



REPUBLIC OF ZAMBIA

REPORT

of the

PUBLIC ACCOUNTS COMMITTEE

on the

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS FOR THE
FINANCIAL YEAR ENDED 31 DECEMBER 2004

for the

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

PRINTED BY THE NATIONAL ASSEMBLY OF ZAMBIA

REPORT

of the

PUBLIC ACCOUNTS COMMITTEE

on the

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE REPUBLIC
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004

for the

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

TABLE OF CONTENTS

PARAGRAPH	PAGE
1. Composition	1
2. Functions	1
3. Meetings	1
4. Procedure	1

PART I

CONSIDERATION OF SUBMISSIONS

5 – 9 Auditor-General's Comments	2
10. Control Management and Accountability of Public Funds	5
11. Internal Control	5
12. Out-turn and Appropriation Accounts	6
13. Analysis of Surplus/Shortfall in Revenue	8

REVENUES

14. Revenue /Finance	8
15. General Revenues	11
16. Revenue Collections	22
17. Other Posts	26

FEES OF COURT OR OFFICE

18. Ministry of Home Affairs	18
------------------------------	----

Ministry of Communications and Transport

19.	(i)	Road Traffic Collections	33
20.	(ii)	Provincial and District Offices	39
21.	(iii)	Department of Civil Aviation	45
22.		Ministry of Lands	48

EXPENDITURES

23.		Electoral Commission of Zambia	56
-----	--	--------------------------------	----

Cabinet Office

24.	(i)	Headquarters	59
25.	(ii)	Operations of the Task Force on Corruption	61

Ministry of Foreign Affairs

26.	(i)	Headquarters	73
27.	(ii)	Missions Abroad – Brussels	75
28.	(iii)	Missions Abroad – Berlin	78
29.		Ministry of Local Government and Housing	84
30.		Ministry of Finance and National Planning	85

Ministry of Health

31.	(i)	Central Board of Health	90
32.	(ii)	Human Resource and Administration	93

Ministry of Defence

33.	(i)	Headquarters	100
34.	(ii)	Zambia Air Force, Procurement	102
35.		Ministry of Education	106

Ministry of Agriculture and Cooperatives

36.	(i)	Administration	114
37.	(ii)	Veterinary and Livestock Department, Animal Disease Control	119
Office of the President – Provincial Administration			
38.	(i)	Eastern Province	120
39.	(ii)	Southern Province- Livestock Restocking	123
40.	(iii)	Southern Province – Roads Rehabilitation	127
41.		Constitutional and Statutory Expenditure	127

PART II

43.	Tours of the Committee		
	(i)	Gaborone Mission	131
	(ii)	Pretoria Mission	133
	(iii)	Harare Mission	134
	(iv)	London Mission	138
	(v)	Berlin Mission	141
	(vi)	Paris Mission	142
44.	Conclusion		147

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2004, FOR THE FIFTH SESSION OF THE NINTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON 20TH JANUARY 2006.

Consisting of:

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

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

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee have the honour to present their Report on the Report of the Auditor-General on the Accounts for the Financial Year ended 31 December 2004.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held fourteen meetings to consider the Report of the Auditor-General.

Procedure adopted by the Committee

4. With technical guidance by the Auditor-General and the Accountant General, your Committee considered both oral and written submissions from controlling officers, who were summoned to appear before. This Report contains the observations and recommendations of your Committee and include, in some cases, proposed remedial measures to correct the irregularities highlighted in the Auditor-General's Report.

Your Committee further undertook inspection tours of six Zambian missions abroad after the Auditor-General reported accounting and other irregularities obtaining at the missions.

PART 1

CONSIDERATION OF SUBMISSIONS

Audit Query and Comment

Paragraphs 1 – 15

5. The Auditor General reported that the Report on the audit of the accounts of the Government of the Republic of Zambia for the financial year ended 31st December 2004 was submitted to the President for tabling in the National Assembly in accordance with provisions of Article 121(4) of the Constitution of Zambia.

In compliance with the provisions of the *Finance (Control and Management) Act, Cap 347* of the Laws of Zambia (repealed in November 2004) and the *Public Finance Act No. 15* of 2004, each Appropriation Account as reflected in the Financial Report for the financial year ended, 31st December 2004 was certified, and subject to the observations contained in this Report, the moneys expended were applied for the purpose for which they were appropriated by Parliament and the expenditure conformed to the authority that governed it.

Co-operation with Office of the Auditor-General of Norway

6. In paragraph 3 of the Report of the Auditor General on the accounts for the financial year ended 31st December 2003, mention was made of the cooperation that continues to exist between the Office of the Auditor General of Zambia and Office of the Auditor General of Norway. To further enhance the quality of audit work and reports, in 2005, the Office with the help of the Office of the Auditor General of Norway, developed an Audit Manual in Regularity and Financial Audits and a Quality Control Manual. Further, the Office of the Auditor General Norway helped the Office to develop an IT policy and donated fifty laptop computers to the Office.

Institutional Development

7. In paragraph 4 of the Report of the Auditor General on the accounts for the financial year ended 31st December 2003, mention was made that the construction of the new Provincial Offices of the Auditor-General would be done in 2005 by the World Bank, through the Public Expenditure Management and Financial Accountability (PEMFA) programme. These construction works have not yet commenced. However, preliminary works on the project have commenced.

Following Cabinet's approval of the restructuring of the Office of the Auditor-General, as mentioned in paragraph 8(b) of the Auditor General's Report for the financial year ended 31st December 2003, the Office was restructured. Consequently, two Divisions, namely, Corporate Services, and Audit and Consultancy, were created and each division was to be headed by a Deputy Auditor General. The establishment was also increased from two hundred and ninety three to five hundred and seventy two in line with the new structure.

In order to meet the office accommodation requirements brought about by the increased number of staff, funds to extend the head office were sourced under PEMFA and preliminary works on the project have commenced.

In 2005, under the Restructuring and Institutional Development Project (RIDP II) financed by the Norwegian and Netherlands Governments, capacity building continued and officers attended various training programmes. The intranet and internet connectivity for the Training Centre and the Lusaka,

Kabwe and Ndola Provincial Offices was completed and various other equipment was procured for use in carrying out audit assignments. These developments are impacting positively on the operations of the office as they have improved the efficiency of the office's work, thereby improving the quality of the Report.

Scope and Audit Methodology

8. The Report was as a result of reviews, programmes of test checks, inspections and examination of accounting, stores, project and other records maintained by public officers and others entrusted with the handling of public resources. The audit programmes were designed to give reasonable assurance of financial management in the Government and to enable the Auditor-General express an opinion on the financial statements for the year. They were also intended to provide information that would assist Parliament in its oversight responsibilities over the application of resources and execution of programmes by the Executive.

Accordingly, the programmes were designed to highlight areas of weakness to facilitate formulation of recommendations by Parliament for remedial action by the Executive.

In the course of preparing the Auditor-General's Report, each Controlling Officer was sent appropriate draft paragraphs for comments and confirmation of the correctness of the facts presented. Where the comments varied with the facts presented, and were proved to be valid, the affected draft paragraphs were amended accordingly.

Limitation in Scope

9. The execution of the audit programmes was limited by factors outside the control of the Office of the Auditor General. The main limiting factors were:

(a) Funding

In Paragraph 8(a) of the Report of the Auditor General for the financial year ended 31st December 2003 and in previous reports, mention was made on the inadequate funding to the Office and that a large component of the Office's budget was donor funded.

In their report of the Fourth Session of the Ninth National Assembly the Public Accounts Committee (PAC) recommended that the Office needed to be empowered financially using government resources.

In 2005, the Office proposed a budget of K20,197,366,296 including an amount of K4,862,495,000 in respect of donor funding through the Restructuring and Institutional Development Project for the year 2005. In the Appropriation Act, this was, however, reduced to K16,240,409,557 made up of K4,862,495,000 donor funding and K11,377,914,557 from government. Of the K11,377,914,557 from Government, K6,289,188,645 was for Personal Emoluments and K5,088,725,912 was for office operations (Recurrent Departmental Charges). Although a provision of K11,377,914,557 was approved for personal emoluments and office operations, a total of K9,033,821,189 was released by the Ministry of Finance and National Planning. This represented about 79% of the total authorized provision for recurrent departmental charges and personal emoluments.

Although the funding was fair in 2005, the releases from the Government were late by an average of a month thus delaying the execution of planned work. It was also noted that despite

the recommendation from the Public Accounts Committee (PAC) the donor component constituted 42.7% of the funding as compared to 37.5% in 2004.

(b) Staffing

In April 2005, Treasury Authority was finally granted for the Office to recruit staff to fill positions in the new structure. As at 31st December 2005, two hundred (200) officers had been recruited.

It should be noted that the process of recruitment consumed a lot of resources in terms of time and manpower as it included interviewing, inducting and training of new staff. This impacted negatively on the operations of the Office in that there was a reduction in audit coverage. It is however hoped that with the increased number of staff, audit coverage will be wider in 2006 and subsequent years.

Submission by the Secretary to the Treasury

General Statements

He appreciated the Auditor-General's general statements and had taken note of them.

Limitation in Scope

(a) Funding

The concerns on under funding had been noted. In 2004, the total budget for the Auditor-General was K8.50 billion of which K3.23 billion was donor funded. This meant that Government budget was K5.47 billion. Total funding for the same period was K5.62 billion i.e. they funded the Auditor-General's Office K145.39 million in excess of their budgetary provision.

Recognising the importance of the Office and the need for adequate funding as rightly observed in the Report, they managed to increase the allocation from domestic resources from K5.47 billion allocated in 2004 to K11.38 billion in 2005. In percentage terms, this translated into an increase of 108 percent. However, due to insufficient resources, they could not fund the entire amount as only K10.03 billion was disbursed. However, compared to 2004, this still represented an increase in releases of about 78.2 percent.

In 2006, the Government had again managed to allocate from domestic resources K13.95 while the other K3.0 billion would be financed by cooperating partners, bringing the total Budget to K16.95 billion. The Government was committed to releasing the entire amount should the projected resources be realised.

(b) Staffing

The Secretary to the Treasury noted with appreciation that the Auditor-General's office managed to recruit 200 officers to beef up the staffing levels. Although the recruitment exercise could have been a drain on their resources and therefore reduced audit coverage in 2005, he was sure that it was a worthwhile undertaking and would improve audit coverage in 2006 and in many years to come. This

would obviously assist in ensuring efficiency and compliance by all institutions for the purpose of better utilisation of Government resources.

Committee's Observations and Recommendations

Your Committee urge the Secretary to the Treasury to fulfil his commitment that the office of the Auditor-General will be fully funded as per budgetary provision in 2006.

Control, Management and Accountability of Public Funds – Paragraph 8

10. The Auditor-General reported that according to the *Finance (Control and Management) Act, Cap 347* of the Laws of Zambia (repealed in November 2004) and the *Public Finance Act No. 15* of 2004, management, supervision, control and direction of all matters relating to the finances of the Republic were vested in the Minister responsible for finance. In carrying out this, the Minister designates senior officers in the ministries and other public offices as controlling officers for each head of expenditure. The responsibilities of the controlling officers are, among others, to safeguard resources of the institutions under their portfolios; institute measures or put in place systems that will minimize risks; address weaknesses in the accounting and internal control systems and to ensure that funds received are properly accounted for and expenditure incurred is authorised and within the approved limits. It is also the responsibility of the controlling officers to prepare and submit financial statements to the Auditor General for audit and certification before inclusion in the Financial Report. The audited financial statements were then submitted to the Secretary to the Treasury to enable him/her prepare the Annual Financial Report for tabling in the National Assembly by the Ministry responsible for finance in accordance with the provisions of Article 118(1) of the Constitution of Zambia

Submission by the Secretary to the Treasury

The Secretary to the Treasury acknowledged the Auditor-General's statement regarding the responsibilities and duties of the Office of the Minister of Finance and National Planning, Secretary to the Treasury and Controlling Officers.

Internal Control – Paragraph 9

11. It was reported that in the previous annual audit reports, mention has been made of the ineffective internal control systems obtaining in ministries and departments. The Public Accounts Committees (PAC) have also called upon the Ministry of Finance and National Planning (MoFNP) to improve the internal control mechanisms in the Government. In this regard, the MoFNP assured PAC that measures were being taken to redress the situation, especially following the restructuring of many government ministries and departments. However, in spite of the assurances made, it has been observed that cases of misappropriations, lack of reconciliation of bank accounts and unretired imprest, losses of stores, awarding of contracts without evaluating the capabilities of contractors are prevalent as reflected in this Report.

In the course of audit it was also observed that there were delays in the banking of revenue collections, and in some cases, where revenue was banked; there was no evidence that the monies were credited to Control 99 at the Bank of Zambia and captured by MoFNP. Similarly, huge sums of money may have been spent without being captured in the Financial Report. There is therefore need for MoFNP to also strengthen the internal controls, especially in the restructured ministries and

departments. There is also need for Internal Debt Management Unit under MoFNP and the Bank of Zambia to reconcile data so that correct figures are captured in the Financial Report. In this regard, the formation of the Audit Committee as provided for under the *Public Finance Act No. 15 of 2004* is a welcome development.

Submission by the Secretary to the Treasury

The Auditor-General's concerns on the need to strengthen the internal controls had been noted. The issues were adequately addressed in the *Public Finance Act* of 2004. For example:

- a) formation of audit committees in ministries;
- b) responsibilities of controlling officers which included maintenance of a system of internal audit under the control and direction of audit committees;
- c) responsibilities of accounting officers, which included collecting punctually all revenues and other public funds;
- d) the Secretary to the Treasury according to the Act had authority to recommend disciplinary action against any erring controlling officer to the Secretary to the Cabinet; and
- e) the Secretary to the Treasury could withhold the release of funds to a controlling officer or an institution, which did not submit returns including receipts and utilisation of grants or donations contrary to the provisions of the Act and accompanying regulations.

Committee's Observations and Recommendations

Your Committee note the submission and advise the Secretary to the Treasury that there is need to further strengthen internal controls in Government institutions. The Audit Report has revealed serious weaknesses at the Road Transport and Safety Agency and Ministry of Home Affairs in that officers are misappropriating Government funds.

The Audit Report has also revealed cases where government institutions are not submitting expenditure returns to Cabinet Office for national events such as Independence celebrations.

In view of the above and other cases, they urge the Secretary to the Treasury to expedite the implementation of the Integrated Financial Management and Information System (IFMIS), and finalisation of the revised Financial Regulations. It is equally important for the Secretary to the Treasury to ensure that audit committees are in place in all ministries.

Out-Turn and Appropriation Accounts for the Financial Year ended 31st December 2004 – Paragraph 10

12. According to the provisions of Article 118(2) of the Constitution, the Financial Report should include, *inter-alia* a balance sheet showing the financial position of the Government as at the end of the financial year, appropriation accounts and a statement of revenue and other moneys received by the Government during the year. The Outturn for the year reflected in Statement A of the Financial Report for the year ended 31st December 2004 is analysed below:

Expenditure as reflected in Statement A1.2

	<u>K</u>	<u>K</u>
Original		8,328,594,434,065
Supplementary		845,363,786,372
Total Authorised Expenditure		<u>9,173,958,220,437</u>
Actual Expenditure		<u>5,988,101,218,073</u>
Net Under Expenditure		<u>3,185,857,002,364</u>

The Net under expenditure of K3,185,857,002,364 is explained as follows:

	<u>K</u>
Under expenditure on head 99	295,540,678,401
add:	
Under expenditure from other functions	3,026,505,668,391
	3,322,046,346,792
Less	
Excess expenditure	136,189,344,428
Net Under Expenditure	<u>3,185,857,002,364</u>

Revenue as reflected in Statement A1.1

	<u>K</u>	<u>K</u>
Actual Revenue	6,203,782,828,594	
Revenue Estimate	5,771,661,498,808	
Surplus in revenue collections	<u>432,121,329,786</u>	
Actual Revenue	6,203,782,828,594	
Actual Expenditure	5,988,101,218,073	
Gross surplus	<u>215,681,610,521</u>	
Financing Statement A1.3)		
Gross surplus		215,681,610,521
Internal borrowing		
External borrowing	1,320,413,618,689	
Exceptional Revenue	149,891,208,894	
Net surplus		<u>1,685,986,438,104</u>

The net surplus of K1,685,986,438,104 for the year under review is explained below:

	<u>K</u>	<u>K</u>
Assets		
Increase in		
Cash	5,717,632,594	
Imprest	48,407,297,419	
Advances	25,160,953,536	
loan revolving fund	12,885,511,324	
Special deposit	223,223,887,734	
Decrease in investment	(28,420)	
		315,395,254,187
Liabilities		
Decrease in short term borrowing	1,383,911,755,700	
less increase in deposits	(18,836,931,383)	
unexplained difference		5,516,359,600
Net Surplus		<u>1,685,986,438,104</u>

Submission by the Secretary to the Treasury

The analysis made by the Auditor-General was correct and had been noted.

Committee's Observations and Recommendations

Your Committee note the response.

