government to the IDC making it the legal shareholder in of the companies on behalf of Government. Despite this, your Committee is concerned that thirteen companies have not been transferred to IDC since 2014. In light of the above, your Committee directs that the Secretary to the Treasury should ensure that the remaining thirteen companies are fully transferred to IDC without any further delay in order to streamline the supervision of the companies and improve their performance. Your Committee resolves to await a progress report on the matter.

c) Board and Management

The Secretary to the Treasury submitted that the composition of the Board and management was correctly stated in the Auditor General's Report.

Committee's Observations and Recommendations

Your Committee expresses serious concern over the inclusion of the Republican President as the Board Chairperson for the IDC. It is the strong view of your Committee that the presence of the Republican President at IDC is not only at variance with good corporate governance practices, but also compromises his advisory role for strategic direction as Head of State. Your Committee strongly recommends that the Republican President be delinked from the Board of IDC and be replaced with an appropriate Presidential nominee to chair the Board of IDC so as to allow the Republican President to provide the much needed supervision and strategic direction.

d) Funding

The Secretary to the Treasury informed your Committee that the funding of IDC was as stated in the Auditor General's Report. However, IDC was currently consulting with the Government and stakeholders on how best assets for parastatal bodies should be evaluated before the mechanism of the prescribed funding described in the report was implemented.

Committee's Observations and Recommendations

Your Committee notes the funding mechanisms put in place for IDC. Your Committee reiterates that although the institution is expected to be self financing, strict adherence to good financial practices will remain imperative. Your Committee resolves to await a progress report on the matter.

e) Industrial Development Corporation's Portfolio

The Secretary to the Treasury submitted that the Government was still in the process of transferring the remaining parastatal bodies to IDC.

He further explained that the Treasury, through the respective supervising ministries, was awaiting the repeal of various Acts of Parliament governing the respective State Owned Enterprises (SOEs) that were yet to be transferred to the Industrial Development Corporation (IDC). Once the Acts of Parliament had been repealed, the companies would be incorporated under the *Companies Act, Chapter 388 of the Laws of Zambia* and shall then be ready to be transferred.

Committee's Observations and Recommendations

Your Committee strongly urges the Secretary to the Treasury to ensure that the Controlling Officers institute the repeal of the relevant Acts for the companies to be incorporated under the *Companies Act, Chapter 388, of the Laws of Zambia* to facilitate their transfer to IDC. Your Committee awaits a progress report on the matter.

PART II

CONSIDERATION OF SUBMISSIONS FROM CONTROLLING OFFICERS

CHAMBESHI WATER AND SEWERAGE COMPANY LIMITED

Query Review of Operations

Paragraph 7

7. A review of the operations of Chambeshi Water and Sewerage Company for the period 1st January 2012 to 31st December 2015, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Failure to Prepare Financial statements

The Controlling Officer submitted that Chambeshi Water and Sewerage Company was unable to prepare financial statements due to loss of financial information caused by crashing of the accounting software. The accounting software was replaced by a newly acquired package under interim management in 2013; the implementation and training further delayed preparation of the financial statements. As a mitigating measure, the company was putting together the available pieces of information and financial statements for the period 2012 to 2015, which would be ready by 31st March 2017. Going forward, it was stated that the Company was doing monthly backup of financial information storing it on external discs. These external discs for storing information were available for verification.

Committee's Observations and Recommendations

Your Committee finds the justification by the Controlling Officer on the failure to prepare audited financial statements unacceptable. Your Committee contends that the failure to present financial statements is at variance with *Section 164 of the Companies Act, Chapter 388 of the Laws of Zambia*. It is evident from the failure by the company to present physical documents to the auditors on the purported audited statements that the company had not prepared the financial statements. Your Committee urges the Controlling Officer to closely supervise the company so that the audited financial statements, that is, both in print and electronic form, are ready three months after the end of each financial year as required by law. Further, disciplinary action should be instituted against

the accounting officers responsible for the failure to prepare the financial statements. Your Committee resolves to await a progress report on the verification of audited financial statements.

b) Operational Losses

The Controlling Officer submitted that Company's operational losses were caused by the factors set out below.

- Employee costs were rising because the Company embarked on filling up of positions that were vacant during the period 2012 to 2013. The positions being filled were senior positions with higher wages, hence pushing the overall staff costs upwards. The need to fill these positions was one of the recommendations by the Statutory Manager in order to guarantee the turnaround of the Company. Furthermore, staff costs were likely to increase as more positions were filled. Additionally, the supervision of consultancy services being undertaken were all funded from operations.
- From the inception, the Company had been under capitalised. The shareholders of the Company contributed all the water supply and sanitation assets in various districts of operation. These were already inadequate and dilapidated at the time of incorporation of the company as most of infrastructure was constructed during the period 1960 - 1972, and in almost all districts no significant reinvestment or capital injection had been done since. The shareholders, who were the Local Authorities, had no capacity to recapitalise the assets. Unlike the case with other similar companies, Chambeshi Water and Sewerage Company had received no funding from co-operating partners such as the World Bank to invest in its infrastructure. The dilapidated infrastructure resulted in high maintenance costs due to frequent failures.
- Another challenge the company faced was the level of economic activity in the two provinces of operation (the Northern and Muchinga Provinces). The low economic activity meant that very few industries and commercial firms existed in the region. This in turn affected the low revenue and as such the poor the gross profit margins. While the cost of production would be similar and in most cases higher than other commercial utilities, due to long distances from source of materials e.g. chlorine and network materials, the wide geographical dispersion within the region (most of the eleven districts are an average of 200km from Head Office with Nakonde being 600km away) further adds to high transportation and monitoring costs.
- Although Chambeshi Water and Sewerage Company was a commercial utility, it fell under the Ministry of Local Government and Housing and was as such a quasi-government institution. The Government was mandated to provide access to clean water and sewerage services to the citizens of Zambia in urban, peri-urban and rural areas. This mandate had been entrusted to the company in the Northern and Muchinga provinces. The impact of this was that operations had to be set up in districts and communities where the cost of operations far exceeded the revenue base. This further contributed to the operational losses.

The Controlling Officer stated that the Company had implemented strict cost controls to reduce expenses. Management had also put in measures to grow the revenue by addition of new customers and improvement of billing efficiency. Completion of projects funded by the Government in project areas such as Nakonde, Chinsali, Kaputa, Mpulungu and Isoka could result in improvements in revenue generation and cost reduction in these project areas. The Controlling Officer submitted that Chambeshi Water and Sewerage Company had put in measures to ensure regular review of the processes to ensure continuous cost control as well as increase in revenue. It was also reported that a significant aspect in turning round Chambeshi Water and Sewerage Company was recapitalisation

in districts not covered under Chambeshi Water and Sewerage Company rent project arrears. The Ministry had through consultants in Muchinga and Northern Province carried out detailed designs for water reticulation which involved both rehabilitation of existing infrastructure and building of new infrastructure with a fifteen year horizon. Financing for these projects was being sourced through the basket financing.

Committee's Observations and Recommendations

Your Committee finds the increase in operational costs from 2012 to 2015 by over 300% unfortunate given that a larger portion of the budget is going towards personal emoluments. Whereas the company is clearly struggling to meet its obligations, the increase in the operational costs has a ripple effect on the core business objective of the company which is to provide water and sanitation services in the urban and peri-urban areas of Northern and Muchinga Provinces of Zambia as a commercially viable water supply and sanitation utility. Clearly, the increase in operational costs does not support the objectives of the company. Your Committee contends that while human resource is a critical component of service delivery, the filling of positions should have been done in a phased manner with due consideration to the financial state of the company. Your Committee urges the Controlling Officer to develop and implement a robust resource mobilisation plan in order to reduce the high operational costs to acceptable levels. Further, your Committee urges the Controlling Officer to initiate a performance based contract for the Chief Executive Officer of the company in order to improve the overall performance of the company. Your Committee resolves to await a progress report on the matter.

c) Comparative Performance in the Water and Sanitation Sector

i) Increase in Non-Revenue Water

The Controlling Officer submitted that the reason for the query was low metering ratio at 42%, damage to the network infrastructure by road contractors and dilapidated infrastructure, resulting in increased non revenue water. The Controlling Officer further stated as follows:

- a) Chambeshi Water and Sewerage Company had secured water meters to increase the metering ratio in Kasama, Isoka, Mpika, Nakonde and Mungwi Districts;
- b) Chambeshi Water and Sewerage Company had sourced financing to increase the metering to over 11,000 customers in eight towns of Muchinga and Northern Provinces;
- c) Chambeshi Water and Sewerage Company had developed a Meter Management Policy to manage, maintain and increase metering ratio in the districts;
- d) Chambeshi Water and Sewerage Company had also enshrined in the 2016 to 2020 Strategic Plan a goal to meet 100% metering ratio by 2020;
- e) Chambeshi water and Sewerage company, through on-going projects, was replacing the dilapidated infrastructure in Isoka, Chinsali, Mpika, Kasama, Nakonde, Kaputa, Mbala and Luwingu District;
- f) Chambeshi Water and Sewerage Company had engaged RDA and the Councils responsible for the recruitment of road contractors in writing and documentations was there for review.

RDA has pledged to make payments for all the damages in Mporokoso and Luwingu Districts;

- g) Chambeshi Water and Sewerage Company had embarked on the promotion dubbed Put Money In Your Pocket Programme (PMIYP) to curb illegal connections. The programme had been piloted in Kasama District and was a success; and
- h) Chambeshi Water and Sewerage Company was implementing the Geographical Information System (GIS) supported by National Water and Sanitation Council (NWASCO) to capture data on illegalities and improve data storage.

Committee's Observations and Recommendations

Your Committee notes the planned holistic interventions by management in dealing with the issue of non-revenue water. It is worth noting that the company has a huge clientele base whose potential, if well harnessed, can address the numerous administrative challenges that the company is facing. Your Committee urges the Controlling Officer to ensure that the proposed interventions are implemented in its strategic plan. Further, your Committee urges the Controlling Officer to ensure that the revenue loss is reduced to acceptable levels. Your Committee resolves to await a progress report on the implementation of the interventions by the company.

ii) Failure to Meet Collection Efficiency Standards – K6,980,404

The Controlling Officer submitted that Chambeshi Water and Sewerage Company indicated low collection efficacy, due to the following:

- water supply interruptions as result of poor power supply (low voltage and load shedding);
- damaged distribution networks by township road contractors;
- breakdowns due to lack of standby facilities; and
- no critical spares on site (for any breakdown the downtime was in days since spares were procured either in Lusaka or the Copperbelt and the ZPPA procurement procedures also contributed to further delays).

Customers were inclined to pay when water was running on their taps. Due to the low metering ratio enforcement of collections through the traditional way of disconnection at times did not work, because consumers may resort to water sharing or shallow wells as alternatives. Furthermore, illegal reconnection by customers had also contributed significantly to poor collection efficiency. It was also reported that Chambeshi Water and Sewerage Company had challenges in collecting outstanding balances from GRZ institutions. Wrong billing of customers also resulted in customers failing to pay for the water consumed. Further, the billing software was very susceptible to manipulation, making it possible for staff to pilfer the funds at pay points. The Commercial Policy also was not implemented in full resulting in customers to accrue huge balances.

The Controlling Officer reported that the company had weaknesses in service delivery, which led to low collection efficiency during the period under review. Chambeshi Water and Sewerage Company had engaged contractors and RDA to come up with joint assessment of Bill of Quantities for the damaged infrastructure so that RDA could put aside funds to repair the damaged pipes. It was also explained that the Company had instituted measures to combat illegal reconnections through the promotion dubbed "Put Money In Your Pocket," by reporting to

Chambeshi Water and Sewerage Company through the whistle blower system, which had unearthed a lot of illegalities by customers. Chambeshi Water and Sewerage Company had also embarked on vigorous discussions with Government institutions to ensure that outstanding balances were cleared.

The Company was also in the process of commissioning the new billing software, which would enable Chambeshi Water and Sewerage Company to bill customers accurately and avoid system manipulation by staff at pay points. Further, Chambeshi Water and Sewerage Company also had embarked on a revenue enhancement programmes that aimed at increasing monthly revenue collection and reducing arrears. Database cleaning up through the use of ArcGIS was also being implemented to improve data credibility which would lead to accurate billing of customers.

The Controlling Officer submitted that the once the new billing software was installed, periodic database clean-up would be instituted to maintain the credibility of data. Chambeshi Water and Sewerage Company had since increased collaboration with road contractors and RDA to ensure Memoranda of Understanding were signed before commissioning of road works.

Committee's Observations and Recommendations

Your Committee expresses concern over the weak management exhibited by the company, resulting in the failure to meet collection efficiency standards of between eighty-five to ninety percent as provided in the NWASCO guidelines. Whereas the company has initiated programmes aimed at combating the challenge, the stated interventions are merely pronouncements which are not contained in the Company's Strategic Plan and are not time bound. Further, no mention is made on the financial ramifications of the programmes considering the huge losses the company is facing. Your Committee urges the Controlling Officer to ensure that the proposed programmes form an integral part of the company's strategic plan in order to factor in time frames in which the intervention will be conducted. Your Committee resolves to await a progress report on the matter.

iii) Operational Cost Coverage by Collection

The Controlling Officer submitted that Chambeshi Water and Sewerage Company had a low metering ratio which had contributed to low collection of revenue. Most customers resorted to water sharing once they were disconnected. It was also reported that for a small utility like Chambeshi, non-payment of water bills by Government and quasi Government institutions had huge impact on cost coverage by collection. The Controlling Officer also stated that the Ministry was providing support to the company in procuring meters to increase metering ratio. A pilot of pre-paid meters in some districts was under way, for example in Nakonde District. It was further submitted that Chambeshi Water and Sewerage company had put in place cost saving measures aimed at reduce inactive accounts and increasing revenue through growing the customer base. It was also revealed that the company was in discussion with the Ministry of Finance in the quest to recover outstanding amounts from defaulting Government institutions at source. The Controlling Officer also stated that the company was in the process of installing prepaid meters on Government institutions to increase collection, which would help recover the costs. Further, Chambeshi Water and Sewerage Company introduced Bonus Scheme for the districts that met 100% collection efficiency as a motivation to increase collection.

Committee's Observations and Recommendations

Your Committee expresses worry over the non-adherence to the benchmark set by the regulator on operational cost coverage by collection which has been averaging seventy percent against the set target of 100 percent. While appreciating the steps taken to arrest the situation, it is regrettable that no time frames have been given in which to achieve the targets. Your Committee urges the Controlling Officer to ensure that the initiated revenue collection programmes are time bound in order to assess their effectiveness. Further, in addition to metering the Government departments that are perpetual defaulters, your Committee directs the Controlling Officer to engage the defaulting departments with the view to generating a payment plan for the outstanding balances. Your Committee resolves to await a progress report on the matter.

iv) Total Costs Coverage by Total Revenue

The Controlling Officer submitted that the company had a huge and growing number of inactive accounts, which resulted in low billing efficiency and made the total costs higher than total revenue per month. The low growth in customer base also contributed to lower revenue during the period under review rendering total costs to be higher than total revenue. In addition, the low tariffs that Chambeshi Water and Sewerage Company had during this period also contributed to low revenue per month. Further, from 2012 to 2014, Chambeshi Water and Sewerage Company was not allowed to adjust the tariff despite the increase in the cost structure.

During the period under review, Chambeshi Water and Sewerage Company was under statutory management, and restructuring costs went up. The quality of customers in the provinces comprised mostly domestic customers, who attracted higher administration costs and not large commercial customers who could provide high revenues. This resulted in low billing per month.

The low metering ratio resulted in low the revenues per month as the fixed charge was too low compared to the consumption by customers, for example, large institutions and commercial properties. The Controlling Officer reported that the company had embarked on growing its customer data base through reduction in new water connection fees by removing costs such as security deposit, new connection fees and labour cost. This had resulted in more customers being connected to the Chambeshi Water and Sewerage Company network. The company had continued to conduct customer database by monitoring customers on supply through the use of ArcGIS and restoring zero bills. Chambeshi Water and Sewerage Company applied for tariff review which enabled the company to meet its costs. Further, gradual metering exercise which targeted large institutions enabled Chambeshi Water and Sewerage Company to increase billing from as low as K2,500 to as high as K30,000 per month.

Committee's Observations and Recommendations

Your Committee expresses worry with the non-adherence to the benchmark set by the regulator on Total Cost Coverage by Total Revenue which has been averaging 65% against the set target of 100%. While appreciating the steps taken to arrest the situation, it is regrettable that no time frames have been given in which to achieve the targets. Your Committee urges the Controlling Officer to ensure that the initiated Total Cost Coverage by Total Revenue collection programmes have time frames attached to them in order to facilitate monitoring and assessment of their effectiveness. Your Committee resolves to await a progress report on the matter.

d) Questionable Board Expenses – K107,971

The Controlling Officer submitted that a number of lapses in procedures and controls existed during the period 2012 - 2015. It was explained that the lapses in controls were being addressed by designing and implementing relevant internal controls such as, in this case, acquittal forms being attached and duly signed for amounts paid. The Controlling Officer submitted that the company was ensuring operating effectiveness of designed internal controls. The company's internal audit function was playing a key role in ensuring monitoring of continued effectiveness of the controls.

Committee's Observations and Recommendations

Your Committee notes with concern the *laissez-faire* attitude by the management in adhering to good management practices. It is disappointing that despite being given adequate time by the auditors, management failed to substantiate the occurrence of the purported Board meetings with documentary evidence. Your Committee urges the Controlling Officer to institute disciplinary action against the erring officers to avoid recurrence of the query. Further, your Committee directs that the matter be reported to the investigative agencies and necessary action be taken thereafter in accordance with the provisions of the law. Your Committee resolves to await a progress report on the matter.

e) Failure to Submit Expenditure Returns – K420,037

The Controlling Officer submitted that a number of lapses in procedures and controls existed in Chambeshi Water and Sewerage Company. This in part led to the withdrawal of the utility's operating licence and appointment of Statutory Management in 2012. Most non submission of expenditure returns largely arose due to a decentralised procurement system that existed in the utility.

The Controlling Officer indicated that management had since discontinued opting for a centralised system that provided better oversight and control. Management had obtained acquittals for vendor commissions in districts where these were available. The Controlling Officer reported that currently, all petty cash reimbursements were done only upon retirement by the affected districts.

Committee's Observations and Recommendations

Your Committee is alarmed over the disregard for regulations exhibited by the accounting officers at the company. Whereas some remedial interventions have been put in place, no disciplinary action has been taken against the officers in the respective districts who failed to account for the funds. Your Committee urges the Controlling Officer to institute disciplinary action against the erring officers to serve as a deterrent to potential perpetrators. Further, your Committee urges the Controlling Officer to ensure that internal controls are strengthened in order to avoid recurrence of the query. Your Committee resolves to await a progress report on the full recovery of expenditure returns and the disciplinary action against the erring officers.

f) Unacquitted Payments – K72,178

The Controlling Officer submitted that the query arose as a result of lapses in internal controls that existed leading up to Statutory Management. The Controlling Officer stated that the procedure of acquittals had since been implemented and was being applied to all payments to staff and individuals.

Committee's Observations and Recommendations

Your Committee expresses concern over the weak internal controls at the utility company. It is the firm belief of your Committee that had a viable internal audit unit been in existence, the matter would have been resolved during the audit process. Further, whereas the acquittal procedures have been purportedly strengthened, the outstanding payments have not been traced. Additionally, no disciplinary action has been meted out against the erring officers. Your Committee urges the Controlling Officer to ensure that all payments are acquitted without delay and relevant documents submitted for verification. Further, disciplinary action should be instituted against the erring officers. Your Committee resolves to await a progress report on the matter.

g) Lack of Title Deeds for Surrendered Assets

The Controlling Officer submitted that a Statutory Instrument (SI 92 of 2000 under the Water Supply and Sanitation Act of 1997) was passed, transferring the assets from the District Councils to the utility. NWASCO expressed fears as to whether Chambeshi Water and Sewerage Company was included in the SI as the company was incorporated in 2003.

The Controlling Officer reported that Chambeshi Water and Sewerage Company Management followed up with the Ministry of Justice and confirmed that the said S.I. 92 of 2000 and its subsequent amendments did cover Chambeshi Water and Sewerage Company. The company had also instituted measures to have all local authorities to submit a record of all the assets, and pursue relevant authorities to have a specific Statutory Instrument to have the assets surrendered. The Controlling Officer stated that Chambeshi Water and Sewerage Company would ensure that title deeds were surrendered by end of 2017.

Committee's Observations and Recommendations

Your Committee expresses regret that despite the company being operational since 2003, the issue of title deeds was only followed-up after being queried by the auditors. Had the company been proactive, the matter would have been resolved during the audit process. Your Committee urges the Controlling Officer to ensure that the title deeds are surrendered by the end of 2017. Your Committee resolves to await a progress report on the matter.

h) High Labour Turnover

The Controlling Officer reported that the high labour turnover between 2012-2015 was due to the following:

- i) senior management were all fired and replaced by Statutory Management as directed by NWASCO and the Ministry of Local Government and Housing; and
- ii) some employees resigned to seek greener pastures.

The Controlling Officer submitted that the company had since filled the affected positions as well as improved conditions of service to reduce on high labour turnover. Chambeshi Water and Sewerage Company had designed an interview form to obtain reasons why people left. The Controlling Officer also stated that the company had continued working on improved conditions of service to reduce on high labour turnover.

Committee's Observations and Recommendations

Your Committee contends that the high turnover at the company may be a pointer to the fact that the company lacks strategic direction. Your Committee urges the Controlling Officer to ensure that the strategic plan for the company is fully implemented in order to make the institution viable and attractive to the much needed human resource. Your Committee resolves to close the matter.

i) Irregular Issuance of Fuel – K93,314

The Controlling Officer submitted that the lack of fuel allocation to senior management in the Conditions of Service CMS0-CMS2 was a typographical omission in typing the new Conditions of Service. However, the letters of appointment to the said staff indicated that fuels would be provided. A letter to this effect signed by the Board Chairperson was available for verification. Other fuel allocations noted above were not to the officers stated but were operational allocations to the pool vehicles assigned to particular departments. The Controlling Officer submitted that the error on fuel allocations had since been corrected.

Committee’s Observations and Recommendations

Your Committee expresses regret that the purported omission of fuel allowances on the contracts for the queried officers was only rectified three years after being queried by auditors. This is a clear case of negligence on the part of the officers responsible for preparing the contracts. Your Committee urges the Controlling Officer to ensure that the erring officers are disciplined for their error. Further, all the documentation relating to these transactions should be compiled and submitted for verification. Your Committee resolves to close the matter subject to audit verification.

j) Non-Remittance of Statutory Contributions - K3,597,915

The Controlling Officer submitted that the Company had a working capital deficiency. Current collections of approximately K1.1 million could not cover current expenses (approximately K1.7 million) being incurred let alone arrears which were in excess of K54 million. The Controlling Officer submitted that payment agreements (with the exception of ZRA) had been entered into with the statutory bodies involved, for instance NAPSA, Workers’ Compensation Fund and NWASCO.

Further, the utility had put in place measures to improve collections with a focus on long outstanding due arrears which stood at K24 million. The Controlling Officer reported that it had received requests for revenue grants which had been in turn presented for consideration to the Ministry of Finance.

Committee’s Observations and Recommendations

Your Committee notes the financial challenges being faced by the company. Nevertheless, statutory contributions are mandatory and must be remitted without delay. Your Committee urges the Controlling Officer to follow up the request to off-set part of the statutory contributions using the grants with the Ministry of Finance. Further, your Committee urges the Controlling Officer to develop a payment plan with the defaulting institutions. Your Committee resolves to await a progress report on the matter.

k) Projects and Contracts

i) Delayed Completion of Works

The Controlling Officer submitted that the reason for the query was the delayed completion of project works caused by delayed payments to contractors. It was explained that Chambeshi Water and Sewerage Company had demonstrated good project implementation and good relations with the contractors by keeping all contractors onsite despite the non-payment. Additionally, it was reported that both the utility and the Ministry followed up on payments to contractors with Ministry of Finance. The Controlling Officer also stated that the Government had established a basket financing mechanism under which all projects are being financed. It was also reported that the Government had pledged to pay all outstanding payment certificates going forward.

Committee's Observations and Recommendations

Your Committee expresses shock over the manner in which infrastructure is being managed. It is worrying to note the huge amounts that Government is paying as a result of failure to honour contractual obligations. It is the considered view of your Committee that henceforth, contracts must only be signed when the Treasury has guaranteed the availability of funds. Your Committee, therefore, urges the Controlling Officer to engage the Treasury on the availability of funds before signing the contracts. Further, your Committee requests the Controlling Officer follow up the release of funds to pay outstanding bills with certificates of completion. Your Committee resolves to await a progress report on the matter.

ii) Contract with Shaftex Limited – K31,177,098

- **Questionable Payment on Termination of Contract - K3,193,779**

The Controlling Officer submitted that the query arose because the Auditors did not take into account materials on site and materials in transit in their calculation of the final payment sum on termination of the contract. These were provided for under the contract. He stated that documents were availed to the Auditors that established that the contractor was not over paid. The documents were available for review.

Committee's Observations and Recommendations

Your Committee expresses concern that documentation relating to the purported cost of the goods in transit was not availed to auditors during the audit process. Further, the initial bill of quantities took into account both goods on site and in transit thereby making the variation questionable. Your Committee urges the Controlling Officer to closely monitor the company as it is clear that there were vested interests by some officers in the company. Your Committee also directs that the matter be referred to the investigative wings for thorough scrutiny and necessary action. Your Committee resolves to await a progress report on the matter.

- **Failure to Provide Performance Bond**

The Controlling Officer submitted that the query was due to failure by the contractor to provide performance bond due to lapses by the consultant and Chambeshi Water and Sewerage Company. The Controlling Officer stated that Chambeshi Water and Sewerage Company shall ensure that in future projects such documentation was provided.

Committee's Observations and Recommendations

Your Committee finds the act of paying the consultants despite them not ensuring that the contractor honoured the contract by providing a performance bond questionable and suspicious as it may be evidence of an improper relationship between the project management team at the company and the consultant. Your Committee strongly urges the Controlling Officer to ensure that the matter is fully investigated and appropriate action (legal and administrative) is taken. Your Committee resolves to await a progress report on the matter.

- **Failure to Assemble the Modular Compact Treatment Plant – K13,588,333**

The Controlling Officer submitted that the reason for the query was the termination of the contract and procurement of the new contractor, resulting in the failure to assemble the modular compact treatment plant in Nakonde. The Controlling Officer stated that the company undertook the following:

- signed a new contract after termination of the contract and the new contractor was on site; and
- harmonised and witnessed the signing of an agreement between the new contractor and the sub-contractor to install the modular compact treatment plant.

The Controlling Officer reported that the company would ensure that the sub-contractor installed the plant by end of July 2017 as the company had engaged the Ministry to release funds on time as per approved interim payment certificates so that the installation of the plant could be done.

Committee's Observations and Recommendations

While noting the current status, your Committee raises consternation that the company only took action thirty-four months after the supply of the modular treatment plant parts. It is your Committee's view that considering the period that has lapsed, an assessment on the physical state of the parts must be done before assembling it. Your Committee urges the Controlling Officer to ensure that the modular treatment plant is assessed and assembled as scheduled in order for the company to maximise value for money from the plant. Your Committee resolves to await a progress report on the matter.

iii) Falling Walls on the Spillway – Lubu Earth Dam – Chinsali

The Controlling Officer submitted that the reason for the query was the scope of re-routing that falls outside the scope of works in the signed contract. The Controlling Officer stated that the company had engaged the consultant requesting him to submit the design and engineering estimates to extend the spillway. Spillway re-routing would be done as a variation to the contract as the scope of re-routing fell outside the scope of works was in the contract.

Committee's Observations and Recommendations

Your Committee contends that, whereas the re-routing of the walls falls outside the scope of works in the signed contract, the cost must be borne by the consultants who designed the dam. Your Committee finds it unacceptable that the company should have to pay for the poor quality of designs by the consultants. Your Committee strongly urges the Controlling Officer to ensure that

the variation cost of repairing the falling walls is borne by the consultants who poorly designed the dam. Your Committee resolves to await a progress report on the matter.

l) Questionable Procurement of Motor Vehicles – K3, 546,426

The Controlling Officer submitted that the query was as a result of the contractual allocation of motor vehicles to members of staff for the company and a Desk Officer at the Ministry for project evaluation and monitoring. The Controlling Officer stated that the company had allocated motor vehicles according to the contract. The contract was available for verification. It was also reported that the motor vehicle allocated to the consultant would be surrendered to Chambeshi Water and Sewerage Company after the completion of the project.

Committee's Observations and Recommendations

Your Committee finds the justification unacceptable as the purported contract should have been availed to the auditors during the audit process. Had the company put in place measures of managing its records well, the matter should have been resolved during the audit process. Your Committee urges the Controlling Officer to ensure that the officers who failed to keep proper accounting documents are disciplined to avoid recurrence of the query. Your Committee urges the Controlling Officer to submit all the relevant documentations for verification, subject to which the matter is recommended for closure.

m) Failure to Liquidate Payment Certificates – K73,735,592

The Controlling Officer submitted that the query was due to non-disbursement of funds from the Treasury to liquidate interim payment certificates to contractors. It was stated, however, that the Government, through the Ministry of Finance, had committed itself to paying outstanding interim payment certificates to contractors. The Controlling Officer reported that the Ministry of Finance had committed itself to clearing all outstanding payments to contractors going forward.

Committee's Observations and Recommendations

Your Committee expresses shock over the manner in which infrastructure projects are being managed by the Company. It is worrying that payments which ordinarily should have been offset in twenty-eight days were outstanding for periods ranging from 153 to 720 days. It is the considered view of your Committee that going forward, contracts must only be signed when the Treasury has guaranteed the availability of funds. Your Committee urges the Controlling Officer to engage the Treasury on the availability of funds before signing the contracts. Further, your Committee requests the Controlling Officer to follow up on the release of funds to pay outstanding contractors. Your Committee resolves to await a progress report on the matter.

n) Failure to Recover Cost of Damages on Infrastructure by Road Contractors and Councils – K4,831,186

The Controlling Officer submitted that the query was due to the failure by RDA to include the compensation for damaged infrastructure in the Road Contracts. The Controlling Officer stated that the company had engaged the Road Development Agency (RDA) to pay for the damaged infrastructure. Documentation was available for verification. It was also reported that RDA had

submitted the Variation Order for approval to the Ministry of Justice to pay Chambeshi Water and Sewerage Company for the damages of infrastructure. It was further stated that the company would in future sign Memoranda of Understanding with all road contractors and councils.

Committee's Observations and Recommendations

Your Committee expresses shock that the company went ahead to vary the contract sum instead of surcharging the road contractor who damaged the infrastructure. While noting the remedial measures put in place by management, your Committee urges the Controlling Officer to ensure that RDA pays for the damaged infrastructure without further delay. Your Committee resolves to await a progress report on the matter.

o) Management Information Systems

i) Weaknesses in Environmental Controls and ICT Governance

The Controlling Officer submitted that the ICT policy addressing the issues raised existed. It was reported that between 2012 and 2015, Chambeshi Water and Sewerage Company had no ICT policy to address the issues raised. It was reported that the Company did have an ICT policy implemented. In addition, the following undertaken.

- Due to low staff levels, Chambeshi Water and Sewerage Company had introduced a Project Implementation Unit (PIU) to handle the duties of the ICT steering committee.
- The business continuity plan was in the Chambeshi Water and Sewerage Company ICT policy.
- Machines at Chambeshi Water and Sewerage Company were upgraded. All operating systems were Windows 7 or later.
- Efforts to commission the Municipal Billing Software at Chambeshi Water and Sewerage Company had intensified to replace the unsupported Perfect Billing System.
- Fire Extinguishers at Chambeshi Water and Sewerage Company would be serviced to make them usable and effective.

Committee's Observations and Recommendations

Your Committee finds the explanation by the Controlling Officer unacceptable and disappointing that this information regarding the implementation of the ICT policy as purportedly contained in the institution's strategic plan was not availed to the auditors during the audit process. Your Committee notes the ICT strategies put in place but expresses concern that there is no time frame attached to their implementation. Your Committee urges the Controlling Officer to ensure that the implementation of the strategies are time bound in order to allow for monitoring and assessment of their effectiveness. Your Committee resolves to await a progress report on the matter.

ii) Lack of Networking and Unsecure Means of Data Transportation

The Controlling Officer submitted that the operation of the Perfect Billing System as a stand-alone was as a result of an inherent weakness in the design of the system which was programmed as a stand-alone system. The sending of databases through public transport was as a result of no network connectivity in the districts. It was also reported that the company had procured a new billing software, Municipal Billing, which was a server based software and the company was in

the process of implementing it. Further, before migration to Municipal Billing to Perfect Billing, data was being emailed rather than sent by public transport.