Analysis of Surplus / Shortfall in Revenue – Paragraph 11

13 An analysis of Statement A1.1 of the Financial Report for the financial year under review revealed that the actual revenue collected exceeded the estimated amount by K432,121,329,786 as detailed below:

HEAD	DESCRIPTION	APPROVED ESTIMATE K	ACTUAL REVENUE K	OVER THE ESTIMATE K	SHORTFALL K
201	Income Tax (Other than Mineral Tax)	2,028,176,893,563	2,027,400,768,199		(776,125,364)
202	Customs and Excise	1,030,831,744,133	1,033,689,726,329	2,857,982,196	
204	Mineral Revenue	4,532,934,942	4,472,498,618		(60,436,324)
206	Fees of Courts or Office	76,489,870,170	85,661,429,911	9,171,559,741	
207	Value Added Tax	1,361,395,506,000	1,361,395,506,764	764	
208	Miscellaneous and Other Collections	18,512,000,000	19,249,289,620	737,289,620	
209	Interest (Loans and Investments)	609,600,000	1,940,254,068	1,330,654,068	
211	Capital Repayments	725,400,000	1,895,353,985	1,169,953,985	
212	Capital Grants	1,250,387,550,000	1,668,078,001,100	417,690,451,100	
		<u>5,771,661,498,808</u>	<u>6,203,782,828,594</u>	<u>432,957,891,474</u>	<u>(836,561,688)</u>
	Net Surplus				<u><u>432,121,329,786</u></u>

As could be seen from the table above, the surplus of K432,121,329,786 was mainly attributable to the over collection in Capital Grants.

Submission by the Secretary to the Treasury

The over collection in Capital Grants was due to the increased donor inflows which was attributed to the goodwill from Zambia's cooperating partners.

Committee's Observations and Recommendations

Your Committee note the submission.

Revenue / Financing – Paragraph 12

14. During the year under review, amounts totalling K338,735,908,646 were not realised on ten (10) subheads as reflected in statement A.1 of the Financial Report for the year ended 31st December 2004 as detailed below:

Revenue Title	Head/ Subhead K	Approved Estimates K	
Fees of Court or Office	206/114	914,098,190	
	206/116	38,240,823	
	206/118	2,772,041,561	
	206/085	112,605,000	
	206/052	1,042,868	
	206/189	895,749,307	
	206/105	12,288,160	
	206/106	14,342,737	
	Capital Grants	212/177	19,509,000,000
		212/193	
Total		<u>314,466,500,000</u> <u>338,735,908,646</u>	

According to Financial Regulation No.123, revenue may be abandoned only with approval of the Secretary to the Treasury. An application for this authority must give the sum of the revenue, the date on which it was due and the action taken to collect it. A copy of the application should be forwarded to the Auditor General. It was observed however, that contrary to the above provisions, there was no authority given by the Secretary to the Treasury to abandon the collection of revenue and there was no explanation given in the Financial Report for failure to collect the revenue.

Submission by the Secretary to the Treasury

The observation on the sum of K338,735,908,646 that was not realised on ten subheads as reflected in Statement A.1 of the Financial Report had been noted and further reported as follows:

2004 Estimates of Revenue

Revenue title	Head/ Subhead	Approved	Actual	Variance
Fees of Court or Office				
Rent of Properties (Missions Abroad)	206/114	914,098,190	-	(914,098,190)
TDI	206/116	38,240,823	-	(38,240,823)
Visa Fees (foreign)	206/118	2,772,041,561	-	(2,772,041,651)
Judiciary Library Service Fees	206/085	112,605,000	-	(112,605,000)
Damage to Govt vehicles	206/052	1,042,868	-	(1,042,868)
Sale of Govt Equipment/ Furniture	206/189	895,749,307		(891,463,607)
Inspection Fees	206/105	12,288,160	-	(12,288,160)
Rent of Govt premises	206/106	14,342,737	-	(14,342,737)
<u>Capital Grants</u>				
BADEA	212/177	-	19,509,000,000	19,509,000,000
World Bank	212/193	-	314,466,500,000	314,466,500,000
Total		7,459,172,368	338,735,908,646	331,276,736,278

Fees of Court or Office

a) Ministry of Foreign Affairs

206/114; 206/116; 206/118 (Missions Abroad)

The respective missions retained revenue under rent of properties. However, the Treasury reduced the funding to these missions with the equivalent of the revenue not remitted.

For VISA fees, the Ministry of Foreign Affairs remitted these funds to Ministry of Home affairs under the Immigration Unit.

b) Judiciary

206/085 (Library Studies)

Revenue collected under the code was incorrectly reported under Fines of Court. The Judiciary had since been advised to code / report revenue collections under the appropriate heads.

c) Ministry of Finance and National Planning

206/052 (on Damage to Government Vehicles)

Revenue code that was validated under revenue 052 was under the Zambia Police. It was, therefore, correct to state that revenue reflected as not collected was actually collected and reflected under 206/11.

d) Ministry of Works and Supply

206/189 (Sale of Government Equipment / Furniture)

Revenue collected from the sale of Government equipment/furniture was collected centrally through the sales done by the Board of Survey. The revenue was reflected under 206/37 (Miscellaneous receipts).

e) Ministry of Lands

206/105 (Inspection)

Revenue collected under the code was incorrectly reported under Document Fees and Registration Fees. The Ministry had since been advised to report revenue collections under the appropriate line item.

206/106 (Rent of Government Premises)

Revenue collected under the code was incorrectly reported under Survey and Miscellaneous Fees. The Ministry had since been advised to report revenue collections under the appropriate line item.

f) Capital Grants

212/177 & 212/193 (BADEA & World Bank)

Capital grants received from these institutions did not pass through Control 99. They went straight to the targeted beneficiaries and hence could not be captured in the Financial Statement.

The Secretary to the Treasury further informed your Committee that the Government was negotiating with donors on the possibility of “pooling” resources to make accountability easier.

Committee’s Observations and Recommendations

Your Committee note the submission and resolve to rest the matters subject to verification. However, they urge the Secretary to the Treasury to strengthen the capacity of revenue collection centres such as the Ministry of Lands. In particular, the installation of the Land Management Information System is incomplete and keyed-in data was not accurate. The problems at the Ministry need the Treasury’s intervention otherwise revenue will continue to be under collected.

The Committee further advise the Secretary to the Treasury to ensure that expenditure and revenue returns from the Ministry of Foreign Affairs are submitted on time to avoid delays in bringing to account visa and passport fees, and rental collections.

GENERAL REVENUES – PARAGRAPHS 13 – 15

Revenue Collection – ZRA – Paragraph 13

15. In paragraph 14 of the Audit Report for the year ended 31 December 1998, mention was made of the failure by the Ministry of Finance and National Planning to remit VAT due from road contractors to the Zambia Revenue Authority. Also in paragraph 16 of the Auditor General’s Report for the financial year ended 31st December, 2003, mention was made of the outstanding tax arrears in respect of Company Tax, Customs Duty, Pay As You Earn (PAYE), Withholding Tax and other losses of revenue through misappropriations and other fraudulent activities by some members of staff within the Authority and the failure by the Authority to recover such moneys from the officers. Further, mention was made in the same paragraph on the non-remittance of the interest amounting to K1,235,938,167 earned on the repayment/ refund accounts maintained at Commercial banks to Control 99 at Bank of Zambia.

A follow up made in 2005 in respect of revenue collections for the financial year ended 31st December 2004 revealed the following:

(a) **Tax Revenue Collections**

During the year 2004, ZRA's gross revenue collections totalled K5,491,730,554,141 compared to K4,295,162,077,208 collected in 2003 representing an increase of 27.8%.

Details of the overall Performance by ZRA in tax revenue collection for 2004 are as shown below:

TAX TYPE	PROFILE IMF K	PROFILE GRZ K	GROSS COLLECTIONS K	REFUNDS K	NET COLLECTIONS K	SURPLUS/ (DEFICIT) K
Excise Duties	600,210,406,000	552,880,039,728	528,603,741,728	40,230,000,000	488,373,741,728	(64,506,298,000)
Fuel Levy	-	75,000,000,000	121,533,030,255	-	121,533,030,255	46,533,030,255
Import Duties	536,224,649,000	491,991,841,188	572,965,984,600	27,650,000,000	545,315,984,600	53,324,143,412
Import VAT	864,695,756,000	755,400,000,000	909,010,576,839	-	909,010,576,839	153,610,576,839
Customs Total	2,001,130,811,000	1,875,271,880,916	2,132,113,333,422	67,880,000,000	2,064,233,333,422	188,961,452,506
Company Tax	347,176,609,000	382,600,000,000	357,453,285,564	14,160,000,000	343,293,285,564	(39,306,714,436)
PAYE	1,468,717,445,000	1,428,700,000,000	1,473,460,227,012	-	1,473,460,227,012	44,760,227,012
WHT & other taxes	206,734,713,000	228,998,000,001	210,647,255,623	-	210,647,255,623	(18,350,744,378)
Extraction Royalty	3,416,059,000	4,000,000,000	4,472,498,618	-	4,472,498,618	472,498,618
Medical Levy	-	3,402,000,000	5,909,023,977	-	5,909,023,977	2,507,023,977
Direct Tax Total	2,026,044,826,000	2,047,700,000,001	2,051,942,290,794	14,160,000,000	2,037,782,290,794	(9,917,709,207)
Domestic VAT Total	471,221,966,000	613,700,000,000	1,307,674,929,925	855,290,000,000	452,384,929,925	(161,315,070,075)
Total	4,498,397,603,000	4,536,671,880,917	5,491,730,554,141	937,330,000,000	4,554,400,554,141	17,728,673,224

Although the Authority recorded an overall surplus collection of K17,728,673,224 during the period under review, there was a total net deficit of K283,478,856,889 in respect of four tax types as shown below:

Tax Type	Profile K	Collections K	Deficit K
Excise duty	552,880,039,728	488,373,741,728	(64,506,298,000)
Company tax	382,600,000,000	343,293,285,564	(39,306,714,436)
WHT & other taxes	228,998,000,001	210,647,225,623	(18,350,774,378)
Domestic VAT	613,700,000,000	452,384,929,925	(161,315,070,075)
TOTAL	1,778,178,039,729	1,494,699,182,840	(283,478,856,889)

It was clear from the above that not all revenue due to Government was collected. It is also clear that VAT recorded the largest deficit. In this regard, it was noted that domestic VAT amounting to K597,364,353 due from thirteen tax payers on which warrants of distress were issued remained uncollected as of July 2005.

(b) *Arrears of Tax*

A review of the arrears position as at 31st December 2004 revealed that a total of K3,399.51 billion was outstanding as compared to K3,640.41 billion as at 31st December 2003 representing a decrease of 7%. Details of the movement in tax arrears by tax type are shown below:

	2004	2003
	K' billion	K' billion
Direct Taxes		
Company tax (non parastatal)	386.33	546.56
Self Employed	92.79	72.67
Employed	85.06	14.21
Individuals		
Other Taxes	79.63	79.87
PAYE	331.09	136.46
Parastatal Organisations	491.27	397.01
Customs & Excise		
Customs Duty	84.65	724.27
Domestic Vat	<u>1,848.69</u>	<u>1,669.36</u>
Total	<u>3,399.51</u>	<u>3,640.41</u>

A further scrutiny of records revealed that the total outstanding arrears of K3,399.51 billion included among others the following:

(i) *Closed/Liquidated Companies*

A total amount of K51,662,858,496 which had been outstanding since 2003 in respect of direct taxes (K49,430,818,933) and VAT (K2,232,039,562) was owed by eighty two (82) companies as of July 2005.

Inquiries revealed that the companies had since wound up and it was unlikely that the amounts owed would be recovered.

(ii) *Missing Tax Payers*

A total amount of K19,168,331,055 involving 2,264 cases was owed to ZRA in respect of Direct Taxes (K6,182,461,250) and VAT (K12,985,869,805). These taxpayers who owed these amounts could not be traced by the Authority as of July 2005.

Inquiries revealed that the taxpayers had since changed locations and addresses.

(iii) *Unsuccessful Garnishee*

A garnishee was a legal summon used under the ZRA Act and Financial Services Act to recover the outstanding amounts from a defaulting debtor.

During the period under review, there were five cases on which summons were served for the recovery of a total amount of K5,967,113,946 which was owed by two companies. It was noted, however, that one of the companies, which owed a total amount of K5,583,163,308 as of July 2005, had since wound up and the directors had disappeared.

(iv) *Penalties*

Penalties and interest in amounts of K77.8 billion and K41.3 billion respectively which were charged on thirteen defaulting companies in respect of Corporation Tax remained uncollected as of July 2005.

(v) *Parastatal Debts*

A total amount of K84, 626,693,274 owed by fifteen quasi government institutions in respect of VAT remained uncollected as of July 2005. The amount included; late penalty (K3,055,668,661); VAT return (K28,808,269,583); late submission penalty (K1,398,690,231); interest (K16,475,520,140) and assessment (K34,883,544,657).

(vi) *VAT Due From Road Contractors*

A review of the situation in July 2005 revealed a total amount of K10,986,765,469 mentioned in the Auditor Generals report of 1998 had not been remitted and had since increased to K60,376,559,863.

(c) *Delays in Crediting Revenue to Control 99*

According to banking arrangements made between the ZRA and commercial banks, money deposited in commercial banks is supposed to reach the Bank of Zambia within four days for banks within Lusaka and Copperbelt and fourteen days for banks in the rural areas. Any bank that fails to meet these requirements is charged interest at the Bank of Zambia mid rate.

A scrutiny of records maintained at the Treasury Department at ZRA Headquarters for the period under review revealed that the Zambia National Commercial Bank (ZNCB) delayed in remitting funds amounting to K2, 000,110,283 to the Bank of Zambia for periods ranging from six to fifty days and no interest was charged as penalty for the delay.

(d) *Delayed remittance of interest earned on the repayment/refund accounts*

A review of the bank statements for the period from January to 31st December 2004 revealed that interest earned on four repayment accounts maintained by the ZRA totalling K2, 137,668,876, remained unremitted by the commercial banks to Control 99 as of July 2005, as shown below:

Account	Bank	Total INTEREST K
Direct Tax	ZANACO	83,579,590
VAT Refund	ZANACO	1,939,316,167
Customs refund	INVEST TRUST	75,813,099
Duty Draw	INVEST TRUST	38,960,020
TOTAL		<u>2,137,668,876</u>

Upon inquiry, ZRA explained that they were awaiting instructions from the Ministry of Finance and National Planning.

It was further observed that interest amounting to K187, 981,107 on the customs deposit accounts countrywide and transferred to an account maintained at the Cavmont Merchant Bank had not been remitted to Control 99 as of August 2005.

(e) Refer to Drawer Cheques

There were four hundred and thirty-three (433) cheques amounting to K9, 630,889,010 which were referred to the drawers during the period under review. As of July 2005, three hundred and forty (340) cheques amounting to K8, 897,886,517 had been replaced leaving ninety-three cheques involving K733, 002,493 not yet replaced.

(f) Unidentified Entries on Bank Statements

A review of bank reconciliation statements prepared by the ZRA Treasury Section for the period under review revealed that there were unidentified debits totalling K6, 571,000,212 and credits totalling K45, 421,867,538 appearing on bank statements for various ZRA revenue collection stations that had not been cleared and were unresolved as of July 2005. It was further observed that some of the entries went as far back as 1998. No explanation was given for such uncleared debits and credits.

(g) Pay As You Earn (PAYE)

According to the provisions of the Income Tax Act chapter 323, Pay-As-You-Earn (PAYE) is payable on the 14th day of the month following the month in which deductions are made.

A review of records pertaining to the collection of PAYE by the ZRA revealed that contrary to the provisions of the Act, seven institutions had not remitted a total amount of K36, 454,118,137 as of July 2005.

(h) Fraud/Abuse of office

A review of personnel records revealed that during the year under review, a total amount of K3, 323,791,960 was lost by the ZRA as a result of misappropriations and other fraudulent activities by members of staff. It was observed that although disciplinary action including dismissals had been taken against the officers, the amounts misappropriated had not been recovered as of July 2005.

Submission by the Secretary to the Treasury

Value Added Tax

Due to the relationship between Domestic Value Added Tax and Import Value Added Tax, the performance of the tax (VAT) always had to be considered as one tax type. Eligible Import VAT refunds were netted-off Domestic VAT upon submission of returns. Therefore, as a tax type, the VAT performance was in line with the profile. When taken in isolation, the reported negative

variance in domestic VAT collections was attributable to the increase and acceleration in VAT refunds.

Direct Taxes

K' billion

Tax Type	Profile	Collections	Deficit
Company Tax	382.6	343.2	39.3
WHT and Others	228.9	210.6	18.3

Company tax profiles were realistic but were impacted by the reduction in provisional taxes paid by the financial services sector in the 3rd quarter of the financial year. The performance of the financial services sector was negatively impacted by unexpected high provisions for doubtful debts that led to a reduction in the payment of taxes.

In addition interest rates took a downward trend during the year. One of the components of withholding tax was withholding tax on interest arising from deposit accounts, treasury bills, etc. The falling interest rates generally impacted on the performance of this tax type.

Excise Duty

The Excise Duty deficit on the basis of the Bank of Zambia collections amounted to K17.8 billion. This was summarised as follows:

	2004 Profile	2004 Collections	Deficit
<u>Tax Type</u>	<u>K' billion</u>	<u>K' billion</u>	<u>K' billion</u>
Excise duty	<u>627.9</u>	<u>610.1</u>	<u>17.8</u>

The overall deficit on excise duty was mainly due to two critical factors namely:-

- The downward pressure and decline in the growth of hydrocarbon products which provide a significant contribution to excise duty revenues;
- The depressed production pattern at Indeni Oil Refinery due to a long persisted shutdown.

Arrears of Tax

Domestic Value Added Tax (VAT)

Due to the relationship between domestic Value Added Tax and Import Value Added Tax, the performance of the tax (VAT) always had to be considered as one tax type. Import VAT refunds were netted off domestic VAT upon submission of returns. Therefore, as a tax type the reported negative variance in domestic VAT collections was attributed to the increase and acceleration in VAT refunds.

Customs Duty

The Customs and Excise debt amounting to K84.65 billion as per Auditor-General's Report was made up as follows:

	K' Billion
Zambia National Oil Company (ZNOC)	65.25
Zambia Electricity and Supply Corporation (ZESCO)	10.20
Tanzania Zambia Railway Authority (TAZARA)	5.90
Zambia Telecommunications company Ltd (ZAMTEL)	0.40
Others	2.90
Total	84.65

The ZNOC debt was currently a subject of liquidation process, the company having gone into liquidation in 2002.

The ZESCO debt related to power importations to meet the national shortfall in 2002. ZESCO initially appealed against the liability. Subsequently, the Minister of Finance and National Planning objected to their appeal and the debt was upheld. The process of recovery was underway, a sum of K500,000,000 had since been recovered. They had entered into a time-to-pay agreement.

The TAZARA debt comprised mainly of fuel stores. Steady repayments were being made.

The ZAMTEL debt was as a result of the company's GSM capitalisation project and recoveries were continuing.

Other debts comprised mainly opaque beer brewers' assessments arising from a comprehensive audit exercise carried out in 2004. Time-to-pay agreements with the various taxpayers were in force.

Direct Taxes

K' billion

	2004	2003
Company Tax	386.3	546.5
Self-employed	92.79	72.67
Employed individuals	85.06	14.21
Other taxes	79.63	136.46
PAYE	331.09	136.46
Parastatal Organisations	491.27	397.01

Company Tax – Arrears on company tax reduced mainly due to enforcement efforts being undertaken by the Zambia Revenue authority in debt collection.

Self-employed Individuals – The increase in arrears in this tax type was attributable to small business persons who may come and register at the tax office for one reason or another and trade for a short time. Upon cessation of business, they would not normally inform the tax office. However, within the tax office, a taxpayer was assumed active for at least five years. Within the five years, estimate assessments were made on the taxpayer and efforts were made to enforce the estimated assessments. After five years, although the case was put on dormant range, the debt would have still been outstanding unless it was remitted. The estimated assessments and the resultant penalties and interest increased the arrears.

Employed Individuals – These were persons who were in employment and had other sources of income other than employment. The increase in arrears was attributed to estimate assessments that were done on non-filers of returns. Some of the directors were in receipt of employment income and other income but did not inform the tax office when they ceased to be in receipt of other income.

However, the tax office would continue to estimate assessments on these taxpayers in order to elicit their response.

PAYE – The increase in arrears on PAYE was mainly due to quantifications that were done on non-compliant taxpayers such as parastatals, councils, and quasi government institutions. Although, some of the parastatals and quasi government institutions were now current on PAYE, they were carrying arrears on which penalties and interest continued to accrue.

Parastatal Organisations – The increase in arrears was mainly due to accumulation of penalties and interest on their huge assessments.

I. Closed / liquidated Companies

The concerns raised were noted, however, when companies were closed/liquidated, efforts were made under the office of the Legal Counsel to lodge in a claim with the liquidators for companies under liquidation. Operating divisions had instituted measures and made close follow-up and scrutiny on the performance of taxpayers in order to minimise the impact of such occurrences.

II. Missing Taxpayers

The introduction of the Integrated Tax Administration System (ITAS) was one of the measures adopted to put stronger controls in place to mitigate the risk of missing taxpayers. Under ITAS, the Zambia Revenue Authority has one central demographics whereby updated whereabouts of the taxpayers would be maintained in one central place. Therefore, although the taxpayers were currently classified as missing, further reviews would be carried out to confirm whether or not they were indeed “missing”.

The Zambia Revenue Authority under the Direct Taxes Division had a missing taxpayer unit and efforts were made to locate such. These cases were normally associated with companies and individuals that tended to move camp frequently. The Division ensured updating of taxpayer details on the computer system at every contact with taxpayers.

The Value Added Tax Division was stepping up activities in the follow-up of missing taxpayers and the close supervision of all registered suppliers to minimise the impact of missing taxpayers.

III. Unsuccessful Garnishee

Currently, it was difficult to garnishee a bank because the *Banking and Financial Services Act* does not allow a bank to pay a client’s money to a third party without consent from the client in writing directly to the bank authorising them to do so.

A company had objected to the assessment by an accounting and auditing firm and was only willing to pay K300 million but was reluctant to write to their bankers. However, the Zambia Revenue Authority convinced the company’s Bankers to pay Zambia Revenue Authority all that which was in the taxpayer’s four accounts amounting to approximately K777 million. According to the Bank, this act was in serious conflict with the *Banking and Financial Services Act*.

Furthermore the Direct Taxes assessment of K4, 668,549,066 was back duty for the tax years 2001 to 2003 but did not seem to relate to the tax payer's volume of business because when the case was passed on to Debt Collection Unit the tax payer literally had no assets hence the need for a garnishee order.

Thus, if a bank was garnisheed, success depended on whether the taxpayer had sufficient money on the account and there were in addition sufficient assets to have recourse to.

When asked whether he was suggesting amending the *Banking and Financial Services Act*, the Secretary to the Treasury replied that he was not.

IV. Penalties

When the taxpayer was assessed he or she was asked to go and make a payment at cash office. Some taxpayers went with the returns / assessments and did not come back. No tax clearances were issued in such situations since the tax clearances were only issued when the taxpayer made a payment and brought back the returns for processing the tax clearance.

Where the taxpayer disputed the assessment, the payment was only made after the objection was settled. The settling of the objection could take more than fourteen days from the time of assessment.

The Zambia Revenue Authority would track all the cases that came to pay after fourteen days to ensure the penalties were charged on all defaulters to avoid losses of Government revenue.

Back Duty Cases not sent to Debt Management Unit (DMU) for Recovery

Zambia Revenue Authority had committed appropriately against each of the seventeen cases in the Report and only four cases were not sent to DMU for reasons of objections on them. Of the four, one of the cases was with the Revenue Appeals Tribunal. The ZRA would ensure that the remaining cases were concluded and sent to DMU because tax was payable notwithstanding an objection.

V. Parastatal Debts

Zambia Revenue Authority had commenced discussions with the concerned Parastatals with a view to obtaining a commitment to tax compliance in the respective managements. Most of the Parastatals referred to inadequate funding as a reason for not paying.

VI) Domestic Value Added Tax

The arrears were mainly attributed to tax payers that were pending de – registration. Following the suspension of voluntary registration in 2004, most companies below the registration threshold were de-registered from the VAT Register. Companies with liabilities on account were placed on a pending list to facilitate debt collection efforts. The bulk of the debt on this class of taxpayers was non-filing penalties and was linked to missing traders referred to below. Of the total arrears of K1, 845 billion as at 31st December 2004, pending de-registration cases accounted for K1, 210.9 billion. Out of the balance of K637.8 billion, non-servicing of debt by Parastatal companies and road contractors accounts for K145 billion.

The Zambia Revenue Authority had now embarked on a project to clean the VAT Register and had engaged some parastatal companies in discussion to draw plans for servicing arrears

and current obligations. This was in addition to routine debt follow up activities on the remaining active taxpayers.

c) Delays in Crediting Revenue to Control 99

a) Zambia National Commercial Bank

The amounts indicated in Schedule 7 against ZANACO Lusaka, although found in the ZANACO Lusaka Treasury Accounts were not actually based on deposits made in Lusaka. ZANACO's electronic system was such that all deposits made at the various branches linked to the centralised system were at the close of the business day automatically transferred to the main account in Lusaka.

However, Zambia Revenue Authority's agreement was from the date of deposit at the respective branch, e.g. a deposit was made into the Livingstone Branch on 2nd September, according to the agreement should be remitted after four working days, which would be 8th September. However, ZANACO would electronically sweep this balance into their Head Office Account at the close of business on 2nd September.

They, however, admitted that there had been some delay. ZRA had since taken steps to correct the delayed remittances and were now charging interest as evidenced by the charge of K40,769,279.81 in February 2005.

b) Foreign Denominated Currency

Foreign denominated deposits were essentially cheques drawn on overseas banks. Bank of Zambia advised that the standard clearing time was six weeks or forty-two days and most of the transactions picked up in the report were within this agreed time.

For the cheques that took longer than six weeks to clear, the delays were caused by late receipt of confirmation of the clearance from the overseas bankers. Bank of Zambia had put in place a mechanism that would reduce the time it took for the Zambia Revenue Authority's Account to be credited with the Kwacha proceeds.

d) Utilisation of interest earned on repayment accounts

The interest earned on the four repayment accounts maintained by the Zambia Revenue Authority for the period January 2004 to May 2005 was remitted to Government on 8th August 2005.

Account	Bank	Total Interest
		K
Direct Tax A/C 111	ZANACO	116,374,009.22
VAT Refund A/C 664	ZANACO	2,765,008,745.55
Customs Refund A/C 8348	INVESTRUST	136,147,347.39
Duty Draw Back	INVESTRUST	67,779,919.46
TOTAL		3,085,310,001.62

e) Refer to Drawer Cheques

The Zambia Revenue Authority had continued receiving personal and company cheques for Direct taxes and VAT and company cheques for clearing agents for Custom and Excise taxes because the tax payers and the agents were of fixed abode and could easily be followed up to make good the refer to drawer cheques as evidenced by the over 92% of the 433 cheques totalling K9, 630,889,010.00 that were replaced.

However, Zambia Revenue Authority (ZRA) was following up the outstanding K733, 002,493.00.

On a larger perspective, ZRA was one of the major players in the national payment system. It was important that they accepted personal and company cheques as a way of building confidence in the use of cheques in the Zambian economy.

f) Unidentified Entries on Bank Statement

Unidentified debits were entries generated by the Bank that did not tie-in with individual deposits as reflecting in their cashbook in relation to sweep-out from the Commercial Bank Branch to the Commercial Bank Head Office accounts and from Commercial Bank Head Office accounts to the Bank of Zambia.

Unidentified credit entries on statements arose from difficulties in referencing by the Bank to reflect the Zambia Revenue Authority deposit details. For instance, amounts banked as lump sum were credited as individual cheques making it difficult for ZRA to match entries with cash book entries.

The net effect of these unidentified credits and debits was low. However, the various banks had been written to by ZRA for clearing of the outstanding reconciling items for both the unidentified debits and credits. ZRA would endeavour to match and clear the items after the reconciliation.

g) Pay-As-You-Earn (PAYE)

Of the seven companies highlighted, two were on Time-to-Pay agreements (TPA). One had since liquidated their PAYE. Three of the companies were quasi-government institutions that had been citing lack of funding from the principle ministries hence their inability to pay. However, ZRA followed them up for current tax and arrears.

h) Fraud / Abuse of Office

The Audit Report assumed that the Zambia Revenue Authority as a result of the misdemeanours by staff had associated to each loss lost a total sum of K3.3 billion. However, the K3.3 billion related to estimates of assessments determined as indicative figures for purposes of the investigations. Final assessments were carried out in each case and addressed through various enforcement mechanisms.

All the staff involved in the irregularities were summarily dismissed in accordance with the disciplinary procedure at ZRA.

Committee's Observations and Recommendations

a) *Tax Revenue Collection*

Your Committee note the submission.

b) *Arrears of Tax*

Your Committee in noting the submission observe that a number of queries have to do with parastatals. They, therefore, request for updates on the movement of arrears particularly with parastatals after taking into account the following:

- i) resolution on parastatals that have been liquidated;
- ii) impact of the introduced Integrated Tax Administration System (ITAS) to take care of missing taxpayers;
- iii) cleaning exercise of the VAT Register.

c) *Delays in Crediting Revenue to Control 99*

Your Committee resolve to close the matter subject to verification.

d) *Delayed Remittance of Interest Earned on the Repayment / Refund Accounts*

Your Committee note the submission and resolve to close the matter subject to verification.

e) *Refer to Drawer Cheques*

Your Committee request for a progress report on the liquidation of the outstanding K733,002,493 for refer to drawer cheques.

f) *Unidentified Entries on Bank Statements*

Your Committee resolve to wait for an update on clearing of the unidentified entries.

g) *Pay-As-You-Earn (PAYE)*

Your Committee urge the Secretary to the Treasury to assist resolve the problems of quasi-government institutions that are failing to honour their Pay-As-You-Earn tax obligations citing inadequate funding. They will await progress report on the matter.

h) *Fraud / Abuse of Office*

Your Committee resolve to close the matter subject to verification.

REVENUE COLLECTIONS, LUSAKA PORT OFFICE – PARAGRAPH 14

16. In the Audit Report for the financial year ended 31st December 1999, mention was made of the irregularities in the collection of revenue by the Zambia Revenue Authority at Lusaka Port Office. In particular, the failure to meet revenue targets, delayed remittances of funds to Bank of Zambia, delayed estreatals, outstanding removals in bond and irregular clearance of motor vehicles were mentioned.

An examination of records at the Customs and Excise Division, Lusaka Port Office revealed that during the year 2004, revenue amounting to K357, 028,769,637 was collected against a profile of K311, 447,446,000. The collections were K45, 581,323,637 more than the profile for the year.

It was, however, noted that despite the Port Office meeting its revenue profile for the year, there were outstanding amounts in respect of Removals in Bond, unestrated deposits, collections from opaque beer breweries, among others as detailed below:

(a) *Estreatals*

According to the provision the *Customs and Excise Act Cap 322*, importers of goods are required to deposit funds with ZRA pending fulfilment of their tax obligation. Such deposits are refunded to the depositors when their obligations are met. If depositors fail to meet their obligations within sixty days, the deposit are estreated (forfeited) to the State. It was, however, observed that amounts totalling K629, 840,611 deposited into the customs deposit account during the period May 2004 to May 2005, had not been estreated to Government Revenue Account as of August 2005, despite the expiry of sixty days contrary to customs procedures.

(b) *Outstanding Removals In Bond (RIBs)*

According to the customs procedures under section 32 (4) of the *Customs and Excise Act* and regulation 127 (2) of the Customs and Excise Regulations, acquittal of RIBs and RITs at the respective inland port or port of exit are supposed to be done within thirty and five days respectively after the time of the importation of the goods.

A review of records however revealed that removals in bond with a total value of K1, 718,885,826 remained uncleared as of August 2005. It was further observed that out of the figure of K1, 718,884,826 an amount of K86, 013,416 was owed by an agent, which had since stopped operating.

(c) *Seizures*

The Customs and Excise Act and Regulations provides that, where an Importer/ Agent fails to clear the duties due on goods imported under the removals in bond within thirty days, such goods were to be seized, and if ninety days expire after the seizure, such goods are to be forfeited to the state and auctioned.

It was however observed that contrary to the provisions of the Act, various goods valued at K6, 135,642,178 which were indicated as seized had neither been confiscated from the importers nor forfeited to State following the expiry of the ninety days after the seizure notices were issued by the authorities.

(d) *Outstanding Excise Duty*

As of December 2004, a total amount of K 5,655,775,648 in excise duty was owed by eighteen companies, which were brewing opaque beer. In order to give some relief to the companies, Time To Pay Agreements were entered into with the companies. The time to pay agreement ranged for periods from December 2003 to May 2004.

A review of records however revealed that despite the Agreements, the companies defaulted in payment and as of August 2005, only K1, 511,313,960 had been paid. It was noted in this regard that no punitive action had been taken by the Authority to recover the balance of K4, 144,461,688.

(e) *Bonded Warehouses*

ZRA may allow any importer of dutiable goods, manufacturer of products liable to excise duty or other person who becomes the owner of any goods liable to excise or surtax, to warehouse the goods at any warehouse duly licensed under Section 55 of the *Customs and Excise Act*, without payment of duty on first importation or completion of manufacture. Except with the permission of the Commissioner General, all goods entered into a bonded warehouse shall be cleared from the warehouse and entered for export or consumption within two years of the date of first warehousing.

Lusaka Port had thirty-eight bonded warehouses under its management with penal sums/guarantee amounts ranging from K25 million to K2.64 billion as of August 2005.

An examination of the records and system relating to bonded warehouses revealed the following:

- (i) four (4) companies which had their licenses to operate bonded warehouses either withdrawn or not renewed by the Authority during 2004/05, had not settled outstanding duties totalling K1,929,157,757 in respect of their bonded warehouses as of August 2005; and
- (ii) four (4) agents who operated bonded warehouses had not paid duties on goods with a total value for duty purpose (VDP) amounting to K2, 219,754,328 within the specified period of two years contrary to the requirements of the Act.

Submission by the Secretary to the Treasury

a) *Estreatals*

The Secretary to the Treasury in his response submitted that the status on the queries was as set out below:

- Some cases were still under investigation and in court.
- Some receipts were submitted for refund but confirmation from the exit points delayed.
- One receipt was for a temporary import that expired on 26th September 2005.
- One receipt was erroneously included but had been refunded.

b) *Outstanding Removals in Bond (RIB)*

This was an incorrect position arising from a system failure. The normalisation utility on the transit module of ASYCUDA had been dysfunctional for a while. Consequently, the acquittal system was not working efficiently. However, alternative manual follow-up procedures were in place in the station to facilitate isolation of genuinely outstanding cases for appropriate action.