Committee's Observations and Recommendations

Your Committee notes with satisfaction that the company has procured the Municipal Billing, which is a server based software aimed at promoting prudent management of information systems. However, your Committee expresses worry that the matter was only addressed long after the audit process. Your Committee strongly urges the Controlling Officer to ensure that the software is installed without any further delay. Your Committee resolves to await a progress report on the matter.

iii) Lack of Feature on the System to Prohibit Replication

The Controlling Officer reported that the company billing had no controls to prevent copy and paste. It was explained that Chambeshi Water and Sewerage had installed a software (Prevent) that prevented replication of the Perfect Billing database. It was stated that this was a pilot project, and would be rolled out to other districts. This was an interim measure before migration to Municipal Billing. It was stated that the Commissioning of Municipal Billing would be a lasting solution and it was set for first quarter of 2017.

Committee's Observations and Recommendations

While noting the progress made, your Committee expresses concern over the magnitude of abuse of the system before the procurement of the software. Your Committee urges the Controlling Officer, to ensure the system is rolled out to all the districts as a matter of urgency. Your Committee resolves to await a progress report on the matter.

iv) Sharing of User Accounts and Passwords

The Controlling Officer submitted that the company was using two user accounts even though the Perfect Billing System had the function to create multiple user accounts due to the lack of an audit function. Further, users shared the same username and password across districts. This was due to weaknesses in the system, as it had no administrative functions. It was also stated that the procured Municipal Billing was able to address these challenges.

Committee's Observations and Recommendations

While noting the progress made, your Committee expresses concern on the magnitude of abuse of the system before the procurement of the Municipal Billing Software. Your Committee urges the Controlling Officer, as a matter of urgency, to ensure that the billing system is implemented without any further delay. Your Committee resolves to await a progress report on the matter.

v) Lack of Sustainability Guarantee - Perfect Billing System

The Controlling Officer submitted that the company had no sustainability guarantee due to a lapse in the implementation of Perfect Billing software due to lack of an agreement with the supplier. It was stated that the company had procured the Municipal Billing Software to replace the Perfect Billing Software. The Controlling Officer also reported that Chambeshi Water and Sewerage

Company was working towards commissioning the Municipal Billing Software which would be the lasting solution by the first quarter of 2017,.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to implement the new billing software without any further delay. Your Committee resolves to await a progress report on the matter.

vi) Lack of Segregation of Duties

The Controlling Officer submitted that there was an inherent weakness in the design of the system, as it had no administrative functions. It was explained that Chambeshi Water and Sewerage Company had procured the Municipal Billing Software to replace the Perfect Billing Software which would be a lasting solution and it would be commissioned in the first quarter of 2017.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to implement the procured billing software without any further delay. Your Committee resolves to await a progress report on the matter.

vii) Lack of Audit Trail Function – Perfect Billing System

The Controlling Officer submitted that there was an inherent weakness in the design of the system, as it had no administrative functions. It was explained that Chambeshi Water and Sewerage Company had procured the Municipal Billing Software as a lasting solution to replace the Perfect Billing Software which would be commissioned in the first quarter of 2017.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to implement the new billing software without any further delay. Your Committee resolves to await a progress report on the matter.

viii) Lack of a Feature on Perfect Billing to Perform Age Analysis

The Controlling Officer submitted that Perfect Billing was able to use the feature to perform an age analysis. However, users were not aware of the feature. It was stated that although Perfect Billing had a feature to perform age analysis, its other weaknesses had rendered it obsolete and as such Chambeshi Water and Sewerage Company had procured Municipal Billing to replace it.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to implement the new billing software without any further delay. Your Committee resolves to await a progress report on the matter.

ix) Wasteful Expenditure-Procurement of Flex Billing System – K101,309

The Controlling Officer submitted that the company procured the Flex-Bill Billing system, which was an online- based system and required that all districts be connected. Due to insufficient funds, district connectivity was hampered resulting in failure to implement the Flex-Bill system. It was stated that the company had set up a Project Implementation Unit to evaluate future projects before procurement and during implementation to evaluate the relevance of services, equipment and software being procured. It was also stated that future procurements of a project nature would be handled by the Projects Implementation Unit.

Committee’s Observations and Recommendations

Your Committee is shocked that amounts totaling K101,309 were spent on procuring a software which was never used. This is the worst form of wasteful expenditure especially for an organisation that has huge financial challenges. Whereas remedial measures have been put in place such as the establishment of a Projects Implementation Unit, no disciplinary action has been taken against the officers who occasioned the wasteful expenditure. Your Committee urges the Controlling Officer to institute disciplinary action, including deductions from all the officers who authorised the procurement of the software. Your Committee resolves to await a progress report on the matter.

x) Irregularities in Billing Systems Administration

The Controlling Officer submitted that Chambeshi Water and Sewerage Company operated in rural communities where properties were on traditional land and were not planned or numbered. The local authorities had no jurisdiction in tradition areas (in fact even street naming was a challenge) to enforce planning of settlements. Such properties posed challenges in entering data in the system which caused incomplete details for customers. It was stated that the company had started engaging the communities in these traditional and unplanned areas to ensure property identification and numbering was done for the purpose of ensuring administration of the database for the company. It was explained that Chambeshi Water and Sewerage Company had continued the data cleanup exercise on monthly basis by updating missing details.

Committee’s Observations and Recommendations

Your Committee finds the justification for having incomplete details for customers a clear case of lack of seriousness by management. While noting that the majority of the customers’ properties are located on customary land, this does not in any way prevent the company from obtaining details considering that the customers all fall under a chiefdom. Your Committee urges the Controlling Officer to ensure that the missing customer details are updated without any further delay. Further, the compiled updated details should be submitted for verification. Your Committee resolves to await a progress report on the matter.

- **Customer Accounts without Owner Names on the System**

The Controlling Officer submitted that Chambeshi Water and Sewerage Company was using the database which was migrated from the councils in the area of operation and it did not have full information for customer identification. It was stated that Chambeshi Water and Sewerage Company was cleaning up the database through company-wide surveys and use of ArcGIS. It

was also explained that Chambeshi Water and Sewerage Company was currently scrutinising all accounts being opened to ensure that they had all the required data of the company.

Committee's Observations and Recommendations

Your Committee expresses concern that the matter was not rectified until the auditors raised it during the audit process. This points to the fact that the company has a weak monitoring and evaluation system coupled with weak staff supervision. Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the responsible officers to avoid recurrence of the query. Further, the inconvenienced customers should be compensated accordingly. Your Committee resolves to await a progress report on the matter.

- **Customers with Zero Meter Readings and Water Consumption**

The Controlling Officer reported that Chambeshi Water and Sewerage Company had a challenge with zero billing of accounts, mostly as a result of no water supply in such areas, meter malfunctioning and also inaccurate capturing of meter readings. It was reported that the company had embarked on programmes to reduce zero billing, one of which was through the metering exercise. An example was Nakonde where zero billing of 900 accounts had been reduced to 250 accounts. Further Chambeshi Water and Sewerage Company was making efforts to restore water in areas which were reported to have no supply. The standardising of meter type installation, that is, using dry meters would help to reduce the continuous malfunctioning of meters which made it difficult to read the meters. It was further explained that the company had made the reduction of zero billings a Key Performance Indicator and was meant to assess the performance of District Managers.

Committee's Observations and Recommendations

Your Committee expresses shock that 21% of the customers had zero meter readings and water consumption which negatively affected the income for the company. Further, the matter was only purportedly addressed after the audit process. Whereas the company has made the reduction of zero billings a Key Performance Indicator used to assess the performance of District Managers, your Committee strongly urges the Controlling Officer to ensure that the number of customers with zero meter readings and water consumption is normalised without any further delay. Further, all customers erroneously not captured must be billed retrospectively in order for the company to raise the much needed funds. Your Committee resolves to await a progress report.

- **Customers on Wrong Tariff Plan**

The Controlling Officer submitted that the query arose due to the change of payment by GRZ, with GRZ staff that were in GRZ institutional houses being paid for by GRZ but still carrying the domestic tariff category. Similarly, the church institutions with residential houses which may carry the name of the church but because they were residential properties, they would fall under the domestic tariff category. The Controlling Officer also stated that the company had reviewed the classification of such accounts under GRZ which were being paid for by individuals to represent individual names. This applied also to church houses paid for by individuals were being classified under domestic. It was explained that the ongoing database cleanup was being done to correct customer information in the system especially Government institutional houses which were paid for by individuals.

Committee's Observations and Recommendations

Your Committee expresses concern on the calibre and credentials of the officers managing the company. It is worrying that simple administrative issues are not being resolved, resulting in these matters not being rectified during the audit process. This points to the fact that the company has a weak monitoring and evaluation system as well as weak supervision of staff. Your Committee urges the Controlling Officer to institute disciplinary action responsible officers in order to avoid recurrence of the query. Further, the inconvenienced customers should be compensated accordingly. Your Committee resolves to await a progress report on the matter.

xi) Wrong Capturing of Meter Readings Resulting in Frequent Customer Complaints and Subsequent High Adjustments to Billing Amount – K3,338,774

The Controlling Officer submitted that Chambeshi Water and Sewerage Company had meters that had out lived their shelf life. The types of meters which were installed (The wet meters) easily developed vapor on the reading panel, thereby making it difficult to capture correct meter readings. Human error had also contributed to inaccurate capturing of meter readings, some of which had been proved to be altering readings. It was also reported that the company had embarked on replacement of old meters and gradually old meters were being removed and replaced with new meters. Meter cards had been distributed to customer houses to ensure that accurate readings were collected. A metering Policy had been put in place to guide on the meter types that Chambeshi Water and Sewerage Company should install. Appropriate disciplinary action was been taken on staff found forging meter readings.

Committee’s Observations and Recommendations

Your Committee expresses concern on the calibre and credentials of the officers managing the company. It is worrying that simple administrative issues are not being resolved resulting in the matter not being rectified until after the audit process. This points to the fact that the company has a weak monitoring and evaluation system as well as weak supervision of staff. Your Committee urges the Controlling Officer to submit documentary for verification evidence on the nature of disciplinary action taken against the erring officers. Further, the inconvenienced customers must be compensated accordingly. In addition, the rolling out of meter replacements must be done without any further delay. Your Committee resolves to await a progress report on the matter.

xii) Failure to Disconnect Past Due Customer Accounts

The Controlling Officer submitted that Chambeshi Water and Sewerage Company had the old Commercial Policy which was weak, leading to management reviewing it. The Commercial Policy being quoted in this case was a revised one. However, Chambeshi Water and Sewerage Company had signed up payment plans with customers who wished to pay arrears in installments of six months which meant that such customers had outstanding balances beyond sixty days.

Weak implementation of the Commercial Policy also led to customers enjoying supply when they should have been disconnected. Further, rampant illegal connections led to most customers still enjoying supply when they were not supposed to have supply. Further, it was stated that Chambeshi Water and Sewerage Company has revised the Commercial Policy (2016) and strict adherence to the policy was being enforced by Head Office. It was also explained that Chambeshi Water and Sewerage Company was in the process of setting up a debt management unit to recover long outstanding debt.

Committee's Observations and Recommendations

Your Committee is alarmed over the *laissez-faire* attitude with which management is handling disconnections let alone debt collection. While the company is battling with huge operational costs, it is shocking that amounts totaling K11,750,411 remained outstanding to various customers. Your Committee urges the Controlling Officer to enforce the agreed payment plans to the latter as a matter of extreme urgency. Further, disconnections must be instituted immediately a customer defaults to serve as a deterrent to other potential defaulters. Your Committee resolves to await a progress report on the matter.

xiii) Failure to Replace Damaged Meters

The Controlling Officer submitted that Chambeshi Water and Sewerage Company had insufficient meters in stock due to insufficient funds to procure meter, hence the failure to replace damaged ones. It was also stated that the company had implemented a meter management policy and planned to stock meters from the ring fenced funds. Further, Chambeshi Water and Sewerage Company was also replacing damaged meters with the meters which were being bought under the GRZ funded projects. It was also explained that Chambeshi Water and Sewerage Company had set up a Meter Maintenance Unit through the Water Demand Specialist for the purpose of repairing and replacing damaged meters.

Committee's Observations and Recommendations

Your Committee notes the initiative by the company to establish a Meter Maintenance Unit which is expected to address the challenge. Your Committee is, however, concerned that no time frame has been given in which to replace all the meters. Your Committee urges the Controlling Officer to ensure that a time frame is given in which the rolling-out of meter replacements to all the customers will be undertaken. Your Committee resolves to await a progress report on the matter.

xiv) Lack of Alternative Power Source

The Controlling Officer submitted that the query was as a result of lack of alternative power sources to sustain the operations. The Controlling Officer stated that Chambeshi Water and Sewerage Company would install the generator sets and solar pump sets in Mpika, Mbala and Mpika Districts under the BADEA Project. Further, the company had included the alternative power sources in the preliminary designs to be financed by African Development Bank.

Committee's Observations and Recommendations

Your Committee is dismayed that a company with such a huge clientele has no stand-by generators in the event of power cuts. While noting that the company has engaged the African Development Bank to finance this project, no financial commitment has been made from the company's own coffers which poses a threat to the project in the event that ADB does not finance the alternative power sources. Your Committee urges the Controlling Officer to create a budget line for the procurement of alternative power sources under the company's budget as opposed to entirely depending on the funds from ADB. This will serve as a back-up plan in the event that ADB delays in funding the activity. Your Committee resolves to await a progress report on the matter.

MINISTRY OF INFORMATION AND BROADCASTING SERVICES

INDEPENDENT BROADCASTING AUTHORITY (IBA)

Query Accounting and other Irregularities

Paragraph 8

8. An examination of accounting and other records for the financial years ended 31st December 2013, 2014 and 2015 carried out during the period from April to July 2016 revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) *Staff Establishment*

The Controlling Officer submitted that only thirty two positions were filled out of the authorised staff establishment of fifty five leaving twenty three positions vacant. It was also stated that the positions that had been filled were considered to be vital for establishing the operations of the institution. It was envisaged that the remaining positions would be filled in due course after all due operational systems were established. However, some positions such as Director, Human Resource and Administration and Manager Technical remained unfilled due to the fact that the grant allocated to the Authority from the Treasury had been inadequate. The grant had not been enough to cover both personal emoluments and operations. The budget for personal emoluments at full establishment amounted to K9.7 million per year. In the meantime, the grant from the Treasury is also K9.7 million per year. This has been stagnant since inception in 2013.

Committee's Observations and Recommendations

While appreciating that the amounts allocated to the institution by the Treasury have stagnated at K 9.7 million over the years to cater for both personal emoluments and general operations of the institution, your Committee finds it unacceptable that two key positions, that is Director, Human Resource and Administration and Manager, Technical remained unfilled. It is the strong view of the Committee that the two positions are key in the day-to-day administration of the institution. Your Committee therefore, strongly urges the Controlling Officer to ensure that the two positions are filled without further delay. Further, your Committee urges the Controlling Officer to actively engage the Treasury as regards a specific time frame in which the other positions can be filled in order to facilitate the smooth running of the institution. Your Committee resolves to await a progress report on the matter.

b) *Lack of Procurement Plan*

The Controlling Officer submitted that there was no procurement plan in place and this was attributed to the absence of the Head of Procurement. The position remained vacant after the resignation of the previous Procurement Officer. The Authority had challenges in acquiring the services of Head of Procurement although the position existed. This made it difficult to prepare the Procurement Plan during the period under review. Despite the aforementioned challenges, a draft Procurement Plan was available. It was also stated that a Head of Procurement had since been engaged and that the Procurement Plan for the financial year 2017 had been prepared and submitted to the Zambia Public Procurement Authority (ZPPA). Further, the 2016 procurement plan was sent to ZPPA and was approved. Both procurement plans for 2016 and 2017 were available for verification.

Committee's Observations and Recommendations

Your Committee expresses worry that action was only taken after the audit query was raised. This shows that the Ministry is reactive rather than being proactive. Your Committee wonders how procurement was done during the period under review in the absence of a procurement plan. Your Committee urges the Controlling Officer to closely supervise the institution in order for the subsequent procurement plans to be submitted to ZPPA before the commencement of each financial year. Further, your Committee directs that an audit be conducted on how procurement was done during the period when there was no procurement plan in order to establish the impact if there was abuse arising from the lack of the procurement plan. Your Committee resolves to close the matter subject to audit verification.

c) *Non Payment of Licence Fees*

The Controlling Officer submitted that during the period under review, only twelve and twenty two stations in 2014 and 2015, respectively, had paid licence fees. It was stated that the defaults may not have been entirely deliberate by the licensees nor was it inertia on the part of management considering that the IBA was established by the *IBA Act of 2002* as amended by *Act No. 26 of 2010* and became operational in 2012 through an ad hoc management team. This was a temporary management team which concentrated on facilitating the licensing of new applicants. The team also had to set up structures and follow up on the licence fees. It was stated that it was equally the responsibility of the licensees to ensure adherence to the requirements of the Act. The Controlling Officer also explained that it was difficult to keep abreast with dates when the fees fell due for each station. This was as a result of the varying dates of registration of stations which was the determinant of fee due dates since the date when the licence was issued to a particular station was the date taken as the due date. This made it difficult to keep track of erring stations. In order to arrest the situation, the institution had since harmonised the due dates. All fees now fall due on 1st January each year. This had made it easier and convenient to trace defaulters. The Authority had also computerised its record keeping system which would automatically indicate any defaulting station after the deadline of 1st January. Additionally, the Licensing Committee of the Board was required to table all licences for consideration at one sitting instead of discussing stations individually at different times.

Further, at the time of the default, there were no guidelines on the penalties to be imposed on defaulters. The penalties had since been spelt out in the Regulations. With regard to MultiChoice Zambia Limited, the Controlling Officer stated that the entity became operational in the year 1994. MultiChoice Zambia Ltd had not been billed for licence fees at the time of the audit. It was noted that MultiChoice Zambia Limited commenced its operations even before the *IBA Act* was enacted. The terms and conditions under which the licence was issued could not be abrogated immediately IBA commenced operations due to legal implications. The Board of the IBA took time to determine the appropriate licensing for MultiChoice since the IBA licence framework did not provide for licensing of such an entity. To this effect, the IBA had since billed MultiChoice Zambia Limited for licence fees in line with the new licence framework.

Committee's Observations and Recommendations

Your Committee notes the action by the Ministry in arresting the situation on the non payment of licence fees. It is the expectation of your Committee that the defaulters will be dealt with in accordance with the established guidelines on penalties. Your Committee urges the Controlling Officer to strengthen the monitoring of compliance by licensees' in order for the institution to generate the much needed funds. Your Committee resolves to close the matter subject to audit verification.

d) *Inadequate Monitoring of Broadcasters*

The Controlling Officer submitted that the Authority had not conducted adequate monitoring of stations as there were only four licensing Officers engaged. It was also explained that there were major challenges which affected the Authority, the most challenging being the issue of resources. It was stated that the start-up budget for the Authority was equivalent to the estimates for Personal Emoluments at full establishment and the status quo was still obtaining. The funds for operations had been met from savings arising from vacant positions. Management was reviewing and realigning the IBA staff establishment and structure to ensure that the objectives of the Authority were achieved. Further, a process had been initiated to allow for the procurement of special monitoring equipment. This would ensure monitoring of all stations across the country. Furthermore, the budgetary ceiling from the Treasury was extremely restrictive to permit for comprehensive monitoring of licensees countrywide was being reviewed. It was stated that the Authority had licensed 113 Radio stations and fifty two TV Stations.

Committee's Observations and Recommendations

Your Committee is disappointed that despite the Authority having been operationalised in 2012, the staff establishment has remained stagnant at about 60%. This action not only compromises the discharge of the Authority's mandate but also limits its effectiveness. In view of the aforementioned, and considering the financial challenges facing the institution, your Committee strongly urges the Controlling Officer to prioritise the purchasing of the monitoring equipment which is expected to enhance the efficiency of the institution in monitoring the 113 radio stations and 52 TV stations. Further, your Committee urges the Controlling Officer to engage the Treasury on a specific time frame in which the other positions will be filled in order to facilitate the smooth running of the institution. Your Committee resolves to await a progress report on the matter.

THE JUDICIARY

Query

Paragraph 9

Accounting and Other Irregularities

9. An examination of accounting and other records maintained at the Judiciary for the financial year ended 31st December 2015 carried out during the period from April to September 2016 revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) *Inadequacies in Judiciary Infrastructure*

i) *Chambers and Office Space*

The Controlling Officer submitted that the issue had also been highlighted in the Judiciary 2016 Annual Report as well as policy statement by the Minister of Justice on the Judiciary during the 2017 budget presentation in Parliament. It was explained that the Judiciary planned to construct modern court buildings to house the Superior Courts, that is, the Supreme Court, Constitutional Court, Court of Appeal and High Court. Further, the Judiciary planned to build High Courts in provincial centres where the High Court currently circuted.

Committee's Observations and Recommendations

Your Committee expresses concern over the limited number of chambers and office space available for the Supreme Court, Constitutional Court, Court of Appeal and High Court. It is inconceivable that out of the 105 chambers required for the courts, only twenty one are available.

Your Committee expresses worry that this has a bearing on the dispensation of justice by the Judiciary and thus requires urgent intervention. Your Committee urges the Controlling Officer to find alternative office space to be used by the Judges while waiting for the construction of new chambers as a matter of urgency. Further, your Committee directs that the Controlling Officer should engage the Treasury with a view to establishing a specific time frame in which the construction of the chambers and office space will be completed. Your Committee resolves to await a progress report on the matter.

ii) Lack of Court Rooms

The Controlling Officer submitted that the issue had also been highlighted in the Judiciary, 2016 Annual Report as well as a Policy Statement by the Minister of Justice on the Judiciary during the 2017 budget presentation in Parliament. It was explained that the Judiciary planned to construct modern court buildings to house the Superior Courts that is, Supreme Court, Constitutional Court, Court of Appeal and High Court. Furthermore, the Judiciary planned to build High Courts in provincial centres where the High Court currently circuted.

Committee’s Observations and Recommendations

Your Committee expresses concern over the limited number of court rooms for the Constitutional Court and the Court of Appeal. Your Committee is shocked that the courts have no court rooms since their establishment in 2016. Your Committee contends that this explains why court cases take longer than expected in that the sittings cannot take place simultaneously. Your Committee urges the Controlling Officer to find alternative facilities to be used as Constitutional Court and Court of Appeal offices while waiting for the construction of new courts as a matter of extreme urgency. Further, your Committee directs that the Controlling Officer should engage the Treasury with a view to establishing a specific time frame in which the construction of new court rooms will commence. Your Committee resolves to await a progress report on the matter.

b) Weaknesses in Managing Third Party Accounts – Unexplained Account Balances - K 2,736,862

The Controlling Officer submitted that at the time of audit, the case records pertaining to the litigants whose funds were now the subject of the audit query, were with the Magistrates and Judges who had custody of the court matters. The timing difference made it difficult to provide the information as to who were the owners of the said funds. Notably that after receiving the records and reconciling, the actual figure was K3, 834, 384.79. This amount was made up of the following:

Court	Amount (K)
Subordinate	3, 204, 641.31
Industrial Relations	629, 743.48
Total	3, 834, 384.79

The case records in support of the said amounts were ready for audit scrutiny.

Committee’s Observations and Recommendations

Your Committee finds the justification by the Controlling Officer regarding the unexplained account balances unacceptable. It is the considered view of your Committee that had the reconciliation of accounts been done on a regular basis, the matter would have been resolved during the audit process. Your Committee, therefore, urges the Controlling Officer to strengthen internal controls and ensure that bank reconciliation is done on a regular basis in order to avoid recurrence of the query. Further, your Committee urges the Controlling Officer to institute disciplinary action against the responsible officers to serve as a deterrent to would be perpetrators. Your Committee resolves to await a progress report on the matter.

c) Weaknesses in Managing the Sheriff's Office of Zambia

i) Failure to Assign Unique Identification Marks to Assets

The Controlling Officer submitted that the Judiciary engaged the Ministry of Works and Supply and the Ministry did allocate the officers to work with the Judiciary although the exercise could not be undertaken due to financial constraints as the activity was supposed to be a national wide exercise.

Committee's Observations and Recommendations

Your Committee is dismayed that whereas the Ministry of Works and Supply was engaged to undertake this activity, no budgetary allocation was made for the activity. This points to the fact that there is a disconnection between activities to be undertaken by the Judiciary and budgetary allocations. Your Committee urges the Controlling Officer to ensure that the activity is budgeted for in order for the assets to be marked in line with Public Stores Regulation No 154. Additionally, a comprehensive report should be done to establish all the assets of the Judiciary which require marking in order to avoid a similar query. Your Committee resolves to await a progress report on the matter.

ii) Lack of Stores Records

The Controlling Officer stated that the Judiciary had since employed the Stores Officers to manage the same.

Committee's Observations and Recommendations

While noting the response, your Committee contends that recruiting a stores officer does not entirely address the query. It is the considered view of your Committee that supervision of stores staff must be enhanced in order for stores records to be well maintained in line with Stores Regulation No. 16. Your Committee urges the Controlling Officer to ensure that stores staff are closely supervised in order to avoid recurrence of the query. Your Committee urges the Controlling Officer to submit all stores documentation for verification. Your Committee resolves to await a progress report on the matter.

d) Weaknesses in Managing Construction Project – Matero Local Court II

The Controlling Officer submitted that the non completion of the project was due to poor funding. However, upon advice from the Internal Audit, this notwithstanding, the Contractor was engaged to

give the project status and the program of works for the remaining works so that the contract was normalized.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor state and management of court infrastructure by the Judiciary. Whereas the contract was signed in 2012, the latest status report, four years later, is disheartening. The remaining works are too numerous against the period that has lapsed. Your Committee is alive to the fact that Matero is a very big community which requires a court as a matter of extreme urgency, given the demographics of the area. Your Committee, therefore, urges the Controlling Officer to prioritise funding for the completion of the court without any further delay. Your Committee resolves to await a progress report on the matter.

e) Matero Local Court I– Physical Inspection

The Controlling Officer stated that Matero Local Court I would shift to the new building once completed. The current Matero Local court I building belonged to the Council.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor state and management of court infrastructure by the Judiciary and shocked over the poor state of the facility being used as a court in such a big community. It is your Committee's firm belief that the physical state of one's work environment has a bearing on how one discharges one's duties. Your Committee, therefore, strongly urges the Controlling Officer to immediately suspend the use of the council property as a court given the poor physical state of the facility. Your Committee contends that the council chamber is not conducive for court hearings. In the interim, a more conducive alternative place should be used as a court. Your Committee resolves to await a progress report on the matter.

MINISTRY OF HIGHER EDUCATION

KWAME NKRUMAH UNIVERSITY

Query Accounting and Other Irregularities

Paragraph 10

10. An examination of accounting and other records maintained at the University carried out in May 2016 revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Delay in Appointing Key Management Positions

The Controlling Officer submitted that the delay was due to budgetary constraints. However, the Ministry had provided extra resources to the University amounting to K 5 million. Among other things, the resources would facilitate the transformation process, including addressing the issue of Principal Officers who had been in acting capacity for three years.

Committee's Observations and Recommendations

Your Committee finds the delay in filling key positions at the University extremely disturbing. This may explain the reason why the University has not registered much impact following its

upgrade. It is inconceivable that the Ministry could allow a University to operate for more than three years without making substantive appointments to key positions. Not only does this have potential to negatively affect the general operations of the University in terms of strategic direction, but can also demoralise the officers who have been acting for such a long period of time. Your Committee recommends that as a matter of extreme urgency, the key positions at the University should be advertised and filled without any further delay. Your Committee resolves to await a progress on the matter.

b) Lack of Strategic Plan

The Controlling Officer submitted that the Strategic Plan was not prepared because it took time for the council to be appointed to give strategic direction to the University Management. However, in early 2016, guidance was given to the University to prepare a strategic plan. In this vein, the process of preparing a strategic plan for the University commenced in June 2016. An orientation workshop had so far been conducted for all staff members. The objective of this orientation was to enable staff to appreciate the importance of strategic planning. A consultant had been engaged to help in the formulation of the strategic plan and was working with the Strategic Planning Committee to help in finalising its formulation. It was expected that this would be completed by 31st December 2017.

Committee's Observations and Recommendations

Your Committee shudders to comprehend how the University is being run without key staff coupled with the absence of a strategic plan. Whereas the update is noted, your Committee urges the Controlling Officer to ensure that the stated time-frame for implementing the strategic plan is adhered to without fail. Your Committee resolves to await a progress on the matter.

c) Failure to Prepare Financial Reports

The Controlling Officer submitted that the reasons for the delay in preparing the financial report were the following:

- Poor staffing levels – the upgrading of Nkrumah College of Education into a University resulted in an increase in the volume of accounting transactions but there was no increase in the staffing levels. The University simply moved with the accounting staff from the college which meant that most of the University establishment was not yet filled;
- Lack of tools – the accounting procedures remained manual despite the increase in the number of transactions and accounting staff relied on manual processing of all transactions as such it was difficult to prepare the Financial Reports;
- Lack of staff training – staff were not inducted from government accounting to accruals accounting and as such government cash basis accounting continued to be used; and
- Inadequate funding – the funding for the institution could not support recruitment of staff, training and procurement of tools required because the funding remained same as when it was college.

Nevertheless, your Committee was informed of the following mitigating measures:

- the council was in the process of employing qualified accountants;
- the University had bought Sage Evolution Accounting Package in the financial year ended 31st December 2016;
- Training had been provided for accounting staff in the use of the new tool – Sage Evolution Accounting Software; and

- the Ministry of Higher Education had increased funding to the University for the 2017 Financial Year and this would facilitate the recruitment of more staff, training, and acquisition of more tools.

Committee's Observations and Recommendations

Your Committee expresses concern over the manner in which the Ministry handled the upgrading of the college into a fully-fledged University without establishing systems to support the change. It is regrettable that the upgrade was a mere pronouncement without corresponding modalities on the ground. While noting the mitigation measures instituted by the University to arrest the situation, no time frame has been given as to when the audited financial statements will be presented to the University Council. Your Committee urges the Controlling Officer to ensure that the next time a college is being upgraded into a University, requisite modalities must be put in place to avoid recurrence of similar challenges. Further, your Committee directs that the financial statements should be presented to the University Council before the end of the 2017 financial year. Your Committee resolves to await a progress report on the matter.

d) Unsupported Payments K220,220

The Controlling Officer submitted that supporting documents were separately vouched and had since been attached to the payment vouchers.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor management of accounting documents by the University. This validates the view that there are weak internal controls and poor supervision by responsible officers. It is disappointing that the documents were not availed to the auditors during the audit process but were purportedly traced thereafter. This raises concern as regards their authenticity. Your Committee urges the Controlling Officer to ensure that the erring officers are disciplined to avoid recurrence of the query. Further, internal controls as well as supervision should be strengthened at the University. Your Committee resolves to await a progress report on the matter.

e) Unretired Accountable Imprest – K55,460

The Controlling Officer submitted that that the retirement of imprest retirements was actually done but the documents were misfiled. Records were available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor management of accounting documents at the University. This validates the view that there are weak internal controls and poor supervision by responsible officers. It is disappointing that the documents were not availed to the auditors during the audit process only to be purportedly traced thereafter. This raises concern as regards their authenticity. Your Committee urges the Controlling Officer to ensure that the erring officers are disciplined to avoid recurrence of the query. Further, internal controls as well as supervision should be strengthened at the University. Your Committee resolves to await a progress report on the matter.

f) Unaccounted for Fuel – K10,000

The Controlling Officer submitted that the fuel statement and coupons were separately vouched and had since been matched with the payment vouchers and were available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor management of accounting documents at the University. This validates the view that there are weak internal controls and poor supervision by responsible officers. It is disappointing that the documents were not availed to the auditors at audit process but were purportedly traced thereafter. This raises concern as regards their authenticity. Your Committee urges the Controlling Officer to ensure that the erring officers are disciplined to avoid recurrence of the query. Further, internal controls as well as supervision should be strengthened immediately. Your Committee resolves to seek a progress report on the matter.

g) Lack of Title Deeds

The Controlling Officer submitted that management had since written to the Ministry of Housing and Infrastructure Development on the matter and a response was being awaited.

Committee's Observations and Recommendations

Your Committee notes the response but urges the Controlling Officer to follow up with the Ministry of Housing and Infrastructure Development regarding the matter. Your Committee resolves to await a progress report on the matter.

h) Weaknesses in Management Information System

The Controlling Officer submitted that management appointed a committee to develop a risk management framework. So far, the committee had come up with a draft policy on risk management. The final Risk Management framework would be ready by 31st June 2017. In addition, management appointed the Information Technology Steering Committee charged with the responsibility of overseeing the development, implementation, monitoring and review of the University policies, procedures, practices, and guidelines aimed at realising the University's goals and objectives on the provision and support of information communication technology infrastructure and services.

The committee had drafted the ICT Policy encompassing:

- Information Security Policy;
- Physical and IT Access Control Policies; and
- Backup Policy.

The final ICT Policy would be ready by 31st June 2017.

However, the committee was yet to work on the Business Continuity Plan (BCP) and Disaster Recovery Plans (DRP). This would be in place by 31st December 2017.

Committee's Observations and Recommendations

Your Committee notes the progress made on the matter but urges the Controlling Officer to ensure that the stipulated time frames are adhered to without fail. Your Committee resolves to await a progress report on the matter.

LUKANGA WATER AND SWERAGE COMPANY LIMITED

Query Review of Operations

Paragraph 11

11. A review of accounting and other records maintained at the company headquarters for the period from January 2013 to December 2015 carried out in May 2016 revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) Failure to Prepare Financial statements

The Controlling Officer submitted that LgWSC external auditors were scheduled to commence the 2015 Audit in early 2016 but the water utility received correspondence that Auditor General's office staff were due to conduct audit of the company. It was, therefore, agreed with the external Auditors that audits commence upon completion of Auditor General's Audits. The Controlling Officer also explained that the 2015 Audits had been successfully undertaken by the external auditors. The financial statements for the year ending 2015 were available for verification. Going forward, it was stated that LgWSC had put in place an audit plan for all external audits to ensure that accounts were audited on time every year.

Committee's Observations and Recommendations

Your Committee finds the justification by the Controlling Officer on the failure to prepare audited financial statements unacceptable. Your Committee contends that the failure to present financial statements is at variance with Section 164 of the *Companies Act, Chapter 388 of the Laws of Zambia*. It is the firm belief of your Committee that prudence of managing financial resources is benchmarked by the preparation of financial statements six months after end of the financial year as required by the *Companies Act*. Your Committee urges the Controlling Officer to follow the provisions of the *Companies Act* in relation to preparations of financial statements to the letter. Further, disciplinary action should be instituted against the responsible accounting officers for the failure to prepare the financial statements on time. Your Committee resolves to await a progress report on the matter.

b) Failure to Amend Articles of Association

The Controlling Officer submitted that the amendment of Articles of Association awaited the issuance of shares by Central Province local authorities and the change of the nominal share capital resolution at the next Annual General Meeting. The Controlling Officer also stated that all Central Province local authorities had been written to and requested to provide the required shareholding documentation. The Amendment of Articles of association and alteration of the share capital had been included as an Agenda item for the next Annual General meeting (AGM). The AGM was scheduled before the end of March 2017.

Committee's Observations and Recommendations

Your Committee expresses worry over the casual manner the company is being run. It is unacceptable that a resolution that was made in 2014 has not been implemented two years later. This is a clear indication that there is weak supervision of officers at the company. Your Committee

urges the Controlling Officer to institute disciplinary action against the officers responsible for this lapse without delay. Further, the resolution should be implemented without any delay after the AGM. Your Committee resolves to await the latest update on the matter.

c) Financial Performance – Statement of Comprehensive Income

The Controlling Officer stated that the tough economic fundamentals such as the depreciation of the Kwacha and restricted power supply put pressure on production costs, especially in the year 2015. The huge depreciation of the Kwacha and high inflation led to a sharp increase in prices of most operational materials which affected costs. The increase in personnel costs was due to an increase in salaries and wages of 10% compared to the previous year as negotiated with the Union and approved by the board. Further, the cost of electricity, which was one of the largest costs, also tripled in December 2015 although the tariff was later adjusted back to the old figure in 2016. It was also explained that the company had come up with a budget that focused on increasing revenue while ensuring prudent cost management with the aim of posting an improved Statement of Comprehensive Income in 2016. In a quest to improve revenue, the Company had continued growing its customer base and carrying out regular customer premises and billing system inspections and taking corrective action against customer's bypasses, illegal connections and malpractices.

Committee's Observations and Recommendations

Your Committee expresses worry over the casual manner the company is being run. It is disappointing that the major cause for the poor statement of the financial position is the significant increase in personnel costs. Whereas the volatility of the Kwacha may have contributed to the high chemical costs thereby further increasing operational costs, good financial practice demands that risk management is an integral part of planning to take into account unforeseen shocks. Your Committee urges the Controlling Officer to develop and implement a robust income generation strategy that will keep the huge operational costs within acceptable levels. Further, the staff establishment must be restructured with the view to maintaining critical positions but enhancing efficiency. Your Committee resolves to await a progress report on the matter.

d) Financial Position – Statement of Financial Position

i) Poor Liquidity

The Controlling Officer stated that the huge debt of K26 million owed to LgWSC by the Government and other categories of customers against high costs of operations was the main cause of poor liquidity. The Controlling Officer also explained that management had put in place plans that focused on intensive revenue collection from Government institutions that consumed the highest quantities of water and other categories of customers while prudently managing financial resources. The phased installation of more prepaid meters to help address poor liquidity had been included in the Company's 2017-2020 Strategic Plan.

Committee's Observations and Recommendations

Your Committee expresses shock with the huge accumulated debt from Government departments which owe the company in excess of K26 million. This debt has significantly contributed to the poor liquidity ratio of the company that is falling below the levels stipulated by the regulator.

Your Committee strongly urges the Controlling Officer to take a bold step and ensure that the amount owed by Government departments is cleared without any further delay. Further, the rolling out of installation of prepaid meters must be undertaken as a priority in the Government departments without any delay. Your Committee resolves to await a progress report on the matter.

ii) Receivable Turnover Ratio

The Controlling Officer submitted that poor payments towards water bills, especially by Government departments which worsened over the years under review, were the cause of poor receivable turnover ratio. The Controlling Officer also reported that the reducing payments towards that the water company intensified debtor engagements and aggressive monthly debt collection activities. Further, 1,400 pilot prepaid meters were installed in 2016 to improve revenue collection. The Controlling Officer expressed confidence that new revenue collection measures would help reduce the trade receivables to reasonable amounts.

Committee's Observations and Recommendations

Your Committee expresses worry over the declining receivable turnover ratio during the period under review. While noting that the accumulated debt from Government departments has significantly contributed to the declining ratio, no pragmatic steps have been taken by the company to address the situation. Your Committee strongly urges the Controlling Officer to take a bold step and ensure that the amount owed by Government departments is cleared without any further delay. Further, the rolling out of installation of prepaid meters must be intensified in line with the strategic plan without any delay. Your Committee resolves to await a progress report on the matter.

iii) Receivable Turnover Days

The Controlling Officer submitted that Government departments had not been settling their water bills in full over a long period of time. It had been very difficult to withdraw services from defaulting Government departments due to the sensitive nature of their operations. Further, due to the economic situation in Central Province, many defaulting customers who were disconnected did not pay but opted for alternative sources of water such as shallow wells. The Controlling Officer reported that the water utility had focused on intensive engagement of the Government at the Ministry of Finance, Ministry of Local Government and Housing, Zambia Army and Zambia Police, for the payment of the outstanding GRZ debt.

Committee's Observations and Recommendations

Your Committee is shocked that Government departments are defaulting the payments to the utility company. While the company's Commercial Policy No.10 is very clear that the company will withdraw service to a customer when the customer defaults in settlement of bills for a period of thirty days or above, some eighty one defaulting Government departments had not settled their bills for more than 381 days at the time of audit. In light of the foregoing, your Committee recommends that the installation of prepaid meters should be prioritised at these eighty one Government departments that owe the company the significant amount of arrears. This will compel them to pay before using the service.

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

e) Non - Current Assets

i) Failure to Maintain Buildings

The Controlling Officer submitted that non availability of funds for adequate maintenance and rehabilitation of company buildings led to the poor state of building infrastructure. The Controlling Officer also reported that due to inadequate funds to cover all districts at once, LgWSC was currently implementing an internally funded building infrastructure rehabilitation programme in phases. Under the rehabilitation programme, the company completed the rehabilitation and painting of its Head Office in Kabwe and its Kapiri Mposhi Offices in 2016. The water utility expects to complete similar works in other districts by 31st December, 2017. Further, it was explained that the internally funded rehabilitation plan would be augmented by a Government/Cooperating partner funded infrastructure upgrade and expansion project. The project would be based on a comprehensive water and sanitation infrastructure needs assessment that was undertaken in 2015 for seven towns. Detailed designs for the project were scheduled to commence in 2017.

Committee's Observations and Recommendations

Your Committee notes the development of the internally funded rehabilitation plan and urges the Controlling Officer to ensure the stated time frames are adhered to. Your Committee resolves to await a progress report on the matter.

ii) Properties without Title Deeds/Lack of Statutory Instrument to Transfer Assets

The Controlling Officer submitted that LgWSC was awaiting responses from local authorities on the title deed acquisition process. The Controlling Officer reported that the Ministry would ensure that all local authorities in Central Province facilitated the title acquisition process. Further, the Ministry would ensure that the Statutory Instrument confirming the ownership of assets by LgWSC was issued.

Committee's Observations and Recommendations

Your Committee is disappointed that the issuance of a Statutory Instrument transferring the ownership of the assets to Lukanga Water and Sewerage Company has not been done for over ten years. This points to the fact that the Controlling Officer is not properly supervising officers. It is unacceptable that such a simple administrative matter can take this long to be resolved. Your Committee directs, and strongly so, that the Ministry should issue the Statutory Instrument immediately. Your Committee resolves to await a progress report on the matter.

f) Irregularities in Revenue Collection

i) Missing Cancelled/Void Receipts – K1,276,706

The Controlling Officer submitted that not all the receipts highlighted as cancelled in the table were actually cancelled because the billing system malfunctioned in 2013 and 2014 and this challenge was reported to the system vendor who rectified the problem. Due to the malfunctioning of the billing system during the above period, the report was reflecting both valid and voided receipts as cancelled. An example was on the 23/09/2013 when 178 valid receipts worth K 26,483 were captured in the voided receipts report. It was explained that the vendor corrected the fault in 2015 and hence the 2015 report was a true reflection of only voided receipts and a sample of voided receipts were attached. Further, LgWSC had improved on the system of

managing the original voided receipts to ensure that Commercial Department where the actual cancellation was being done kept an original copy of any cancelled receipt.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor management of accounting records at the company. Whereas the purported cancellation of receipts was due to the malfunctioning of the billing system, the auditors were not availed the hard copies of the receipts during the audit process. Your Committee urges the Controlling Officer to institute disciplinary action against the erring officers to avoid recurrence of the query. Further, your Committee directs that the matter should be reported to the investigative agencies for thorough scrutiny. Your Committee resolves to await a progress report on the matter.

ii) Gaps in Receipt Sequences

The Controlling Officer submitted that LgWSC had verified that changes in receipt sequence occurred under the following circumstances:

- i) the LgWSC manual receipt book had fifty receipts in each booklet and these were issued to the different districts from a centralised stores office. A district may be given a batch of five to ten receipt books in one issue with a sequence e.g. from 14050 to 14250 or 14050 to 14500. The next time they request for new receipt books the receipt books that follow this sequence may have been issued to another district and so they will be given the next available sequence;
- ii) in some cases, cancelled receipts caused the break in the sequence; and
- iii) there were also instances when cashiers were online and there was a power interruption leading to temporal migration to manual receipts.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor management of accounting records at the company. While noting the reasons advanced for the causes of the gaps in the sequence of receipts, it is evident that the trailing systems have collapsed at the company. Additionally, the auditors were not availed the records during the auditing process. Your Committee urges the Controlling Officer institute disciplinary action against erring officers in order to avoid recurrence of the query. Further, your Committee directs that all the receipt books should be compiled and submitted for verification. Your Committee resolves to await a progress report on the matter.

g) Non Payment of Statutory Obligations – K6,167,289

The Controlling Officer submitted that the company had continued experiencing cash flow challenges mainly due to the poor payments of water bills by Government institutions. The liquidity problem caused by non-payment of bills had made the company unable to settle all its monthly bills with ZRA. It was explained that as a way forward, LgWSC had intensified debt collection activities and continued to engage the Ministry of Finance and other Government Departments for settlement of outstanding arrears. Your Committee was informed that the water company had negotiated an agreement with ZRA for the payment of at least K 50,000 per month towards the monthly bills.

Committee's Observations and Recommendations

While noting the payment plan agreed upon with ZRA on the settling of arrears, your Committee notes that this is not sustainable if the company does not address the huge debt it is owed by Government departments. Your Committee urges the Controlling Officer to ensure that the Government departments settle the outstanding debts owed to the company. Further, statutory contributions should be given priority to avoid recurrence of this matter. The negotiated agreement should be availed to the auditors for verification. Your Committee resolves to await a progress report on the matter.

h) Capital Projects

i) Delayed Design of Parameters by Contractor – Kapiri Mposhi Sanitation Project – K4,639,497

The Controlling Officer reported that the consultant to undertake designs was engaged late five months after commencement of the implementation of the project. The Controlling Officer reported that the consultant validated the designs and appropriate variations where issued. It was also explained that for all future capital projects, a consultant would be engaged to finalize detailed designs before engaging a contractor to implement the project.

Committee’s Observations and Recommendations

Your Committee finds it inappropriate that the consultant was only engaged five months after the implementation of the project, resulting in the variations after the validation process. This is evidence that there is poor planning and management of contracts by the Company that is costing the Treasury substantial sums in unplanned for expenditure. Your Committee urges the Controlling Officer to ensure that all the officers responsible for the unplanned expenditure on this project are disciplined. Further, the Controlling Officer should ensure that consultants are engaged to finalise detailed designs before the implementation of any project. Your Committee resolves to await a progress report on the disciplinary action against the erring officers.

ii) Failure to Engage Consultant on Time - New Serenje Township Water Supply and Sanitation Project – K1,752,946

The Controlling Officer submitted that the design and build model was introduced at the signing of the addendum because the initial project implementation was based on the conceptual design on which the contractor was going to execute the works. The Controlling Officer reported that the consultant was engaged to develop detailed design and validate the conceptual designs that were in the contract documents.

Committee’s Observations and Recommendations

Your Committee is dismayed with the management of contracts by the company. It is regrettable that a company that is struggling to meet its financial obligations continues to incur unnecessary costs due to poor planning. Your Committee urges the Controlling Officer to ensure that all the officers involved in authorising of this project are subjected to the disciplinary process. Further, your Committee directs that the matter be fully investigated by the law enforcement agencies in order to establish the facts. Your Committee resolves to await a progress report on the matter.

I) Review of Technical Operations

i) Unaccounted for Water (Non-Revenue Water)

The Controlling Officer submitted that the company was not 100% metered. Further, some old meters required replacement because they were more than five years old and had outlived their lifespan. This had significantly contributed to high non revenue water through inaccurate calculation of the actual quantities of water consumed. Additionally, the water network infrastructure was very old and required replacement. The Controlling Officer reported that the issue of non-revenue water reduction was receiving very active attention as follows:

- a) *Short term Measures* – LgWSC installed 1400 prepaid meters and 200 postpaid meters in 2016 in unmetered customers to curb losses. Additionally, the company had improved stocking of leak repair materials and response time to leak repair. To curb illegal use of water that contributes to non-revenue water, an inspectorate team had been established.
- b) *Medium term Measures*- LgWSC was in the process of procuring 3,000 meters for non-revenue water management through the Ministry of Local Government. A reduction from 50% non-revenue water in 2015 to 43% non-revenue water in 2016 had been achieved due to the effectiveness of the new strategies.

It was explained that as a long term measure, arising from the huge financial resources required in combating non-revenue water, a comprehensive non-revenue water management investment plan worth K23 million had been included in a feasibility study that was carried out in 2015. In line with the feasibility study, a major GRZ/Cooperating Partner funded infrastructure upgrade/rehabilitation capital project was scheduled to commence in 2017.

Committee's Observations and Recommendations

Your Committee notes that despite the minimal decrease in reducing the non-revenue water from 59% in 2015 to 43% in 2016 arising from interventions by the company, there is still a lot to be done to deal with the matter. Further, whereas the company has formulated progressive strategies to arrest the situation, no time frame has been given to fully implement them. Your Committee urges the Controlling Officer to ensure that the implementation of strategies to reduce the non-revenue water to the set target of 25% by the regulator, is achieved within a specific and reasonable period. Your Committee resolves to await a progress report on the matter.

ii) Low Water Supply Service Coverage

The Controlling Officer submitted that the limited financial resources for extension of water infrastructure had hampered water coverage improvement. The Controlling Officer stated that the water company had increased the stocking of new water connection materials and was currently carrying out network expansion projects in Serenje and Chibombo that would extend service coverage to newly opened up residential areas. It was also explained that a major GRZ/Cooperating Partner funded infrastructure upgrade/rehabilitation capital project which would include installation of new water works to improve water coverage, was scheduled to commence in 2017.

Committee's Observations and Recommendations

Your Committee notes the strides made by the company in achieving the GRZ/Cooperating Partner funded infrastructure upgrade/rehabilitation capital project scheduled for commencement in 2017. It is the expectation of your Committee that this will result in achieving the benchmark for service coverage of 80% to 90% set by NAWASCO. Your Committee urges the Controlling

Officer to ensure the project commences as scheduled. Your Committee resolves to await a progress report on the matter.

iii) Increase in Operational and Maintenance Costs

The Controlling Officer submitted that the tough economic fundamentals such as the depreciation of the Kwacha and increasingly restricted power supply put pressure on production costs, especially in the year 2015. The huge depreciation of the Kwacha and high inflation led to a sharp increase in prices of most operational materials which affected costs. Further, the cost of electricity, which is one of the largest costs, also tripled in December 2015 although the tariff was later on adjusted back to the old figure in 2016. The Controlling Officer also reported that the water company had come up with a budget that focused on increasing revenue on the one hand while on the one hand ensuring prudent cost management with the aim of posting an improved Statement of Comprehensive income in 2016. It was also explained that in a quest to improve revenue, the Company had continued growing its customer base and carrying out regular customer premises and billing system inspections and taking corrective action against customer's bypasses, illegal connections and malpractices that reduced billing.

Committee's Observations and Recommendations

Your Committee expresses worry over the casual manner the company is being run with regard to the increase in operational and maintenance costs. It is disappointing that the major cause for the poor statement of financial position is the significant increase in personnel costs. Whereas the volatility of Kwacha may have contributed to the high chemical costs thereby further increasing operational costs, good financial practice demands that risk management be an integral part of planning to take into account such unforeseen shocks. Your Committee urges the Controlling Officer to develop and implement a robust income generation strategy that will ensure that the huge operational costs are within acceptable levels. Further, the staff establishment should be restructured with a view to maintaining critical positions but enhancing efficiency. Your Committee resolves to await a progress report on the matter.

j) Weaknesses in Management Information Systems

The Controlling Officer submitted that LgWSC may not have had a comprehensive set of policies to cover new IT National regulations but had been reviewing existing policies and putting in place new policies over time. The Controlling Officer stated that the IT Risk Policy was in the process of being strengthened by making appropriate revisions to the IT Policy. In addition to the IT Policy and the Back-Up Plan, a Business Continuity Plan (BCP) would be formulated and submitted for Board approval in 2017. It was also stated that the IT Steering Committee had been established to oversee IT policy and process improvements in the water utility.

Committee's Observations and Recommendations

Your Committee expresses concern over the inertia exhibited by the Company in embracing IT in its operations. Further, the lack of an operational fire detection system poses a serious threat to the infrastructure. In addition, while efforts have been made to revise and update the IT policy, no time frame has been given in which it will be implemented. Your Committee urges the Controlling Officer to ensure that the developed IT policy is implemented henceforth. In addition, a fire detection system should be installed in the server room without any further delay. Your Committee resolves to await a progress report on the matter.

k) Irregularities in Billing Systems Administration

i) Customer Accounts with Incomplete Details on the System

The Controlling Officer submitted that some local authorities offered properties without adequate plot details which were connected to the water network, especially during the time local authorities were in charge of service provision. The Controlling Officer stated that LgWSC commenced a database clean up exercise in April 2016 to establish the status of all accounts. The exercise involved capturing all customer premises details and verifying the status of duplicate accounts and was expected to be completed by 30th June 2017. It was explained when the database exercise was completed, customer account details on the system would be updated

Committee's Observations and Recommendations

While noting the progress registered in updating the missing customer details, the matter was only addressed after being queried by the auditors. This shows that the company is reactive rather than proactive in maintaining a clear and accurate data base for its customers. Your Committee urges the Controlling Officer to institute disciplinary action against the erring officers who failed to update the data base on time. Further, the updated customer account information should be compiled and submitted for verification. Your Committee resolves to close the matter subject to audit verification.

ii) Failure to Disconnect Past Due Customer Accounts – K189,591

The Controlling Officer submitted that the failure to disconnect past due accounts was mainly due to the fact that the company was owed huge sums by Government institutions. It may not be easy to disconnect or take action against these institutions due to the sensitive nature of their operations. The Controlling Officer also stated that management had focused on intensive engagement with Government at Ministry of Finance, Ministry of Local Government and Housing, Zambia Army and Zambia Police on the payment of outstanding GRZ debt. Management had introduced an intensive disconnection exercise involving staff at all levels in carrying out disconnections for two weeks of every month.

Committee's Observations and Recommendations

Your Committee is shocked that Government departments are defaulting the payments to the utility company of water bills with impunity. While the company's Commercial Policy No.10 is very clear that the company will withdraw service to a customer when the customer defaults in settlement of bills for a period of thirty days or above, some eighty one defaulting Government departments had not paid beyond 381 days at the time of audit. In light of the foregoing, your Committee recommends that the installation of prepaid meters must be expedited to the eighty one Government departments that owe the company the significant amount of arrears. This will compel them to pay before using the service.

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

MULUNGUSHI UNIVERSITY

**Query
Accounting and Other Irregularities**

Paragraph 12

An examination of accounting and other records maintained at the University for the financial years ended 31st December 2013 to 2015 carried out during the period from August to September 2016 revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Unexplained transactions on the bank reconciliation statement – K69,937

The Controlling Officer submitted that bank reconciliations were undertaken regularly and all outstanding transactions were followed up to their logical conclusion. However, the current accounting system was configured to take trail of all entries and the ones cited were incomplete entries or entries with errors. The errors were as a result of failure of batch processing by the accounting software. The system would process bulk of the transactions leaving some hanging in the system. However, the following actions were taken to reverse incomplete entries:

- i) the figure in salary accounting to K1, 000, was a cancelled cheque which was posted in the wrong account and was reposted in the correct account being Operations Account hence bearing blank description in Salaries Account;
- ii) the figure in salaries account of K35, 000 was posted (debited) twice on the same account and later reversed to show the correct position;
- iii) the figure in salaries account of K10, 000 was staff advance which was hanging in the system due to system error. The error only showed a credit without a debt to balance off the account and it had since been reversed; and
- iv) the figure in Operation Account K23, 937.46 was posted (debited) twice on the same account and later reversed to show the correct position.

To improve on timely reversal of system errors, management engaged the accounting package supplier by signing a service level agreement.

Committee’s Observations and Recommendations

Your Committee is dissatisfied with the reasons advanced for the unexplained transactions. While noting the purported actions taken to avert the situation, your Committee is disappointed that not only was this information not availed to the auditors during the audit process, but also action has only been taken two years later. In addition, no disciplinary action has been taken against the erring officers. Your Committee urges the Controlling Officer to institute disciplinary actions against the erring officers who failed to avail the documents during the audit process. Further, your Committee directs that a more proficient accounting software should be procured without any further delay to avoid similar short-comings henceforth. The compiled documents should be submitted for verification. Your Committee resolves to await a progress report on the matter.

b) Non-Remittance of Statutory Contributions – ZRA, Pay As You Earn and NAPSA – K21,388,918

The Controlling Officer submitted that the University was still growing and Government monthly recurrent grant remained inadequate to meet the University emolument costs resulting in a funding gap. The University management and Council had since brought this to the attention of both Ministries of Finance and Higher Education to increase the recurrent support to enable the University meet its emolument costs. Further, it was explained that the University was up to date with NAPSA contributions since its inception. The outstanding obligation of K4, 432,757 showing in the University accounts, was inherited during the transition period from the College regime prior to establishing the University. However, the Government paid the principal amount to NAPSA and what was still outstanding as at 31 August 2016 were penalties. The Ministries of Finance and

Higher Education had been discussing on how the NAPSA debt from 2008 to date would be written off.

Committee's Observations and Recommendations

Your Committee finds the justification for the delay in paying statutory contributions to ZRA and NAPSA misplaced given that the deductions were made from the respective officers' emoluments. Whereas the institution is currently facing numerous financial challenges arising from poor management, statutory obligations must be prioritised to avoid recurrence of the query. Your Committee strongly urges the Controlling Officer to ensure that all statutory obligations are prioritised henceforth. Further, your Committee directs that the University should develop and implement other innovative ways of generating income in order to be up-to date with statutory obligations. Your Committee resolves to await a progress report.

c) Financial Performance - Statement of Comprehensive Income

i) Operating Losses

The Controlling Officer submitted that, the University recorded operating deficits of K2, 705,508 in 2013, K4, 817,800 in 2014 and K4, 076,215 in 2015 due to rising staff costs and high depreciation costs as the University assets increased during the period under review. The University increased its asset base in terms of new hostels, library, lecture theatre, classrooms and motor vehicles. Furthermore, the University had continued expanding its activities as evidenced by the growth in income in line with the strategic guidelines leading to higher administrative costs. It was also stated that, in order to maintain emolument costs, the University resorted to using part time lecturers as a cheaper means of delivering its services as opposed to employing more members of staff which could have worsened the yearly deficits. Therefore, the increase in part time lecturing allowances from K61, 640 in 2014 to K1, 644,638 in 2015 acted as a cost saving measure. The Ministry was in continuous liaison with both the University Council and management to ensure that costs were maintained within the available resource envelope.

Committee's Observations and Recommendations

Your Committee is alarmed over the high operational costs at the University which are beyond its financial capacity. While noting the infrastructure assets that the University has invested in during the period under review, your Committee expresses worry with the rising staff costs representing 63% of the total operating expenses of the University. Further, the justification for the 2,568% increment in part-time allowances as a cost serving measure is not only absurd but also unacceptable. Your Committee strongly urges the Controlling Officer to ensure that the University is closely supervised through the University Council in order to bring the high operational expenses in line with the available resources. In addition, the University should develop and implement income generation strategies in order to reduce the operational costs to acceptable levels. As a solution to the many financial challenges affecting the University, a bail out plan should also be explored by the Ministry so as to enable the University focus on its core mandate which is to produce the much needed human resource for the country. Your Committee resolves to await a progress report on the matter.

ii) Increase in Administrative Costs per Student Ratio

The Controlling Officer submitted that the administrative costs per student increased from K23, 026.11 in 2013 to K27, 879.65 in 2015 representing a percentage increase of 21%. Your Committee heard that administrative costs had been rising mainly due to the growth of the University in

particular from 2013 to 2014 as evidenced by the student numbers. However, 2015 administrative costs arose from the sudden depreciation of the local currency to cover fixed costs such as emoluments, fuel, electricity and student food stuffs which were the major cost drivers in carrying out the University operations. Your Committee heard that despite the increase of the administrative costs, the University did not increase tuition fees to mitigate the exchange loss impact.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor management of the University culminating in the increase of administrative costs per student ratio during the period under review. It is disheartening that while the volatility of the kwacha contributed to the increase in administrative costs, no corrective action was taken by management at the University to avert the crisis. This points to the fact that there is weak supervision of the management at the University by the Council. Your Committee urges the Controlling Officer to ensure that the University management institutes and adheres to austerity measures on its general administration in order to reduce its operational costs to acceptable levels. Your Committee resolves to await a progress report on the matter.

iii) Un-receipted Deposits for more than 12 Months – K1,132,756

The Controlling Officer submitted that K238, 253 and K894, 505 totalling K1, 132,756 in both Tuition and Boarding Lodging Accounts sitting in respective banks, were not receipted by December 2015. It was reported that the University had been using Bill Muster facility from 2014 to date provided by ZANACO Bank which collects tuition fees. The University cash collection was facilitated by the Bill Muster facility which updated the student accounts within the day the transactions were undertaken. However, Bill Muster facility only accepted cash deposits, and sponsors who deposited student fees using cheques and bank transfers were not catered for by the facility. This required sponsors/students to present deposit copies to cross check the authenticity of the depositors' claims as the bank statements did not provide the details of the beneficiary. It was also stated that ZANACO Bank, which had the Bill Muster facility, was not found in all parts of the country, therefore, students were allowed to deposit tuition fees with Finance Bank under the Boarding and Lodging account.

At the time of audit, amounts of K238, 253 and K894, 503 as at December 2015 for Boarding and Tuition Accounts respectively were collected and sitting in the respective banks accounts in November and December 2015 year end and had not been cleared as they lacked detailed description for the beneficiaries. These transactions could not be cleared as the University was also on recess and these were expected closing balances for post year adjustments. However, your Committee heard that all the unclaimed/unreceipted deposits were cleared by first 31st March 2016 when both distance and full time students reported for their respective semesters as attested by issued receipts and bank reconciliations.

Committee's Observations and Recommendations

Your Committee is disappointed with the laxity exhibited by the University to attend to simple administrative matters resulting in the matter being outstanding for more than a year. It is the considered view of your Committee that if the University had exhibited seriousness, the matter could have been resolved during the audit process. While noting that the unclaimed deposits have been purportedly cleared, your Committee urges the Controlling Officer to ensure that the erring officers in this case are disciplined to avoid recurrence of the matter. Further, your Committee directs that the University should find ways of accounting for payments made through cheque

deposits without any delay. All documents in this query must be submitted for verification. Your Committee resolves to await a progress report on matter.

d) Financial Position – Statement of Financial Position

The Controlling Officer submitted that the University operated within acceptable liquidity parameters and the University Council together with its management would be encouraged to sustain the University liquidity parameters.

Committee’s Observations and Recommendations

Your Committee notes the statement of financial position for the University which shows that its operations are within acceptable parameters. However, this should not result in laxity by management as its operational costs are rising going by the trend in the period under review. Your Committee urges the Controlling Officer to closely monitor the University in order to sustain this record. Your Committee resolves to close the matter.

e) Statement of Cash Flows – Failure to Invest Excess Cash Balances in Financial or Money Market

The Controlling Officer submitted that the University had been undertaking infrastructure development during the period under review and the funds were invested in interest generating call accounts which enabled the University to call on the funds as and when construction certificates were due for payment and procurement of other supporting assets. It was also stated that the University earned interest amounting to K2, 913,201.78 during the period under review and would continue to invest the funds.

Committee’s Observations and Recommendations

Your Committee expresses concern over the failure by management to furnish the required information to the auditors during the audit process. It is the firm view of your Committee that if this information had been availed to the auditors at audit process, the matter could have been resolved at that stage. Your Committee urges the Controlling Officer to compile the documentation relating to interest accrued from the funds in the call accounts and submit it for verification. Your Committee resolves to close the matter subject to audit verification.

f) Operating a Water Supply Plant without NWASCO Licence

The Controlling Officer submitted that it was correctly observed that the University was operating water plant and supplying water and sanitation services to more than fifty families or 500 people without an operating licence from NWASCO. It was explained that the University provides treated water to the students and members of staff within the University set up from its treatment plant as the University is not linked to Lukanga Water and Sewerage Company which is the main provider of treated water in the district. The University had been making strides to obtain the operating licence from NWASCO. However, NWASCO had been of the view that it could not issue an operating licence to more than one operator within the same district as stipulated by the *Water Supply and Sanitation Act, No. 28 of 1997*. The Controlling Officer, however, submitted that the Ministry would facilitate the process of obtaining the operating licence from NWASCO as the University was currently using the water rights from the Ministry of Lands and Environment.

Committee’s Observations and Recommendations

Your Committee contends that it is not only illegal for the University to operate a water supply plant without certification by NWASCO as provided in the *Water Supply and Sanitation Act, No.28 of 1997* but it is also detrimental to the well being of the end users if it does not meet the required parameters for human consumption. Your Committee urges the Controlling Officer, as a matter of extreme urgency, to ensure that the water supply plant being used at the University is certified by NWASCO without any delay, in line with the law. Your Committee resolves to await a progress report on the matter.

g) Civil Works

i) Construction of Alternative Water Sources – Chindwin

• Failure to Sign a Memorandum of Understanding on Alternative Water Resource Project

The Controlling Officer submitted that the Project was undertaken through the Disaster Management and Mitigation Unit under the Office of the Vice President. The Project was a disaster management in nature, as the University was faced with a water crisis which brought various stakeholders on site to find a quick and sustainable solution. It was also stated that the project implementation exit report was submitted to the University in the first quarter of 2016, which prompted the formulation of the Memorandum of Understanding between the two parties. Your Committee also heard that the University management had been meeting Lukanga Water and Sewerage Company management to have the MOU finalised. The University was still waiting for Lukanga Water and Sewerage Company management to present the draft of the MOU to its Board and a follow up meeting would be undertaken in the first quarter of 2017.

Committee’s Observations and Recommendations

Your Committee notes the efforts made by the University in engaging Lukanga Water and Sewerage company in generating a Memorandum of Understanding on the works being undertaken but raises concern that the matter was only followed up after being queried by the auditors. This exposes weaknesses in the manner the University is being run. While the matter may appear straight forward as it was a disaster mitigation in nature, the University should ensure that all and related terms of reference correspondence are clearly spelt out to avoid future misunderstandings. Your Committee urges the Controlling Officer to ensure that the MOU is submitted for verification without any further delay. Your Committee resolves to await a progress report on the matter.

• Inflated Project Costs on Alternative Water Resource Project- K 2,948,604.61

The Controlling Officer submitted that the project was undertaken through the Disaster Management Mitigation Unit under the Office of the Vice President. The project was a disaster in nature, as the University was faced with a water crisis. The budget of K12, 579, 280.79 was based on holistic picture of establishing a complete solution to supply the University with adequate water. During the implementation stage, an actual amount of K9, 630,675.39 was spent on phase one of the project arising from:

- 1) Actual material costs used excluded contractor’s costs such as overheads and labour costs since the project was undertaken internally as opposed to the earlier decision of subcontracting all the works.
- 2) The project resolved to do away with the labour costs as works were then done in-house without using contractors, except for specialised works.