Debt collection was a continuous process. Outstanding RIBs were pursued and clients made to pay. At the time of the audit the actual outstanding RIBs for the period reviewed amounted to K80, 481,431. Bond redemption procedures had been initiated on the cases.

c) *Goods Seized but not Removed from Agents or Auctioned*

Some goods remained at the customs area after being seized due to shortage of warehousing space. The goods were secured through issuance of a seizure notice. Seized goods went through a gazetting process after expiry of ninety days.

d) *Amounts owed by Opaque Breweries*

All the eighteen companies were on TPAs. The total amount owing had reduced to K4, 385,291,893 as of 30th September 2005. However, some of the assessments had been disputed and other breweries had sought legal action.

e) *Bonded Warehouses*

The cited bonded warehouses were already under consideration through various processes to ensure that revenue was protected. Bond redemption would remain an option in event of failed compliance.

For the cited four agents, the amounts were being reconciled in view of the ASYCUDA system failures and correct assessments would be agreed with the clients.

Committee's Observations and Recommendations

Your Committee note the submission and recommend as set out hereunder:

a) *Estreatals*

They will await progress on all cases that are under investigations or in court, and also those where confirmation is delayed.

The Auditor-General's Office should be invited to verify all payments that have so far been estreated.

b) *Outstanding Removals in Bond (RIBs)*

Your Committee resolve to close the matter subject to verification.

c) *Seizures*

Your Committee resolve that the matter should close subject to confirmation from the Auditor-General that the referred to goods worth K6, 135,642,178 were forfeited to the State.

d) *Outstanding Excise Duty (Opaque Beer Brewers)*

Your Committee request for an update on the liquidation of the outstanding Excise Duty. They further request for the segregation of amounts, that is, those where payments are on schedule; those that have been disputed; and those that are under litigation.

e) **Bonded Warehouses**

Your Committee resolve to wait for an update on the payment of outstanding dues by the four companies that operate bonded warehouses amounting to K1, 929,157,757 and the four agents who owe K2, 219,754,328.

OTHER PORTS – PARAGRAPH 15

17. It was reported that an examination of revenue records at Livingstone Port, Lusaka Airport, Chirundu, Kasumbalesa and Nakonde border posts revealed the following:

(a) *Tax Revenue Profile*

During the year 2004, a total gross revenue of K1, 126,834,853,704 was collected by the five stations visited as against a target of K935, 601,834,000. The overall collections were K191, 233,019,704 above the target as detailed below:

Station	Gross Revenue K	Profile/ Target K	Variance K
Chirundu	448,852,134,335	358,328,197,000	90,523,937,335
Lusaka Airport	125,623,350,741	116,643,614,000	8,979,736,741
Kasumbalesa		1,022,841,000	
	850,788,161		(172,052,839)
Nakonde	198,437,884,520	114,420,976,000	84,016,908,520
Livingstone port	353,070,695,947	345,186,206,000	7,884,489,947
	1,126,834,853,704	935,601,834,000	191,233,019,704

(b) *Estreatals*

Contrary to the *Customs and Excise Act Cap 322*, amounts totalling K1, 562,000,592 deposited between January 2004 and May 2005 at the five stations, were not estreated after the expiry of sixty days.

(c) *Unremitted Interest*

According to regulations issued by the ZRA treasury, interest earned on all Customs Deposit accounts was to be transferred monthly from the deposit accounts to Cavmont Bank. The funds were later to be remitted to Government Revenue Account (Control 99). An examination of bank statements at the five stations revealed that an amount of K152, 647,470 was earned as interest by three stations. However, Cavmont Bank had not remitted the interest to Control 99 as of September 2005.

Further, it was not clear as to why the money had to be transferred to Cavmont Bank instead of directly to Control 99.

(d) *Outstanding Removals in Bond (RIBs) and Removals in Transit (RITs)*

A review of records at the five stations revealed that contrary to the *Customs and Excise Act* and Regulation 127 (2) of the Customs and Excise Regulations, RIBs with a total value of K84, 759,648,894 and RITs with a total value of K13, 247,904,386 remained unacquitted and no duty had been paid as of August 2005.

(e) *Goods Seized but Not Auctioned*

Contrary to the provisions of the *Customs and Excise Act*, various goods with value for duty purposes amounting K5, 189,407,498 seized as far back as January 2004 at the five stations were kept in warehouses without being forfeited and subsequently auctioned. A physical inspection of the goods seized revealed that some goods had either expired or were damaged making it doubtful as to whether the ZRA will recover taxes due on them.

(f) *Impounded Motor Vehicles*

According to the provisions of the *Customs and Excise Act 322*, if ninety days lapsed after a motor vehicle was seized, the vehicle should be forfeited to the State or auctioned.

Contrary to the Act, twenty-five motor vehicles seized as far back as September 2003 had neither been forfeited to the State nor auctioned as of September 2005.

(g) *Irregularities in the Management of Customs Bonded Warehouses*

A review of the records and relating to the management of bonded warehouses revealed that:

- (i) contrary to the *Customs and Excise Act*, as of September 2005, the Zambia Export Growers Association (ZEGA), which had a penal sum of up to K650million, had open declarations amounting to K811, 174,904, thereby exceeding the authorised limit by K161, 174,904; and
- (ii) contrary to the *Customs and Excise Act*, ZEGA had not paid duties that had fallen due in respect of warehoused goods with a total value for duty purpose (VDP) amounting to K2, 259,793,402 as of September 2005.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted on each of the posts and stations as set out hereunder:

I) Chirundu Border Post

a) *Failure and delays to Estreat Government Revenue*

The omission was noted and compliance was to be monitored. Corrective measures and management controls had since been put in place to ensure that there were no delays in estreating revenue from the Customs Deposit Account to the Bank Account at Cavmont Bank. It was important to note that in certain instances deposits were collected for periods exceeding sixty days e.g. temporary importation permits and court cases. In such cases, the deposits would be retained for longer than sixty days.

b) *Interest Earned on Deposit Account not Remitted to Government Account (Control 99)*

Customs Deposit Accounts were not Government Revenue but taxpayer funds. These were deposits made by taxpayers against pending clearance charges. These funds could be converted into revenue when the funds were estreated for failure to comply with clearance demands, or refunded to the taxpayers when they met the terms of importation of transit goods. The omission to transfer the interest to Control 99 at Bank of Zambia was being addressed.

c) *Outstanding Removals in Bond (RIBs)*

This was an incorrect position arising from a system failure. The normalisation utility on the transit module of ASYCUDA had been dysfunctional for a while. Consequently, the acquittal system was not working efficiently. However, alternative manual follow-up procedures were in place in the station to facilitate isolation of genuinely outstanding cases for appropriate action.

d) *Impounded Motor Vehicles*

The station prepared monthly reports of all seized items including goods due and recommended for forfeiture. The reports were submitted to the Credibility and Control Unit for further liaison with the Disposal Committee of the Zambia Revenue Authority. The disposal process, which included gazetting, was done in batches and may not be in line with actual respective expiry dates for seized goods.

The vehicle for one importer was removed in bond for final clearance in Lusaka on a transit document that had since been acquitted. The other vehicle for another importer was cleared and paid for on entry. Thus all the revenue was secured.

e) *Goods Seized and Still in Warehouse*

The station prepared monthly reports of all seized items including goods due and recommended for forfeiture. Reports were submitted to the Credibility and Control Unit for further liaison with the Disposal Committee of the Zambia Revenue Authority. The disposal process, which included gazetting, was done in batches and may not be in line with actual respective expiry dates for seized goods.

Goods that remained outstanding for more than thirty days were liable to seizure and if still outstanding for ninety days, thereafter, were liable to forfeiture. Clients could still clear the goods before disposal by Zambia Revenue Authority.

Details of the goods had been communicated to Head Office for gazetting purposes.

ii) ***Lusaka International Airport***

a) *Failure and Delays to Estreat Government Revenue*

The omission was acknowledged. The matter would be looked into.

b) Outstanding Removals in Bond (RIBS) and Transit (RITS)

This was an incorrect position arising from a system failure. The normalisation utility on the transit module of ASYCUDA had been dysfunctional for a while. Consequently, the acquittal system was not working efficiently. However, alternative manual follow-up procedures were in place at the station to facilitate isolation of genuinely outstanding cases for appropriate action.

c) Goods Seized but not Auctioned

Lists of goods that were due for auctioning had already been submitted to Credibility and Controls Unit for gazetting and eventual auctioning. The disposal process, which included gazetting, was done in batches and may not be in line with actual respective expiry dates for seized goods.

d) Lapses in the Management of Customs Bonded Warehouses

The ZEGA excess penal sums were due to a system limitation that would be resolved by a recently received upgraded version of the warehouse module.

On the unpaid dues, the goods that had been seized would be acquitted on the system after disposal.

iii) Kasumbalesa Border Post

a) Delayed Estreatals and Non Operational of the Deposit Account

The cheque book was withdrawn by Standard Chartered Bank after reclassifying the Account from call to current. The reason given was that their system did not allow use of cheques on call accounts. On the other hand, the Current Account could not be used to operate deposits maintained by ZRA Customs Divisions as it would attract bank charges that would result in distortion of potential Government revenue. The deposits secured from importers had usually been in cash, which would be banked by the following day in the Account above. However, it was not possible to effect refunds because compliant taxpayers were refunded by cheque, a facility which was withdrawn. Estreatals were also not done because of the same reason. The ZRA Finance Division was looking into a solution.

b) Outstanding Removals in Transit and Bond

This was an incorrect position arising from a system failure. The normalisation utility on the transit module of ASYCUDA had been dysfunctional for a while. Consequently, the acquittal system was not working efficiently. However, alternative manual follow-up procedures are in place in the station to facilitate isolation of genuinely outstanding cases for appropriate action.

c) Seized Goods

Contrary to the Report, all the goods in the warehouse that were on seizure for more than ninety days had been recommended for forfeiture through the Credibility and Controls Unit. Of the K33 million, K10 million was the value of fertiliser seized a few days before the audit,

and K23 million was the value of a car that was seized some three weeks earlier. As stated above, the apparent disorderly state of the warehouse was due to a recent seizure of fertilizer. Goods were not immediately auctioned after seizure due to the gazetting requirement, which took ninety days.

IV) Livingstone Port Office

a) Amounts not Estreated to Government Revenue Account

The correct amount of sums due for estreatal was K106,663,234. The estreatal was done on 14th July 2005 on cheque number 000288. The sum quoted by the auditors included amounts estreated prior to 14th July 2005. In addition, the estreatal for receipt numbers 1500175 and 1500176 for K9, 199,280 and K17, 562,261 respectively were delayed because they were linked to a temporary importation permit that was for a period longer than thirty days.

b) Interest earned on Customs Deposit Account not remitted to Control 99

Customs Deposit Accounts were not Government Revenue but taxpayer funds. These were deposits made by taxpayer against pending clearance charges. These funds could be converted into revenue when the funds were estreated for failure to comply with clearance demands, or refunded to the taxpayers when they meet the terms of importation of transit goods. The omission to transfer the interest to Control 99 at Bank of Zambia was being addressed.

c) Outstanding Removals in Bond (RIBs) and Transit (RITs)

This was an incorrect position arising from a system failure. The normalisation utility on the transit module of ASYCUDA had been dysfunctional for a while. Consequently, the acquittal system was not working efficiently. However, alternative manual follow-up procedures were in place in the station to facilitate isolation of genuinely outstanding cases for appropriate action.

Committee's Observations and Recommendations

Your Committee note the responses and recommend as set out below:

i) Estreatals

They resolve to close the matter subject to verification of measures that have been put in place to avoid delaying estreatals after the expiry of the stipulated period.

ii) Unremitted Interest

They will await an update on the remittance of interest to Control 99.

iii) Outstanding RIBs and RITs

They resolve to close the matter subject to verification that the system did malfunction resulting in the queries.

iv) Goods Seized but not Auctioned

They note the explanation on the procedures for disposing-off seized goods and resolve that they be provided with an update on the disposal of the seized goods worth K5,189,407,498 that were queried.

v) Impounded Motor Vehicles

They resolve to close the matter subject to verification.

vi) Irregularities in the Management of Customs Bonded Warehouses

They request for a progress report on:

- i) the installation of the upgraded version of the warehouse module which will minimise institutions / companies having excess penal sums as was the case with ZEGA; and
- ii) the disposal of goods that were seized and subsequent acquittal of the K2, 259,793,402 owed by ZEGA.

AUDIT QUERY

PARAGRAPH 16

Head:	206	Fees of Court or Office
Sub-Head	15	Ministry of Home Affairs
Activity:	654	Passports

Unaccounted for Revenue and other Accounting Irregularities Passport Office, Kabwe

18. It was reported in paragraph 17 of the Auditor General's Report for the year ended 31st December 2003, that there were weaknesses in accounting for revenue collections and that a total amount of K26, 012,000 was misappropriated by the cashier/revenue collectors at the Passport Office in Kabwe.

A review of the situation in September 2005 revealed that inspite of the Public Accounts Committee's recommendation, no remedial action had been taken and further weaknesses were observed as follows:

- (a) revenue not brought to account in the General Revenue Cash Book and not banked;
- (b) a total of K64, 148,000 of revenue collected between September 2004 and July 2005 was neither recorded in the General Revenue Cash Book nor banked contrary to the provisions of Financial Regulations No.116 and 117; and
- (c) a scrutiny of Revenue Receipts for the period from September 2004 to September 2005, revealed that, out of K128, 918,000 realised from the issuance of passports and travel documents, only K50, 028,000 had been banked leaving a balance of K78,890,000 unaccounted for.

(d) *Register for Accountable Documents*

Contrary to Financial Regulation No.90, the Office did not maintain a Register for Accountable Documents between 2002 and July, 2005. During the period under review, a number of receipts books used to collect a total of K128, 918,000 above were not recorded in the Register for Accountable Documents.

Submission by the Controlling Officer

In reply the Controlling Officer submitted as set out below:

- a) It was regrettable that Paragraph 16 of the Auditor-General's Report for the year ended 31st December 2003 mentioned weaknesses in accounting for revenue collections and the misappropriation of a total amount of K26,012,000.00 by the cashier / revenue collectors at the Passport Office in Kabwe.

In April 2005, the Controlling Officer had reported to your Committee on the action taken by his Office and in the process, his counterpart in Central Province suspended the officers and investigations were going-on over the misappropriation of K26,012,000.00.

- b) The Controlling Officer agreed that a total of K64, 148,000.00 collected as revenue between September 2004 and July 2005 was neither recorded in the General Revenue Cash Book nor banked, contrary to Financial Regulations. This had now been corrected. The Revenue Cash Book was available for verification.
- c) It was true that of the revenue receipts for the period from September 2004 to September 2005 totalling K128, 918,000.00, only K50, 028,000.00 was banked while a balance of K78, 890,000.00 was unaccounted for.

Early in March 2006, the Chief Personnel Officer and the Senior Passport and Citizenship Officer went to Kabwe to ascertain the matter regarding the K78, 890,000.00. The findings were that the two officers involved were suspended by the office of the Provincial Permanent Secretary, Central Province for allegedly misappropriating K26, 012,000.00 on account of the charge letter from his office. The findings also revealed that both officers had not been charged by the Provincial Permanent Secretary for misappropriating K78, 890,000.00, therefore, the Ministry of Home Affairs had now written to the two officers charging them for misappropriation of Government funds.

- d) The Register for Accountable Documents between 2002 and July 2005 was maintained at the Passport Office in Kabwe. It was available for audit verification.

Your Committee expressed their concern to the Controlling Officer on the repeated occurrence of cases of financial misconduct in the Ministry of Home Affairs. In response, he stated that his office was equally concerned and had even involved the Drug Enforcement Commission in the investigations. The Drug Enforcement Commission (DEC) had so far seized some properties belonging to the officers under investigation valued at about K600 million. The involvement of the Drug Enforcement Commission (DEC) and the seizure of properties had to some extent brought in a sense of fear in officers. As one measure of improving the situation, the Ministry had provided funds in its 2006 budget for monitoring of resource usage. It was optimistic that the monitoring exercise would enable the Ministry identify financial malpractices faster.

Committee's Observations and Recommendations

Your Committee wish to encourage the Controlling Officer to ensure that the monitoring of resource usage exercise is implemented. On the specific queries, they recommend that:

- i) they be given an update on all cases that are under Police and Drug Enforcement Commission (DEC) investigation;
- ii) the matter on non-recording and banking of revenue involving K64,148,000 should close subject to verification of the revenue cash book; and
- iii) the matter on the Register for Accountable Documents should close subject to verification.

AUDIT QUERY

PARAGRAPHS 17 – 19

Head:	206	Fees of Court of Office
Sub-Head:	51	Ministry of Communications and Transport
Activity	184	Road Traffic Collections

Weaknesses and Irregularities in Accounts for Revenue - Paragraph 17

19. It was reported that in previous Auditor-General's reports, mention had been made of a number of weaknesses and irregularities in accounting for revenue at the Road Traffic Commission (RTC). In particular, in 1998 and 1999 mention was made of misappropriation of revenue, delayed banking, failure to record revenue collections in cash books, failure to account for toll fees and failure by engaged agents to remit revenue collections to the RTC.