- 3) The project was further divided into phase one and phase two. Whilst phase one was completed at the time of the Audit, Phase two was still in progress, resulting in lower budget usage.

It was stated that the balance of K2, 948,604.61 was applied on phase two of the project which was completed and complementary to phase one to meet the University's water requirements.

Committee's Observations and Recommendations

Your Committee is dissatisfied with the response on this matter. Whereas it has been reported that the balance of K2, 948,604.61 was used on phase two of the project, no documentation was availed to that effect. In addition, the cost variations in the bill of quantities under the phase one of implementation of the project ranging from 16% to 100%, is a source of concern. Your Committee urges the Controlling Officer to compile and submit all documentation relating to the project for verification. Further, your Committee directs that the matter be investigated by law enforcement agencies in order to establish the facts surrounding the authenticity of the huge variations. Your Committee resolves to await a progress report on the matter.

- **Misapplication of Alternative Water Resource Funds – K5,471,407.35**

The Controlling Officer submitted that amounts totaling K5, 471,407.35 were expended on the Improvement and Expansion to the Existing Sewerage Reticulation System Project which was meant to cater for excessive effluent from the anticipated improved water supply in the University. It was explained that phase one of the water supply project could not meet the University's water requirements. Therefore, the balance of K1, 895,074.64 was used on phase two of the project on the confluence of the Mulungushi and Muteteshi rivers which was now completed and providing adequate water for the University.

Committee's Observations and Recommendations

Your Committee expresses dismay at the misapplication of funds amounting to K5, 471,407.35 without prior authority from the Treasury. This conduct is at variance with provisions of both the *Public Finance Act*, Section 18 and the Appropriation Act of 2014. While noting that the funds were used for a good cause, financial regulations needed to be followed. Your Committee sternly cautions the Controlling Officer to desist from ignoring the provisions of the law but directs that he seeks retrospective authority. Further, your Committee urges the Controlling Officer to institute disciplinary action against the erring officers involved in the authorisation so as to avoid recurrence of the query. Your Committee resolves to await a progress report on the matter.

- **Poor Storage of Excessive Pipes**

The Controlling Officer submitted that a total of 2,870 UPVC pipes were received resulting in excess 420 pipes valued at K282, 576 being procured. He added that the supplier supplied more than used pipes at the time of implementation, the damages had continued. This had since stabilised and no further replacements were done, leading to excess pipes remaining. Furthermore, the remaining pipes were provided by the supplier as proof for a faulty batch that led to some pipe damages at no extra cost. It was also noted that some of the pipes in question had already been used on phase two water reticulation and a few remaining were being used to in effluent management within the campus.

Committee's Observations and Recommendations

Your Committee notes with concern that whereas the over procured pipes do not attract any financial charges on the part of the University, the manner in which the pipes are being kept is a serious source of worry. The adverse conditions that the pipes are being exposed to need to be corrected to avoid further damage. Your Committee urges the Controlling Officer to ensure that the pipes are properly secured. Your Committee resolves to close the matter.

- **Non Functioning Boreholes**

The Controlling Officer submitted that on 21st November 2014, Mulungushi University engaged Baba Drilling and Exploration Company to drill three boreholes at Chindwin Water Project at a total contract sum of K280, 000 and as of September 2016, Baba Drilling and had been paid amounts totalling K249, 017. It was explained that the two non-functional boreholes were attributed to ground conditions. The first borehole failed to clear after fully casing. This was attributed to the loose ground formation that allowed for silting of the borehole. The second borehole on the other hand was also cased but failed to bring adequate water. The borehole was not fully paid for as the supplier had not done pumping testing to establish water yield. It was also stated that the University had flushed two old boreholes by Baba Drilling belonging to Lukanga Water and Sewerage within the same catchment which were currently supplying water to the University to complement the one borehole drilled successfully for the University.

Committee's Observations and Recommendations

Your Committee is disappointed that the University did not undertake any studies on the soil structure before the drilling of the boreholes, resulting in the poor water yield. It is also worrying that despite the company being paid over 95% of the contract sum, no efforts have been made to engage the company in order to have the works corrected. Your Committee urges the Controlling Officer to engage the contractor to re-imburse part of the funds or, in the alternative, other boreholes should be drilled. This should be preceded by studies on the soil structure in order to avoid recurrence of the failed boreholes. Your Committee resolves to await a progress report on the matter.

- **Single Sourcing of Excavation Services for the Chindwin Water Project- K 87,000**

The Controlling Officer submitted that there were three quotations from three contractors who were on site doing making the tendering for excavation works competitive. Each contractor was given a lot.

Committee's Observations and Recommendations

Your Committee contends that if this information had been availed to the auditors during audit process, the matter could have been resolved. While noting the purportedly transparent procurement process, your Committee has misgivings on its authenticity considering that what the auditors found on the ground is different from what has been reported by the Controlling Officer. In this vein, your Committee urges the Controlling Officer to ensure that the officers who failed to avail the documentation relating to the procurement are disciplined to avoid recurrence of the matter. Further, your Committee directs that the investigative wings should take up the matter in order to establish the facts of what exactly transpired given the conflicting positions. Your Committee resolves to await a progress report on the matter.

- **Over Expenditure on In-House Projects – K815,783**

The Controlling Officer submitted that the University spent K2, 391,081 against a budget of K1, 575,298, thereby incurring unbudgeted for expenditure representing of K815, 783 which was 51.8% above the budget. Your Committee heard that the over expenditure of the projects was necessitated by the following:

- i) the change of the Government labour laws that brought about the minimum wage for all casual and temporary workers. The gymnasium was approved in 2013 but could not start due to lack of funding but was implemented in 2014;
- ii) the increased cost of materials resulting from the exchange rates raise in 2015;
- iii) change of design for the gymnasium to allow for a bigger classroom due to lack of adequate classrooms, resulting in spending more. The bill of quantities was available for verification; and
- iv) further, no budget for gymnasium was accounted for on the audit. The approved budget was K 787,172.84.

It was further explained that all infrastructure development in the University was under control of the University Council through the Infrastructure Committee which monitored the project progression and approved project variances.

Committee's Observations and Recommendations

Your Committee expresses concern over the inability by management to avail all documentation relating to the in-house projects at the time of the audit. This conduct clearly shows that there are weak internal controls as well as poor management of accounting documents. Your Committee urges the Controlling Officer to discipline the responsible officers who failed to avail the documents as required. Further, all documentation relating to the projects, including the Minutes by the University Council authorising the adjustment of funds, should be compiled and submitted for verification. Your Committee resolves to await a progress report on the matter.

h) Failure to Update Bin Cards - K10,250

The Controlling Officer submitted that the kitchen was temporarily used as buffer store after drawing stocks from the main store. The main store was the major control point where expensing of inventories was done in the University accounts. The kitchen therefore, also kept bin cards to enable them monitor stock movements. The stocks appeared to be un-accounted for, in the second quarter of 2016 since the bin cards were not updated for one month due to lack of supporting stores officer to regularly update the bin cards.

However, the University had since employed a kitchen stores officer and the bin cards were up to date from September 2016.

Committee's Observations and Recommendations

Your Committee notes that the mere employing of a stores officer is not enough if internal controls and close supervision of stores staff are not enhanced. Your Committee urges the Controlling Officer to ensure that internal controls are strengthened in order to avoid recurrence of the query. Further, monthly updates of stores documents must be conducted by management without fail. Your Committee resolves to close the matter subject to audit verification.

i) Unaccounted for Physical Stock – K7,062.09

The Controlling Officer submitted that the kitchen was temporally used as buffer store after drawing stocks from the main store. The Main Store was the major control point where expensing of inventories was done in the University accounts. The Kitchen therefore, also keeps bin cards to enable them monitor stock movements. The stocks appeared to be un-accounted for, in the second quarter of 2016 since the bin cards were not updated for one month due to lack of supporting stores officer to regularly update the bin cards. However, the University had since employed the kitchen stores officer and the bin cards were up to date from September 2016.

Committee's Observations and Recommendations

Your Committee notes that the mere employing of a stores officer is not enough if internal controls and close supervision of stores staff are not enhanced. Your Committee urges the Controlling Officer to ensure that internal controls are strengthened in order to avoid recurrence of the query. Further, monthly updates of stores documents must be conducted by management without fail. Your Committee resolves to close the matter subject to audit verification.

j) Procurement of Goods and Services

i) Irregular use of Simplified Bidding to Procure Furniture and Equipment

The Controlling Officer submitted that the tender for the purchase, delivery and installation of library furniture and equipment at a contract sum of K2, 292,133 was conducted using simplified bidding as observed by the auditors. It was also stated that the University had been cautioned to follow laid down tender procedures to avoid the anticipated risk of losing the University resources.

Committee's Observations and Recommendations

Your Committee finds the mere cautioning of management on the need to follow laid down procurement procedures without accompanying disciplinary action unhelpful and the admission of wrong doing does not remedy infringement of procurement procedures. Your Committee urges the Controlling Officer, and strongly so, that the erring officers should be disciplined so as to avoid recurrence of the query. Further, the Controlling Officer must ensure that the University Council is closely supervised to avoid similar transactions. Your Committee resolves to await a progress on the matter.

ii) Undelivered Library Books – K776,522.82

The Controlling Officer submitted that all the books were delivered at the time of audit except that one delivery note was missed out during the audit. Furthermore, the University received more books than ordered due to exchanges of non available copies. The Table below shows books paid for and received.

Date	Description	Amount (K)	Books Paid for	Delivered Books	Undelivered Books (Qty)	Undelivered Books (K)
16/01/2014	Purchase and delivery of Library Books	137,335.48	314	512	-198	(40,507.03)
30/10/2014	Purchase and delivery of Library Books	163,244.57	324	332	-8	(4,030.73)
14/10/2015	Purchase and delivery of Library Books	475,942.77	545	494	51	44,537.76
	Total	776,522.82	1183	1338	-155	0.00

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to submit the traced delivery note for verification. Your Committee resolves to close the matter subject to audit verification.

THE MULUNGUSHI VILLAGE COMPLEX

Query Review of Operations

Paragraph 13

13. A review of accounting, other records and management information systems for the financial years ended 31st December 2013 to 2015 carried out in June 2016, revealed accounting and other irregularities, to which the Controlling Officer responded as set out below

a) Review of Management of Information Systems

i) Lack of an IT Steering Committee

The Controlling Officer informed your Committee that the process of appointing a Steering Committee had started. Three internal staff had been appointed and management was in the process of appointing two external members. Your Committee was further informed that the exercise was expected to be completed in the first quarter of 2017. Supporting documentation was made available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to expedite the appointment of the Steering Committee in order for the ICT activities and projects at the Mulungushi Village Complex to be properly monitored. Your Committee resolves to await a progress report on the matter.

ii) Lack of Risk Management Framework and Risk Register

The Controlling Officer acknowledged that at the time of audit, the Mulungushi Village Complex Limited (MVCL) did not have an approved Risk Management Framework and Risk Register as the documents were in the process of being prepared. He, however, assured your Committee that the risks of the business were managed accordingly.

He further submitted that the Risk Management Framework and the Register had since been completed and approved by the Board of Directors and were available for audit verification.

Committee's Observations and Recommendations

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

iii) Lack of an Access Control Policy

The Controlling Officer acknowledged that at the time of audit, the MVCL Information and Communication Technology Policy and User Guide which contained the Access Control Policy was not readily available and given to the auditors.

He, however, informed your Committee that the Access Control Policy as contained in the Communication Technology Policy and User Guide of the MVCL was currently available and was first published in April 2012. The supporting documentation was availed for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the apparent lack of seriousness at the MCVL in terms of adhering to the audit process. Your Committee finds the tendency of not providing the necessary documentation to the auditors highly unacceptable and urges the Controlling Officer to caution management for this failure. Your Committee however, resolves to close the matter subject to audit verification.

iv) Lack of Business Continuity Plan and Disaster Recovery Plan

The Controlling Officer submitted that the MVCL had in place a Back Up and Disaster Recovery Policy and Plan, contained under Clause 13 of the Communication Technology Policy and User Guide of the MVCL. He further explained that the Plan was operated through a service agreement with NETONE Limited. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee observes that this matter should have been addressed and resolved during the audit process and urges the Controlling Officer to caution management for the failure to do so. Your Committee requests the Office of the Auditor General to verify the response before the matter can be closed.

b) Lack of Risk Management System

The Controlling Officer acknowledged that at the time of audit the MVCL did not have an approved Risk Management Framework as the document was in the process of being prepared. He, however, informed your Committee that the Risk Management Framework had since been completed and approved by the Board of Directors and was available for audit verification.

Committee's Observations and Recommendations

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

c) Financial Performance – Statement of Profit and Loss and Other Comprehensive Income.

i) Total Expenses as a Percentage of Turnover

The Controlling Officer informed your Committee that the total expenses had generally been rising on account of price inflation. He further explained that there was also an increase in personal emoluments arising from employees' terms and conditions of service.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the Company's expenses kept rising despite its turnover being relatively low. Your Committee in this regard, strongly urges the Controlling Officer to ensure that management takes measures to increase its revenue and reduce assets in order to improve the status quo. Your Committee notes that the current situation will ultimately disable the MVCL from meeting its day to day obligations as they fall due. Your Committee awaits a progress report on the matter.

ii) Operating Income

The Controlling Officer submitted that the decline in operating income witnessed in 2014 by 2 percent was caused by a reduction in business activity in the food and beverage section following the fire that gutted the kitchen, restaurant and bar. However, the MVCL management received an insurance refund and the kitchen, restaurant and bar had been reconstructed and was 95 percent complete.

Committee's Observations and Recommendations

Your Committee notes the response and requests an update on the improvement of the operating income.

iii) Net Profit Margin Ratio

The Controlling Officer explained that the net profit margin ratio for 2014 was much higher compared to 2013 (2%) and 2014 (9%) because of revaluations gains arising from the fair value adjustments. He informed your Committee that the MVCL had a policy whereby investment properties were re-valued every after three years. Therefore, had it not been for the revaluation gains, the net profit margin was going to be at 37 percent, caused by increases in administration expenses, increases in bad debt write offs, provisions for bad debts, provisions for doubtful debts and provisions for VAT and income tax recovery.

Committee's Observations and Recommendations

Your Committee expresses concern that the company has continued to make losses despite the industry within which it operates being lucrative. Your Committee urges the Controlling Officer to ensure that the management of the company implements innovative measures to improve the general performance of the Company in order to make it profitable. Your Committee requests an update on the improvement of the net profit margin ratio.

iv) Operating Expenses as a Percentage of Revenue

The Controlling Officer informed your Committee that the operating expenses as a percentage of revenue had been high on account of staff costs, increased bad GRZ debt write offs and specific doubtful debts provided for in the books of accounts over the 2013, 2014 and 2015 financial years. The above situation would, however, change after management completed the five restructuring programmes in the second quarter of 2017.

Committee's Observations and Recommendations

Your Committee expresses concern over the rise in the Company's operating expenses over the years despite it having a minimal increase on revenue collection. Your Committee in this regard, strongly urges the Controlling Officer to ensure that revenue collection strategies are enhanced and that operating and administrative expenses are kept to acceptable standards in order to address the prevailing situation. Your Committee requests an update on the matter.

d) Financial Position – Statement of Financial Position

i) The Current Ratio / Working Capital

The Controlling Officer explained that the MVCL was coming from a background of poor performance in profitability, liquidity and shareholder value. Therefore, the new management and Board of Directors' strategy was to resolve the profitability issues of the company first, in the short term (three years) and liquidity and shareholder value in the long term (over five years). In this regard, profitability had been resolved. The next step, therefore, was liquidity and shareholder value.

Committee's Observations and Recommendations

Your Committee expresses concern that the current ratio for the MVCL for the periods under review were below the acceptable current ratio of 2:1. Your Committee further observes with concern that such a renowned organisation in this promising business environment can be operating with a negative working capital. Your Committee, in this regard, strongly urges the Controlling Officer to review the operations of MVCL without further delay and possibly recapitalise it in order to restore it to its healthy financial position. Your Committee is of the view that if the Government does not intervene, the company risks being liquidated. Your Committee directs the Controlling Officer to closely monitor the situation and submit an update on the matter.

ii) Total Asset turnover Ratio

The Controlling Officer submitted that the MVCL had a challenge with current liabilities in the short term, in form of bank loans and statutory debts. This had affected the current ratios and working capital. The MVCL had been borrowing to fund restructuring and once the loans and statutory debts were paid, the current ratios, including working capital, would improve. The Controlling Officer further informed your Committee that the MVCL had statutory debts accrued prior to 2010, which were being paid off through agreements with NAPSA and ZRA. All the bank loans would be paid by November 2017 and this would contribute to improving the cash flow position (liquidity) leading to the creation of cash assets.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor financial performance at the MVCL as shown by its failure to improve its total asset turnover ratio during the period under review. Your Committee, in this regard, urges the Controlling Officer to ensure that there is a robust review of the operations of this institution with emphasis on improving its financial performance. Your Committee further urges him to engage the Secretary to the Treasury for possible recapitalisation in order to improve the Company's performance. Your Committee awaits a progress report on the matter.

iii) Negative Cash Flow Position

The Controlling Officer informed your Committee that the MVCL, like any other real estate commercial enterprise, had a lower total asset turnover ratio considering that the nature of the business was capital intensive and therefore, the total assets were normally higher. The returns however, were for a longer period compared to businesses that were less capital intensive.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the Controlling Officer to ensure that the Company's cash flow is improved to enable it meet its obligations. Your Committee requests an update on the matter.

iv) Questionable Declaration/ Payment of Dividend

The Controlling Officer informed your Committee that Management had developed a Dividend Policy that was awaiting the approval of the Finance Committee of the Board and the Board of Directors at their next meetings. The Dividend Policy was available for audit verification. Your Committee was informed further that this exercise was expected to be completed in the first quarter of 2017.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for MVCL is faced with liquidity challenges and an asset base that needs immediate rehabilitation to have declared dividends. Your Committee, in this regard, directs the Controlling Officer to ensure that management is sternly cautioned for this failure. Your Committee further directs the Controlling Officer to ensure that the Dividend Policy, clearly outlining the circumstances in which dividends will be paid, is approved without further delay in order to avert such erroneous decisions. Your Committee will await a progress report on the matter.

e) Failure to collect rentals from Government - K688,388.00

The Controlling Officer informed your Committee that the Board of Directors had written off as bad debts the outstanding K688,388.00 in the 2014 audited financial statements . He further explained that the MVCL management was following up fresh debts with the Ministry of Finance (K106,490.00), the Ministry of Lands, Natural Resources and Environmental Protection (K609,000) and the Ministry of Justice (K217,500) which were outstanding as at 31st December 2015. This collection exercise was expected to be completed by the first quarter of 2017.

Committee's Observations and Recommendations

Your Committee expresses concern that the company is owed so much money despite facing financial constraints. Your Committee further finds it unacceptable for this company facing liquidity challenges to have written off such a huge amount as bad debt on account of the insufficient documentation to pass the payment test. Your Committee, in this regard, strongly urges the Controlling Officer to ensure that internal controls at MVCL are strengthened. Your Committee further urges the Controlling Officer to sternly discipline the erring officers and ensure that the management of the company devises more aggressive measures to recover the outstanding debt and also avoid future debt. Your Committee awaits a progress report on the matter.

f) Inadequate Staffing Levels

The Controlling Officer explained that the MVCL implemented a restructuring programme to reduce staff numbers and consequently staff costs as contained in the strategic plan. The reduction of staff numbers to a sustainable amount was one central goal of improving the company's performance in profitability, liquidity and shareholder value. Therefore, the reduction in numbers from 106 in 2010, 75 in 2015 and 55 as at December, 2016 was a significant achievement that had helped control staff costs. This exercise was expected to be completed in the second quarter of 2017.

Committee's Observations and Recommendations

Whilst noting the submission, your Committee urges the Controlling Officer to ensure that key positions of the Human Resource and Operations Manager are filled in order for the company to effectively carry out its operations. Your Committee will await a progress report on the matter.

g) Questionable Appointment of Operations Manager

The Controlling Officer submitted that the MVCL reversed the appointment of the Operations Manager following negative publicity of employing an under qualified staff. However, the employee refused to be reverted to a lower position and was consequently declared redundant by the Board of Directors and paid her a redundancy package with others that were made redundant in that particular year. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that management abused its authority by employing an under qualified person in direct defiance of the minimum qualification for the position. Your Committee further finds it unacceptable that Government was subjected to a financial loss with regard to the redundancy payment package, through an out of court settlement, a situation that could have been avoided had management been professional in handling the recruitment in the first place. Your Committee in this regard, strongly urges the Controlling Officer to sternly caution management for this failure and will await a progress report on the matter.

h) Non Payment of Statutory obligations worth K4,293,017 to ZRA and NAPSA

The Controlling Officer explained that MVCL owed the Zambia Revenue Authority (ZRA) and the National Pension Scheme Authority (NAPSA) a total of K4,293,017 in the form of outstanding statutory obligations from previous years. The reasons were due to poor cash flows in these previous years.

He however, reported that in an effort to liquidate the amount in question, the MVCL went into agreements with the ZRA and NAPSA under which the long outstanding debts were being liquidated monthly.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the statutory obligations in question are liquidated in line with the agreements entered into in order to avoid future penalties and interest charges. Your Committee, in this regard, will await a progress report on the matter.

i) Failure to settle Internal Frozen Terminal Benefits worth K3,326,183.00

The Controlling Officer explained that the MVCL had not transferred the balance of K3, 326,183.00 because of cash flow constraints. He, however, submitted that despite this, the MVCL had been paying off the terminal benefits each time an employee left the MVCL. Further, the MVCL was still within the ten year period as agreed with the Hotel Catering, Tourism and Allied Workers Union of Zambia, MVCL Branch and individual employees that the total of K9,772,264.46 should be transferred within a period of ten years from 1st January 2014. Therefore, within a period of three years, the MVCL had reduced the debt from K9,772,264.46 to K3,326,183.00. Your Committee was informed that this exercise was expected to be completed within the agreed period of ten years from 1st January 2014.

Committee's observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the terminal benefits are settled in order to avoid potential litigation, penalties and interest charges. Your Committee in this regard, will await a progress report.

j) Failure to Rehabilitate and Maintain Investment Property

The Controlling Officer explained that a full scale rehabilitation and maintenance of the investment properties could not be done because of cash flow constraints and whereby financial resources had been allocated to fund the restructuring exercise. However, with the completion of the restructuring programme in the second quarter of 2016, the MVCL management would scale up the rehabilitation and maintenance of investment properties. Your Committee was further informed that MVCL undertook rehabilitation and maintained its villas, apartments and hotel rooms, thereby, enjoying an occupancy of 96 percent on Villas.

Committee's Observations and Recommendations

Your Committee is disappointed that management has not made major re-investments to the properties in terms of rehabilitations and upgrades to suit modern trends from the time the villas were constructed in 1970. It observes that instead of declaring dividends, the funds should have been used to plough back into the investment properties. Your Committee further observes with concern that this failure may result in the loss of customers to competitors and consequently result in the loss of the much needed income which could help to keep the company afloat. Your Committee in this regard, strongly urges the Controlling Officer to ensure that the investment properties are rehabilitated and will await a progress report on the matter.

NATIONAL HOUSING AUTHORITY

Paragraph 14

Review of Operations

14. A review of operations of the Authority for the financial years ended 31st March 2012 to 31st December 2015 revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) Failure to Produce Financial statements

The Controlling Officer submitted that the National Housing Authority failed to produce the audited financial statements for the year under review due to delays by the appointed auditor in finalising the audit of the accounts. The Controlling Officer reported that National Housing Authority received the management letter in November 2016. Therefore, the financial statements, including the audit report for year ended 31st December 2011 were ready and available for audit verification. Furthermore, NHA had since paid the outstanding audit fees amounting to K14,400.

Committee's Observations and Recommendations

Your Committee finds the justification by the Controlling Officer on the failure to prepare audited financial statements unacceptable. Your Committee contends that the failure to present financial statements is at variance with *Section 54 of National Housing Authority Act, Chapter 195 of the Laws of Zambia*. It is the firm belief of your Committee that the prudence of managing financial resources is benchmarked by the preparation of financial statements six months after the financial year as promulgated by the *National Housing Act*. Your Committee urges the Controlling Officer to follow the provisions of the Companies Act in relation to preparations of financial statements to the letter. Further, disciplinary action should be instituted against the responsible accounting officers for the failure to prepare financial statements within the prescribed time. Your Committee resolves to await a progress report on the verification of the audited financial statements .

b) Weaknesses in Recruitment and Removal of the Chief Executive Officer

i) Irregular Payment of Salaries in Advance

The Controlling Officer submitted that NHA was in order to pay the former Chief Executive Officer the three months' salaries in lieu of notice on separation. This is in accordance with the contract of service signed between NHA and the former CEO. The contract was available for audit verification.

Committee's Observations and Recommendations

Your Committee finds the provisions of the contract not in the best interest of the company and may be subject to abuse. Whereas the former CEO was paid the separation package in accordance with the contract, it is the considered view of your Committee that the contract should be revised accordingly to address this anomaly. Your Committee urges the Controlling Officer to amend the terms and conditions of the contract and have clearly stipulated different separation terms to avoid recurrence of the query. Your Committee resolves to await a progress report on the matter.

ii) Failure to Review Performance

The Controlling Officer submitted that the failure by NHA to review the performance of the then Chief Executive Officer was as a result of the absence of a Board of Directors (BOD). The Board of Directors for NHA was dissolved in September 2012. It was also reported that the new Board of Directors for NHA was appointed in November 2015 and performance reviews would be performed as required in the contract of employment for the Chief Executive Officer.

Committee's Observations and Recommendations

Your Committee expresses concern over the delay in appointing the Board of Directors resulting in the inability to conduct reviews of the performance of the CEO. It is regrettable that the Board of Directors was only appointed three years after the dissolution of the previous one. Your Committee urges the Controlling Officer to ensure that the dissolution and re-constitution of the Board of Directors should be done simultaneously to avoid a vacuum and the reoccurrence of the query. Your Committee resolves to close the matter.

c) Financial Performance – Statement of Comprehensive Incomes

i) Operating Profit Margins

The Controlling Officer submitted that NHA recorded negative operating profit margins in the period under review due to lack of investments in new infrastructure from which revenues could be generated. It was also stated that in the absence of new investments in infrastructure, NHA would continue to monitor its variable expenses in an effort to reduce them further. It could be seen from the statement of comprehensive income that expenditure was also reducing from K56.08 million in 2012 to K50.949 million in 2014. It was also explained that NHA would continue to explore other sources of external financing for its infrastructure development projects in order to improve its operations and eventually its profit margins.

Committee's Observations and Recommendations

Your Committee notes with grave concern the poor operating profit margins with the 2014 one being at 43%. Your Committee regrets that while the income reduced by 28% in the period under review, expenditure on the other hand reduced by only nine percent which shows that management was not committed in addressing the issue. Your Committee urges the Controlling Officer to take serious steps in reducing expenditure to acceptable levels commensurate with its income. This should include enhanced efforts to increase the income base by engaging other development partners in the housing sector. Your Committee resolves to await a progress report on the matter.

ii) Net Profit Margins

The Controlling Officer submitted that NHA recorded negative net profit margins in the period under review due to lack of investments in new infrastructure from which revenues could be generated. It was also explained that in the absence of new investments in infrastructure, NHA would continue to monitor its variable expenses in an effort to reduce them further. It could be seen from the statement of comprehensive income that expenditure was also reducing from K56.08 million in 2012 to K50.949 million in 2014. It was reported that NHA would continue to explore other sources of external financing for its infrastructure development projects in order to improve its operations and eventually its operating and net profit margins.

Committee's Observations and Recommendations

Your Committee notes the slight improvement in net profit margins during the period under review, mainly attributed to the disposal of fixed assets. Your Committee is of the view that the purported increased percentage of net profit margins is artificial in that disposing of fixed assets is but a one-off thing and thus not sustainable. Your Committee urges the Controlling Officer to take serious steps in reducing expenditure to acceptable levels commensurate with the NHA's income. This should include enhanced efforts to increase the income base by engaging other development partners in the sector. Your Committee resolves to await a progress report on the matter.

iii) Impact of Presale Scheme on the Income of the Authority

- **Reduction in Income from Presale Schemes**

The Controlling Officer submitted that the NHA pre-sale scheme was suspended in May 2012 following the Authority's inability to handover houses on time due to liquidity constraints. However, clients were now expected to make stage payments as house construction progressed. It was also reported that NHA had steadily reduced the backlog of houses not handed over. The current status stood at seven units in January 2017 from 159 units in 2012.

Committee's Observations and Recommendations

Your Committee notes the progress registered during the period under review in terms of reducing the number of housing units not handover. This, however, does not in any way suggest that the scheme was well managed as a number of potential clients could not proceed with the scheme. Further, no time frame has been given as to when the remaining housing units will be surrendered to the owners. With the huge housing deficit prevailing in the country, NHA would have raked in the much needed profits had it handled the project with strict adherence to completion period. Your Committee urges the Controlling Officer to ensure the remaining housing units are handed over to the owners within a specified period. Your Committee resolves to await a progress report on the matter.

- **Failure to Avail Presale Scheme Information**

The Controlling Officer submitted that NHA failed to avail presale information due to misplacement of documents resulting from the relocation of its Head Office from Longacres to Sheki-Sheki Road in Emmasdale. It was explained that NHA had traced all presale information for the period 2013, 2015 and 2016. These had been filed and were available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor recordkeeping at NHA, resulting in failure to avail them at audit process. While it is noted that offices for NHA were moved from Longacres to Emmasdale during the period under review, this nevertheless, does not justify the non production of documents if they were well kept. Your Committee urges the Controlling Officer to institute disciplinary action against the officers responsible for the failure to avail the documents during the audit process. Further, the compiled documents must be submitted for audit verification. Your Committee resolves to seek a progress report on the matter.

Breach of Conditions of the Scheme

The Controlling Officer submitted that the reported breach of conditions of the scheme by NHA was as a result of inclusion of non-presale matters. Out of the fourteen cases cited, only ten related to the pre-sale scheme. Out of the pre-sale, six cases had been concluded and judgment sums settled. The remaining four cases were still in court. The Controlling Officer reported that documentation was available at NHA for verification of the concluded matters and those still in court.

Committee's Observations and Recommendations

Your Committee is disappointed over the fact that if the information had been availed to the auditors at audit process, the matter could have been resolved. While noting that a number of cases have been resolved, your Committee noted that litigation contributed to the negative reputation of the NHA in terms of future engagements in similar schemes. Further, the amounts required to complete the outstanding houses under litigation and the actual litigation related costs such as damages and interest as well as amounts of rental refunds incurred and paid, have not been availed. Your Committee urges the Controlling Officer to compile all documentation relating to the cases as well as costs incidental to the litigation and submit them for verification. Additionally, all the officers who failed to furnish the documents to the auditors during the audit process should be disciplined to serve as a deterrent to would-be offenders. Your Committee resolves to await a progress report on the matter.

d) Financial Performance – Statement of Financial Position

i) Weaknesses in Managing Receivables

The Controlling Officer submitted that the weakness in the management of receivables by NHA was as a result of the deterioration in the Receivable days ratio. It was stated that NHA had engaged bailiffs to collect outstanding debts on its behalf and was also using the in-house legal department to pursue persistent defaulters in the court of law. Furthermore, NHA had strengthened its Debt Management Unit in order to make it more effective in the collection of debts. It was stated that NHA would go forward, ensure enforcement of the lease agreements and due diligence screening of would-be clients.

Committee's Observations and Recommendations

Your Committee is disappointed with the poor management of this once vibrant Government parastatal. It is evident from the delay in collection of payments from customers, resulting in deterioration of receivables ratio, that there is a lot of inefficiency at the institution. It is inconceivable that the institution, which is grasping with huge financial challenges, can exhibit such levels of complacency in collection of funds owed by customers. Your Committee urges the Controlling Officer to strengthen the weak enforcement of lease agreements immediately. In addition, the legal department must be beefed up so as to reduce the receivables ratio to acceptable levels. Your Committee resolves to await a progress report on the matter.

ii) Deteriorating Gearing Ratios

The Controlling Officer submitted that the deteriorating gearing ratio at NHA was as a result of the Shelter-Afriqne loan of US\$6.5 million which was fully disbursed as at 31 December 2014. It was also reported that NHA started to service the loan from sale of houses at Northgate Gardens

(NGG) in March 2015. So far, three installments of over US\$500, 000 per installment were made in 2015. Furthermore, the loan was restructured in June 2016 to give the Authority a breather. NHA had also engaged the Ministry of Finance for a bailout and recapitalisation of the institution.