In an effort to improve operations at the RTC that included revenue collections, the Ministry of Transport and Communications in December 2001, signed a contract with a foreign company based in South Africa to computerise motor vehicle registration. The contract sum was K19.875 billion and was to run for two years.

A review of the operations at the RTC headquarters and selected stations outside Lusaka revealed that there were still weaknesses in accounting for revenue. In particular the following weaknesses were observed among others:

- Failure to bank moneys collected, delayed banking and lack of reconciliation.
- The collections were handed over to the accountant for banking without issuing covering receipts making it difficult to make follow-ups when there are shortages.
- There is no security of cash at the point of collection by the cashiers in that they are not provided with cash boxes. Further, despite the huge amounts collected, some stations had no security personnel.
- There was a weakness in the procedure for collection of revenue from traffic offences in that charge sheets used by Traffic Police officers are mere papers without adequate details and serial numbers. Although a register for offences was maintained at the impounding yard, only vehicles that were paid for were reflected in the register.

As a result of the above weaknesses the following were observed:

(a) Misappropriation of Revenue

During the period January 2003 to June 2005, a total amount of K13, 114,895,208 was misappropriated by various officers at RTC Headquarters, the Road Safety Agency, Lumumba Road, Chirundu, Livingstone, and Ndola offices as detailed below in some of the cases:

(i) Lumumba Road Offices

- A total amount of K10,921,024,300 collected between August 2003 and April 2005, was misappropriated by four officers at Lumumba Road office through the use of a fake Bank of Zambia date stamp.
- A reconciliation of receipts and banking for the period July 2003 to June 2005 revealed that five officers at Lumumba Road office, through under banking, misappropriated K416, 149,250.
- In October 2004, the ZAMTIS computer system at the Lumumba Road office failed. It was observed in this regard that as where the system was able to process receipts normally in Kwacha, the total daily cash collections were reflected in dollars. As a result the total collections handed over to the accountant by the cashiers were not reconciled with the total collections in the system. Consequently, when the system was restored and a reconciliation done, the amount collected as per receipts generated by the system was K368,802,750 while the amount handed over by the cashiers was K263,648,300 resulting in a shortage of K105,154,450.

(ii) Head Office (Ridgeway)

- A total amount of K5,378,400, collected between March 2004 and July 2005, for various revenue types, although entered in the cash book was not supported by bank deposit slips. In the absence of the deposit slips and bank reconciliation statements, it was not possible to establish whether the money was banked.
- Contrary to Financial Regulations No. 38, amounts totalling K18,750,760 (\$4,111) collected between November, 2004 and March, 2005 were delayed in banking for periods ranging from ten to eighty days.
- One hundred (100) used receipt books could not be produced for audit scrutiny and therefore the total amounts collected could not be verified. It could also not be ascertained whether the collections were brought to account in the Government Control Account 99.

(iii) Road Safety Council

- Revenue collections totalling K103,825,400 for the period from June to September, 2004 were not accounted for.
- There was under banking of revenue collections totalling K2,848,800 during the period from November 2004 to March 2005.

- Contrary to the provisions of Financial Regulations No.38, there were delays ranging from two to eleven days in banking revenues amounting to K15,006,000 collected during the period from December 2004 to June, 2005.

(b) *Motor Vehicle Registration*

An examination of records relating to the registration and licensing of motor vehicles at Lumumba Road offices revealed that three hundred and five (305) motor Vehicles registered during the period from January 2004 to June 2005 were registered without any supporting documents.

(c) *Test Certificates*

Test certificates are documents issued by the Road Safety Council to certify that a learner driver has passed the driving test. Records examined at the Road Safety Council pertaining to issuance of the test certificates revealed that thirty-eight general receipt books and thirty seven motor vehicle pass test certificates issued and used during the period from January 2004 to June 2005 were not be produced for audit scrutiny and therefore total amounts collected and brought to account could not be determined.

(d) *Security Paper*

In December 2002 when the ZAMTIS system was introduced, the use of white books and General receipt book (accounts form 40) was abolished. Instead the use of a pre numbered security paper which is stocked by the Ministry of Finance and National Planning was introduced. The pre numbered Security paper is an accountable document, and is collected from the Ministry of Finance and National Planning by the stores officer based at RTC headquarters. Upon collection, the security paper is serially entered in the register of accountable documents (account form 103) before being issued to user stations.

It was however noted during the audit at Lumumba road that there was a weakness in the manner the security paper was being handled in that the paper was issued to users without being signed for and no follow up was made on how the paper had been used.

Submission by the Controlling Officer

The Controlling Officer in his submission stated that the Government with intentions of improving the operations at the former RTC which included revenue collections, through an Act of Parliament established the Road Transport and Safety Agency.

However, the transition period had a number of bottlenecks, which had caused some of the weaknesses and irregularities reported by the Office of the Auditor-General, the major causes being:

- lack of adequate manpower, this was due to many pending cases resulting in officers remaining on suspension without any replacements and the Ministry not being restructured resulting in the non-recruitment of staff; and
- lack of adequate transport within the Ministry and the Agency.

However, some measures had been put in place that included:

- the engagement of a private security firm or commercial banks to handle all banking arrangements from collection points; the Bank of Zambia had advised them which security firms to use;
- procuring of new vehicles which had been included in the budget for the Agency; and
- finalising the recruitment of directors which in turn would enable the Agency to recruit other personnel.

a) *Misappropriation of Revenue*

i) *Lumumba Road Offices*

- The case involving the K10, 980,275,300.00 collected from August 9, 2003 to April 22, 2005 was reported to the Police and three officers suspected to be involved were on suspension. The three officers were currently appearing before the courts of law. The Drug Enforcement Commission (DEC) was also involved in the investigations and some properties belonging to officers had been seized.

The amount of K416,149,250 reported as misappropriated for the period July 2003 to June 2005 also involved the same three officers.

- During the period October 7 to 19, 2004 the ZAMTIS system had a malfunction, the system reflected dollars instead of Kwacha and, therefore, the cash up system could not be used. During this period, cash collected by cashiers was recorded and signed for using the manual system. When reconciliations were done, there was a difference between the manual records for the period and the computer system report. An investigation was carried out and the report prepared by the team involved, which revealed the difference of K105,154,450.00. However, it was difficult to ascertain the cause of the difference whether it was due to the system failure or officer's failure to account for the funds collected.

When asked if ZAMTIS was performing as envisaged, the Controlling Officer replied that there was more revenue being collected, however, so far only five stations were fully computerised. The major hurdle in the programme was inadequate funding.

ii) *Head Office (Ridgeway)*

The delays in banking were due to lack of manpower. There was only one cashier at the station making it difficult during peak periods for the officer to collect, account and bank revenues as per requirement of the Financial Regulations.

The hundred receipt books not produced at the time of the audit were now available for verification.

iii) *Road Safety Council*

On the K103,825,400 reported as being unaccounted for, the Ministry had requested the Ministry of Finance and National Planning to issue them with statements so that they could ascertain the deposits not traced by the auditors. However, there was a difference between the figure in the Auditor-Generals Report (K103,825,400) and Audit Reference Sheet (K97,690,000). Efforts were being made to have the figures reconciled.

The amounts reported as under banked were actually the net effect of under and over banking. The cashier did not record receipts totalling K2,848,000.00 in the Cash Book resulting in the variance. This had since been rectified.

The Controlling Officer agreed that there were delays in banking revenue collected at the Road Safety Council mainly due to staff shortage. In order to overcome the problem, and as a matter of urgency, banks had been requested to collect cash at points of collection as opposed to the Council taking the moneys to the banks.

b) Motor Vehicle Registration

At the time of the audit, the supporting documents had not been made available because the store room had no filing cabinets and documents were not properly filed. However, documentation had been properly filed and was available for verification.

c) Test Certificates

The Controlling Officer clarified that the reported test certificates were actually certificates of fitness which were used to certify the road worthiness of a motor vehicle. The pass certificate was issued to a learner driver once he or she passed the driving test. The Ministry was in the process of hiving-off the activity of motor vehicle testing to private garages as they had adequate facilities to undertake the function.

Out of the thirty-seven motor vehicle fitness certificates that were not presented for audit, twenty-two had been gathered for verification. Efforts were being made to locate the remaining fifteen books.

d) Security Paper

The Controlling Officer acknowledged that they had four printers that were shared by six cashiers and stated that they had purchased two additional printers so that each cashier could have his or her own printer to enhance accountability. The security paper had a factory printed serial number used for accountability in the stores. For each transaction made, a serial number was generated by the system and kept on the back-up system for future reference.

Committee's Observations and Recommendations

Your Committee in noting the response observe that the engagement of a private security company to facilitate the movement of cash from collection points to the bank can improve banking and security of the funds. However, other weaknesses identified such as not providing covering receipts for collections, and the inappropriate procedures of collecting revenue from traffic offences, are likely to continue despite the recruitment of more officers.

Your Committee, therefore, urge the Controlling Officer to ensure that weaknesses in the accounting system that are as a result of improper procedures should be minimised. They will await a progress report on the engagement of the private security company, the recruitment of staff and also improved procedures in the collection of revenue.

On the specific issues, they recommended as follows:

a) *Misappropriation of Revenue*

Lumumba Road Offices

Progress should be reported on the case involving the K10,980,273,300 and the K416,149,250 reported as misappropriated.

Considering that efforts to ascertain the cause of the difference of K105,154,450 that arose when the system malfunctioned are not yielding any positive results, the Ministry should prepare a loss report. They will, therefore, await progress on the matter.

Head Office

The Controlling Officer should establish with Cabinet Office why the restructuring of the Ministry of Communications and Transport has delayed leading to a shortage of staff. They will await progress on the matter.

They further request that deposit bank slips for the K5,378,400 should be verified.

The matter involving the 100 receipt books should close subject to verification.

Road Safety Council

- i) They find the delays in getting statements from the Ministry of Finance and National Planning to clear the matter of the K103,825,400 reported as unaccounted for unacceptable. They, therefore, request the Controlling Officer to double his efforts and have the matter cleared within 2006.
- ii) The position on the revenue collections reported as under and over banked should be reconciled and the figures verified.
- iii) The Controlling Officer should report progress on the arrangement with banks to collect cash at points of collection.

b) *Motor Vehicle Registration*

The matter should close subject to verification.

c) *Test Certificates*

The position on the certificates of fitness should be reconciled followed by verification of the thirty-eight receipt books and the twenty-two certificates of fitness. Your Committee will await progress on the remaining fifteen certificates.

d) *Security Paper*

The matter should close. However, the Controlling Officer should ensure that there are no lapses in the handling of the security papers.

Provincial and District Offices – Paragraph 18

20. It was reported that visits to selected RTC stations in Southern, Copperbelt and Northern Provinces in August and September 2005 revealed issues set out here hereunder:

Chirundu

- (a) An amount of US\$355 (K1,598,840) collected during the period March to August 2005 was not accounted for.
- (b) There were two toll fee receipt books found at Chirundu RTC office in September 2005 bearing the same serial numbers (200501-200550). A total amount of US\$17,023 (K79,497,410) was collected using the first receipt book while US\$2,245 (K10,484,150) was collected using the second book. However, the cashbook for the same period could not be produced and there was no evidence that the money had been banked.
- (c) In another related case Drug Enforcement Commission (DEC) in 2005 found five receipt books at Chirundu office whose serial numbers were duplicated as shown below:

1st Set	Amount US\$	2nd Set	AMOUNT US\$
235801-235850	5,170	200501-200550	1,298
241951-242000	5,359	241951-242000	10,636
236901-236950	3,515	236901-236950	15,066
211651-211700	1,267	211651-211700	3,163
213951-214000	8,757	213951-214000	5,117
	24,068		35,280

There was no evidence that the amounts totalling US\$24,068 (K112,397,560) and US\$35,280 (K164,757,600) collected during the period January to November 2004 using the above stated receipt books had been banked.

- (d) Collections totalling US\$120,242 (K561,611,480) made during the period from January 2004 to August 2005 though receipted and shown as deposited were not credited to the RTC's bank account maintained at Finance Bank Chirundu Branch.
- (e) According to existing procedures, Zambia Revenue Authority registers all trucks passing through the border at Chirundu. Trucks weighing four tonnes and above are required to pay toll fees based on their destination.

Information obtained from ZRA in Chirundu revealed that during the period between January and June 2005, 8,924 trucks destined for various destinations passed through the border. Based on the prevailing rates, a total amount of US\$748,680 was to be collected. Records at RTC however revealed that US\$519,651 was actually collected leading to an adverse variance of US\$229,029 which was not explained.

- (f) One hundred and thirty eight (138) Entry Fee Receipt Books and 21 General Revenue Cashbooks sent to RTC Chirundu were neither entered in the register of accountable documents nor produced for audit scrutiny.

- (g) Forty-one Entry Fee Receipt Books though entered in the register of accountable documents were not produced for audit verification.
- (h) Twenty-six General Receipt Books though produced for audit verification were not entered in the register of accountable documents, contrary to Financial Regulation No.90.

Kasumbalesa

There were delays of up to thirteen days and seven months in banking revenues totalling US\$18,339 and K 3,780,000 respectively collected during the period February to July 2005.

Kitwe

- (a) There were delays of up to eleven days in banking revenue amounting to K117,891,800 collected during the period September 2004 to August 2005 contrary to Financial Regulation No. 38.
- (b) When the ZAMTIS computer system at the Lumumba road office failed, in October 2004, the Kitwe office was also affected. In this regard, a total amount of K5,345,300 was not accounted for by the cashiers.

Livingstone

- (a) A cash count conducted at the cashier's office in September 2005 revealed a cash shortage of US \$ 226 (K949,200).
- (b) Four unused General Revenue Cashbooks although entered in the register of accountable documents were not produced for audit verification.
- (c) Out of the total revenue collections made during the period February and June 2005, amounts totalling US\$237 (K1,090,200 toll fees) and K7,372,658 (other revenues) were not accounted for.
- (d) A review of an internal audit report dated 13th August 2004 on the audit of Kazungula and Victoria Falls border posts revealed that four revenue collectors at the border posts misappropriated revenue amounting to US\$142,766 (K628,170,400) in April and May 2004.

Although the case was reported to the police and the officers suspended, the money had not been recovered and no loss report had been processed as of September 2005.

- (e) There were delays of up to ninety seven days in banking revenue amounting to K98,802,000 collected during the period March 2004 to July 2005 contrary to Financial Regulations No. 38.

Nakonde

- (a) There were delays of up to ten days in banking revenue amounting to US\$111,461 (K517,061,392) collected during the period December 2004 to August 2005 contrary to Financial Regulations No. 38.

- (b) In June 2005 an amount of \$ 5,735 (K26,604,347) was stolen at the RTC office in Nakonde. Although the theft was reported to the police and the suspect arrested, the money had not been recovered and no loss report had been processed as of July 2005.
- (c) Revenue collections totalling K130,753,900 made during the period from December 2003 to August 2005 and deposited into Finance bank kwacha transit account had not been remitted to the Bank of Zambia as of September 2005.

Ndola

- (a) A cash count carried out at the cashier's office on 2nd September 2005 revealed a cash shortage of K1,304,350.
- (b) Revenue collections totalling K 438,687,100 made during the period March 2004 to July 2005 were misappropriated by the cashiers. As of September 2005, no action had been taken against the culprits.
- (c) Seventy white books received from Head Office between January 2004 and June 2005 were not presented for audit verification despite being recorded in the register of accountable documents.

Submission by the Controlling Officer

Chirundu

- a) A reconciliation of receipts and the General Revenue Cash Book on the books in question for the period March to August 2005 revealed that only US\$8 was understated. The US\$8 was retained in smaller denominations of US\$1 for servicing clients as change.
- b) The money in the receipt book bearing the same serial No. 200501-200550 was not banked as it involved officers who had been suspended and the case was in court.
- c) The case of the US\$24,068 involved four officers who were now on suspension. The case was reported to the police and was in the courts of law.
- d) Finance Bank had confirmed deposits amounting to US\$114,558 made during the period January 2004 to August 2005. Efforts were being made to confirm the remaining US\$5,684.00 (K26,942,160). At the time of appearance, the Controlling Officer produced a letter from Finance Bank confirming the receipt of the US\$5,684.
- e) It could not be established from Zambia Revenue Authority (ZRA) records which of the 8,924 trucks that passed through Chirundu Border Post between January and June 2005 were Zambian or foreign. However, Chirundu Border Post would soon be computerised under the ZAMTIS project. Control measures had been put in place where all vehicles paying toll fees were recorded in a register showing destinations and amounts paid.
- f) Out of 138 books, fifty-four had been located and were found to have been recorded in the Register of Accountable Documents. The books and the Register were available for verification.
- g) Twenty-nine out of forty-one books had been located and were available for verification. Efforts were being made to locate the remaining books.

- h) The twenty-six books were amongst the fifty-four mentioned under item (f) above

Kasumbalesa

The delay in banking of fees collected amounting to K3,780,000 was due to non availability of a Kwacha Account at the local bank branch. The major collections at the Border were entry fees, which were banked in United States Dollars.

Delays in banking of US\$18,339 for the period ranging from two and thirteen days was due to transport problems and lack of manpower. There was only one cashier at the Post making it very difficult to do regular banking.

Kitwe

- a) The delays in banking were due to lack of manpower. There was only one cashier at the station making it difficult during peak periods for the officer to collect, account and bank revenues as per requirement.
- b) The system reflected dollars instead of the Kwacha because of the installation of toll fees charges which were in dollars. At the time system failed, the cash collected by the cashier and accountant was recorded and signed for using the manual system. An investigation was carried out and revealed the difference of K5,345,300. However, it was difficult to ascertain the cause of the difference whether it was due to the system failure or officer's failure to account for the funds collected.