Committee's Observations and Recommendations

Your Committee raises consternation with the levels of decline in financial status of this once vibrant state enterprise arising from poor management of the institution. It is regrettable that during the period under review, the gearing ratio increased from 77% in 2012 to 111% in 2014 demonstrating that the operations of the institution were mainly financed through debt. Your Committee contends that with the huge housing deficit prevailing in the country, NHA would have tapped into the market for the much needed profits from its housing projects had due diligence been done before the contraction of the Shelter-Afrique loan amounting to US\$6.5 million. Your Committee urges the Controlling Officer to ensure that the gearing ratio is reduced to acceptable levels given that the US\$6.5 million loan from Shelter-Afrique has been restructured. Further, an urgent corporate image enhancement plan aimed at rejuvenating public confidence in the institution should be developed in order to attract a larger clientele and subsequently reduce the debt level. Your Committee resolves to await a progress report on the matter.

e) Statement of Cash flow - Negative Cash flows from Operating Activities

i) Negative Cash flows from Operating Activities

The Controlling Officer reported that the negative cash flows from operating activities was as a result of increased level of inventories in 2014 caused by the Shelter-Afrique housing construction loan. The Controlling Officer also stated that NHA started selling houses at Northgate Gardens and was in the process reducing the work in progress held under inventories.

Committee's Observations and Recommendations

Your Committee expresses worry on the huge negative cash flow affecting the institution mainly caused by the loan contracted from Shelter-Afrique amounting to \$6.5 million. It is evident from the rapid decline of the cash flow that the institution is being poorly managed. Your Committee urges the Controlling Officer to ensure that management at the institution initiates and implements a robust financial recovery plan to reduce the negative cash flows to acceptable levels. Further, an urgent corporate image enhancement plan aimed at rejuvenating public confidence in the institution should be developed in order to reach out to the potentially huge clientele and subsequently enhance the cash flow from operating activities. Your Committee resolves to await a progress report on the matter.

ii) Questionable Going Concern Status

The Controlling Officer submitted that the questionable going concern status was as a result of losses caused by lack of construction project income and other income/fees associated with such projects. The gearing ratio increased due to the Shelter-Afrique loan recognition at December 2014. The Controlling Officer also reported that NHA had since started servicing the loan through instalments. However, this was negatively affected by the sharp depreciation of the Kwacha in 2015. Furthermore, NHA had engaged the Ministry of Finance for a bail out on the Shelter-Afrique loan and fresh capital injection. The outstanding amount of US\$93,647.90 was paid to Shelter-Afrique in October 2016.

Committee's Observations and Recommendations

Your Committee is dismayed with the extent of the questionable going concern and the rapid increase of the gearing ratio from 77% in 2012 to 111% in 2014. While noting that the main reasons advanced to have triggered the current status, your Committee is of the firm belief that this points to the fact that the institution is being poorly managed. It is disheartening that the loan from Shelter-Afrique contracted in 2014 has not yielded any positive results in that the houses were not built to the required standard, thereby affecting the sales. Your Committee urges the Controlling Officer to ensure that management at the institution initiates and implements a robust financial recovery plan to reduce the negative cash flows to acceptable levels. Further, an urgent corporate image enhancement plan aimed at rejuvenating public confidence in the institution should be developed in order to reach out to the potentially huge clientele and subsequently enhance the cash flow from operating activities such as the sale of houses. Your Committee resolves to await a progress report on the matter as well as the response from Ministry of Finance.

f) Weaknesses in Managing the North Gate Gardens, Bennie Mwiinga and Ibex Hill Projects

i) Weaknesses in Managing Shelter-Afrique Loan Relationship

The Controlling Officer submitted that the weakness in managing the Shelter-Afrique loan relationship was as a result of the depreciation of the kwacha against the dollar in 2015 and 2016, leading to lack of sales of houses at NGG as houses become unaffordable. The Controlling Officer also reported that NHA restructured the loan in June 2016. It was explained that the US\$138,647.90 had been paid in full in October 2016. Documentation was available for verification.

Committee's Observations and Recommendations

While noting the payments made thus far by the institution as of October 2016, your Committee expresses concern over the management of the loan of US\$6.5 million Shelter from Afrique. It is shocking that the reasons advanced for the cause of the failure to settle the loan were clearly avoidable if the implementation strategy had taken into account the risk factors. Your Committee also contends that with the huge housing deficit prevailing in the country, NHA could have raked in the much needed profits from its housing projects had due diligence been done before the contraction of the Shelter-Afrique loan. For example, NHA could have entered into memoranda of understanding with institutions requiring the service before the commencement of the project. Your Committee urges the Controlling Officer to ensure that a loan repayment plan is developed and followed to the letter to avoid the accumulation of other incidental costs such as interest. Further, the poor quality of works on the NGG project must be corrected without any delay in order to maximize the sales and consequently profits and subsequently reduce dependency on the Treasury in off-setting the loan. Your Committee resolves to await a progress report on the matter.

ii) Shelter Afrique Project - Failure to Reactivate Performance Guarantee and Advance Payment Bonds

The Controlling Officer submitted that the failure to reactivate the Performance Guarantee and Advance Payment Bonds was caused by the lapsing of the Performance Guarantee and Advance Payment Bonds. It was also reported that NHA halted house sales due to the unstable exchange rate. The final phase of construction works were to be funded from house sales once the resources were in place to complete the construction, the Advance Guarantee and Performance Bonds would be made.

Committee's Observations and Recommendations

Your Committee finds the reasons advanced for the failure to reactivate the Performance Guarantee and Advance Payment Bonds unacceptable given the huge housing deficit prevailing in the country. It is the considered view of your Committee that if the housing units in Lot 1 had been properly constructed, the sales would have been profitable despite the volatility of the kwacha at the time. Needless to state that during the period under review, similar housing projects such as Silverest Gardens were able to sell their houses at competitive prices due to the quality of the Houses. Your Committee urges the Controlling Officer to ensure the houses under Lot 1 are sold without any further delay to enable the institution commence the construction of Lot 2 houses. Further, the Performance Guarantee and Advance Payment Bonds must be re-activated without any further delay. Your Committee resolves to await a progress report on the matter.

iii) NHA-MKP Joint Venture - Failure to Adhere to the NHA-MKP Joint Venture Agreement

The Controlling Officer submitted that NHA was not allocated any percentage of construction works because NHA relinquished its participating interest in the Joint Venture. The participating interest was relinquished when NHA sold the 2.3 hectares of land, which was its equity contribution to the Joint Venture. It was also reported that NHA was allocated the agreed percentage of works by the Joint Venture and advanced K1.2 million towards construction of housing units at NGG site. Management was yet to commence construction works since the scheme was under presale. Works would commence once off takers were in place.

Committee's Observations and Recommendations

Your Committee is disappointed by NHA's decision to relinquish its participating interest in the Joint Venture due to its decision to sale the 2.3 hectares of land which was its equity contribution to the Joint Venture. It is regrettable that the institution had to forego the anticipated profits from this Joint Venture by generating the much needed revenue for its operations. Your Committee urges the Controlling Officer to closely supervise the institution on its project implementation so as to avoid recurrence of termination of Joint Ventures without any due diligence to the financial ramifications of such decisions. Your Committee resolves to close the matter.

iv) NHA-CJI Joint Venture

The Controlling Officer submitted that the difficult to ascertain the share of profits NHA had benefited from the company due to the absence of audit reports and financial statements. Further, no documentation was available to ascertain the number of houses constructed under the Venture, the costs involved and the number of houses sold at the time of audit. The Controlling Officer reported that NHA had traced documentation relating to the following:

- i) size of the housing scheme;
- ii) shareholding structure;
- iii) total number of houses constructed to date; and
- iv) construction costs.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor custody of joint venture documents at the institution. It is the view of your Committee that if the documents had been availed to the auditors during the audit process, the matter would have been resolved. Your Committee urges the Controlling Officer to ensure that the all officers who fail to provide the documents during the audit are disciplined in order to avoid recurrence of the query. Further, all the documentation relating to the joint venture should be compiled and submitted for verification. Your Committee resolves to await a progress report on the matter.

g) Lack of Assets Management Policy

The Controlling Officer submitted that the lack of an Assets Management Policy was due to absence of clauses on acquisition, disposal and methods of valuation in the Financial Policy document. The Controlling Officer also reported that the clauses referred to had been included in a draft Assets Management Policy document.

Committee's Observations and Recommendations

While noting the inclusion of the queried items in the draft Assets Management Policy document, your Committee expresses concern that no time frame has been given as to when the policy document will be fully implemented. Your Committee urges the Controlling Officer to provide a reasonable time frame in which the Assets Management Policy will be fully implemented to avoid recurrence of the query in the subsequent audits. Your Committee resolves to await a progress report on the matter.

h) Non-Remittance of Statutory Contributions – K31,164,367

The Controlling Officer submitted that the non-remittance of statutory contributions was due to financial challenges the institution was facing. In addition, it was reported that the Authority had engaged Workers' Compensation Fund Control Board and NAPSA on liquidation of arrears.

Committee's Observations and Recommendations

Your Committee finds the justification for the delay in transferring statutory obligations to ZRA and NAPSA misplaced, given that the deductions were made from the respective officers' emoluments. Whereas the institution is currently facing numerous financial challenges arising from poor management, statutory obligations must be prioritised to avoid recurrence of the query. Your Committee strongly urges the Controlling Officer to ensure that all statutory obligations are prioritised henceforth. Further, the agreed liquidation of arrears with Workers' Compensation Fund Control Board and NAPSA should be followed up. Your Committee resolves to await a progress report on the matter.

i) Site Visits – Weaknesses in the Management of Investment Properties

The Authority has investment properties in eight provinces of Zambia as tabulated below. Except for one caretaker, per property, the NHA had no other staff to manage the properties on site. Tenants entered into tenancy agreements with the NHA Head Office from Lusaka and were required to be depositing rental payments into the NHA accounts whenever due.

A physical inspection of the NHA investment properties conducted in July 2016 revealed the following:

- **Findeco House – Mongu, Kasama, Mansa, Solwezi, Ndola and Chipata**

The Controlling Officer submitted that the weakness in the management of investment properties at Findeco House – Mongu, Kasama Findeco House, Mansa Findeco House, Solwezi Findeco House, Ndola Sondashi Flats and Chipata Findeco House was due to various repairs and maintenance works not attended to including unpainted buildings, leaking toilets, broken windows, power lighting, faded paint – peeling off, dangling power cables, missing sewer covers, broken kitchen sinks, lack of fencing around buildings, broken toilet and cistern covers, cracked buildings and absence of gutters. It was also explained that some routine maintenance works were being undertaken at Findeco House – Mongu, Kasama Findeco House, Mansa Findeco House, Solwezi Findeco House, Ndola Sondashi Flats and Chipata Findeco House. NHA was fully aware of the state of disrepair of the commercial buildings and assessments of refurbishment works were done regularly. The estimated value of rehabilitation works in the provincial centres was around of K3 million. The Authority had not been able to undertake comprehensive rehabilitation works due to liquidity challenges.

Committee’s Observations and Recommendations

Your Committee expresses shock with the state and management of infrastructure by the institution. Given the strategic location of the buildings in question, your Committee contends that if the buildings had been well maintained, the institution would have been generating significant income for its general operations. The sheer neglect of the buildings and lack of a rehabilitation plan is testament to the fact that the institution requires an overhaul in its management. Your Committee urges the Controlling Officer to ensure that the K3 million required to rehabilitate the buildings is sourced as a matter of extreme urgency. This should be premised on a documented rehabilitation strategy for existing infrastructure. Additionally, property managers must be deployed to all the structures to avoid the further deterioration of the buildings. Your Committee resolves to await a progress report on the matter.

NITROGEN CHEMICALS OF ZAMBIA

Query Review of Operations

Paragraph 15

A review of accounting and other records for the financial years ended 31st March 2012, 2013, 2014 and 2015 carried out in April 2016, revealed accounting and other irregularities, to which the Controlling Officer responded as set out below

a) Failure to Fill the Position of Chief Finance Officer

The Controlling Officer informed your Committee that Nitrogen Chemicals of Zambia (NCZ) currently had an acting Chief Finance Officer, awaiting the recruitment of a person with skills and competencies required for the position. He submitted that management had initiated the process of advertising the position in the print media such as the Zambia Daily Mail and the Times Print Pack Zambia Limited. The Controlling Officer further informed your Committee that the Purchase Order numbered 29107 and 29108 had since been raised awaiting funding. The supporting documentation was available for audit verification.

Committee’s Observations and Recommendations

Your Committee is at a loss to understand why the Controlling Officer has not acted on this matter for eight years. Your Committee observes that this lapse has contributed to the failure by the company to grow its business. In this regard, your Committee strongly urges the Controlling Officer to ensure that a person with the requisite skills and competencies required for this key position is recruited without further delay in order to turn the fortunes of the business around. Your Committee awaits a progress report on the matter.

b) Lack of Audit Committee

The Controlling Officer explained that the Board of Directors was dissolved by the Minister of Agriculture on 18th May 2015. In view of the foregoing, the Finance Audit Committee was not in place due to the absence of the Board of Directors who were supposed to appointed the Committee.

Committee's Observations and Recommendations

Your Committee expresses concern that a big company such as NCZ has been operating without a Board of Directors. Your Committee observes that this lapse has resulted in the non-execution of decisions requiring board approval such as this one, thereby, affecting the operations of the Institution. In this regard, your Committee strongly urges the Controlling Officer to ensure that the Board of Directors is put in place in order for the Audit Committee to be appointed in line with the principles of good corporate governance. Your Committee will await a progress report on the matter.

c) Questionable Leave Commutation Payment - K145,233

The Controlling Officer informed your Committee that a scrutiny of the personal file and the leave card for the Marketing and Public Relations Manager revealed that he was overpaid by 150 leave days which were inadvertently not accounted for or deducted on the leave card in the month of April 2013. This, therefore, meant that he had only accrued 472.92 leave days as at 30th November 2015, and not the 173.5 leave days reflected in the Auditor General's Report.

The Controlling Office further informed your Committee that an instruction was given to the Finance Department to recover an amount equivalent to 150 leave days from the Marketing Manager's terminal benefits through a memo dated 22nd June 2016 and the recovery had since been effected from his outstanding terminal benefits. The supporting documentation was availed for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for NCZ, which is struggling to raise finances to have overpaid its officer by 447.42 days equivalent to K145,233. Your Committee therefore, strongly urges the Controlling Officer to ensure that stern disciplinary action is instituted against the officers responsible for the overpayment. Your Committee further urges the Controlling Officer to reconcile the purported leave days with the Auditor General's Officer and will await a progress report on the matter.

d) Failure to Maintain a Register of Accountable Documents

The Controlling Officer submitted that the register for accountable documents such as receipt books had always been maintained. He presented supporting documentation for audit verification.

Committee’s Observations and Recommendations

Your Committee does not accept the Controlling Officer’s response as the purported register of accountable documents should have been availed for audit verification at the time of audit had it been available. Your Committee therefore, finds it unacceptable that such a big company could fail to maintain a register of accountable documents. Your Committee observes that this anomaly could result in the misappropriation of funds as the total number of receipt books that were used during the period under review could not be ascertained. In this regard, your Committee strongly urges the Controlling Officer to sternly caution management of the company for this serious irregularity. Your Committee, however, resolves to close the matter subject to audit verification.

e) Non Payment of Statutory Contributions - K49,600,365

The Controlling Officer explained that payments could not be made to the National Pensions Scheme Authority (NAPSA) and the Zambia Revenue Authority (ZRA) due to the limitations of funds. He, however, assured your Committee that as soon as payments were received from the Government, who was the major debtor, payments would be made to NAPSA and ZRA.

Committee’s Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the statutory contributions in question are liquidated without further delay in order to avoid possible litigation. Your Committee will await a progress report on the matter.

f) Weakness in the Collection of Receivables

The Controlling Officer submitted that an outstanding amount of K101, 276,994 was not collected by May 2016. He explained that out of this amount, K89,530,801 was owed by the Ministry of Agriculture and the balance of K11,746,193 was owed by other debtors. However, the company collected K89, 530,801 from the Ministry of Agriculture and K6, 660,608 from other debtors as at 31st December 2016 as submitted in the Table below.

Details	Outstanding amount	Collections	Outstanding balance
Ministry of Agriculture	K89,530,801	K89,530,801	0
Other Debtors	K11,746,193	K6,660,608	K5,085,586
TOTAL	K101,276,994	K96,191,409	K5,085,586

He further assured your Committee that management would ensure that the Credit Policy was adhered to by enforcing it through relevant officers. He, however, lamented that there was a challenge to enforce the Policy with the Government.

Your Committee was further informed that following the collection of receivables from the Ministry of Agriculture, the company had since paid off some retirees the sum of K6, 963,021.82 which had reduced the outstanding terminal benefits to K34, 490,129.29 as at 31st January 2017. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee is disappointed with the failure by management to ensure that the receivables owed to the company are collected despite the company struggling with liquidity problems. Your Committee observes with concern that this failure may result in bad debt write-offs, therefore, affecting the revenue required for the Company to meet its obligations. In this regard, your Committee strongly urges the Controlling Officer to ensure that management devises and adopts more aggressive strategies of collecting the outstanding debts. Your Committee will await a progress report on the matter.

g) Questionable Fertiliser Sales

The Controlling Officer submitted as follows:

- with regard to RIA AGRO, the reflected debt of K1,529,600.00, had since been reduced to K680,000.00;
- regarding AGAVA, management would ensure that the funds were collected from the customer;
- as regards Better Changes, out of the K64,000.00 that was outstanding, a sum of K50,000.00 had since been paid;
- concerning the Small and Medium Engineering Company, the cheque number 300032 that had bounced was replaced by cheque number 300040 worth K91,000.00 which was deposited on 22nd December 2015, leaving a balance of K5,000.00 yet to be paid;
- regarding Marianesh Enterprises, it was true that cheques that were presented by the customer were not honoured. However, the delay in redressing the issue was compounded by the fact that the drawer was not informed of the cheques bouncing by the issuing bank until NCZ informed them that the cheques had bounced.

However, the cheques numbered 669 and 774 that had bounced were replaced with cheques numbered 668 and 1889 worth K91,800.00 and K100,000.00, thus, totalling K191,800.00. The supporting documentation was available for audit verification; and

- as for Maluba M.Trading, management would take legal action to ensure that the outstanding debt was collected.

Committee's Observations and Recommendations

Your Committee finds it highly irregular for the company to go against its Credit Policy by issuing fertilizer on un-cleared cheques. Your Committee observes expresses concern that this irregularity will result in the loss of public funds through theft of the fertilizer. In this regard, your Committee strongly urges the Controlling Officer to ensure that the management at NCZ is suspended with immediate effect in order to pave way for a forensic audit and further investigations. Your Committee resolves to await a progress report on the matter.

h) Supply of Fertiliser – Mumbwa District Farmers' Association

The Controlling Officer confirmed that the transaction was irregular as it was not approved by the Chief Executive Officer. He informed your Committee that management would ensure that all future credit transactions were approved by the Chief Executive Officer.

The Controlling Officer further informed your Committee that the Mumbwa District Farmers' Association had since paid the sum of K9,089,000.00 as at 31st December 2016, leaving a balance of K3,611,000.00 yet to be paid. The supporting documentation was availed for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for a junior officer at NCZ to issue fertiliser worth K12.7 million without the approval of the Chief Executive Officer. Your Committee observes that this irregularity stresses the fact that officers are taking advantage of the evidently weak internal control systems and poor supervision at the company. Your Committee, in this regard, strongly urges the Controlling Officer to ensure that internal controls be enhanced at NCZ in order to avoid recurrence of similar irregularities. Your Committee further urges him to ensure that the concerned officer is sternly disciplined and that the outstanding amount owed by the Association is paid in full without further delay. Your Committee will await a progress report on the matter.

i) Failure to Supply – Braithweit Investments Zambia

The Controlling Officer informed your Committee that management would take legal action to ensure the recovery of the money or the supply of the packaging material.

Committee's Observations and Recommendations

Your Committee is concerned with the casual manner in which the matter is being dealt with as it has only been acted upon after the audit process. Your Committee, in this regard, strongly urges the Controlling Officer to ensure that the matter is reported to the investigative wings for further probe as it is not clear why the 50,000 polypropylene empty fertiliser bags were not supplied despite the supplier being paid amounts totalling K 250,000. Your Committee further urges the Controlling Officer to ensure that the supplier is blacklisted from future consideration to supply goods and services to the Government arising from this conduct. Your Committee will await a progress report on the matter.

j) Questionable Payments - K23,733,573

The Controlling Officer submitted that the supporting documentation for the sum of K22,315,809.73 had since been located and was available for audit verification. However, management would ensure that the supporting documentation for the remaining sum of K1,417,763.27 was located.

Committee's Observations and Recommendations

Your Committee is concerned that payments made in 2015 were only being supported with the relevant documentation in 2017, and, therefore, questions the authenticity of the supporting documentation as the funds in question may have been misappropriated. Your Committee further finds it unacceptable that disciplinary action has not been instituted against the officers responsible for this irregularity. Your Committee, in this regard, urges the Controlling Officer to mete out disciplinary action against the erring officers in order to serve as a deterrent to others. He is further urged to submit the traced supporting documentation to the Auditor General for

verification and ensure that officers manning stores are well inducted in order to avoid such irregularities. Your Committee will wait a progress report on the supporting documentation of the outstanding payments and the disciplinary action taken against the erring officers.

k) Irregular Transaction - Maluba M. Trading

The Controlling Officer submitted that the matter was before the courts of law and being investigated by the law enforcement agencies.

Committee's Observations and Recommendations

Your Committee is alive to the fact that the matter before the courts of law does not involve this irregular transaction but that of the Supplier impersonating the Special Assistant to the President for Press and Public Affairs, and for allegedly obtaining K260, 000 from the NCZ Chief Executive Officer. Furthermore, the Controlling Officer failed to provide evidence to this effect. It is in this regard that your Committee sternly cautions the Controlling Officer to desist from misleading your Committee as this is at variance with the National Assembly (Powers and Privileges) Act, Chapter 12 of the Laws of Zambia, which inter alia, expects witnesses to be factual as and when they appear before any Parliamentary Committee.

Further, in his verbal submission to your Committee, the Auditor General revealed that Maluba M. Trading was not only single sourced without obtaining authority from the Zambia Public Procurement Authority but also did not appear on the bidding list. In this regard, your Committee recommends that this matter be reported to investigative wings for further probe as this supplier may be used to siphon funds from NCZ. Your Committee further urges the Controlling Officer to ensure that the supplier is blacklisted from future consideration to supply goods and services to the Government arising from this conduct. Your Committee will await a progress report on the matter

l) Unsupported Payments - K1, 584,716

The Controlling Officer submitted that management would endeavor to locate the supporting documents by end of February, 2017.

Committee's Observations and Recommendations

Your Committee observes with concern that at NCZ, Financial Regulations are being flouted with impunity and fears this unfortunate state of affairs is a sure recipe for malpractices. Your Committee further observes that this lapse is due to poor supervision by management and negligence on the part of the officers. Your Committee urges the Controlling Officer to take disciplinary action against the officers who failed in their duties by not securing the supporting documents. Your Committee resolves to await a progress report on the matter.

m) Missing Payment Vouchers - K1,614,675

The Controlling Officer informed your Committee that management would endeavor to avail the seventy payment vouchers alluded to above by end of February 2017.

Committee's Observations and Recommendations

Your Committee observes with concern that at NCZ Financial Regulations are being flouted with impunity and fears this unfortunate state of affairs is a sure recipe for malpractices. Your Committee further observes that this lapse is due to poor supervision by management and negligence on the part of the officers. Your Committee urges the Controlling Officer to take disciplinary action against the officers who failed in their duties by not securing the supporting documents. Your Committee resolves to await a progress report on the matter.

n) Wasteful Expenditure - K258,640

The Controlling Officer explained that the expenditure at the time was necessary because the original sheets were made of asbestos which were banned in Zambia due to their carcinogenic properties. Therefore, in an effort to secure the Bagging Tower with the onset of the rainy season, the IBR roofing sheets were the only materials found on the Zambian market to use to cover the Bagging Tower. He further explained that the environment was highly corrosive and efforts were being made to find the suitable material that could withstand that environment. With the IBR roofing sheets, therefore, the company managed to store bags of fertilizer through the rainy season which enabled NCZ to deliver Government fertilizer on time.

The Controlling Officer further submitted that a new product had since been identified, tested and found to withstand the corrosive environment and was being used on the Bagging Tower.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that funds amounting to K258,640 were misapplied on the procurement of iron sheets that did not conform to the required specifications. Your Committee observes that such lapses can result in the loss of public funds. Your Committee, in this regard, urges the Controlling Officer to ensure that stern disciplinary action is taken against the officers responsible for the decision which resulted in the wasteful expenditure. Your Committee further urges him to make sure that in future, officers at NCZ follow the required specifications in the procurement process in order to avoid such queries. Your Committee will await a progress report on the matter.

o) Lack of Approved NCZ Procurement Manual

The Controlling Officer submitted that the document in question had outdated thresholds for use for each procurement method. However, management was currently in the process of reviewing and revising the thresholds in accordance with regulation No. 8 of the Zambia Public Procurement Regulations of 2011. This, therefore, would be made available for audit verification once approved by the approving authorities.

Committee's Observations and Recommendations

Your Committee finds the inordinate delay to operationalise the procurement manual unacceptable. Your Committee observes that this is a deliberate move by management to take advantage of the weaknesses in the procurement processes. Your Committee, therefore, directs the Controlling Officer to ensure that management is sternly cautioned for this failure and the procurement manual is operationalised without further delay. Your Committee await a progress report on the matter.

p) Non Delivery of Conveyor Belt

The Controlling Officer submitted that management was seeking legal redress due to the failure by the supplier to deliver the conveyor belt. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the issue of non delivery of procured goods is becoming a permanent feature at NCZ . This anomaly points to the fact that there are weak internal controls in the company. Your Committee further expresses concern at the failure by the Controlling Officer to act on this matter promptly. Your Committee cautions him to desist from such a laissez-faire approach to matters concerning public funds. Your Committee directs the Controlling Officer to report the matter to law enforcement agencies for further probing as it is not clear why management effected the payment of the K 50, 460 for the supply of the conveyor belt before the belt was delivered and why the supplier has not delivered the belt despite being paid the advance payment. Your Committee will await a progress report on the matter.

q) Fertiliser Production and Management

i) Delayed Banking at Head Office – Kafue - K2,379,597

The Controlling Officer informed your Committee that management would ensure that all the revenue collected was banked in accordance with the Financial Regulation No. 121(1). Furthermore, management had devised a system where customers were encouraged to deposit money into the company's bank account and thereafter, only present banking slips or transfer documents before collecting the fertiliser.

Committee's Observations and Recommendations

Your Committee finds the delayed banking a clear indication that there are weak internal controls on revenue management at NCZ. It is evident that this action is a clear case of teaming and lading by officers arising from poor supervision. Your Committee urges the Controlling Officer to ensure that internal revenue management controls are tightened to avoid recurrence of the irregularity. The Controlling Officer is further urged to ensure that disciplinary action is taken against the erring officers immediately. Your Committee will await a progress report on the matter.

ii) Unaccounted for Revenue - K676,506

The Controlling Officer submitted that the receipts and deposit slips had been located and were available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by management at NCZ to avail the receipts and deposit slips for audit verification during the audit process and expresses concern that the revenue may have been misappropriated. Your Committee is of the view that the conduct of the officers responsible for this lapse demonstrates the laxity of the Controlling Officer in addressing the issue. In addition, your Committee finds it shocking that the receipts and deposit slips have only being found in retrospect without taking disciplinary action against the erring officers. In this regard, your Committee urges the Controlling Officer to ensure that the erring officers are

disciplined without further delay as their action contravenes Financial Regulation No 129 (3). Your Committee further urges the Controlling Officer to ensure that the traced documents are submitted to the Office of the Auditor General for audit verification. The Committee will await a progress report on the matter.

iii) Contract for Manufacture, Supply and Delivery of 106,409.75 Metric Tonnes of Compound D Fertiliser for the 2015/2016 Farming Season under the Farmer Input Support Program (FISP)

- **Physical Inspection of Fertiliser Distributions**

With regard to the Kabwe Depot, the Controlling Officer confirmed that the stock was never physically verified when the NCZ members of staff took over from the Kabwe District Cooperative because the Cooperative refused to undertake such an exercise. Additionally, the Cooperative refused to handover the Goods Received Vouchers. Furthermore, the depot was closed on 30th April 2016, hence, there were no payments being made for the warehouse and the security services.

Regarding the Ngabwe Depot, the Controlling Officer also confirmed that fifty four bags of fertiliser valued at K16,416.00 were damaged during the process of offloading and loading. However, the bags had since been repaired and issued out. As regards Mkushi Depot, sixty nine bags of D Compound fertiliser valued at K20,432.00 were unaccounted for because the bags were damaged by a fire that broke out. However, the bags had since been replaced.

Concerning Luano Depot where thirty three bags of fertiliser valued at K6,992.00 were underweight, this was corrected and the fertiliser was issued to the farmers. Regarding Chitambo Depot, it was true that six by 50kg bags of D compound were carry overs from the 2014/2015 season and had since been issued to the farmers. With regard to the Serenje Depot, the forty nine by 50kg bags of D Compound fertiliser was unaccounted for due to shortlanding. However, the cost of fertiliser would be recovered from the transporters as they were paid. The Mansa depot had since been closed and the twenty by 50kg bags of fertiliser at the Mwansabombwe Depot, were underweight but had since been corrected and issued to the farmers.

The Controlling Officer further assured your Committee that the rest of depots that had similar scenarios whose issues had been attended to by management, by taking corrective measures accordingly. The supporting documentation was availed for audit verification.

Committee's Observations and Recommendations

Your Committee is disappointed that the Controlling Officer does not appear to be in control of the management of fertilizer at NCZ as the supply and distribution of fertilizer is being mismanaged with impunity. Further, the various irregularities surrounding the fertilizer distribution are also not reflecting well on the management of this institution. Your Committee observes that irregularities such as these can result in the pilferage of fertilizer which may not be easily detected and therefore, should not be entertained. In this regard, your Committee sternly cautions the Controlling Officer to henceforth, closely supervise the management of fertilizer at NCZ as well as be proactive in ensuring that all the requisite supply and delivery systems are strictly monitored. Your Committee further urges him to ensure that all the bags of fertilizer are accounted for and that the officers who failed to account for the fertilizer are disciplined for this failure. Your Committee will await a progress report on the matter.

- **Unreconciled Returned Fertiliser Bags – Kabwe - K549,024**

The Controlling Officer confirmed that there was a variance of 1,806 by 50 Kg bags of D Compound fertiliser worth K549,024 which could not be explained at the time of the audit. He explained that the variance alluded to was diverted to the Ngabwe Depot.

Committee’s Observations and Recommendation

Your Committee observes that this is a very serious irregularity which, if not properly addressed, will result in the loss of Government revenue. Your Committee, therefore, directs the Controlling Officer to report the matter to investigative wings for further probe as it is not clear why 38,614 x 50 kg bags of “D” compound fertiliser was received against the 40,420 x 50 kg bags returned to the NCZ Plant in Kafue and why the variance of 1,806 by 50 Kg bags was diverted to Ngabwe Depot instead. Your Committee will await a progress report on the matter.

r) Management of Plant, Equipment, Machinery and Assets

i) Failure to Revalue Assets

The Controlling Officer submitted that management would ensure that the revaluation of assets was undertaken when funds were available as it was a costly exercise.

Committee’s Observations and Recommendations

Your Committee is alarmed at the state of affairs at NCZ where the company’s assets have not been revalued from the time the company was incorporated in 1967. Your Committee urges the Controlling Officer to sternly caution management for this failure and strongly urges the Secretary to the Treasury to facilitate the urgent revaluation of the company’s assets. Your Committee awaits a progress report on the matter.

ii) Use of Old Plant Machinery and Equipment

- **Dose Meters Motors**

The Controlling Officer informed your Committee that management had prudently been repairing and refurbishing the old equipment and machinery such as motors and control switches. Management had also evaluated all the equipment and machinery to ascertain their technical soundness on a weekly basis. In many cases, some equipment and machinery had been replaced with modern ones.

Committee’s Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that this asset is replaced without further delay in order to avoid challenges in fertiliser production. Your Committee will await a progress report on the matter.

- **Dryer**

The Controlling Officer explained that the gearbox was a very robust and expensive machine that outlived the life of a chemical plant. Lack of understanding of the gearbox by the newly engaged employees after the old, skilled and experienced employees retired, therefore, contributed to the frequent failures. The failure of the gearbox was also as a result of other failed equipment which had since been addressed through research and development by the NCZ scientists and engineers. The gearbox though more than 35 years old, had performed exceptionally well. The same gearbox, would be used for a long time to come as long as other surrounding equipment continued working well and good maintenance was conducted annually. There was no scientific or engineering reason to replace the gearbox for the dryer.

Committee's Observations and Recommendations

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

- **Screens**

The Controlling Officer submitted that the frequent breakdowns of the screens was not due to the old age of the screens but the misalignments caused by corrosion which affected the mountings, housings and the shafts. However, the seizure of bearings had been experienced, the causes were established and the correct measures which included modifications had been put in place. Since the scientists and engineers implemented the correct measures, the screens were working well.