Livingstone

- a) The figure queried by the Office of the Auditor-General in the Audit Reference Sheet was US\$266 and not 226 as reflected in the Report. The reported shortage was banked on 1st September 2005.
- b) The four General Revenue Cashbooks were not produced for audit because they had been used and collected by the Ministry Headquarters in August 2004. The documents were available for verification.
- c) The amounts recorded as not accounted for were actually cheques that were banked separate from cash.
- d) The loss report had now been raised, however, the case was in the hands of the Police.
- e) The delays were caused mainly by the shortage of manpower at the station, however, the ninety-seven days was as a result of officers attending the new computerisation training programme which lasted for a period of time.

Nakonde

- a) Revenue collected was banked the same day or the following day. In most cases, staff from the Bank came to the Road Traffic Commission (RTC) offices to collect the cash for banking or their officers went to the Bank to deposit. Delayed banking was due to lack of stationery for banking.

- b) The loss report had since been prepared. The matter was in the hands of the Police and there was no official indication that the money would not be recovered.
- c) Information obtained from Finance Branch in Nakonde indicated that the Bank had no standing instructions on the transmission of the funds in the Account.

They had since written to the Ministry of Finance and National Planning to issue instructions through the Bank's Headquarters.

Ndola

- a) The Ndola Road Traffic Commission (RTC) Office maintained two cash boxes which were kept by the Officer-in-Charge. The two keys to the cash box were kept by the cashier. At the time of the audit, the cash was in the other cash box in the safe which was not accessed by the Auditor thus creating the variance. The cash was banked as indicated in the General Cash Book.
- b) Moneys reported to have been misappropriated were actually banked and reflected on the Bank Statement except for the transaction of K1,170,000.00 which was reflecting in the General Revenue Cash book deposit slip but not showing on the Statement.
- c) The reported white books referred to the motor vehicles registration certificates which were issued to clients upon registering their vehicles. Records of the registration certificates were available for verification.

Committee's Observations and Recommendations

In noting the submissions, your Committee make the following observations and recommendations:

i) Chirundu

- a) The matter on the US\$355 should close subject to verification.
- b) The Controlling Officer should report progress on all the court cases involving duplicated receipt books.
- c) The matter on the US\$120,242 should close following the confirmation by Finance Bank that they receipted the funds.
- d) On the 8,924 trucks, your Committee find it strange that Zambia Revenue Authority (ZRA) information on trucks passing through Border does not show whether a truck is foreign or Zambian. They, therefore, urge the Controlling Officer to request ZRA to confirm that their information on the cited trucks cannot be segregated to show how many were Zambian trucks. They will await progress on the matter.
- e) The located Entry Fee Receipt books, which were either not entered in the Register of Accountable Documents or not provided for audit scrutiny, should be verified. However, progress should be reported on the remaining receipt books.

- f) The matter on the twenty-six General Receipt Books should close subject to verification that they were part of the fifty-four already located books.

Kasumbalesa

Your Committee re-emphasised the need for the Controlling Officer to liaise with Cabinet Office on the delayed restructuring of the Ministry which has led to a shortage of staff. They will await progress on the recruitment of additional staff not only at Kasumbalesa, but all other posts.

Kitwe

- a) Their recommendation on Kasumbalesa with respect to delayed banking will suffice.
- b) The Controlling Officer should submit a loss report on the K5,345,300 difference that cannot be ascertained.

Livingstone

- a) The matter on the US\$226 should close subject to verification.
- b) The matter on the general revenue cash books should close subject to verification.
- c) The matter on the US\$237 and K7,372,658 should close subject to a reconciliation of the position and verification.
- d) The Controlling Officer should submit the loss report on the misappropriated US\$142,766. The Controlling Officer should also ascertain whether any properties have been seized from the officers.
- e) The matter on delayed banking up to ninety-seven day should close

Nakonde

- a) Your Committee urge the Controlling Officer to liaise with the Accountant-General on the shortage of stationery which led to delayed banking. They, however, resolve to close the matter.
- b) The Controlling Officer should submit the loss report on the misappropriated US\$5,735 and report progress on the case.
- c) Your Committee are not impressed with the way revenue is being managed. They find it difficult to understand why for over two years, the Ministry did not notice that money in the Transit Account was not being remitted to the Bank of Zambia. They advise the Controlling Officer to be more pro-active and ensure that revenues are remitted to Bank of Zambia as required by regulations. They resolve to await progress on the matter.

Ndola

- a) The matter on the cash shortage of K1,304,350 should close subject to verification.

- b) The matter involving the K438,687,100 reported as misappropriated should close subject to verification.
- c) The matter on the registration certificates should close subject to verification.

Head	206	Fees of Court of Office
Sub-Head	51	Ministry of Communications and Transport
Activities	180	Air Service Permit Fees
	181	Aviation and Landing Charge
	185	Civil Aviation

Weaknesses and Irregularities in Accounting of Revenue – Paragraph 19

21. It was reported that during the financial years 2000 to 2004, provisions totalling K2,019,578,942 were made in the Estimates of Revenue and Expenditure for the revenue collections under Air Service Permit Fees, Aviation & Landing Charges and Civil Aviation and K12,968,754,583 was collected as detailed below:

Head	2000 - 2004		
	Approved	Actual	Variance
	Budget	Collections	
	K	K	K
180	520,749,673	310,735,625	(210,014,048)
181	814,829,349	1,609,512,892	794,683,543
182	528,293,920	1,107,385,470	579,091,550
183	10,000,000	407,624,536	397,624,536
185	70,000,000	9,326,552,526	9,256,552,526
186	75,706,000	206,943,534	131,237,534
	2,019,578,942	12,968,754,583	10,949,175,641

An examination of records maintained at the Ministry Headquarters, Department of Civil Aviation and Lusaka International Airport carried out in October 2005, in respect of Air Service Permit, Aviation and Landing Fees and Civil Aviation fees collected during the period from January 2000 to December 2004 revealed the following:

(a) Ministry Headquarters

During the period under review, four hundred and fifteen (415) Air Service Permits were issued by the Ministry for both unscheduled and scheduled flights for which a total amount of K546,404,980 was receivable.

A scrutiny of the bank deposit slips and the Control 99 Bank Statements for the period revealed that only K81,326,604 was credited to Control 99 leaving a balance of K465,078,376 not accounted for. Included in the balance not account for was an amount of K63,464,497 which though supported by deposit slips, was not reflected on the bank statement.

During the period May 2001 to September 2004, out of K118,708,628 collected at the Lusaka International Airport in respect of Temporal Air Service Permits and handed over to the cashier at the Ministry headquarters for banking, only K27,666,330 was banked leaving a balance of K88,459,848.

(b) Department of Civil Aviation

- (i) There were fifteen general receipt books issued to the department by the Ministry during the period January 2002 to May 2004 which were not produced for audit scrutiny.

It was therefore not possible to establish the total amounts collected using the receipt books and whether the collections were accounted for.

- (ii) Revenue collections totalling K27,741,805; K97,367,904 (US\$23,216) and K5,075,151 (SAR7,409) made during the period January 2004 to December 2004 though supported by bank deposit slips were not reflected on the Control 99 bank statement.
- (iii) Revenue collections totalling K1,529,000 and K5,976,450 (US\$1,425) made during the period November 2001 to July 2002 were not banked.
- (iv) There were delays ranging from 4 to 41 days in banking revenue totalling K27,897,950 collected during the period October 2000 to October 2003 contrary to Financial Regulation 117.
- (v) In 2003, the department published 500 Aeronautical Information Publication (AIPs) booklets which were to be sold at US\$150 each. A review of stock records in 2005 revealed that 146 copies were sold between 2003 and 2004 leaving a balance of 354. However, only 340 booklets were found on hand while fourteen copies valued at K8,807,400 (US\$2100) were not accounted for.
- (vi) In 2003, the department opened a third party account with a local commercial bank into which sale proceeds from AIPs were to be banked. Out of a total amount of K56,634,500 collected during the period December 2003 to December 2004, only K33,789,600 was banked leaving a balance of K22,844,900 unaccounted for. Further, although enquiries were made, no authority for opening the account was produced as of October 2005.

(c) Lusaka International Airport

According to existing arrangements, revenue from Temporal Air Service Permits (TASP) are collected by National Airports Corporation officials on behalf of the Department of Civil Aviation and handed over to the cashiers at the Ministry headquarters for banking.

An examination of revenue records at the Lusaka International Airport revealed that revenue totalling K118,708,628 (US\$ 25,812 and ZAR 15,260) was collected and handed over to the cashier during the period May 2001 to September 2004 for banking. However, a scrutiny of records at the Ministry headquarters and the bank statements for Control 99 held at the Ministry of Finance revealed that only an amount of K27,666,330 was banked leaving an amount of K88,459,848 (US\$21,092) unaccounted for.

Submission by the Controlling Officer

a) Ministry Headquarters

The Ministry had difficulties establishing how the Auditor-General's Office arrived at the amount receivable. However, on average, for the past years, forty (40) Air Service Permits were issued per year. The fees between 2000 and 2001 were very low the highest charge being K250,000 and the lowest charge was K105,000. These were later revised, the highest being K2,530,080 and the lowest of K920,160.

With regard to the balance of K63,464,497 for the January 2000 and December 2004 not on bank statements for Control 99, they had communicated to the Ministry of Finance and National Planning to provide them with statements and receipts of deposits.

b) Department of Civil Aviation

- i) The fifteen general revenue cashbooks were not available at DCA offices at the time of the audit because Ministry Headquarters had collected them.
- ii) The period was from January 2000 and December 2004 and not as reflected in the Auditor-General's Report. However, they had communicated with the Ministry of Finance and National Planning to issue them with statements and receipts of deposits.
- iii) The delays on banking of the K27,897,950 were due to the critical shortage of transport at that time.
- iv) The fourteen AIP booklets reported as not accounted for were amongst sixteen books issued to officers within the Department of Civil Aviation.
- v) Authority for opening of the bank Account was obtained from the Ministry of Finance and National Planning. A copy of Accounts Form 49 was provided.

Lusaka International Airport

This was part of the problem mentioned under Ministry Headquarters on the 415 ASP.

Committee's Observations and Recommendations

Ministry Headquarters

Your Committee note the response and requested for the reconciliation of the amount that was to be received on the 415 Air Service Permits between the Ministry and the Auditor-General's Office.

However, the Committee has difficulty with the response on the K63,464,497 which was not reflected on the bank statement. The Ministry should have been more proactive in resolving the query by demanding from the Ministry of Finance and National Planning the details that they were waiting for. They, therefore, request the Controlling Officer to ensure that the matter is cleared within 2006.

Department of Civil Aviation

Your Committee in noting the response recommend as follows:

- i) The matter on the fifteen general receipt books should close subject to verification. In doing so, they also advise the Controlling Officer to improve the recording system so that auditors can be informed during the audit that Headquarters had taken particular files or receipt books.
- ii) The Controlling Officer should report progress on the Control 99 statements for the K27,781,805, K97,367,904 (US\$23,916) and K5,075,151.
- iii) An update should be provided on revenue collections amounting to K1,529,000 and K5,976,450 (US\$1,425) that were not banked.
- iv) The matter on delayed banking should close.
- v) The matter on the Aeronautical Information Publication (AIP) booklets should close.
- vi) They note the response on the authority to open the Bank Account but request for an update on the K22,844,900 that is reported as unaccounted for.

Lusaka International Airport

Your Committee request the Controlling Officer to report progress after reconciliation on the revenue from air permits.

AUDIT QUERY

PARAGRAPH 20

Head	206	Fees of Court or Office
Subhead:	75	Ministry of Lands
Activities:		Various

Weaknesses and Irregularities in Accounts Revenue

22. It was reported that in paragraph 20 of the Auditor General’s Report on the accounts for the financial year ended 31st December, 2002, mention was made of the failure to collect revenue from ground rent amounting to K105,105,057,255 which had been outstanding as of November 2003.

In their Report for the Third Session of the Ninth National Assembly, the your Committee called upon the Secretary to the Treasury to facilitate the completion of the installation of the computer system in order to make operation of the Ministry more efficient.

A review of the situation in November 2005, showed that there was no improvement as the Ministry was owed a total amount K119,139,846,713 in uncollected ground rent as of 30th September 2005.

A further review of revenue records pertaining to the years 2003 and 2004 revealed the following:

(a) Under Collections

There was an under collection of K786,909,064 in 2003 and K5,018,470 in 2004 as shown below:

Year	Budget K	Actual K	Variance K
2003	4,192,999,994	3,406,090,930	(786,909,064)
2004	3,857,314,477	3,852,296,007	(5,018,470)

(b) Accountable Documents

There were weaknesses in the control over the use and custody of accountable documents as detailed below:

- (i) Contrary to Financial Regulation No. 90, six General Receipt Books issued to Maps Sales Section during the period under review were not recorded in the register of accountable documents.
- (ii) A total of forty-four General Receipt Books issued from the Ministry of Finance and National Planning (MoFNP) to accounts department at Ministry of Lands between August, 2003 and December 2004 could not be produced for audit verifications and therefore the collections made, therein could equally not be verified.
- (iii) Six General Receipt Books issued to Maps Sales Section during the same period were not presented for audit verification. It was also discovered that a General Receipt Book issued to Mansa Lands Office and signed for by a Ministry of Lands officer from Mansa was being used at the Maps Sales Section at headquarters.
- (iv) There were delays ranging from four to thirty-two days in banking revenue amounting to K1,721,823,242 during the period September 2003 to September 2004 contrary to Financial Regulation 117.
- (v) Contrary to the *Lands Act No.29*, Article 14 sub section 2, which states that overdue amounts on ground rent shall attract a penalty of 25%, a total of K1,988,205,294 due for settlement in 2004 for various properties in Livingstone did not attract the penalty despite being unsettled by the due date. Consequently, revenue totalling K497,051,323 in penalty charges was lost during the period.

Submission by the Controlling Officer

In response, the Controlling Officer submitted that ground rent was revenue collected on various properties such as housing units, commercial farms, stands and lots. The collection was done annually from 1st October to 30th September. The collection of ground rent was a continuous process and the Land Information Management System (LIMS) accumulated the figures on a yearly basis as the new bills were introduced and the amount owing was usually collected together with the current ground rent payments.

The total amount of K119,139,846,713.00 was, therefore, being collected together with the current bills. The huge figure did not represent the correct position due to the fact that:

- the data in the system was inaccurate resulting in wrong bills being produced;

- the data in the system was insecure and prone to manipulation as anybody could change data for as long as they had access to the system; and
- the billing module in the LIMS was not accurate as it sometimes rounded up figures for all properties to one digit regardless of decimal points resulting into overstating the bills for such properties.

The installation of the Land Information Management System (LIMS) had remained uncompleted due to the fact that the Ministry had failed to source funds to complete the outstanding payment of US\$37,250.00 to Grant Thornton and indeed to pay the remaining components.

A further review of the uncollected ground rent of K119,139,846,713.00 revealed that:

- i) a total of K21,687,929,290.00 was money owing on ground rent by the councils on the various properties and housing units owned by the councils countrywide. The Ministry would seek the assistance of the Ministry of Local Government and Housing to recover all the amounts owing by the councils;
- ii) the recovery of K97,451,917,423.00 was being pursued as they collected revenue for each current year; the Ministry would continue with the data cleaning exercise of the Land Information System in order to:
 - update all the data in the system;
 - update the area size; and
 - update all the zero rated properties and have updated records and have a system which printed accurate bills.

In addressing the issue, the Ministry carried out advocacy campaigns and massive education campaigns and threats of repossessions through both the print and electronic media on the need to pay ground rent.