Committee's Observations and Recommendations

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

iii) Inadequate Machinery and Plant Equipment

- **Loaders**

The Controlling Officer informed your Committee that currently, there were four loaders that were available and in good condition. A maximum of two loaders were used at any given time while two were on standby. Notwithstanding the foregoing explanation, the procurement of one loader was budgeted for under the capital expenditure for 2017.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the loader is procured in order to avoid challenges in fertiliser production. Your Committee will await a progress report on the matter.

- **Sewing Machines**

The Controlling Officer informed your Committee that the procurement of the two sewing machines was budgeted for under the capital expenditure for 2017.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that modern sewing machines are procured in order to avoid the spillage of fertiliser due to poor quality of faulty sewing machines. Your Committee will await a progress report on the matter.

iv) Lack of Plant, Machinery and Equipment Replacement Policy

- **Failure to replace the Sulphuric Acid Plant**

The Controlling Officer submitted that the Sulphuric Acid Plant replacement required funding as it was obsolete as well as an assessment of the availability of the market for sulphuric acid.

Committee's Observations and Recommendations.

Your Committee finds it unacceptable that the company does not have an Asset Management Policy. It observes that the failure to have this Policy in place exposes the company to the risk of fraud as the guidance on the acquisition, recording, use and disposal of the Company's non-current assets, among other things, lack clarity. In this regard, your Committee strongly urges the Controlling Officer to ensure that the Policy is put in place without further delay and that funds are mobilised for the replacement of the plant to help generate revenue for the Government through the supply of sulphuric acid. Your Committee will await a progress report on the matter.

- **Failure to Repair Ammonium Nitrate Plants and Nitric Acid Plant**

The Controlling Officer submitted that the new Ammonium Nitrate Plant and the Nitric Acid Plant were earmarked for rehabilitation when funds were available. He informed your Committee that a minimum of U\$50,000,000.00 was required to rehabilitate the plants and it would take three years to undertake the rehabilitation exercise.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to intervene in this matter in order to help source the necessary funds. Your Committee will await a progress report.

v) Non Implementation of Off take Agreement

The Controlling Officer submitted that management had since engaged the Industrial Development Corporation (IDC) to intervene so that the off-take agreement between the African Explosives Limited (AEL) and Nitrogen Chemicals of Zambia Limited could be implemented as soon as possible. The impasse had been the failure to agree on the price of Ammonium Nitrate to be supplied to AEL.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is expeditiously concluded in order for the Government to collect revenue from this agreement as well as avert the risk of not having a market for this product. Your Committee will await a progress report on the matter.

vi) Poor Management of Non-Current Assets

- **Failure to Acquire a New Fire Tender**

The Controlling Officer submitted that the company had one fire tender which was operational and funds permitting, a new fire tender would be soon procured.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to treat this matter with the urgency it deserves by ensuring the fire tender is procured in order to avert the loss of the company's assets in case of a fire. Your Committee will await a progress report on the matter.

- **Dilapidated Structure**

The Controlling Officer informed your Committee that the Company was in the process of replacing window panes and asbestos sheets which had fallen off from the structures. Additionally the steel structure was also being painted to inhibit corrosion.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to facilitate urgent renovations in order to maintain the value of the property and avoid the risk of accidents by the building collapsing on staff thereby causing loss of lives. Your Committee will await a progress report on the matter.

- **Failure to Insure Property, Plant and Equipment - K14,935,991.47**

The Controlling Officer informed your Committee that the cost of insurance for the company property and plant equipment was budgeted for every financial year. However, the failure to make payments to insurance companies was due to the limitation of funds. He submitted that all the motor vehicles had since been insured.

Committee's Observations and Recommendations

Your Committee finds the Controlling Officer's response unacceptable and contends that the financial mismanagement at NCZ is disadvantaging the company from meeting its obligations. It is clear from the anomalies highlighted in this query that management has no knowledge of the financial regulations and is, therefore, incapable of running the affairs of NCZ. Your Committee directs the Controlling Officer to seriously consider replacing the current underperforming management of NCZ with a more competent and knowledgeable cadre of management employees to turn around the fortunes of the Company.

Your Committee further urges the Controlling Officer to ensure that the company's assets are insured in order to avert the risk of loss through theft, among other things. Your Committee will await a progress report on the matter.

16. A review of accounting and other records maintained at the company headquarters for the period from January 2013 to December 2015 carried out in June 2016 revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) Absence of a Board of Directors

The Controlling Officer submitted that the Board was dissolved in December, 2015 and the delay in appointing the board of directors was due to the change of Ministers in the Ministry, thus each Minister who assumed office had to study the whole process. In addition, the Controlling Officer reported that the appointment of the Board of Directors was in the vetting process following the recommendation made by shareholders in March 2016.. The Minister was in the process of ratifying individuals to sit on the Board.

Committee's Observations and Recommendations

Your Committee expresses regret with the laxity by the Ministry to appoint the Board for the utility company. While noting the high attrition of Ministers at the Ministry, your Committee insists that fourteen months is way too long not to have finalised the process of appointing Board members. In addition, your Committee is alive to the fact that the majority of the individuals who qualify to sit on the Board are nominated by institutions, thereby making it easy to appoint them. Needless to state that the continued absence of the Board at the utility company has far-reaching effects on the general administration of the company. Your Committee urges the Controlling Officer to follow this matter up with the Minister in order for the Board to be appointed without any further delay. Your Committee resolves to await a progress report on the matter.

b) Lack of Insurance Cover for the IT Equipment

The Controlling Officer submitted that the company could not insure the equipment in question during the period under review due to financial constraints. The Controlling Officer reported that Southern Water had now insured the equipment and insurance certificate were available for verification.

Committee's Observations and Recommendations

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

c) Financial Performance – Statement of Comprehensive Income

i) Recurring Losses

The Controlling Officer submitted that Southern Water and Sewerage Company (SWSC) had not managed to exceed the 50% gross profit due to a non-cost reflective tariff. The Controlling Officer reported that the utility had put forward a tariff proposal for the year 2017 to the regulator (NWASCO) which was cost reflective. It was also explained that in its quest to increase its gross profit, the company was increasing its customer base, growth which would translate to increased revenue.

Committee's Observations and Recommendations

Your Committee is disappointed that the company has continued to incur losses over the past years due to its huge expenses that are not commensurate with its income. This state of affairs has a ripple effect on the failure by the company to improve its operations. While noting that a new tariff proposal has been made to the regulator as well as increasing the customer base, this must go hand-in-hand with prudent utilisation of funds in order to significantly reduce on the expenses. Your Committee urges the Controlling Officer to closely monitor the company in order to maximise profit. Your Committee resolves to await a progress report on the matter.

ii) Gross Profit Margin Ratio

The Controlling Officer submitted that Southern Water and Sewerage Company (SWSC) had not managed to exceed the 50% gross profit due to non-cost reflective tariff. The Controlling Officer reported that the utility had put forward a tariff proposal for the year 2017 to the regulator (NWASCO) which was cost reflective. It was also explained that in its quest to increase its gross profit the company was increasing its customer base growth which would translate to increased revenue.

Committee's Observations and Recommendations

Your Committee is disappointed that the company has continued to incur losses over the past years due to its huge expenses that are not commensurate with its income. This state of affairs has a ripple effect on the failure by the company to improve its operations. While noting that a new tariff proposal has been made to the regulator as well as increasing the customer base, this must go hand-in-hand with prudent utilisation of funds in order to significantly reduce on the expenses. Your Committee urges the Controlling Officer to closely monitor the company in order to maximise profit. Your Committee resolves to await a progress report on the matter.

d) Company Financial Position

i) Capital and Reserves

The Controlling Officer submitted that due to non-cost reflective tariff, the company had challenges meeting its operational costs resulting in the build up of liabilities. It was also reported that the debt management team had been strengthened to collect outstanding debt, the company had embarked on the procurement of water meters to be installed on all connections and this would enable the company to collect the current bills and recover part of the outstanding debts that may result in improvement in the liquidity. In addition, the company was working towards acquiring a Smartphone App to improve the billing efficiency and credibility that in turn would help improve collections.

Committee's Observations and Recommendations

Your Committee expresses worry with the decline in capital reserves. With the huge losses the company is grappling with, capital reserves ought to be well managed as their depletion will limit the expansion of infrastructure resulting in lower capturing of customers. Your Committee urges the Controlling Officer to ensure that the company develops and implements a business plan highlighting the alternative sources of income to ease pressure on the declining of capital reserves. Your Committee resolves to await a progress report on the matter.

ii) Liquidity Position

The Controlling Officer submitted that due to non-cost reflective tariff, the company had challenges meeting its operational costs resulting in the buildup of liabilities. It was also reported that the debt management team had been strengthened to collect outstanding debt, the company had embarked on the procurement of water meters to be installed on all connections and this would enable the company to collect the current bills and recover part of the outstanding debts that may result in improvement in the liquidity. In addition, the company was working towards acquiring a smartphone app to improve the billing efficiency and credibility, which in turn would help improve collections.

Committee's Observations and Recommendations

Your Committee is dismayed with the liquidity position of the company which falls below the acceptable level. This highlights the fact that the company has no capacity to deal with its short-term financial obligations. While noting the immediate interventions the company has instituted to arrest the situation, no time frame has been given in which the matter will be addressed. It is the considered view of your Committee that the output of these interventions will only be meaningful if the company takes bold steps to address its colossal expenses. Your Committee urges the Controlling Officer to closely monitor the company on the implementation of the planned activities within a specific time frame. Your Committee resolves to await a progress report on the matter.

iii) Return on Capital Employed (ROCE)

The Controlling Officer reported that infrastructure at Southern Water was in a deplorable state. It was also stated that the company was making frantic efforts to source finances for capitalisation. Further, utility companies were not in profit making ventures but merely to provide a service to the community, thus faced challenges in sourcing finances. It was explained that Southern water was broadening its revenue bases by offering 10% discount on the customers who paid their bills in full.

Committee's Observations and Recommendations

Your Committee is disappointed with the view expressed by the Controlling Officer to the extent that the company was not a profit making venture but merely providing a service to the community. It is evident from the response that if this is the way the company is being run, then no tangible outcomes will be recorded. It is no wonder there is a *laisse-faire* attitude in the manner the company is being run. Your Committee wonders how the company plans to offer a service to the community if it does not maximise profits. Your Committee strongly urges the Controlling Officer to ensure that the company is run strictly as a profit making entity and adheres to the general principles of a company so as to enhance service delivery to the community. In this vein, your Committee also urges the Controlling Officer to ensure that the Company develops and implements a business plan highlighting the alternative sources of income to maintain acceptable profits. Your Committee resolves to await a progress report on the matter.

e) Comparative Performance in the Water and Sanitation Sector

i) Unaccounted for Water (Non-Revenue water)

The Controlling Officer reported that non-revenue water was due to dilapidated networks and low metering ratio. In addition, the utility company was in the process of acquiring new meters to replace the old ones and upgrading the existing network. The Controlling Officer explained that through recapitalization, the company would drastically reduce the non revenue water to the acceptable level of 25%.

Committee's Observations and Recommendations

Your Committee notes that despite the minimal decrease in non- revenue water from 43% in 2013 to 35% in 2016 arising from interventions by the company, this still shows that a lot needs to be done to deal with the matter. Whereas the company has formulated progressive strategies to arrest the situation, no time frames have been given to fully implement them. Your Committee urges the Controlling Officer to ensure that the implementation of strategies put in place to reduce the non-revenue water to the set target of twenty-five by the regulator is achieved within a specific and reasonable time frame. Your Committee resolves to await a progress report on the matter.

ii) Metering Ratio

The Controlling Officer reported that this was due to lack of capital to meter all customers. It was stated that the company with support from GRZ was currently installing 11,000 domestic meters which would further improve the metering ratio by the end of 2017. Other interventions in this regard, would be addressed through the envisaged capital projects such as the Kazungula Water Supply and Sanitation Project, the Choma Water Supply and Sanitation Project, the Livingstone Water Supply, Sanitation and Energy Efficiency Project and other projects in the pipeline. By end of 2015, the company metering ratio stood at seventy percent. It was explained that the envisaged grants from the GRZ and other cooperating partners towards the water supply improvement would increase the metering ratio to at least ninety-five percent by 2019.

Committee's Observations and Recommendations

Your Committee notes the minimal increase in the metering ratio from 63% in 2015 to 70% in 2016. While this is the case, the figure still falls short of the one given by the regulator at 100%. It is the expectation of your Committee that the envisaged grants from the Government with other co-operating partners will be prudently utilised in order to achieve the targeted 95% metering ratio by 2019. Your Committee urges the Controlling Officer to ensure the company is closely monitored in order to achieve the stated target. Your Committee resolves to await a progress report on the matter.

(f) Questionable Acquisition of a House – K550,000.00

The Controlling Officer submitted that the house the utility company bought had no title deeds. It was stated that the company had written to Ministry of Lands, Natural Resources and Environmental Protection to start the process of acquiring the title deeds. Documentation was herewith attached for verification.

Committee's Observations and Recommendations

Your Committee expresses consternation on the procurement of a house by the company without title deeds. This points to the fact that there may have been improper interests by some officers in this transaction. It is also disappointing that the company only followed up this matter with the Ministry of Lands after being queried. Your Committee urges the Controlling Officer to institute disciplinary action against all the officers involved in this transaction. Further, the Controlling Officer should follow up with the Ministry of Lands on the current status of the title deeds. Furthermore, all properties owned by the Company should have title deeds to avoid recurrence of the query. Your Committee resolves to await a progress report on the matter.

(g) Failure to Remit Withholding Tax – K82,423.24

The Controlling Officer submitted that most of the landlords' properties at the time were not yet registered with Zambia Revenue Authority. ZRA insisted the landlords to be registered with them before payment could be effected. The Controlling Officer also reported that the company had started paying withholding tax effective January 2016, after the landlords registered with Zambia Revenue Authority. Documentations were available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern that the company was transacting with entities that were not registered with ZRA resulting in the delay to remit withholding tax. Your Committee urges the Controlling Officer to ensure that the company only transacts with landlords who are registered with ZRA to avoid recurrence of the query. Further, the repayment plan agreed with ZRA should be followed to the letter. The documentation relating to the query must be compiled and submitted for verification. Your Committee resolves to await a progress report on the matter.

i) Failure to Pass Title of assets to SWSC

The Controlling Officer submitted that the local authorities had not granted yet the title deeds due to long process involved in transferring the titles. It was also stated that the company had since written remainders to the local authorities to speed up the process.

Committee's Observations and Recommendations

Your Committee expresses concern that it has taken over eighteen years for the local authorities to hand over title deeds for the properties. This shows the high levels of indiscipline in the local authorities. Your Committee urges the Controlling Officer to take stern action against the local authorities for failure to transfer the titles. Further, your Committee directs that the title must be surrendered to the company without any further delay. Your Committee resolves to await a progress report on the matter.

THE TANZANIA ZAMBIA RAILWAY AUTHORITY (TAZARA)

**Query
Review of Operations**

Paragraph 17

An audit review of operations for the Authority including the physical site inspections carried out in November 2015 revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Failure to provide Audited Financial statements

The Controlling Officer submitted that the audited financial statements for the 2013/2014 financial year had been completed and the report was ready for the submission to the Council at the next Council meeting. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee observes that the failure to produce and submit audited financial statements is an indication that the management appointed to oversee the operations of the Authority is failing in its duties. Your Committee, therefore, strongly urges the Controlling Officer to caution management for this failure. Your Committee further urges the Controlling Officer to ensure that the audited financial statements in question are approved without further delay and submitted to the Officer of the Auditor General for verification. Your Committee will await a progress report on the matter.

b) Operating Losses- Financial Performance

The Controlling Officer explained that the Tanzania Zambia Railway Authority's (TAZARA) performance had been declining for a number of years due to many factors, one of them being the lack of working capital. This had tremendously lead to differed maintenance and hence poor reliability of rolling stock. The poor performance of the rolling stock led to customers abandoning the use of TAZARA .This further reduced the revenue and made it inadequate to service some of the Authority's obligations.

This notwithstanding, Government intervention, the change in management and improved market strategies assisted the Authority in improving its performance.

Committee's Observations and Recommendations

Your Committee observes with concern that the Authority may cease to be a going concern unless concrete measures are taken to increase the Authority's revenue and reduce its costs. In this regard, therefore, your Committee strongly urges the Controlling Officer to ensure that the Authority improves its liquidity levels and reduce its costs. The Secretary to the Treasury is particularly urged to ensure that the Authority is capitalised in order to improve its current status as it is a key player in one of the major sectors of the economy in the country. Your Committee will await a progress report on the matter.

c) Statement of Financial Position

i) Negative Working Capital and Low Liquidity Ratios

The Controlling Officer informed your Committee that this was a direct result of poor performance. He explained that TAZARA'S performance had been declining for a number of years due to many factors one of them being, the lack of working capital. This had tremendously led to deferred maintenance and hence poor reliability of rolling stock. The poor performance of the rolling stock led to customers abandoning the use of TAZARA .This further reduced the revenue inadequate to service some of the Authority's obligations.

This notwithstanding, Government intervention, the change in management and improved market strategies assisted the Authority in improving its performance.

Committee's Observations and Recommendations

Your Committee observes with concern that the Authority may cease to be a going concern unless concrete measures are taken to increase the Authority's revenue and reduce its costs. In this regard, therefore, your Committee strongly urges the Controlling Officer to ensure that the Authority improves its liquidity levels and reduce its costs. The Secretary to the Treasury is particularly urged to ensure that the Authority is capitalised in order to improve its current status as it is a key player in one of the major sectors of the economy in the country. Your Committee will await a progress report on the matter.

ii) Uncollected Debt - K2, 114,596 (Tshs380, 627,273.49)

The Controlling Officer informed your Committee that the Authority had since put in place a Debt Management Policy which was available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern that the Authority is being owed so much money despite it facing financial constraints. Your Committee further finds it unacceptable for the Authority facing liquidity challenges not to have a Debt Policy in place, therefore, making it impossible to ascertain how long the debt is being owed, as the period the debt was contracted is not indicated. Your Committee in this regard, strongly urges the Controlling Officer to ensure that internal controls at the Authority are strengthened. Your Committee further urges him to ensure that the management of the Authority devises more aggressive measures to recover the outstanding debt and also avoid future accumulation of debt. Your Committee however, resolves to close the matter subject to audit verification.

iii) Decline In Freight Traffic

The Controlling Officer explained that this was as a result of inadequate working capital which resulted in the:

- inadequate repair of the aged rolling stock such as wagons and locomotives;
- industrial unrest which negatively affected train movements and operations;
- long transit time, caused by poor maintenance of stock, speed restriction and accidents and the turnaround of wagons. This negatively affected the business;
- erratic supply of fuel affected the decline of transit traffic; and
- low levels of security while goods were in transit, negatively affected the business performance.

However, Government intervention, the change in management and improved market strategies had assisted the Authority improve its performance.

Committee's Observations and Recommendations

Your Committee observes with concern that the decline in freight traffic is affecting the Authority's ability to raise the much needed revenue for its operations. In this regard, your Committee strongly urges the Controlling Officer to ensure that the matter is laid before the Council of Ministers for consideration of the possibility of recapitalizing TAZARA in order to improve the Authority's operations for revenue generation. Your Committee awaits a progress report on the matter.

iv) Decline in Passenger Traffic

The Controlling Officer explained that this was as a result of inadequate working capital which resulted in the:

- inadequate repair of the aged rolling stock such as wagons and locomotives;
- industrial unrest which negatively affected train movements and operations;
- long transit time, caused by poor maintenance of stock, speed restriction and accidents and the turnaround of wagons. This negatively affected the business;
- erratic supply of fuel affected the decline of transit traffic; and
- low levels of security while goods were in transit, negatively affected the business performance.

However, Government intervention, the change in management and improved market strategies had assisted the Authority improve its performance.

Committee's Observations and Recommendations

Your Committee observes with concern that the decline in passenger traffic is affecting the Authority's ability to raise the much needed revenue for its operations. In this regard, your Committee strongly urges the Controlling Officer to ensure that the matter is laid before the Council of Ministers for consideration of the possibility of recapitalising TAZARA in order to improve the Authority's operations for revenue generation. Your Committee awaits a progress report on the matter.

d) Inadequate Locomotives

The Controlling Officer explained that this was due to the non-availability of funds for purchasing spare parts for planned maintenance of all TAZARA equipment. However, management was expecting to receive some spare parts from the 16 protocol and had also requested the two shareholding Governments for working capital and recapitalization.

Committee's Observations and Recommendations

Your Committee finds this unacceptable as the current state of affairs is affecting the Authority's ability to raise the much needed revenue for its operations. In this regard, your Committee strongly urges the Controlling Officer to ensure that the matter is laid before the Council of Ministers for consideration of the possibility of recapitalizing TAZARA in order to enable the Authority operate at budgeted capacity. Your Committee will await a progress report on the matter.

e) Management of Construction Contracts

i) Contract of Supply and Install workshop Equipment TZR/TC and PC/MPK W-52012/2013/01-MPIKA Workshop

- **Abandoned Works**

The Controlling Officer submitted that management had written to the contractor with the intention to terminate the contracts. Following this, the contractor started implementing the obligation and was on site.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that management only attempted to take action against the contractor after the audit findings. Your Committee, in this regard, urges the Controlling Officer to caution management for this failure and to also ensure that the equipment is supplied and the works properly supervised and completed without further delay. Your Committee will await a progress report on the matter.

- **Excessive Advance Payment**

The Controlling Officer submitted that the initial contract was at 25%. He informed your Committee that this was subsequently amended to 40% due to cost considerations.

Committee's Observations and Recommendations

Your Committee sternly cautions against recurrence of this anomaly and resolves to close the matter subject to audit verification

- **Lack of Performance Security**

The Controlling Officer submitted that it was an oversight on TAZARAs' part not to obtain the performance security. However, Management was negotiating with the Contractor to finish the works failure to which TAZARA would take legal action.

Committee's Observations and Recommendations

Your Committee observes that the explanation by the Controlling Officer is a clear indication of lack of close supervision at the Authority. The Controlling Officer is urged to ensure that payments in future must be made in accordance with laid down guidelines to avoid recurrence of the anomaly. Your Committee will await a progress report on the matter.

ii) Contract to Supply and Install Workshop Equipment – Mpika Workshop

- **Non Commencement of Works**

The Controlling Officer submitted that management had written to the contractor with the intention to terminate the contracts. Following this, the contractor started implementing the obligation and was on site.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that management only attempted to take action on the contractor after the audit finding. Your Committee in this regard, urges the Controlling Officer to caution management for this failure and to also ensure that the equipment is supplied and the works properly supervised and completed without further delay. Your Committee will await a progress report on the matter.

- **Excessive Advance Payment**

The Controlling Officer submitted that the initial contract was at 25%. He informed your Committee that this was subsequently amended to 40% due to cost consideration.

Committee's Observations and Recommendations

Your Committee sternly cautions against recurrence of this anomaly and resolves to close the matter subject to audit verification

- **Lack of Performance Security**

The Controlling Officer submitted that it was an oversight on the part of TAZARA not to obtain the performance security. However, Management was negotiating with the contractor to finish the works, failure to which TAZARA would take legal action.

Committee's Observations and Recommendations

Your Committee observes that the explanation by the Controlling Officer is a clear indication of lack of close supervision at the Authority. The Controlling Officer is urged to ensure that payments in future must be made in accordance with laid down guidelines to avoid recurrence of the anomaly. Your Committee will await a progress report on the matter.

iii) Failure to Supply and Install Lighting System - Mpika Workshop

The Controlling Officer informed your Committee that the contractor had started implementing his obligation after management had written to him expressing interest to terminate the contract.

Committee's Observations and Recommendations

Your Committee finds the Controlling Officers response unacceptable as it fails to explain why it has taken so long for the lighting system to be supplied. Your Committee further finds it unacceptable for the Controlling Officer to only act on the matter after the audit and expresses concern that public funds can be lost as a result of this serious irregularity. Your Committee, in this regard, directs that the matter be reported to investigative wings for further probing as it is not clear why the lighting system has not been supplied. Your Committee awaits a progress report on the matter.

f) Management of Property and Infrastructure

i) Abandoned Property

The Controlling Officer submitted that the rehabilitation was not possible due to the financial capacity of TAZARA in the past five years. However, the contract had been awarded to Henan Guangjn (2) Investments Limited to rehabilitate the property in question and an advance payment was being awaited.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by management to ensure that the property in question was well maintained. Your Committee observes that the rentable office space could have been a good source of revenue for the Authority. Your Committee in this regard, strongly urges the Controlling Officer to ensure that the rehabilitation works are commenced without further delay as the property in question risks deteriorating and being vandalised without this intervention. Your Committee, therefore, awaits a progress report on this matter.

ii) Lack of Title Deeds

The Controlling Officer submitted that TAZARA managed to obtain a number of title deeds both in Tanzania and Zambia. The Authority had further continued to pursue the acquisition of the remaining title deeds under the audit query.

Committee's Observations and Recommendations

Your Committee observes with concern that that the Authority does not have legal title to the buildings under its custody. In this regard, your Committee strongly urges the Controlling Officer to ensure that all the buildings in question are issued with title deeds without further delay. Your Committee will await a progress report on the matter.

iii) Land Encroachment on Railway Strip

The Controlling Officer submitted that the law protected railway strips such that nobody was allowed to erect anything within 50m from the centreline of the railway line. However, some areas had been encroached and management had issued notices to all encroachers to vacate the areas under encroachment. In view of the foregoing, TAZARA would start demolishing the structures erected within 50meters from the centreline of the railway line.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that such a matter was only pursued after the audit and sternly cautions the Controlling Officer to be proactive when dealing with matters of this nature. Your Committee further urges him to ensure that urgent steps are taken to demolish the structures erected within 50meters from the centreline of the railway line. Your Committee will await a progress report on the matter.

iv) Deteriorating Safety and Security Standards

The Controlling Officer informed your Committee that for the past fifteen years or so, investment on safety had been decreasing due to lack of funds. Consequently, the safety status of the Authority's rolling stock and permanent way, the safety of workers engaged in daily operations as well as the safety of workplace in workshops, quarries and some stations was far below the

required safety standards. Coupled with lack of investment on safety, there also was a big competence gap for the safety critical jobs because of lack of training.

In order to improve the safety levels of the TAZARA operations and workplace, your Committee was informed that investment on safety was inevitable hence the need for recapitalization.

Committee's Observations and Recommendations

Your Committee expresses grave concern at the failure by the Authority to prioritise safety and security standards thereby resulting in an increase in the number of accidents. In this regard, your Committee strongly urges the Controlling Officer to ensure that the matter is laid before the Council of Ministers for consideration of recapitalizing TAZARA in order to address this serious concern. Your Committee will await a progress report on the matter.

g) Weakness in the Operations at Mununga Quarry Plant

i) Failure to Dispose of Expired Explosives

The Controlling Officer submitted that the TAZARA Head Office in Tanzania was waiting for guidance from the Chief Inspector of Mines in Zambia and the Head Office had since disposed all the expired explosives after obtaining guidance.

Committee's Observations and Recommendations

Your Committee sternly cautions management against recurrence of this incongruity. Your Committee, however, resolves to close the matter subject to audit verification.

ii) Failure to Collect Debts- K743, 904

The Controlling Officer informed your Committee that the bulk of these debts were long outstanding and most of the debtors had either gone under liquidation if they were companies or could not be located if they were individuals. This would, therefore, form part of the debts to be written off.

Committee's Observations and Recommendations

Your Committee expresses concern that the Authority is owed so much money despite facing financial constraints. Your Committee further finds it unacceptable for the Authority facing liquidity challenges to attempt to write off such a huge amount as bad debt. Your Committee in this regard, strongly urges the Controlling Officer to ensure that internal controls at the Authority are strengthened. Your Committee further urges him to sternly discipline the erring officers and ensure that the management of the Authority devises more aggressive measures to recover the outstanding debt and also avoid future debt. Your Committee awaits a progress report on the matter.

h) Lack of Collective Agreement and Conditions of Service

The Controlling Officer informed your Committee that a Collective Agreement for the period 1st July 2015 to 30th June 2017 had been concluded and signed. The agreement was awaiting submission to the Ministry of Labour in Zambia for ratification.

Committee's Observations and Recommendations

Your Committee observes that the purported agreement yet to be ratified by the Ministry of Labour will soon expire, therefore, resulting in the recurrence of this irregularity. In this regard, your Committee strongly urges the Controlling Officer to ensure that collective agreements with the Workers' Union of TAZARA are timely settled in order to avoid the demotivation of the workers as well as the recurrence of this irregularity. Your Committee requests a progress report on the new Collective Agreement.

i) Failure to Remit Statutory Contributions

The Controlling Officer submitted that the remittances to the Zambia Revenue Authority and the Tanzania Revenue Authority had been a challenge to TAZARA for a long time now, hence the huge unremitted amounts both in Tanzania and Zambia. He, however, informed your Committee that TAZARA would engage the shareholding Governments with a view of a 100% debt transfer to the two treasuries.

With regard to the remittances of the workers compensations funds to the Board, your Committee was informed that TAZARA had put in place measures to liquidate the outstanding amounts in monthly installments while current assessments would be paid as they became due.

Committee's Observations and Recommendations

Your Committee expresses disappointment at the Authority's failure to remit these statutory obligations on time as failure to do so results in the imposition of huge penalties, which could lead to loss of public resources. This would affect the Authority's financial position and consequently its ability to execute planned programmes. The Controlling Officer is, therefore, urged to ensure that the statutory obligations are honoured on time to avoid penalties being charged on the Authority. Your Committee resolves not to close the matter until the outstanding statutory obligations are settled.

TOBACCO BOARD OF ZAMBIA

Query Review of Operations

Paragraph 18

18. A review of accounting and other records for the period 1st January 2013 to 31st December 2015 carried out in August 2016, revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) Failure to Submit Annual Reports

The Controlling Officer submitted that the audit process for the 2014 and 2015 financial years was already underway and the Auditors, Renco Associates Chartered had been engaged and were on site currently auditing the periods in question. He informed your Committee that Renco Associates had also been given the responsibility to audit the 2016 financial statements to bring the books of TBZ up to date.

Your Committee was further informed that the 2014 and 2015 Annual reports had been submitted to the Ministry excluding the audited financial statements, which would be submitted by 30th June 2017, by which time, the accounts were expected to be fully audited and approved. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Board to adhere to the provisions of Section 17 of the Tobacco Board Zambia Act of the Laws of Zambia. Your Committee, therefore, urges the Controlling Officer to ensure that management steps up its efforts to finalise the preparation of the financial statements in order for the National Assembly and stakeholders to appreciate the Board's financial position. Your Committee will therefore, await a progress report on the finalisation of all the necessary reports for the period under review.

b) Financial Performance – Income Statement - Operating Expenses as a Percentage of Revenue

The Controlling Officer explained that in an effort to endeavour to improve service delivery to the stakeholders in the sub-sector, the organisational structure grew in 2013, when some key positions in operations and administration were recommended for recruitment after the preparation of the 2012 to 2016 Strategic Plan, in line with the advice by the Auditor General's Office.

He submitted that over the last three years, the national volumes of tobacco had been going down due to the reduced world-wide demand and reduced sponsorship in the market. This, therefore, affected the income that TBZ generated which had been going down over the past three years, while its operational costs had been going up due to inflationary and other economic pressures. However, in an endeavour to reduce costs in line with the falling income, management was not recruiting new employees to replace those that left due to retirements, among other things, and in line with the falling volumes, management made reductions on the payment of allowances on field visits.

Your Committee was further informed that management was also monitoring the performance of the subsector to see if these falling volumes could be arrested through attracting investors before drastic measures such as retrenchments could be embarked on.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that operating expenses in relation to revenue kept increasing over the years and urges the Controlling Officer to help the Board improve its income generating ventures and as much as possible reduce its operating expenses. Your Committee further requests the Office of the Auditor General to keep the matter in view in future audits.

c) Financial Positions as at 31st December 2012, 2013 and 2014

The Controlling Officer submitted that the K4.9 million was collected by management in 2016, out of the K16.3 million reported as trade receivables at the end of 2015.

He informed your Committee that the high debtor balances could also be attributed to the K 4.4 million Tobacco Out Growers Scheme loans given to Tobacco Farmers through various Tobacco

Associations during the years 2003 to 2006, which had remained outstanding for more than ten years due to the inability of the Associations who received the money to pay as they were technically insolvent.

Your Committee was further informed that the other balance of about K6.7 million was due to various legal cases still outstanding that the TBZ had with some tenants and tobacco merchants as follows:

- in 2010 the TBZ lost a case involving the collection of levies by one of the merchants, Tombwe Processing Limited (TPL), after taking the Company to Court for non-payment of Tobacco Levies. Tombwe Processing Limited refused to pay the Tobacco Levies to TBZ on grounds that the Tobacco Act did not give TBZ power to collect the Levy but that the power was vested in the Minister of Agriculture. The value of the uncollected levies, therefore, stood at K2.8 million; and
- a major component of trade receivables involved tenants who took the TBZ to Court demanding to be sold institutional houses belonging to TBZ. Some tenants occupying the TBZ houses took TBZ to court in 2012, demanding the sale of houses to them as sitting tenants when the Board approved the sale of houses to employees of TBZ. In the process of suing for the purchase of the houses, the tenants obtained an injunction restraining TBZ from “evicting or harassing the Plaintiffs while in occupation of the said houses until the matter was fully determined”, therefore, creating a situation that had made it impossible for TBZ to collect rentals from the said properties. The rental amounts involved was K863, 461.96.

Your Committee was further informed that the Tobacco Act was currently under review to facilitate the amendment of a number of clauses that had hindered the operations of TBZ. Furthermore, other cases involving the tenants had been handed over to the Debt Collectors/Bailiffs.

Committee’s Observations and Recommendations

Despite the Board facing liquidity challenges, your Committee is disappointed with the debt collection process, where accounts receivables can be stretched for a period of 458 days as the case was in 2014. Your Committee in this regard, strongly urges the Controlling Officer to ensure that the recovery of the debt is enhanced in order for the financial performance of the Board to be improved. Your Committee further urges him to ensure that clauses that hinder the operations of the Board in the Tobacco Act are expeditiously amended. Your Committee will await a progress report on the matter.

d) Lack of Assets Management Policy

The Controlling Officer informed your Committee that the process of putting in place all institutional policies including an Asset Management Policy, had commenced. This process started with the approval of the Transport and Maintenance Policy in December 2016. The Asset Management Policy was, therefore, at draft stage and was yet to be tabled before the Board.

Committee’s Observations and Recommendations

Your Committee finds it unacceptable that the Board does not have an Asset Management Policy. It observes that the failure to have this Policy in place exposes the Board to risk of fraud as there is no guidance and clarity on the acquisition, recording, use and disposal of the Board's non-current assets, among other things. In this regard, your Committee strongly urges the Controlling Officer to ensure that the Policy is put in place without further delay and a progress report will be awaited by your Committee.

e) Failure to Recover GRZ and TBZ Out Grower Loans

The Controlling Officer submitted a breakdown of the loans to the Associations as follows:

Loans to Associations – CGA	1,490,168.08
Loans to Associations – EFAZ	207,541.84
Loans to Associations – STOGA	327,155.61
Tobacco Association of Zambia(TAZ)	<u>271,393.74</u>
Total TBZ Out grower Loans	<u>2,296,259.27</u>
GRZ Revolving Fund	
Central Growers' Association(CGA)	866,914.44
Eastern Fodya Association (EFAZ)	283,470.35
Southern Tombwe Association(STOGA)	948,325.04
Tobacco Association of Zambia(TAZ)	<u>9.16</u>
Total Government Out grower Loans	<u>2,098,718.99</u>

He explained that the Regional Tobacco Associations in question were technically insolvent as they were failing to even cover costs for their operations and were frequently requesting the TBZ for operational funds. This, therefore, made the recovery of the loans challenging. However, management had written to the Associations reminding them of their obligations to repay the outstanding loans.

Committee's Observations and Recommendations

Your Committee expresses concern at the Board's failure to recover the loans as planned. Your Committee observes that this failure is as a result of the Board's inability to put in place adequate measures to facilitate the recovery of loans before they are actually disbursed. Your Committee in this regard, urges the Controlling Officer to explore other concrete methods of administering the loan scheme. Your Committee further urges him to ensure that the loans are recovered without further delay in order for the purpose for which the scheme was created to be achieved. Your Committee awaits a progress report on the matter.

Query
Accounting and Other Irregularities

Paragraph 19

19. An examination of accounting and other records maintained at the Authority carried out during the period 1st January to 31st December, 2015, revealed accounting and other irregularities, which the Controlling Officer responded as set out below.

a) Inadequate Staffing

The Controlling Officer informed your Committee that management had since filled nine of the sixteen positions. He explained that the other seven positions were currently frozen because of limited resources. Government funding had remained static since inception in 2014 at K15, 033,845.

Committee's Observations and Recommendations

Your Committee observes that despite Government funding remaining static, it took an audit for the Authority to fill nine of the sixteen positions. Your Committee urges the Controlling Officer to treat the issue of improved funding with the urgency it deserves by liaising with the Secretary to the Treasury for increased funding to enable the Authority operate at full capacity. Your Committee will await a progress report on the matter.

b) Irregular Procurement of a Motor Vehicle

The Controlling Officer submitted that the correct amount in question was K 647, 657.00 and not the K618, 857.00 wrongly cited. He explained that the error was due to a typing error contained in the resolution from the Ministry Procurement Committee (K618, 857.00) upon which the audit query was based.

The Controlling Officer further submitted that the procedure for single sourcing was adhered to. He informed your Committee that authority for single sourcing was granted by ZPPA in their letter dated 15th August 2014 to Water Resources Management Authority (WARMA) to direct bid Toyota Zambia.

In addition, management obtained all the necessary approvals from the Ministry Procurement Committee to vary the earlier award of a Toyota Land Cruiser to a Toyota Fortuner. However, the transmission of payment to the supplier was delayed resulting in the motor vehicle being sold out by the time the payment was made. The Controlling Officer explained that at the time payment was made, it was discovered that the vehicle was out of stock. Toyota Zambia then advised that they would not have a similar motor vehicle until after six months.

Due to the demand of work required outside the station by the Board Chairperson at WARMA, for board governance and policy engagements, it was decided that an alternative vehicle be procured from Toyota Zambia as payment at this stage had already been made.

The supporting documentation was made available for audit verification.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer for failure to avail this information during the audit process and requests the Office of the Auditor General to verify the Controlling Officer's response after which the matter should be closed.

c) Non Transmission of Data by River Gauge Stations

The Controlling Officer explained that this was due to the gauging stations being in locations where there was no network coverage. He informed your Committee that management had, however, taken the following actions on the data transmission of the eighteen gauging stations:

- officers visited these locations to manually download the data captured from these eighteen stations, the data was then transmitted to headquarters through the catchments;
- engaged the mobile network provider (Airtel) to look at the possibilities of having these locations serviced with cellphone towers so that there was network coverage;
- management was in the process of taking audit of these locations to ascertain which, if any, mobile network provider was in the eighteen localities of these stations with the purpose of engaging the other mobile network providers (Zamtel, MTN); and
- engaged the World Meteorological Organisation (WMO) to look at modalities of having these eighteen stations equipped with satellite receivers so that data was transmitted through the satellite and not relying on mobile network.

The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee finds the placing of the river gauge stations in locations where there was no network coverage unacceptable as the implementation of the proposed options given by the Controlling Officer will commit the Government to further costs. Your Committee is of the view that if a proper feasibility study on the network coverage in the country was undertaken by the Authority before the commencement of the project, this irregularity could have been avoided. Your Committee therefore, urges the Controlling Officer to ensure that management is sternly cautioned for this failure. Your Committee further urges him to ensure that the matter is expeditiously resolved and will await a progress report.

d) Receivables Management

• **Uncollected Water Charges and Increasing ZESCO Debts**

The Controlling Officer explained that the uncollected water charges and ZESCO debt accrued at the time of transition from Water Board to Water Resources Management Authority. He informed your Committee that management had since formulated a robust revenue collection strategy approved by the WARMA Board to ensure that all outstanding amounts were fully recovered. To this effect, management held meetings with ZESCO and the water utility companies from which debt settlement deeds had been agreed upon as part of the action to be undertaken before enforcing Section (1), (2), and (3) of the *Water Resources Management Act*.

In view of the foregoing, management had since received payments from ZESCO and the water utility companies as follows:

No.	Utility Company	Total Amount	Monthly Payment Plan	Amount Paid	Balance	Dates Paid
1	ZESCO Ltd	3,986,112.00	609,814.00	3,986,112.00	-	28.11.2016 22.12.2016 13.01.2016
2	Nkana Water & Sewerage Company	386,698.00	24,003.00	144,411.00	242,287.00	01.04.2016 04.08.2016 23.09.2016 08.1.2016 21.12.2016
3	Kafubu Water & Sewerage Company	301,801.00	20,918.25	41,772.00	260,029.00	02.11.2016
4	Mulonga Water & Sewerage Company	133,126.00	25,000.00	121,182.00	11,944.00	18.04.2016 27.12.2016
No.	Utility Company	Total Amount	Monthly Payment Plan	Amount Paid	Balance	Dates Paid
5	Lusaka Water & Sewerage Company	36,201.00	24,000.00	36,201.00	-	18.11.2016 19.12.2016
6	Southern Water & Sewerage Company	45,070.00	12,000.00	45,070.00	-	18.11.2016
7	Eastern Water & Sewerage Company	36,069.00	8,000.00	-	36,069.00	
8	Lukanga Water & Sewerage Company	141,080.75	20,000.00	24,000	117,080.75	20.12.2016
9	Others	393,177.37	Notifications and reminders	95,225.00	297,952.37	Various dates
	Grand Total	5,459,335.12		4,493,973.00	965,362.12	

The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the laxity exhibited by the management of WARMA as attempts to follow up on the outstanding debt were only undertaken after the audit. Your Committee, therefore, urges the Controlling Officer to ensure that management at the Authority is sternly cautioned for this failure. Your Committee further urges him to ensure that the current payment plans are adhered to by both parties. Your Committee will await a progress report on the matter.

e) Failure to Utilise Water Vessels

The Controlling Officer explained that management delayed the delivery of vessels as it had to identify the safe storage of vessels in areas where the Authority did not have a physical presence. However, the boats had since been deployed to the districts and were being used for water inspection activities. The Controlling Officer further submitted the table below showing the distribution of the water vessels.

No	Delivery Team	Province	Boat Number		Delivery status
			Engine No	Boat Reg	
1	Eugene Miyanda	Lusaka	Honda 1401160	GRZ 18 -1318	DONE
2	Pascal Nyondo	Lusaka	Yamaha 1150595A	GRZ 18 – 1330	DONE
3	Gladys Mulunga Picket Mpinga	Southern	Yamaha 1017230A	GRZ 18 – 1323	DONE
4	Martha Mukwakwa Picket Mpinga	Central	Yamaha 1017230A	GRZ 18 – 1328	DONE
5	Stanley Kaputula Picket Mpinga	Western	Honda 1401162	GRZ 18 – 1325	DONE
6	Stanley Kaputula Roney Zulu	North Western	Yamaha 1017028A	GRZ 18 - 1324	DONE
7	Alice Chilala Ronny Zulu	Northern	Yamaha 1017029A	GRZ 18 - 1320	DONE
8	Judy Chiyaiika Mathews Sinkala	Luapula	Yamaha 1015995B	GRZ 18 - 1329	DONE
9	Mary Sampa	Muchinga	Yamaha 1017231A	GRZ 18 -1331	DONE
10	Denis Makowa Picket Mpinga	Luapula (Samfya)	Yamaha 1150594A	GRZ 18 – 1322	DONE
11	Joseph Mwela	Southern (Namwala)	Honda 1401338	GRZ 18 -1319	WARMA OFFICE HQ
12	Waiting for repair	Northern (Tanganyika)	Honda 1401161	GRZ 18 - 1319	Waiting for repair
13	Waiting for repair	Copperbelt	Yamaha 1148308A	GRZ 18- 1321	Waiting for repair
No	Delivery Team	Province	Boat Number		Delivery status
			Engine No	Boat Reg	
14	Martha Phiri William Chunga	Eastern	Yamaha 1015915B	GRZ 18 - 1326	DONE

Committee's Observations and Recommendations

Your Committee is disappointed that despite the Government having spent money on the procurement of the vessels in question, the vessels are not being used for their intended purpose. Your Committee, in this regard, urges the Controlling Officer to ensure that management at the Authority is sternly cautioned for this failure. Further, your Committee urges the Controlling Officer to ensure that in

future, such wasteful expenditure is avoided by procuring only what is required to allow the Government channel resources to other areas of need. Your Committee awaits a progress report on the matter.

**THE ZAMBIA FORESTRY AND FOREST INDUSTRIES CORPORATION LIMITED
(ZAFFICO)**

**Query
Review of Operations**

Paragraph 20

20. A review of accounting and other related records for the period 1st April 2012 to 31st December 2015, revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

e) Income

The Controlling Officer explained that the Corporation failed to raise income as budgeted for in December 2013 and December 2015, due to the low demand for eucalyptus. He, however, informed your Committee that the Corporation had since bought two pole treatment plants for use in the treatment of eucalyptus poles in order to sell them to institutions such as ZESCO, the Rural Electrification Authority and farmers who needed fencing poles, in order to increase revenue from eucalyptus. He further submitted that one plant became operational in November 2016.

Committee's Observations and Recommendations

Your Committee is disappointed to note that the corporation's revenue collection failed to finance the total projected budgets during the period under review. Your Committee, therefore, urges the Controlling Officer to ensure that other innovative options are explored in order to reduce the overdependence on eucalyptus and pine and improve the revenue base of the institution. Your Committee awaits a progress report on the operationalisation of the second pole treatment plant and improvement in the institution's income arising from the operations of the two plants.

f) Strategic Planning – Lack of Performance Indicators and Targets

The Controlling Officer confirmed that even though the corporation's Strategic Plan for the period 2014 to 2018 had clearly defined objectives and strategies, it had no performance indicators and targets on how much of the objectives would be achieved within the period of 2014 to 2018.

He however, assured your Committee that the corporation would ensure that the performance indicators and targets were set during the process of reviewing the 2014 – 2018 Strategic Plan in 2017.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that key performance indicators and targets were not set despite having a Strategic Plan in place. Your Committee therefore, strongly urges the Controlling Officer to caution management for this failure. He is further urged to ensure that the performance indicators and targets are set without further delay in order for the corporation to assess its

effectiveness and overall performance. Your Committee will await a progress report on this matter.

g) Failure to Convene Annual General Meetings

The Controlling Officer confirmed that the last AGM for the corporation was held in April 2003. He explained that in the intervening period, it was not possible to hold any AGM because the corporation did not have audited accounts. However, the audited accounts had since been put in place and the corporation was initially scheduled to hold its AGM within the month of July 2016. Nevertheless, the corporation did not have a Board in place, hence, the delay in convening the AGM.

The Controlling Officer further submitted that the AGM would be held on 15th February 2017, following the decision of the Industrial Development Corporation (IDC) to allow the outgoing Board to continue transacting the business of the corporation until the new Board was put in place. The supporting documentation was availed for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that an AGM has not been held for such a long period of time. Your Committee further expresses concern that the corporation has been operating without a Board and wonders how important decisions were arrived at in the absence of the Board. Your Committee, therefore, urges the Controlling Officer to ensure that the Board is put in place in order for the Corporation to regularly review its affairs. Your Committee awaits a progress report on the matter.

h) Weaknesses in the Operations of the Board

i) Lack of a Board/Governance Charter

The Controlling Officer explained that the Annual General Meeting had not yet been convened to approve the Board Charter. In view of the foregoing, the corporation would ensure that the draft Board Charter was submitted to the AGM for consideration and approval.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Annual General Meeting is convened without further delay and the Board Charter approved, in order to periodically review the effectiveness of the Board. Your Committee awaits a progress report on the matter.

ii) Questionable Expenditure – The Board Chairperson

The Controlling Officer informed your Committee that the amount actually spent on the Board Chairperson was K59, 274.45 as opposed to the K75, 304.45 reported in the Auditor General's Report. He explained that the balance of K16, 030.00 was spent on a member of the management team who was sent on behalf of the Board Chairperson. The Controlling Officer further explained that the amount of K59, 274.45 spent on the Board Chairperson was used as follows;

- the Board Chairperson was called for a meeting by the Minister of Lands, Natural Resources and Environmental Protection and, therefore, missed his pre-booked flight to Addis Ababa. In this regard, the corporation had to purchase another air ticket for him at the cost of K21, 305.00;
- the Board Chairperson undertook a tour to Shiwang'andu Exotic Forest Plantation Project and the meeting with Chieftainess Waitwika was authorised by the ZAFFICO Board of Directors; and
- the Board Chairperson embarked on a trip to the World Forestry Congress in South Africa, authorised by the Permanent Secretary of the Ministry of Lands, Natural Resources and Environmental Protection.

The Board minutes and the letter of authority to travel were available for audit verification.

Committee's Observations and Recommendations

Your Committee observes with concern that the minutes and other documentation pertaining to the meetings and travel made by the Chairperson were not availed to the auditors during the audit process. Your Committee notes that the production of these documents after the audit is highly questionable as the authenticity of these documents cannot be ascertained. Your Committee, therefore, urges the Controlling Officer to take stern disciplinary action against the erring officers for this failure and submit all the documentation for verification. Your Committee will await a progress report on the matter.

i) Questionable Objectivity of the Finance and Operations, and Audit and Risk Management Committees

The Controlling Officer submitted that the corporation held one combined meeting with the Finance and Operations Committee and the Audit and Risk Management Committee in a year, when reviewing the management letter and the corporation's financial statements submitted by the external auditors. In this regard, the Managing Director was invited to attend these meetings in order to explain whenever necessary, or clarify the position of Management on matters being deliberated upon by the Committees. In view of the foregoing, the Managing Director was not a member of the Audit and Risk Management Committee but merely attended the meetings to respond to the audit queries.

Committee's Observations and Recommendations

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

j) Failure to adhere to the Annual Allowable Cut (AAC) – Pine

The Controlling Officer conceded that the corporation's Pine harvesting trends exceeded the Pine Annual Allowable Cut as recorded in the 2011 Forest Inventory. He, however, explained that the concept of equating the annual harvested wood quantities to the forest's annual allowable cut was

more effectively applied to normal forest stands with areas evenly spread out by age class distribution over the rotation period.

The corporation's forest plantation was significantly negatively skewed with over 80 per cent of the planted area being beyond the rotation age and hence making yield regulation based on the annual allowable cut unattainable. Consequently, the corporation's forest management system had adopted another effective wood yield regulation method of annually replanting an area equivalent to or more than the annual clear felled area as stipulated in the 2014-2018 Forest Management Plan which conceptualised the wood yield regulation by area.

Although it was true that persistent pine over harvesting would diminish the forest resource base and threaten the long term business survival, the sales from pine annual allowable cut wood quantities of 177,809 m³ could not meet the corporation's current expenses to expand the business and hence the ongoing initiatives to commence value addition activities in order to broaden the corporation's revenue base.

Committee's Observations and Recommendations

While your Committee appreciates the fact that value addition was one of the options of improving the corporation's revenue base, your Committee expresses concern at the rate at which the pine was being harvested during the period under review and further expresses concern that this type of timber will be depleted with time. Your Committee, therefore, urges the Controlling Officer to find other forms of revenue generation and not risk the overharvesting the pine. Your Committee awaits a progress report on the matter.

k) Financial Performance - Statement of Comprehensive Income for the Financial Periods 1st April 2012 to 31st December 2015

i) Profitability

The company recorded an improvement in the net profit from K5,776,106 in 2012 to K85,452,429 in 2015. The increase was mostly attributed to the increase in pine sales, which accounted for above 93% on average as shown in the table below:

Roundwood Sales	31.12.2015	31.12.2014	31.12.2013	31.03.2013
	K	K	K	K
Total Revenue	154,022,394	104,629,213	72,652,596	70,540,582
Pine sales	144,191,000	97,779,000	64,879,820	65,419,635
Eucalyptus sales	5,924,000	5,977,000	6,110,021	4,194,720
Gum lina sales	189,000	-	-	3,369
% of Pine Sales	94%	93%	89%	93%

Committee's Observations and Recommendations

Your Committee notes the improvement in the performance recorded by the corporation but raises concern that the improvement was a result of overharvesting of pine and commends management

and the Board for recording a net profit of K85,452,429 in 2015 from K5,776,106 in 2012. Your Committee resolves to close the matter.

ii) Operating Expenses as a Percentage of Revenue

The Controlling Officer submitted that the operating expenses were high (148%) in March 2013, due to an amount of K40,966 million which was expensed as a result of the impairment of the plantation in formation. He explained that this amount was not a cash flow item but a book entry which was done to comply with accounting standard IAS 36 impairment of assets. The objective of the standard was, therefore, to ensure that assets were carried at no more than their recoverable amount.

Further, the increase in the staff costs as a percentage of operating expenses was due to the increase in wages for seasonal employees. The costs had been increasing due to the increase in the number of hectares replanted on the Copperbelt, after a twenty year gap, and the plantation expansion programme in Kawambwa and Shiwang'andu districts, which entailed employing more seasonal employees to weed the fields and as a result of the corporation implementing the minimum wage for seasonal employees as per Government regulations.

Committee's Observations and Recommendations

Your Committee is concerned that staff costs in relation to revenue kept increasing over the years and urges the Controlling Officer to ensure that these are carefully controlled. Your Committee recommends the matter for closure subject to audit verification.

l) The Statement of Financial Position for the Corporation for the years under review

i) Unknown Bank Deductions

The Controlling Officer explained that the amounts were posted to unknown accounts because these amounts were debited to the corporation's bank accounts. However, there were no records to show that these transactions were originated by the corporation. The corporation, in this regard, wrote to the banks concerned to seek clarification. The bank provided the details for an amount of K90, 726.44 and the bank reversed the transaction for an amount of K2, 550.00. The balance of K62, 861.56 was posted to this account pending verification of source documents. After verification, the balance had been posted to the correct ledger accounts.

Committee's Observations and Recommendations

Your Committee expresses concern at the length of time it has taken the Controlling Officer to normalise the transactions, a situation that could have delayed the implementation of planned activities using the funds in question. Your Committee, therefore, urges the Controlling Officer to caution management for this failure. The matter is, however, recommended for closure subject to audit verification.

j) Lack of Title Deeds

The Controlling Officer lamented that for a long time now, the corporation had done all it could to persuade the Ministry of Lands and Natural Resources, through the Forestry Department, to

consent to the grant of title deeds to the corporation in order for it to secure the land on which plantations and other properties such as buildings were sitting in the gazetted forest reserves.

When a positive response was not received from the Ministry of Lands and Natural Resources, the corporation proceeded to request the office of the Permanent Secretary (Budget and Economic Affairs) at the Ministry of Finance to intervene in the matter. However, this effort also proved futile.

Notwithstanding the reluctance by the Forestry Department to consent to the issuance of title deeds to planted areas and other properties located in gazetted forest reserves, ZAFFICO was scheduled to meet the current Minister of Lands and Natural Resources, in the month of March 2017, in Ndola, to discuss the matter of title deeds and other matters requiring the intervention of the office of the Minister.

The efforts of the corporation in this regard, were documented in several letters written to the Ministry on the matter, which were available for verification.

Committee's Observations and Recommendations

Your Committee notes the efforts being made by the corporation on pursuing the matter and urges the Controlling Officer not to relent but follow up the matter to its logical conclusion. Your Committee will, therefore, await a progress report on the matter.

k) Failure to Register Assets with RTSA - K3,285,336

The Controlling Officer submitted that there were thirty three unregistered non-current assets as opposed to the reported thirty six at the time of audit. He explained that three tractors had already been registered at the time of audit but the white books were not available to audit for verification because the white books had not been obtained from RTSA. However, the white books had since been obtained from RTSA.

Further, the non-current assets were not registered on time due to the delay by suppliers to provide the Corporation with the necessary documentation required to register the non-current asset. The Corporation had contacted the suppliers and requested them to speed up the process of providing it with this information.

However, the corporation has registered four tractors out of the thirty three unregistered non-current assets. Three tractors were also in the process of being registered whilst three others could not be registered as they had depreciated fully and were disposed of in 2016 after obtaining board approval. The board approval was available for audit verification.

Your Committee was further informed that currently, the corporation had been insisting that the suppliers register the assets with RTSA before they were delivered.

Committee's Observations and Recommendations

Your Committee notes with concern the failure by the corporation to comply with requirements in respect of the registration of assets as provided for by the *Road Transport and Safety Act*. Your Committee considers it negligence of duty by the corporation not to have the necessary documentation required to register the non-current assets and cautions management for this

failure. Your Committee resolves not to close the matter until all the assets are registered and will await a progress report on the matter.

l) Lack of Assets Management Policy

The Controlling Officer assured your Committee that the corporation would ensure that the draft Asset Management Policy was approved by the Board by 31st March 2017.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the corporation does not have an Asset Management Policy. It observes that the failure to have this Policy in place exposes the corporation to the risk of fraud as there is not guidance and clarity on the acquisition, recording, use and disposal of the Corporation's non-current assets, among other things. In this regard, your Committee strongly urges the Controlling Officer to ensure that the Policy is approved without further delay and a progress report will be awaited by your Committee.

m) Lack of a Documented Risk Management Policy

The Controlling Officer informed your Committee that the corporation engaged a consultant to assist in developing a Risk Management Policy. Therefore, a draft Risk Management Policy had since been developed and would be submitted to the Board of Directors for approval by 31st March 2017.

Committee's Observations and Recommendations`

Your Committee finds it unacceptable that the corporation does not have a Risk Management Policy. Your Committee observes that the failure to have this Policy in place exposes the corporation to resort to reactive other than proactive responses to risks. Further, in case of any unexpected events happening, the corporation may not be able to mitigate their effects. It is in this regard that your Committee strongly urges the Controlling Officer to ensure that the Policy is approved without further delay. Your Committee awaits a progress report.

n) Lack of a Debt Management Policy

The Controlling Officer submitted that the corporation would ensure that the Draft Debt Management Policy was approved by the Board of Directors by 31st March 2017.

Committee's Observations and Recommendations

Your Committee resolves to seek a progress report on this matter.

o) Inadequately Supported Payments - K29, 907

The Controlling Officer informed your Committee that the corporation had since contacted the suppliers concerned so that they could provide it with the remaining supporting documentation.

Committee's Observations and Recommendations

Your Committee is concerned over the casual manner in which this matter is being dealt with and directs the Controlling Officer to institute disciplinary action against the custodians of these documents for failing to secure them. Your Committee further directs him to ensure that all the payment vouchers are traced without further delay and that in future, officers attach the appropriate documents immediately payments are made. Your Committee will await a progress report.

p) Unretired Imprests - K220, 871

The Controlling Officer explained that the retirements were not made on time because some members of staff were in far flung areas such as Kawambwa and Shiwang'andu which in some cases lead to retirements being delayed.

He submitted that a total of K 207, 523.44 worth of unretired imprest had since been retired out of the outstanding amount of K220, 871.00 as at 31st December 2015. He further informed your Committee that the officers concerned had also been asked to retire the remaining balance of K13, 347.56. Once the retirements were submitted, they would be availed for audit verification.

Committee's Observations and Recommendations

Your Committee is concerned that the Controlling Officer did not take any action to resolve this issue prior to the audit. Your Committee in this regard, strongly urges him to strictly enforce the provisions of the Financial Regulations in relation to the retirement of imprest to avert recurrence. Your Committee further directs the Controlling Officer to ensure that the traced documents are submitted to the Office of the Auditor General for audit verification and will await a progress report on the retirement of the outstanding amount.

q) Unaccounted for stores - K422, 309.00

The Controlling Officer explained that the disposal records could not be availed to the auditors because some records were in far flung areas such as the Chati and Lamba stations. He, however, informed your Committee that the disposal documents were currently available for audit verification.

Committee's Observations and Recommendations

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

ZAMBIA REVENUE AUTHORITY (ZRA)

Query Accounting and Other Irregularities

Paragraph 21

21. A review of operations of the Zambia Revenue Authority for the period from 1st January 2013 to 31st December 2015 carried out in April 2016, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Financial Performance – Statement of Comprehensive Income

The Controlling Officer submitted that the increase in the deficit was as a result of finance costs which included interest and exchange rate losses due to exchange rate fluctuations.

He further explained that the deficit for the year 2015, was mainly attributed to the increase in finance costs caused by the depreciation of the Zambian Kwacha against the United States Dollar and other major convertible foreign currencies during the latter part of the year. The impact of the depreciation of the local currency during the year, therefore, made the Authority incur net unrealised exchange losses on its foreign currency denominated monetary liabilities which led to an increase in finance costs from K457, 761.00 in 2013 to K 247,065,271.00 in 2015.

The Controlling Officer further explained that the main driver in value was the exchange rate loss on the scanner loan repayment, having started paying both the interest and principal component in the period under review. This situation was exacerbated by the decline in the level of Government funding to the Authority over the same period. Your Committee was informed that the Loan was denominated in Chinese Yuen (CYN) and there was a huge negative movement on the exchange rate.

Committee’s Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to closely monitor the financial performance of the institution. The matter is recommended for closure subject to audit verification.

b) Authority Financial Position

i) Capital Fund

The Controlling Officer explained that the Capital Fund was made up of financial results (surplus or deficits) for the year. The decline therefore, was due to huge deficits recorded from 2013 to 2015, which led to the decline in the fund. He informed your Committee that the notable key drivers of value were huge exchange rate losses incurred in 2015 (K247 million) which pushed the financial results to a net deficit for the year of over K362 million. Additionally, the Actuarial loss incurred in 2014 also led to a decline in the capital funds.

Committee’s Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to closely monitor the performance of the capital fund. The matter is recommended for closure subject to audit verification.

ii) Liquidity Position

The Controlling Officer informed your Committee that the Authority was funded by the Government through monthly grants. However, the funding trend from 2013 to 2015, had been on the decline, whereas the expenses had been going up due to the adverse effect of inflation on the prices of goods and services.

Your Committee was further informed that the reduction in Government funding had an effect on the liquidity position of the institution. Furthermore, there was a reduction in the current assets,

particularly on the cash held in the bank whereas the loan balance increased at the balance sheet date due to the impact of the adverse CYN rate to Kwacha, thus increasing the current liabilities. Your Committee was informed that the loan balance was translated from CYN to ZMK using the prevailing exchange rate at the reporting date. This ultimately led to the reduction in the working capital. However, with the Government support, your Committee was informed that the Authority was able to discharge its short-term financial obligations. The Zambia Revenue Authority was a going concern and the Government confirmed its commitment in rendering financial support to the institution every year.

To attest to the Government's commitment, in 2017, the Government increased the funding to ZRA to around 2.0 percent of the year's revenue target, amounting to a programmed funding level of K768 million. In addition, the Ministry of Finance was working on modalities of avoiding delays in monthly funding to ZRA by way of effecting a standing order at the Bank of Zambia. Going forward, this would in turn improve the currency ratio to the acceptable 2 to 1.

Committee's Observations and Recommendations

Your Committee notes the submission but particularly urges the Secretary to the Treasury to ensure that Government's commitment to increase funding to ZRA is adhered to and the implementation of the standing order at the Bank of Zambia should be expedited. Your Committee will await a progress report on the matter.

c) Lack of Title Deeds – Non – Current Assets

The Controlling Officer confirmed that the Zambia Revenue Authority had not obtained title deed certificates for some of its properties because the Ministry of Lands had not yet issued the titles for most of the properties applied for.

He informed your Committee that the Authority maintained a comprehensive schedule of all its properties countrywide whose consolidated value was known. The Authority further conducted a periodic valuation of all its properties with the latest valuation having been done in the year 2014. Furthermore, the Authority currently had an on-going exercise to acquire title deeds for all its properties countrywide. In this regard, relevant authorities had been engaged so as to assist in expediting the process of acquiring the title deeds. The Controlling Officer further clarified that ZRA had 324 properties as opposed to 512 reported by the Auditor General that were currently not on title, comprising both residential and commercial properties. The total number of properties owned by the Authority was 332 out of which eight were on title.

In order to facilitate the acquisition of the title deeds, your Committee learnt that site plans had been prepared for 279 individual properties out of which plans for 154 individual properties had been approved by the Provincial Planning Authorities. Further, a total of twenty eight properties had been surveyed, out of which eight had been approved by the Surveyor General and were currently in the office of the Commissioner of Lands for the preparation of lease agreements. The Authority had also intensified its activities for the year 2017 to ensure that its properties were secured by acquisition of title deeds. From February 2016, the Authority managed to secure one title deed for the new headquarters. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee resolves to keep the matter open until the title deeds for all the properties in question are obtained as prescribed by law. Your Committee will, therefore, await a progress report on the matter.

d) Non Supply of Laboratory Information Management System

The Controlling Officer reported that 90% of the equipment in respect of the Laboratory Information Management System had been delivered with only three servers and their auxiliary equipment not yet delivered as at August 2016. The current position is that even the three servers, whose value representing 50% of the contract sum, were also delivered to the Authority on 18th January 2017.

Therefore, 100% of the equipment in respect to the Laboratory Information Management System had since been delivered. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

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

e) Unsupported Payments – Livingstone Station - K271, 262

The Controlling Officer submitted that it was regrettable that such weaknesses were not addressed prior to the time of audit. He explained that this was due to the fact that sensitisation of ZRA members of staff on imprest management was not done at the time of them taking up their offices, hence the officers in charge were not abreast with what was expected of them.

The Controlling Officer further clarified that the sixty-eight unsupported payments amounting to K271, 262.00 cited under Livingstone Station on the accounts of the Zambia Revenue Authority for the financial year ended 2013, 2014 and 2015, were actually for both Customs Services Division and Domestic Taxes Division, operating at the same station.

The schedules and receipts from the two Divisions explaining the unsupported amount of K221, 057.71 were available for audit verification. The Controlling Officer informed your Committee that some of these payments still did not have receipts and efforts were underway to obtain proof of payment. However, as a remedial measure to avoid unsupported payments, sensitisation on imprest management had been extended to members of staff at various stations, including the Livingstone station.