The campaigns yielded positive results. In 2004, they had collected a total of K6,205,881,33.00 as compared to the 2002 and 2003 figures of K3,915,811,766.00 and K3,406,090,930.00 respectively.

a) *Under Collections*

She agreed with the audit observations, but pointed out that the revised estimate of K4,033,159,994.00 for the year 2003 as indicated in the Financial Report was recorded in the Auditor-General's Report as K4,192,999,994.00 thereby overstating the figure of the estimate and the variance by K159,840,000.00.

b) The figures for the actual collection as indicated in the Financial Report for 2003 were also understated and did not reflect the actual position as obtaining at the Ministry of Lands and reported to the Ministry of Finance and National Planning. The correct position was as shown in the tables below:

A1 Summary of Revenue Estimates and Collected Per Financial Report for 2003

<u>Code Revenue Type</u>	<u>Approved Estimate</u>	<u>Actual Collection</u>	<u>Variance</u>
101 – Ground rent	2,500,000,000.00	1,153,782,050.00	(1,346,217,950)
102 – Document fees and Registration fees	1,300,000,000.00	980,342,281.00	(319,657,719.00)
104 – Survey and Miscellaneous fees	160,000,000.00	85,415,875.00	(74,584,125.00)
105 – Inspection fees	3,000,000.00	-	(3,000,000.00)
106 – Rent on Government Premises	29,999,994.00	20,487,158.00	(9,512,836.00)
107 – Consent fees	<u>200,000,000.00</u>	<u>90,241,485.00</u>	<u>(109,758,515.00)</u>
	<u>4,033,149,994.00</u>	<u>2,330,268,849.00</u>	<u>1,862,731,145.00</u>

A2 Corrected Version of Estimates and Revenue Collected Per records held at the Ministry – 2003

Code Revenue Type	Estimate	Collection	Variance
101 - Ground rent	2,500,000,000.00	2,056,542,933.00	(443,547,067.00)
102 - Document fees and Registration fees	1,300,000,000.00	1,074,049,260.00	(225,950,740.00)
104 - Survey and Miscellaneous fees	160,000,000.00	132,653,462.00	(27,346,538.00)
105 - Inspection fees	3,000,000.00	1,800,960.00	(22,545,570.00)
106 - Rent on Government Premises	29,000,994.00	27,054,315.00	(2,945,679.00)
107 - Consent Fees	<u>200,000,000.00</u>	<u>113,990,000.00</u>	<u>(86,010,000.00)</u>
	<u>4,033,159,994.00</u>	<u>3,406,090,930.00</u>	<u>627,069,064.00</u>

c) The actual collections reflected in the Financial Report for 2004 differed from the collection figures as reported by the Ministry of Lands.

d) The consent fees were reflected in the Financial Report for 2004 as K3,142,361,562 instead of the actual figure of K123,960,000 resulting in an investment of K3,018,401,562.

e) Though the Financial Report reflected that nothing was collected under Code 105-Inspection Fees and Code 106 – Rent of Government Premises, a total of K13,772,716 was collected on both heads as detailed below:

B1 Approved Estimate of Revenue as Per Financial Report 2004

<u>Code</u>	<u>Approved Estimate</u>	<u>Actual Collection</u>	<u>Variance</u>
101 – Ground rent	2,516,388,830.00	2,671,707,515.00	(155,318,685.00)
102 – Document fees and Registration fees	1,080,377,964.00	741,299,711.00	(339,078,256.00)
104 – Survey and Miscellaneous fees	124,153,207.00	218,456,419.00	(94,503,212.00)
105 – Inspection fees	12,288,160.00	-	(12,288,160.00)
106 – Rent on Government Premises	14,342,737.00	-	(14,342,737.00)
107 – Consent fees	<u>109,763,579.00</u>	<u>3,142,361,562.00</u>	<u>(3,032,597,983.00)</u>
	<u>3,857,314,477.00</u>	<u>6,773,825,207.00</u>	<u>2,916,510,727.00</u>

B2 Corrected Version of Revised Approved Estimate and Revised Revenue Collected during the period January 2004 to December 2004

<u>Code</u>	<u>Approved Estimate</u>	<u>Actual Collection</u>	<u>Variance</u>
101 - Ground rent	2,516,388,830.00	2,671,707,515.00	(155,318,685.00)
102 - Document fees and Registration fees	1,080,377,964.00	741,299,711.00	(339,078,256.00)
104 - Survey and Miscellaneous fees	124,153,207.00	218,456,419.00	(94,503,212.00)
105 - Inspection fees	12,288,160.00	-	(12,288,160.00)
106 - Rent on Government Premises	14,342,737.00	13,164,316.00	(1,178,263.00)
107 - Consent Fees	<u>109,763,579.00</u>	<u>123,960,000.00</u>	<u>(14,196,421.00)</u>
	<u>3,857,314,477.00</u>	<u>3,915,811,760.00</u>	<u>44,311,026.00</u>

The reasons for the under collection of revenue were attributed to the following factors:

- i) the basis of calculating the bills was not accurate as some printed bills in certain cases were not correct while in other instances the bills could show zero; the programme calculating the bills in the LIMS was malfunctioning;
- ii) lack of transport by both Headquarters and provincial offices to facilitate:
-the distribution of ground rent bills and collection of revenue;
-surveying of properties; and inspection and repossession of undeveloped plots.
- iii) shortage of staff at Headquarters and provincial offices. Most of the provincial offices were being manned by one Provincial Lands Officer till 2005 when the Ministry employed ground rent collectors who had been posted to all the provincial officers; out of the established 446 positions, more than 100 positions were still vacant; and
- iv) the system was not completed and there were no security features to guard against manipulation by those who had access to the system. However, this had drastically reduced following measures that had been taken by the Ministry to restrict access to the system.

The Ministry had taken measures to ensure that there was improvement in the collection of ground rent and all other related fees through:

- a) employment of ground rent collectors who had since been posted to all the provincial centres;
- b) requesting the Public Service Management Division to facilitate the filling-in of all vacant posts in 2006 in an effort to revamp the operations of the various departments;
- c) sensitisation awareness campaigns through the print and electronic media;
- d) periodic spot-checks by the Financial Management Unit and Audit Section on the provincial offices in order to ensure that money was properly accounted for and banked periodically as per Financial Regulations;
- e) procurement of a few motor vehicles which would be sent to the provincial offices during the course of the 2006;
- f) launching vigorous ground rent collection campaigns by the Minister of Lands; this was aimed at sensitising the public on the need to pay and have their properties registered; and
- g) printing and distribution of ground rent bills to all the provincial centres.

During her appearance before your Committee, the Controlling Officer informed them that the Ministry needed about K3 billion to complete the Land Information Management System (LIMS) project, but in 2006, only K171 million was provided for in the expenditure estimates. The Ministry was considering requesting the donor community to assist with the project.

The Controlling Officer further submitted that an important factor that discouraged land owners from paying ground rent was the limited number of pay points. The Ministry was, therefore, working on increasing the number of pay-points.

b) Accountable Documents

The allegation that there were weaknesses in control over the use and custody of accountable documents was not correct due to the fact that:

- all accountable documents were collected from the Ministry of Finance and National Planning by a designated officer; and
 - all the books were recorded in the Register of Accountable Documents and signed for by respective officers as stipulated in the Financial Regulations.
- i) The observation that six cash receipt books issued to Map Sales Section under Survey Department by the Revenue Section at the Ministry of Lands Headquarters between January 2003 and August 2005 were not recorded was not correct. These were recorded in the Register and signed for by respective officers. The Register was available for verification.
 - ii) A total of forty-four General Receipt books issued from the Ministry of Finance and National Planning to Accounts Units at Ministry of Lands Headquarters between August 2003 and December 2004 could not be produced for audit verification because these were issued to various provincial Lands and Survey Offices. Only eight out of the forty-four receipt books were available for audit verification and further scrutiny. The comprehensive list of the receipt books used at Headquarters were as detailed below:

Receipt Book Series

Purpose / Account

448201 – 448250	Control 75
603651 – 603700	Control 75 – Revenue/Provinces
603201 – 603250	PRP/Retirement of Imprest
603951 – 603900	Survey/Thirty Party
1460251 – 1460300	“
1086401 – 1086450	“
448051 – 448100	Revolving Fund
1087301 – 1087350	ZCCM

The summary of revenue collected on the stated books was provided. Cash books, schedules capturing receipts on all the receipt books used by Map Sales Section at Survey Department and Revenue Section at the Ministry Headquarters for the period 1st January 2003 to 31st December 2005 had been prepared and were available for verification.

iii) On the six General Receipt Books said to have been issued to Map Sales Section and not presented for audit verification, she submitted that the receipt book with series 603351 to 603600 did not exist, in fact, the stated series incorporated five books which were distributed as follows:

- a) four receipt books with the series 603351 – 603550 were issued to the provincial Lands office Solwezi on 14th July 2004;
- b) one receipt book with series 603551 – 603600 was issued to Map Sales Section at Survey Department and was available for verification;
- c) one receipt book with series 1087001 - 1087050 was issued to the Provincial Lands Officer in Mansa on 28th August 2003; and
- d) the Ministry was, however, looking for three receipt books with the following series:
 - 1. 0448601 – 0448650
 - 2. 0448651 – 0448700
 - 3. 0448701 – 0448750

The Ministry had since written to the Officer from Map Sales Section of Survey Department who collected the books from the Revenue Section at Ministry of Lands Headquarters to produce the books failure to which disciplinary action would be taken against him.

- e) The records maintained by the Revenue Section at Headquarters revealed that while receipt book No. 1086901 – 1086950 was signed for by the Lands Officer, Mansa on 28th August 2003, a receipt book with the same series was also signed for from Revenue Section at Headquarters by an officer from Map Sales Section at Survey Department on 12th December 2003.

The Ministry was investigating the matter and the Lands Officer had been written to, to confirm whether or not he was issued with the receipt book that he signed for.

iv) The Ministry had taken note of the delays in banking during the period September 2003 to September 2004. This was as a result of difficulties in capturing the cheques from the

provinces, which sometimes took three to four weeks due to the volume of receipts sent from provinces. The Ministry had, however, taken measures to ensure that all the banking was done the following day after collection. The Ministry had also worked on a programme that produced two banking reports in the Land Information Management System (LIMS) and this allowed cashiers to collect cash as well as work on the receipts from the provinces at the same time, thus reducing on the time of banking revenue.

- v) The observation that interest was not charged on overdue amounts on Livingstone properties worth K1, 988,205,294.00 due for settlement in 2004 was true. This was due to the fact that the programme that runs the interest in the system was not functioning. The Ministry did not have adequate resources to hire a consultant to work on the system. Billing in the Land Information Management System (LIMS) was not accurate and this resulted into wrong bills being produced in most cases.

During the period under review, the Ministry received erratic funding which made it difficult for the Ministry to print and distribute the bills to the clients on time. The Land Information Management System was not completed and this led to a lot of problems resulting in production of wrong bills. The amount of outstanding bills for the properties was, therefore, questionable, though the billing on the same had been done.

The Ministry had, however, managed to work on the programme that calculated interest and all the Livingstone properties had since been calculated and the Ministry would endeavour to collect the outstanding bills together with the current bills when funding for the programmes on Revenue Collection and Inspections became available from the Ministry of Finance and National Planning.

Some of the outstanding bills were for properties which belonged to parastatal companies and privatised companies some of which had since been sold but records had not been changed in the system. The Ministry in liaison with the Provincial Offices was working on a programme to update all the properties through the data cleaning exercise.

Committee's Observations and Recommendations

Your Committee note the response and observe that as long as the Land Information Management System (LIMS) remains uncompleted and the keyed-in data defective, the information on revenue will continue to be inaccurate. While appreciating the explanation that lack of resources have led to the system being incomplete, they are of the opinion that the Ministry is not moving fast enough in cleaning-up the data. They, therefore, urge the Controlling Officer to use the available means to speed-up the cleaning exercise otherwise, it will be difficult to determine how efficient the Ministry is in revenue collection. They will await progress on all matters of revenue.

a) *Under Collection*

Your Committee urge the Controlling Officer to resolve the differences in the reported revenue figures with the Ministry of Finance and National Planning. They, therefore, will await progress on the matter.

They further urge the Controlling Officer to continue with the measures she has itemised to improve revenue collections. They implore her to explore the possibility of using banks and the post office as pay-points.

b) *Accountable Documents*

- i) The matter on the six cash receipt books should close subject to verification of the improvised Register of Accountable Documents.
- ii) Your Committee advise the Controlling Officer to ensure that staff in the Ministry co-operate with auditors to avoid wasting valuable time and resources. They find it difficult to understand why officers could simply not inform auditors that general receipts books were in the provinces.

They, however, resolve to close the matter subject to verification.

- iii) The Committee request the Controlling Officer to reconcile her position with Audit Office on the receipt books serial numbered 603351 – 603550. They further request her to provide them with an update on the remaining three receipt books and on the disciplinary action against the officer who collected the receipts, though they are of the view that action on the officer has taken unnecessarily long.

Similarly, they wonder, why the Ministry has taken long to establish whether the Officer from the Map Sales had improperly conducted himself with respect to the receipt book. They resolve to wait for an update on the matter.

- iv) Your Committee take note of the measures to avoid delayed banking of revenue. They, therefore, resolve to close the matter.
- v) On interest that was not charged, your Committee observe that in the absence of a properly functioning Land Information Management System (LIMS), it is difficult to ascertain the true position on the matter. Since, the Controlling Officer has admitted that information being generated by the system is inaccurate, they advise her to liaise with the Secretary to the Treasury on the way forward on the interest. The time and resources that it will take to collect the interest and penalties can alternatively be utilised to speed-up the data cleaning exercise so that the system can be credible. They will wait for an update on the matter.

AUDIT QUERY

PARAGRAPH 21

Head: 05/01 Electoral Commission of Zambia
Units: Various

Accounting and other Irregularities

23. It was reported that the Electoral Commission of Zambia was established by Article 76 of the Constitution of Zambia and the *Electoral Commission Act No. 24 of 1996*. The functions of the Commission are the supervision of the registration of voters and review of voters' registers, conducting presidential and parliamentary elections and the delimitation of constituencies. Other statutory functions include supervision of referenda, conducting and supervising local government elections, formulating and reviewing electoral regulations.

In their report for the First Session of the Ninth National Assembly, your Committee recommended that although the Commission was independent it should follow Financial Regulations as is the case with any grant aided institution. Your Committee advised against the implementation of conditions of service for members of the commission before the President approves them. The Committee also

held that the drawing of advances by commissioners was irregular and should attract punitive measures against all those involved.

In a recent audit carried out on the accounts for the financial years ended 31st December 2002 and 2003, it was observed that the conditions of service for members of the Commission have continued to be implemented without the approval of the President, contrary to the recommendations of your Committee and section 7 of the Electoral Commission Act.

In this regard, a total amount of K1, 269,598,116 was incurred in respect of personnel emoluments for the members of the Commission during the period under review.

The following further weaknesses were observed:

(a) Poor Record Keeping - Investment Accounts

It was observed during the audit that the Commission had four investment accounts with four commercial banks. However, the Commission could not ascertain the balances held in these accounts. Enquiries made with the commercial banks revealed that the Commission had a total amount of K102, 042,941 in two accounts as at 31st December 2003 while the balances in the other two accounts could not be established as the banks did not respond.

It was therefore not possible to ascertain the total amount held as investments.

(b) Non-remittance of Pay As You Earn (PAYE)

Contrary to the *Income Tax Act Cap 323* of the Laws of Zambia, the Commission had not remitted money deducted for the purpose of PAYE to the Zambia Revenue Authority (ZRA) for the period between May 2002 and December 2003 in amounts totalling K1,111,453,793. These amounts were outstanding as of November 2005.

(c) Stores

There were no receipt and disposal details in respect of assorted stores items costing K3,365,525,166 ordered and paid for between September 2004 and July 2005 contrary to Public Stores Regulation No. 16.

Submission by the Controlling Officer

The Controlling Officer informed your Committee that the first members of the Commission were appointed in October 1996 and their proposed conditions of service were submitted to the President in November 1996 for his consideration and approval. Several reminders were sent to the President concerning the approval. A number of members of the Commission had since served their full contract terms and left the Commission with terminal benefits calculated based on the proposed conditions of service.

The Commission had a new Chairperson and two other new members who had been appointed on the same conditions. The matter was re-submitted to the President and on 27th March 2006, the President responded and retrospectively approved the conditions of service.

When asked whether there were any outstanding advances as a result of the approval, the Controlling Officer replied that there were no outstanding advances.

a) Poor Record Keeping – Investment Account

The amounts held as investment in Commission Accounts were correct. The banks that had not responded did not hold any interest for the Commission, as the only transactions done with them were one-off transfer of funds. The Commission had sent requests to the banks asking them to submit bank reports and statements to the Auditor-General's Office.

When asked where the money for investment came from in view of the fact that the Commission operated on a tight budget, the Controlling Officer stated that the *Electoral Commission of Zambia Act* empowered the Commission to invest anywhere and to raise its own resources where possible. He informed your Committee that for example the Commission had a fleet of trucks that they hired out to different institutions. They also sold maps and registers and all the gains were channelled into the Investment Account.

b) Non-Remittance of Pay As You Earn (PAYE)

The Commission's records showed that they were up to date with Pay-As-You-Earn.

c) Stores

Your Committee were provided with receipt and disposal details in respect of the K3,365,525,166.00 worth of stores ordered and paid for between October 2004 and July 2005.

On why the information had not been made available at the time of the audit, your Committee were informed that, at the time, the Stores Department was not adequately staffed but this had since been done.

Observations and Recommendations

Your Committee note the submission on the approved conditions of service for the Commissioners and resolve to close the matter.

On other queries, they recommend as follows:

i) Poor Record Keeping – Investment Accounts.

The matter should close subject to the Auditor-General's office verifying that the other two accounts do not exist.

ii) Non-Remittance of Pay-As-You-Earn (PAYE)

The matter should close subject to verification.

iii) Stores

The matter on receipt and disposal details should close subject to verification.

AUDIT QUERY**PARAGRAPH 22 -23**

**Head: 08/01 Cabinet Office – Headquarters
Human Resource Administration**

Misappropriation of Funds and Failure to Retire Special Imprest – Paragraph 22

24. It was reported that total provisions of K75,496,361,050 and K28,874,610,155 were made in the Estimates of Revenue and Expenditure for year 2003 and year 2004 respectively for various activities under Cabinet Office. Out of the total provisions, K65,382,102,974 and K30,285,352,750 were released by the Ministry of Finance and National Planning in 2003 and 2004, respectively.

An examination of records for the financial years 2003 and 2004 revealed the following:

(a) ***Misappropriation of Funds***

In May 2004, an amount of K322,534,864 (US\$66,290) was paid to an Accountant at Cabinet Office, who was the imprest holder for a Presidential trip to Malawi which was later cancelled. However, it was noted from records made available that the Accountant misappropriated the money and the matter was before the courts of law.