Committee's Observations and Recommendations

Your Committee sternly cautions the Controlling Officer against the recurrence of this anomaly as it can be a conduit for fraudulent activities and urges that disciplinary action be taken against the officers responsible for the lapse. Your Committee further directs him to ensure that all the payments are supported and the documentation availed for audit verification without further delay. Your Committee awaits a progress report on the matter.

f) Uncompetitive Procurements – Chirundu - K423, 767

The Controlling Officer clarified that the Authority administered a centralised procurement system operated from Head Office. However, due to delayed funding from the Ministry of Finance and depending on the urgency of the needs, the Authority sometimes allowed stations to procure stationery from their localities on a credit basis. However, the situation at Chirundu arose from the fact that the stationery shop cited in the Report was the only one accepting to provide the items on credit. The Controlling Officer informed your Committee that Chirundu border processed huge business volumes which demanded high consumption of stationery and related items.

As a remedial measure to avoid deviating from the standard procurement practice, your Committee was informed that sensitisation workshops were conducted for the station on procurement guidelines. Since then, Chirundu station had endeavored to ensure that quotations were accordingly obtained from more than one supplier. The supporting documentation was available for audit verification.

Committee’s Observations and Recommendations

Your Committee strongly urges the Controlling Officer to caution management for this serious omission and ensure that procurement regulations are always adhered to, to avoid recurrence. Your Committee further urges him to institute disciplinary action against the erring officer to serve as a deterrent to others. Your Committee will await a progress report on the matter.

ZAMBIA WILDLIFE AUTHORITY

**Query
Review of Operations**

Paragraph 22

22. A review of accounting and other records for Zambia Wildlife Authority (ZAWA) carried out in June 2016, revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) Operating without a Board

The Controlling Officer informed your Committee that in April 2014, the then incumbent Minister, who had the powers to appoint and dissolve the Board, had it dissolved. The transformation process was underway as management had reported the matter to the Permanent Secretary in the Ministry of Tourism and Arts. However, on 1st November 2015, a Statutory Instrument was signed by the Minister to finally transform ZAWA into Department of National Parks and Wildlife under the Ministry of Tourism and Arts.

Committee’s Observations and Recommendations

Your Committee is disappointed that the Authority was allowed to operate without a Board for so long, yet it had so many challenges. Your Committee is, therefore, of the view that the incumbent Minister at the time, should have appointed a highly competent Board who would have run the affairs of ZAWA in order to achieve its objectives and turn fortunes around it. Your

Committee, however, resolves to close the matter as ZAWA has been transformed into the Department of National Parks and Wildlife under the Ministry of Tourism and Arts.

b) Funding

The Controlling Officer acknowledged the observation raised on this matter and explained that during the year 2013, a special request was made to the Ministry of Finance for a monthly grant to cover the salaries and operational challenges which the Authority was facing. She further explained that the K168, 300,000 raised by the Authority was used to dismantle ZAWA's arrears to loan institutions and statutory obligations. The supporting documentation was made available for audit verification.

Committee's Observations and Recommendations

Your Committee is disappointed that the Authority did not provide the required evidence of supplementary provisions supporting excess funding to the auditors during the audit process. Your Committee urges the Controlling officer to institute disciplinary action against the erring officers for this irregularity and will await a progress report on the matter.

c) Failure to Prepare Annual Reports

The Controlling Officer regretted that the Annual Reports for 2013 and 2014 were not prepared, as prescribed under Section 25 of the *Zambia Wildlife Act, No.12 of 1998*. She however, informed your Committee that the Annual Report for 2015 had since been prepared and was available for audit verification.

Your Committee was further informed that the financial statements for the financial year 2015 were not prepared and submitted as of October 2016, because there was a delay in the appointment of accounting staff during the transformation of the institution into a Government department under the Ministry of Tourism and Arts. Furthermore, before the transformation, the former ZAWA was being audited by Price Water House Coopers, and was required to pay audit fees. However, due to the Authority being transformed into a Government department, the Authority did not have the required funds to meet the cost of the audit fees.

Committee's Observation and Recommendation

Your Committee is disappointed that the Authority failed to comply with the requirements in respect of the preparation of the financial statements. Your Committee, however, resolves to close the matter as ZAWA has been transformed into the Department of National Parks and Wildlife under the Ministry of Tourism and Arts.

d) Financial performance –statement of Comprehensive Income

The Controlling Officer submitted that the financial statement for the year under review had since been prepared and was available for audit verification.

Committee's Observation and Recommendation

Your Committee recommends the matter for closure subject to audit verification.

i) Net Profit Margin Ratio

The Controlling Officer explained that the net profit margin ratio declined from -64% to -68% as a result of the hunting ban that was effected from 2013 to 2014, resulting in the reduction of revenue expected to be raised by ZAWA.

Committee's Observation and Recommendation

Your Committee observes that management should have devised ways of improving on revenue and reducing on costs in order to improve the Authority's profit margin and, therefore, making it profitable. Your Committee, however, resolves to close the matter as ZAWA has been transformed into the Department of National Parks and Wildlife under the Ministry of Tourism and Arts.

ii) Operating expenses as a percentage of revenue

The Controlling Officer explained that due to the reduction in revenue arising from a ban on hunting, the Government of the Republic of Zambia financed ZAWA by way of grants to ease its operations. This resulted in the increased implementation of activities and operational expenses compared to the reduced revenue which ZAWA generated. The increased activities which were undertaken to protect the wildlife resources during the hunting ban, therefore, included, among others, increased patrols, the procurement of ammunition, patrol equipment, fuel and food rations.

Committee's Observation and Recommendation

Your Committee observes that it was not prudent management for the Authority to increase its operating expenses while its revenue was declining. Your Committee is of the view that management should have devised ways of reducing the operating expenses, thereby, making ZAWA profitable enough to meet its obligations. Your Committee, however, resolves to close the matter as ZAWA has been transformed into the Department of National Parks and Wildlife under the Ministry of Tourism and Arts.

e) Financial position – Statement of Financial Position as at 31st December

i) Receivables Turnover Ratio

The Controlling Officer submitted that the Receivables Turnover Ratio increased from sixty four to seventy two days because of the following reasons.

- Staffing Levels

During the period under review, most of the revenue generating ZAWA Offices were not adequately staffed with commercial officers and revenue collectors in order to ensure the timely collection of revenue and outstanding debt.

- Operational Logistics

Transportation challenges remained a problem for the revenue collection section to promptly follow up outstanding payments for tour operators. This worsened in cases where some operators were remotely located, making it difficult to access them without motor vehicles.

- Tour Operators

The period under review proved to be a difficult period for the tourism industry in protected areas. This was due to low tourist arrivals partly arising from fears of the Ebola disease which negatively impacted on business. For this reason, operators had difficulties remitting both fixed and variable fees due to the Department on time.

Committee's Observation and Recommendation

Your Committee expresses concern at the management's failure to reduce the receivables turnover ratio in order to improve the Authority's cash flow. Your Committee in this regard, strongly urges the Controlling Officer to ensure that since the Authority has been transformed into the Department of National Parks and Wildlife under the Ministry of Tourism and Arts, the collection of revenue from its clients should be enhanced in order to improve the liquidity of the Ministry. Your Committee closes the matter

ii) Current ratio

The Controlling Officer explained that the institution's inability to settle its obligations as and when they fall due was because ZAWA was making losses from its inception, thus accumulating huge debt. Therefore, it was for this reason that ZAWA had since been transformed into a Government department in an effort to address the liquidity problems.

Committee's Observation and Recommendation

Your Committee finds it unfortunate that the Authority's current ratio remained constant, hence its inability to settle its obligations as and when they fell due. Your Committee is of the view that management should have strived to improve to a minimum acceptable standard, a ratio of 1.5 to enable the Authority pay its current liabilities from its current assets. However, now that ZAWA has been transformed into the Department of National Parks and Wildlife under the Ministry of Tourism and Arts, your Committee strongly urges the Controlling Officer to ensure that the fortunes of this Department are turned around. Your Committee accordingly closes the matter.

f) Questionable Liability - K657,621

The Controlling Officer informed your Committee that this case was currently under litigation after a dispute over the contract terms and conditions. Supporting documentation, such as a summary of the case and correspondence to the Department of National Parks and Wildlife (DNPW) from the Muchinga Wild Game Capture Limited with delivery notes and a species delivery form and a response from the Director- DNPW, acknowledging the proposed settlement sum of K657,620.00, was available for audit verification.

Committee's Observation and Recommendation

Your Committee directs the Controlling Officer to ensure that the documents purported to be available are presented for verification and that the officers responsible for not availing these documents to the auditors during the audit process be reprimanded in the strongest terms possible. Your Committee awaits a progress report on the matter.

g) Failure to Remit Statutory Obligations - K573, 385,918

The Controlling Officer informed your Committee that the amounts queried related to the period 2000 to 2012. She explained that after a series of meetings with the NAPSA management, a debt repayment plan was agreed upon by both parties in February 2015. The repayment plan focused on the reconciled principal amount of K19, 293,544.81. Therefore, an upfront payment of K3, 229,937.51 was made and subsequent payments totalling K 5,929,936.5 were further made. Furthermore, a balance of K13, 363,608.30 had remained until December 2015 when the Authority was transformed into the Department of National Parks and Wildlife under the Ministry of Tourism and Arts. The debt was, therefore, handed over to the Government. With regard to the period 2013 to 2015, the Controlling Officer submitted that monthly deductions were remitted to NAPSA.

She further informed your Committee that the debt in respect of ZRA was accrued over the period 2000 to 2012. However, due to inconsistent information and lack of filing of annual returns, the exact amount owing was not determined, as such no payment plan was agreed upon with ZRA for the outstanding debt.

Regarding the period 2013 to 2015, the Controlling Officer submitted that the monthly deductions were remitted to ZRA and the supporting documentation was available for audit verification.

Committee's Observation and Recommendation

Your Committee will await a progress report on the matter.

h) Failure to Remit Loan Recoveries - K98, 487

The Controlling Officer explained that in November 2013, ZAWA and Blue Financial Services agreed on a debt repayment plan that was adhered to. However, in 2015, Blue Financial Services submitted a new claim showing K98, 487.00 as penalties which ZAWA disputed. It was, further, agreed that the amount owed could pertain to deceased and retired employees; therefore, ZAWA agreed that it would furnish Blue Financial Services with relevant documentation to enable the company claim from insurance and make recoveries from the retired staff whose benefits had not yet been paid. Supporting documentation such as a copy of the MOU, payment plan and proof of payment were available for audit verification.

Committee's Observation and Recommendation

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

i) Failure to pay Community Resource Boards - K470, 158

The Controlling Officer informed your Committee that authority from the Treasury was given to the Department of National Parks and Wildlife, through the Permanent Secretary's Office, to pay the outstanding amounts owing to the Community Resource Boards. In this regard, the payments were effected in December 2016. The supporting documentation was available audit verification.

Committee's Observation and Recommendation

Your Committee directs the Controlling Officer to submit all relevant documentation to the Office of the Auditor General after which the matter should be closed.

j) Delay in putting Employees on Government Payroll

The Controlling Officer explained that the number of the works that needed to be transferred and appointed to the Civil Service was 2,069 by 31st December 2015. However, the total number of positions on the Treasury Authority which was granted was 1,752, against a total number of 2,069. The Treasury Authority was based on statistics of employees available in 2014, when the Government made a decision to transform ZAWA into a Department of National Parks and Wildlife under the Ministry. However, between 2014 and 2015, the Zambia Wildlife Authority had employed more staff, hence the difference between the total number of positions on the Treasury Authority and the actual number of employees.

In order to address this disparity, the Ministry requested the Public Service Management Division to freeze thirty three positions which were not needed in order to create more positions for classified employees which were very few on the Treasury Authority. The positions created, therefore, became part of the second Treasury Authority of 181 positions. In this regard, the total available positions to be filled were 1,900 and as at 31st December 2016, all the positions available had been filled. The validity period for both treasury authorities was from 1st January 2016 to 31st December 2016 of the 2069;

- forty-eight officers were dismissed on account of forged academic qualifications;
- thirty-two officers had been retired;
- twelve officers who were on contract under ZAWA did not have their contracts renewed as they had reached the retirement age, and others opted not to apply;
- three officers were on secondment;
- seven were deceased;
- five officers had resigned; and
- ninety-eight officers were transferred to other ministries mostly typists, accountants and classified daily employees.

The total number of officers who needed to be transferred and appointed to the Civil Service, therefore, reduced from 2,069 to 1,864. From the total number of 1,900 positions made available by the two Treasury authorities, twenty-seven positions were filled by serving officers from other ministries while twenty-six were new appointments as these were no suitably qualified personnel among the former ZAWA officers for the positions.

In this regard, only thirty-two former ZAWA employees had not yet been transferred to the civil service. However, the Ministry was tirelessly working closely with the Public Service Management Division to ensure that the remaining officers were absorbed into the main stream Civil Service by the end of the second quarter of 2017. In the interim, these officers were being paid advances on a monthly basis equivalent to the salaries they were getting under ZAWA.

Committee's Observation and Recommendation

Your Committee notes the response but urges the Controlling Officer to ensure that the remaining thirty two officers are appointed in the public service. Your Committee awaits a progress report on the matter.

k) Questionable presence of a South African Company in Lusaka National

Park

The Controlling Officer submitted that the case of Orange River was under litigation. She explained that the company bought 100 sables through successful bidding. However, due to a counter-offer that benefited the institution more, ZAWA opted to refund the Company. The company refused the refund and took ZAWA to court. The case was concluded in 2013, with a ruling in favour of Orange River and ZAWA was ordered to pay legal costs and damages. Nonetheless, ZAWA and Orange River entered into an agreement in which the 100 sables would be kept in Lusaka Park and the rental charge be used to offset the damages due to the company. Unfortunately, during to the transformation of ZAWA to the Department of National Parks and Wildlife under the Ministry of Tourism and Arts, the renewal of the contract, which expired in February 2016, was not undertaken.

The Controlling Officer further reported that at the time of the mass capture, the herd of sables had animals of different ages and sexes. In view of the foregoing, some of the female sables caught had calves and were nursing. Orange River was therefore, advised on site that it would be irresponsible to take away the mothers and leave the calves in the wild, and also because it was difficult at that time to identify which calf belonged to which female, it was agreed to capture the 136 instead of the 100 sables. When the calves were weaned, they would be separated from the pens and retained by ZAWA.

Committee's Observations and Recommendations

Your Committee expresses concern that despite being adequately advised by the office of the Legal Counsel and Board Secretary that the institution was bound at the fall of the hammer in the auction, management abused its authority by insisting that the matter proceeds to the courts of law, therefore, subjecting the Government to a financial loss with regard to the legal costs and damages paid to the South African Company through litigation. Your Committee, in this regard, strongly urges the Controlling Officer to sternly caution management for this failure. The Controlling Officer is further urged to ensure that the matter is expeditiously resolved and your Committee will await a progress report on the matter.

l) Translocation of Animals - Mosi-Oa-Tunya National Park

The Controlling Officer further explained that due to the nature of the 20th Session of the United Nations World Trade Organisation (UNWTO) which took place from 25th to 29th August 2013, the time delivery clause was implied in the contract.

Committee's Observations and Recommendations

Your Committee observes that while the management had sufficient time to avail the necessary information required to address the query during the audit process, the Authority is only availing this information after the audit process, a situation which your Committee finds unacceptable. Your Committee is of the view that stern disciplinary action must be instituted against the officers responsible for failing to cooperate with the auditors during the audit process. Your Committee further directs that the supporting documentation should be submitted for audit verification after which the matter should be closed.

m) Hippo Culling

The Controlling Officer explained that the awarding of the hippo culling contract was done administratively by the ZAWA management due to the impending and forecast of the outbreak of the anthrax disease in the Luangwa Valley. In this regard, Mabwe Adventures presented a proposal to ZAWA to undertake the culling exercise to prevent anthrax, provide meat and job opportunities to the community as well as raise revenue for ZAWA. Therefore, it could not be subjected to tender process.

Your Committee was further informed that Mabwe Adventures Zambia Limited made a payment to ZAWA totalling K81,108.00. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee notes the response but strongly urges the Controlling Officer to desist from willfully disregarding Government procedures. Your Committee further urges him to submit the report of the hippo culling exercise indicating the number of hippopotamus culled as well as the supporting documentation showing the amounts paid to ZAWA for audit verification, after which the matter is recommended for closure.

n) Undelivered materials

The Controlling Officer informed your Committee that a demand notice was issued to the supplier by the Authority's legal officer, for the remaining undelivered items. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the delay by the management in pursuing the matter and further observes with concern that public funds may be lost in the process if efforts are not made to ensure that the remaining materials are delivered. Your Committee in this regard, strongly recommends that management should investigate the procurement of the materials further, and if any irregularities are discovered in the process, the matter should be reported to the law enforcement agencies for appropriate action. Your Committee awaits a progress report on the matter.

o) Missing firearms

The Controlling Officer submitted that the firearms reported missing were actually not missing. She explained that at the time of the audit, these firearms were with the officers in the field. In this regard, they were, currently available in the Mongu Armoury for inspection.

Committee's Observations and Recommendations

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

p) Failure to Secure Solar Panels

The Controlling Officer informed your Committee that the matter of stolen solar panels was reported to the police, and a police report was available for audit verification. Further, as a follow

up measure to secure the solar panels, burglar bars were installed to protect the solar panels against animal vandalism and theft.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the Controlling Officer waited for the audit to take action on the matter. Your Committee further expresses concern that documentary evidence was not produced during the audit process and urges the Controlling Officer to institute disciplinary action against the erring officers. Your Committee however, resolves to close the matter subject to audit verification

q) Failure to Collect Debt from Tour Operators

The Controlling Officer explained that in order to recover all the outstanding debts from the tour operators, demand notices were issued and some of the operators had started paying the outstanding amounts. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern that despite the management facing liquidity challenges, management was not proactive in pursuing its debtors. Your Committee, therefore, urges the Controlling Officer to ensure that the outstanding debt is collected without further delay and will await a progress report on the matter.

r) Encroachment into Game Management Areas

The Controlling Officer reported that management sent funds to the Kafue National Park to undertake an exercise of removing the illegal settlers in the Game Management Areas. She informed your Committee that the settlers were removed from some affected areas and plans were underway to evict the remaining settlers when the rainy season was over.

Committee's Observations and Recommendations

Your Committee reiterates that the failure by ZAWA to manage the Game Management Areas concerned is a serious omission as it undermines the intentions of the law on the establishment of Game Management Areas. Your Committee, in this regard, strongly urges the Controlling Officer to ensure that urgent steps are taken to remove all the illegal settlers from the Game Management Areas. Your Committee awaits a progress report on the matter.

s) Inadequately supported payments - K986, 999

The Controlling Officer informed your Committee that most of the supporting documentation concerning the Chilanga Head Office had been attached. The queried payments amounting to K58,743.00 under Mongu had also been updated by attaching the activity reports and relevant supporting documentation. With regard to Livingstone, the PV Cheque number 3634 which was awaiting an invitation letter from Gideon Chikanya had been updated and was currently complete. Further, cheques 016337, 016339, 016506 for SLAMU had also been attached and the supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the management's failure to properly file supporting documentation for the various payments. Your Committee in this regard urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers and that all the outstanding supporting documents are collected and availed for audit verification without any further delay. Your Committee further urges the Controlling Officer to ensure that the traced supporting documentation are availed for audit verification and will await a progress report on the matter.

t) Unretired Imprest- K139,454

The Controlling Officer informed your Committee that efforts were being made to recover the outstanding imprest by feeding the outstanding imprest against the payroll or benefits.

Committee's Observations and Recommendations

Your Committee expresses concern that the Controlling Officer failed to ensure that Financial Regulations on the retirement of imprest were adhered to by the officers at the Authority. Your Committee in this regard, urges the Controlling Officer to institute disciplinary action against the officers responsible for the unretired imprest. Your Committee further directs him to ensure that the imprest is retired in full without further delay and will await a progress report on the matter.

ZSIC GROUP OF COMPANIES

Query Review of Operations

Paragraph 23

23. A review of accounting and other records for the period from January 2013, to December 2015, carried out in August 2016, revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) Financial Performance - Statement of Comprehensive Income

The Controlling Officer explained that the losses over the years were mainly attributed to the bad debt provisions of K72 million in 2013, K57 million in 2014 and K24 million in 2015. Had it not been for these impairment provisions therefore, the Group could have been in the profit position over all the three years under review.

To arrest the escalation of costs, your Committee was informed that management undertook the following measures;

- debtors' reconciliations and debt collection efforts had been enhanced with the appointment of qualified debt collectors so as to avoid the impairment of receivables;
- applied to the Pensions and Insurance Authority for the conversion of the Staff Pension Scheme from the Defined Benefit (DB) Scheme to Defined Contribution (DC) Scheme so as to reduce the exposure to actuarial deficits arising from the DB Scheme; and
- froze salary increments and in its place introduced a stand alone cost of living allowance (COLA) so as to avoid or limit the multiplier effect on salary linked costs.

Committee's Observations and Recommendations

Your Committee expresses concern over the poor financial performance of ZISC and observes that there is need for a paradigm shift in the operations of this institution. Your Committee is of the view that there are serious problems associated with the management of the institution as evidenced by the colossal sums being provided as bad debt provisions. Your Committee observes that such provisions show that there is failure by the Company to following up debts. Your Committee, in this regard, urges the management at ZISC to live up to its plans with the new staff base by ensuring that debt collection efforts are enhanced. Your Committee awaits a progress report on the matter.

b) Financial Position

i) Poor Liquidity

Liquidity is the ability of an entity to pay its liabilities in a timely manner as they fall due for payment under the original payment terms. Amongst the ratios used to measure liquidity are solvency and current ratios.

- **The Solvency Ratio**

The solvency ratio of an insurance company is the size of its capital relative to all risks it has taken. The solvency ratio is most often defined as:

$$\text{Solvency Ratio} = \frac{\text{long-term liabilities}}{\text{total assets}}$$

According to Section 37 of the *Insurance Act of 1997*, insurance companies in Zambia are supposed to meet the solvency ratio of 110 percent. It was, however, observed that during the period under review, ZISC Limited did not meet the required solvency ratio as it recorded solvency ratios of 70 percent, 68 percent and 67 percent in 2013, 2014 and 2015 respectively.

Committee's Observations and Recommendations

Your Committee notes that the establishment of the Industrial Development Corporation (IDC) is to try and salvage the general operations of non performing parastatal bodies such as ZISC. In this regard, your Committee strongly urges the Controlling Officer to ensure that ZISC under the IDC is recapitalised in order for management to come up with strategies to revamp the company's solvency ratio. Your Committee awaits a progress report on the matter.

- **The Current Ratio / Working Capital**

The current ratio is a liquidity ratio that measures a company's ability to pay off its short term liabilities as and when they fall due using its current assets. The acceptable current ratio is 2:1.

However, the current ratios for the Company for the financial years ended 31st December 2013, 2014 and 2015 were 0.61:1, 0.61:1 and 0.74:1 respectively, which was well below the acceptable current ratio of 2:1.

In this regard, the Company operated with a negative working capital as shown in the table below.

	2015 K'000	2014 K'000	2013 K'000
Current Assets	239,848	223,833	219,521
Current Liabilities	391,450	369,869	297,446
Working Capital	(151,602)	(146,036)	(77,925)
Current Ratio	0.61:1	0.61:1	0.74:1

Consequently, the company may not be able to meet its short term obligations as they fall due.

Committee's Observations and Recommendations

Your Committee notes that the establishment of the Industrial Development Corporation (IDC) is to try and salvage the general operations of non performing parastatal bodies such as ZISC. In this regard, your Committee strongly urges the Controlling Officer to ensure that ZISC under the IDC is recapitalised in order for the weaknesses in its working capital to be addressed without further delay. Your Committee awaits a progress report on the matter.

ii) **Receivable Turnover Days**

The Controlling Officer explained that the outstanding premiums were not collected due to the liquidity challenges that the Group's clients were going through. He however, submitted that management was taking the following measures to collect the outstanding premiums:

- engaging law firms to help in collecting outstanding premiums from clients;
- engaging the Ministry of Finance and the Zambia Revenue Authority on the possibility of a tripartite debt or cheque swap for the verified amount of K66.9 million due from Government ministries and departments. The discussions were underway and the necessary documentations was availed for audit verification; and
- strictly enforcing the Credit Management Policy.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company's credit policy is not being enforced as observed by the allowance of up to 191 days on receivables turnover, exceeding the approved limit of 60 days. Your Committee further observes with concern that insurance receivables amounting to K85, 613,000 were outstanding for periods ranging from one to five years as of December 2015. Your Committee in this regard, is of the view that if this state of affairs is not promptly addressed, the company will continue struggling with poor liquidity levels. Your Committee, therefore, urges the Controlling Officer to ensure that the purported debt swap is finalised without further delay and that other options are explored to improve the current status quo. Your Committee will await a progress report on the matter.

iii) **Failure to Remit Statutory Contributions**

The Controlling Officer submitted that the company was unable to pay the statutory obligations because of the liquidity challenges non-payment by outstanding debtors. However, in order to address this issue, your Committee was informed that the following measures had been put in place:

- management had engaged law firms to help in collecting outstanding premiums from all clients;

- there was strict enforcement of the Credit Management Policy; and
- the dismantling of accumulated legacy amounts (principal, interest and penalties) would be a challenge and the Group was seeking interventions from the Ministry of Finance.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor liquidity levels at the company as evidenced by its failure to meet its statutory obligations. Your Committee is of the view that with the current scenario, the company risks being liquidated and therefore, urges the Secretary to the Treasury in particular, to ensure that the legacy amounts are dismantled. Your Committee further urges the Controlling Officer to put in place measures that will prevent the accumulation of future statutory obligations. Your Committee awaits a progress report on the matter.

c) Wasteful Expenditure

i) Investment in Microfinance Business using a PPP model

The Controlling Officer informed your Committee that the consultant met all the key deliverables and the payments were made according to the performance milestones.

He submitted that the micro finance project had not been abandoned but shelved due to lack of investment capital to inject into the business. Supporting documentation was available for audit verification.

Committees Observations and Recommendations

Your Committee reiterates that the observation made by the auditors was correct as documentation such as the micro-credit feasibility study report with its recommendations, the budget, financial model and the implementation plan for the ZISC Limited micro-credit product, among others, were not produced during the audit process. Therefore, there was no evidence to show that the key deliverables had been delivered despite payments being made. Your Committee in this regard, directs the Controlling Officer to ensure that all the documents relating to this consultancy are availed to auditors without further delay. Your Committee resolves to close the matter subject to audit verification.

ii) Supply of Asset Management Software

The Controlling Officer informed your Committee that the software was installed and the training was conducted. He made available supporting documentation for audit verification.

Committee's Observations and Recommendations

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

iii) Procurement of Human Resource Sun flow Software

The Controlling Officer explained that during the audit exercise, the Sun Flow Software was indeed non-functional because the software license had not been paid for. However, the licence had since been paid for and training arrangements had been made, to enable users access and use the system. The company's target therefore, was to have the system fully functional by the end of the second quarter of 2017. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the system is fully functional and will, therefore, await a progress report on the matter.

d) Unsupported Subsistence Claims

The Controlling Officer informed your Committee that the claim forms confirming the various trips undertaken were currently available for audit verification. He acknowledged that there were no reports for the trips undertaken because it was not a requirement at the time to produce and file reports for routine operational trips except for training. Going forward, however, he assured your Committee that management would ensure that reports for non-routine trips were demanded.

Committee's Observations and Recommendations

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

e) Legal Matters

i) Loss of Funds on Court Cases

The Controlling Officer clarified that the amounts reflected in the Audit Report under consideration related to the actual insurance claims, as the liability for paying claims was not in dispute, but merely delayed. He further informed your Committee that the non appearance before courts had been addressed by the employment of a separate legal counsel for each company in the group.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for a company that is facing liquidity challenges to lose such colossal sums of money as a result of a court judgments passed in default. Your Committee observes that the funds would have been ploughed back into the company to improve its liquidity position. Your Committee in this regard, urges the Controlling Officer to sternly caution management for this failure but nevertheless closes the matter.

ii) Failure to Repossess Property

The Controlling Officer acknowledged that there was no serious examination of the collateral arrangement. He explained that the collateral was defective and the concerned guaranteed party was being pursued, but appeared to be outside jurisdiction. However, management had since changed the accepted collateral arrangements and had also improved the vetting system to avoid recurrence. He further informed your Committee that since the unfortunate occurrence, no third-party security was accepted unless in very special arrangements approved by the Managing Director.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the property which was placed as collateral did not suffice to offset the bond. Your Committee therefore, urges the Controlling Officer to report the matter to law enforcement agencies for further probe as circumstances are not clear why the collateral was defective. Your Committee will await a progress report on the matter.

f) Procurement of Goods, Works and Services

i) Unsupported Payments - K177,527

The Controlling Officer informed your Committee that at the time of the audit exercise, some documents were not attached due to the number of offices involved in the payment system. However, the supporting documentation had since been attached and was available for audit verification.

Committee's Observations and Recommendations

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

ii) Unaccounted for Stores - K19,806,141

The Controlling Officer informed your Committee that the stores purchases were accounted for. However, management had also noted that some of the amounts included in the K19,806,141 were in fact unrebased, thereby creating an over statement. The correct amount, therefore, was K1,314,405.00. The supporting documentation was available for audit verification.

Committee's Observations and Recommendations

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

Paragraph 24

SUBMISSION BY THE SECRETARY TO THE TREASURY ON THE AUDITOR GENERAL'S CONCLUSION

The Secretary to the Treasury submitted that the Treasury took note of the highlighted various areas of weaknesses in the management of parastatal bodies and other statutory institutions. In this regard, the Treasury would endeavor to strengthen the performance of the institutions that had been transferred and earmarked to be transferred to the Industrial Development Corporation (IDC) as the mandate of the IDC was to effectively and efficiently oversee the operations of these institutions. With regard to parastatal bodies and other statutory institutions scheduled for transfer to the IDC, the Secretary to the Treasury submitted that the Treasury, through the revised *Public Finance Act*, would enhance the supervisory role of the Ministry of Finance.

Committee's Observation and Recommendation

Your Committee urges the Secretary to the Treasury to ensure that the State Owned Enterprises that have not yet been transferred to the IDC are transferred before the end of 2017, in an effort to strengthen the performance of the institutions. Your Committee will await a progress report on this matter.

PART III

GENERAL OBSERVATIONS AND RECOMMENDATIONS

- i) Your Committee is alarmed by the failure of most statutory and parastatal bodies to produce audited financial statements during the period under review. It is regrettable that out of the twenty-seven, only eight institutions have submitted audited financial statements. Your Committee contends that the failure to present financial statements is a contravention of the various pieces of legislation governing the various institutions and must be corrected immediately.

Your Committee recommends that going forward, and in an effort to arrest the situation, the Treasury should only release funding to the institutions funded by the Treasury upon the submission of audited financial statements of the preceding year(s) as required by law. Further, an effective mechanism should be put in place to promptly address the situation comprehensively.

- ii) Your Committee expresses worry over the poor general performance of most statutory and other parastatal bodies for some time now. It is worth noting that the cause for this poor performance is mainly weak administrative practices, including financial indiscipline, bad work culture and to some extent political interference, among others. Further, the creation of IDC has not helped matters in that the status quo has remained the same.

Your Committee recommends that the Treasury should provide the necessary checks and close supervision in order for the objectives of IDC to be achieved within a reasonable time frame.

- iii) Your Committee expresses regret that despite the *Public Finance Act of 2004* clearly spelling out the role of audit committees in strengthening internal controls in MPSA's, most parastatal bodies and other statutory bodies have not established these Committees.

Your Committee recommends that the Treasury should ensure that the *Public Finance Act* is complied with regarding not only the establishment but also the operationalisation of audit committees in MPSA's by the respective Boards.

- iv) Your Committee notes that the current methodology by the Auditor General of conducting rotational audits on parastatals and other statutory bodies over the past years has proved to be limiting the scope of audit with regard to assessing the trends in progress on your Committees observations and recommendations.

Your Committee strongly recommends that in order for your Committee to assess the effectiveness of its observations and recommendations with regard to the queried parastatals, the Office of the Auditor General is urged to conduct a 100% audit on these institutions in order to assess the impact and effectiveness of your Committee's observations and recommendations.

CONCLUSION

25. 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 and Other Statutory Institutions for the Financial Year Ended 31st December 2015. 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 technical input from the Office of the Auditor-General, the Accountant-General and that of the Controller of Internal Audits when considering submissions from the witnesses.

H Kunda, MP
CHAIRPERSON

July, 2017
LUSAKA

APPENDIX I

List of Officials

National Assembly

Mr S Kawimbe, Principal Clerk of Committees
Ms M K Sampa, Deputy Principal Clerk of Committees
Ms C Musonda, Senior Committee Clerk (FC)
Mr S C Samuwika, Committee Clerk
Mrs C T M Kasonde, Committee Clerk
Ms K Chisenga, Stenographer
Ms A Maluwa, Typist
Mr D Lupiya, Parliamentary Messenger