(b) ***Unvouched Expenditure***

During the period January 2003 to December 2004 there were eighteen payment vouchers in amounts totalling K3,023,286,970 which were missing and seven payments amounting to K244,477,000 which were not supported by relevant documents.

(c) ***Purchase of Goods***

There were no receipt and disposal details for stores items costing K260,494,454 purchased between January 2003 and December 2004 contrary to Public Stores Regulation No. 16 making it not possible to establish how the items were accounted for.

(d) ***Independence Celebrations***

A review of the expenditure records relating to independence celebrations for 2003 and 2004 revealed that:

- (i) although a total amount of K772, 985,000 was disbursed to the provinces in September 2003, for independence celebrations no expenditure returns were submitted to Cabinet Office as of March 2005 to account for the money; and
- (ii) an amount of K65, 800,000 was paid in October 2003 to an officer for payment of allowances to officers who were involved in the preparations for the 39th Independence Anniversary. It was noted however that the payees did not sign for the money making it not possible to ascertain whether the amounts were paid to the rightful payees; and
- (iii) there were no receipt and disposal details in respect of assorted stores items worth K63,652,975 purchased in 2003 for independence celebrations had no receipt and disposal details contrary to Public Stores Regulation No. 16.

Submission by the Controlling Officer

a) *Misappropriation of Funds*

A Senior Accountant from Cabinet Office was paid an amount of K322,534,864 (\$66,290) in May 2004 by the Ministry of Finance and National Planning as accountable imprest for the Presidential Delegation to Malawi. However, when the trip was cancelled the officer failed to return the money to Ministry of Finance and National Planning. It took several months for Cabinet Office to know that the Officer had not retired the imprest as this was under the charge of Ministry of Finance and National Planning. It was Cabinet Office that had been instrumental in resolving the matter.

The matter was reported to the Drug Enforcement Commission and it was currently in the courts of law.

b) *Unvouched Expenditure*

Out of eighteen payment vouchers that were missing in the box files, fourteen of them amounting to K2,819,853,971 had been found and ready for verification.

The office was looking for the remaining four payments vouchers amounting to K203,432,999. Out of the nine payments without supporting documents, only seven payments had their supporting documents found amounting to K197,477,000 the documents are available for verification.

The office was also looking for the remaining supporting documents for two payments vouchers amounting to K47,000,000.

c) *Purchase of Goods*

They had traced receipts and disposal details for stores items costing K114,132,000 and were available for verification.

The office was looking for the remaining receipts and disposal details for store items costing K146,362,454.

d) *Independence Day Celebrations*

i) They had received the expenditure returns from Copperbelt, North-Western, Lusaka, Northern, Eastern and Western Provinces amounting to K475,000,000 and were waiting for the submissions from Luapula Province, Ministry of Agriculture, Community Development and Ministry of Information and Broadcasting Services amounting to K274,095,500. The documents were available for verification.

ii) The acquittal sheet for allowance amounting to K65,800,000 was submitted to the Auditor-General's Office for verification.

iii) The office was looking for the receipt and disposal details in respect of assorted stores items worth K63,652,975 which were purchased in 2003 for Independence celebrations.

When asked how long government institutions were allowed to submit returns, the Controlling Officer replied that institutions were expected to file returns within a fortnight or so.

However, the Permanent Secretary at Cabinet Office did not have much power over the returns as provinces also had Controlling Officers who were supposed to ensure that the funds were accounted for.

Committee's Observations and Recommendations

Your Committee observe and recommend the following:

a) *Misappropriation of Funds (\$66,290)*

They will await updates on the case. Because of poor record keeping at Cabinet Office, they advise the Controlling to put in place an improved computerised system of record keeping considering the amount of work they handle. For accounting documents, the Office can acquire scanners and dedicate some computers to store the information.

b) *Unvouched Expenditure*

The Controlling Officer should report progress on the four payments vouchers worth K203,432,999 and the supporting documents for payment vouchers valued at K47,000,000.

c) *Purchase of Goods*

Progress should be reported on the remaining receipt and disposal details for stores items costing K146,262,454.

d) *Independence Celebrations*

They should be updated on the remaining returns amounting to K274,095,500 and on the receipt and disposal details for stores worth K63,652,975.

They further advise the Controlling Officer to liaise with the Secretary to the Treasury on what action to take against provinces and ministries that do not submit expenditure returns. They will await progress on the matter.

They resolve to close the matter on the K65,800,000 worth of unretired imprest subject to verification of the acquittal sheets.

**Head: 08/01 Cabinet Office – Headquarters
Human Resources and Administration**

Review of the Operations of the Task Force on Corruption (TFC) – Paragraph 23

25. It was reported that in July 2002, government set up the Task Force on Corruption (TFC) in accordance with Part IV, Article 61 of the Constitution. The specific terms of reference for the TFC were:

- (a) to collect, evaluate, process and investigate all suspected criminal conduct relating to serious mismanagement of public resources including acts of corruption, theft, abuse of office and money laundering committed by public officials during the ten years from 1992;
- (b) to order and facilitate forensic audit of accounts of suspected persons, body or persons and departments of government upon receipt by the TFC of information on suspicious transactions relating to the period under review;
- (c) to prosecute all persons reasonably suspected of having committed offences relating to serious mismanagement of public resources including corruption, abuse of office, theft and money laundering;
- (d) to initiate and facilitate forfeiture proceedings within and outside Zambia in respect of any property reasonably suspected by the TFC to have been directly or indirectly acquired through illegal acts or transactions in respect of public resources;
- (e) to liaise with other authorities outside Zambia on matters relevant to the gathering of intelligence information, investigation and prosecution of suspected persons;
- (f) to make recommendations to the President and other relevant authorities on measures required to prevent future acts of corruption and mismanagement of public resources; and
- (g) to carry out any other duties as may be assigned to the TFC by competent authorities from time to time.

The TFC commenced operations in July 2002.

At the time of inception in July 2002, the management structure comprised heads of the following security and other wings of government:

- (a) Anti-Corruption Commission (ACC);
- (b) Office of the President- Special Division (OP-SD);
- (c) Zambia Police Service (ZP);
- (d) Drug Enforcement Commission (DEC); and
- (e) Director of Public Prosecutions (DPP).

The chairmanship of the TFC revolved around the five heads until January 2003 when Government created the Office of Executive Chairman in accordance with the provisions of Part IV, Article 61 of the Constitution of Zambia and an Executive Chairman was appointed.

The terms of reference for the Executive Chairman were to co-ordinate the operations of the joint effort of the ZP, ACC, DEC and the Zambia Intelligence Security Services (ZISS) and to investigate and present to the DPP, acts of plunder of the national resources during the period 1992 to 2002.

An examination of records maintained at Cabinet Office and TFC carried out in May 2005 revealed the following:

(a) ***Budgetary Provision and Funding***

There were no specific budgetary provisions for the TFC during the financial years 2002 to 2004. However, during the period 2002 to March 2003 TFC was being funded through the Ministry of Home Affairs and thereafter it was being funded through Cabinet Office.

In 2005, a budget line was introduced for the TFC under Cabinet Office and a provision of K4,553,571,366 was made.

During the period 2002 to 2005, TFC also received funding from Cooperating Partners though this was not reflected in the budgetary provisions. In this regard, the TFC received funding totalling K29,379,908,157 as detailed below:

Source	Amount K
Co-operating Partners GRZ	19,494,148,872
Bank Interest	9,852,718,384
	<u>33,040,901</u>
Total	<u><u>29,379,908,157</u></u>

Out of the funding of K29,379,908,157, the TFC spent K28,404,375,990 on its operations from its inception to 31 May 2005.

(b) ***Bank Accounts***

The TFC maintained three bank accounts; two with a local commercial bank and one with a commercial bank based in the United Kingdom (UK).

The account in the UK was used to deposit donations from International Cooperating Partners for the TFC activities. On instructions from the TFC management, the money was released to the TFC operations account maintained at the local bank.

(c) ***Unconstitutional Expenditure***

Although TFC spent a total amount of K7,664,033,829 for the years 2002 to 2004 from government subventions, parliamentary approval was only given for K7,000,000,000 in the 2005 Budget leaving a balance of K664,033,829. The amount spent without parliamentary approval was unconstitutional expenditure.

(d) ***Weaknesses in Internal Controls and Poor Record Keeping***

In its report dated 1st October 2004, an international accounting and auditing firm engaged by TFC to audit its books expressed concern over the poor state of accounting records. Some of the issues raised in their management letter were as follows:

- (i) the Accounting System of the TFC did not function properly and the accounts were not balanced;

- (ii) there were inadequate supporting documents in respect of expenditure amounting to US\$302,729;
- (iii) there were ineffective controls over cash advances given to employees; and
- (iv) forfeited assets were open to abuse; and key service providers were not clearly bound by contracts with defined prices and deliverables.

It was noted during the audit carried out at TFC in October 2005 that despite the accounting and auditing firm's concerns, internal control weaknesses persisted and the books of account were not properly maintained.

In particular, the following were observed:

- (i) there were twenty four payment vouchers in amounts totalling K496,308,907 that were not produced for audit verification;
- (ii) imprest totalling K193,038,015 involving ten transactions issued during the period May to October 2003 had not been retired as of October 2005;
- (iii) general ledgers were not maintained and cashbooks were incomplete and as a consequence, payments totalling K109,072,934 were not entered in the cashbook;
- (iv) goods Received Notes were not raised in respect of stores items costing K399,525,477 purchased during the period;
- (v) a total amount of US\$369,822 was paid to an international law firm apparently for legal fees; it was however, not possible to ascertain what the firm was engaged to do because TFC management failed to produce the contract document for audit scrutiny; and
- (vi) no motor vehicle registers, history books, log books were maintained; it was therefore, not possible to verify the actual number of motor vehicles owned by the TFC.

(e) ***Engagement of Consultants***

- (i) Prior to the formation of TFC, MoFNP engaged an international accounting and auditing firm to investigate callable guarantees and other payments. When TFC was formed, it also commenced investigations similar to those MoFNP was doing and in this regard engaged a local consulting firm to do the work. It was noted, however, that an individual, who was profiled as a consultant on the local consulting firm's team, was an ex-employee of the international accounting and auditing firm that was engaged by MoFNP.

A scrutiny of three bills rendered by the local consulting firm revealed that although time sheets were attached to two of these bills, the time sheets were a mere summary of total days billed and did not indicate activities on which time was actually spent by the consulting firm's staff. Further, scrutiny of two of these bills 03/2003 and 04/2003 for the periods 14 November 2002 to 31 December 2002 and January 2003 rendered by the

consulting firm on 12 February 2003, revealed that billings attributable to the said individual's work totalled US\$15,120.

Since this work had already been paid for under the earlier contract between the international accounting and auditing firm and MoFNP, this US\$15,120 expenditure was, therefore, avoidable.

- (ii) In August 2003, TFC employed an individual as its Director Operations, Finance & Administration. An examination of records at TFC and enquiries made at a local consulting firm which was doing some work for TFC revealed that the individual was at one time employed at the said local consulting firm before joining the TFC, thereby causing a conflict of interest as the consulting firm was doing work for TFC.

(f) ***Non Adherence to Tender Procedures***

- (i) In May 2003, Government signed a consultancy agreement with a foreign Company based in Europe, under which the Company was to provide forensic services to the TFC. The agreement was to last for a minimum of four calendar months and thereafter, it was to continue under the same terms and conditions unless either party terminated it by mutual agreement or by giving a month's notice.

Under the agreement, the Company was to be paid a monthly fee of US\$90,000. It was however observed that effective December 2003, the monthly fee was revised to US\$150,000 without recourse to the Zambia National Tender Board (ZNTB). As of November 2005, a total amount of US\$2,405,000 had been paid to the company

- (ii) In April 2004, TFC engaged the services of a foreign law firm to represent it in a court case in the UK. The agreement provided that the Firm's fees for legal services rendered would be based on the UK ruling hourly rates for attorneys, paralegal and non-legal professionals and staff assigned by the firm to TFC matters. Such fees ranged from £350 to £450 per hour for Partners and from £150 to £250 per hour for assistant solicitors. In addition, certain costs and expenses incurred by the firm on behalf of the TFC were to be billed to the TFC and included in the monthly bills.

However, it was observed that the firm was engaged without recourse to the Attorney General and approval of the ZNTB. As of October 2005, the Firm had been paid a total amount of US\$1,575,096.

- (iii) In 2002, Government engaged a local firm as public prosecutor to prosecute all cases of suspected plunder of national resources where prima facie cases were established and advised by the Director of Public Prosecutions.

A scrutiny of the contract documents signed and inquiries made revealed that the parties to the contract did not indicate the date of signing of the contract. It was also noted that, contrary to Government procedures which mandated the Attorney-General to negotiate and provide legal advice regarding contracts, on behalf of Government, the Director of Public Prosecutions negotiated and signed this contract, whose contract value was not capped, on behalf of Government.

It was noted that because of unfavourable terms in the agreement and the fact that the DPP negotiated and signed the contract on behalf of Government, the mandate of

which the DPP did not have, the Minister of Justice and Attorney-General cancelled the contract in May 2003 and prepared a new agreement.

However, at the time of cancelling the contract, the local firm was claiming a total amount of US\$239,020 which was subsequently paid.

(g) ***Recoveries Account***

Government opened three bank accounts at the Bank of Zambia, namely; the Kwacha, Dollar and Pounds Sterling Accounts into which all recoveries from suspected plundered cash were to be deposited. According to the accounting instructions, Financial Regulations No.109, government revenue cannot be utilised for any purpose whatsoever without Parliamentary approval. As of August 2005, the accounts had the following balances; Kwacha Account – K525,259,730, Pound Sterling Account - £0.00 and Dollar Account – US\$1,082,971.

However, it was observed that contrary to the Financial Regulation above, in July 2004, a total amount of US\$763,560 was paid out of the Dollar account to meet fees for various consultants.

(h) ***Forfeited Motor Vehicles***

A review of records at the TFC revealed that twenty (20) motor vehicles valued at K1,190,500,000, were recovered, gazetted and forfeited to the Government.

A physical inspection of the motor vehicles carried out in September 2005 revealed the following:

- (i) there were seven (7) seized motor vehicles that were being used by TFC in their operations;
- (ii) of the seven vehicles, one, a BMW 320i was involved in a road traffic accident and was damaged beyond repair, however, no police and loss reports had been processed;
- (iii) another vehicle, a Toyota Camry had its engine dismantled and placed in the boot; and
- (iv) the motor vehicles have been subjected to unfavourable weather conditions for prolonged periods resulting in accelerated wear and tear.

(i) ***Forfeited Aircraft (9Q-CNN)***

The aircraft valued at US\$800,000 was located at the Lusaka International Airport. However, at the time of audit it was not possible to ascertain as to whether it was air worthy.

(j) ***Forfeited Real Estates***

During the period July 2002 to May 2005, the TFC had repossessed and advertised in the Government Gazette a total of thirty six (36) properties throughout the country. The properties included twenty three (23) properties which had been valued at K18,770,000,000 and for which the forfeiture process had been concluded and thirteen (13) properties which had not been valued but for which forfeiture was in the process. Of the twenty three (23) properties forfeited, sixteen (16) properties valued at K16,270,000,000 had titles transferred to the State while

ownership process had not been completed in respect of seven (7) properties valued at K2,500,000,000.

Submission by the Controlling Officer

The Controlling Officer in his preamble stated that when the Task Force on Corruption (TFC) was being set-up, the alleged plunders got wind of the development and started moving funds as well as tampering with records to derail investigations. Investigators, therefore, had to begin work much earlier to counter the development. Support structures were put in place at a later stage and naturally, there were procedures that were not followed. These were teething problems and had to a large extent been addressed.

a) *Unconstitutional Expenditure*

The Task Force on Corruption (TFC) was created on an adhoc basis in 2002 by decree of the President. Ministry of Finance and National Planning funds institutions created on adhoc basis using funds budgeted under contingency. From 2002 to April 2003, TFC was a unit under the Ministry of Home Affairs. It was, therefore, budgeted for under Ministry of Home Affairs (DEC). From May 2003, the management of Task Force on Corruption was moved to Cabinet Office and was budgeted for under general administration.

During the Financial Years 2003 and 2004, Head 08/01 being Cabinet Office Headquarters did not incur any unconstitutional expenditure as per Financial Reports for 2003 and 2004.

Ministry of Home Affairs received funding for the TFC amounting to K1,267,886,251.62 from August 2002 to December 2002. The auditors did not take this funding into consideration. Therefore, there was no unconstitutional expenditure because the expenditure of K664,033,829 was covered under Home Affairs funding.

b) *Weakness in Internal Controls and Poor Record-Keeping*

i) *Task Force on Corruption Accounting System*

TFC books of accounts had now been computerised and the draft trial balance and draft financial statements were available and had been given to the Auditor-General. TFC had since employed a Project Coordinator who was a qualified accountant. It was hoped that with her coming on board, record keeping would improve to acceptable standards.

ii) *Inadequate supporting documents in respect of expenditure amounting to US\$302,729.00*

Some of the original invoices were now available for verification. Some of the amounts were paid in US Dollar while some were paid in Kwacha. The auditors, however, translated the ones paid in Kwacha into US Dollar. The situation had slightly improved in terms of record keeping.

iii) *Ineffective controls over cash advances given to employees*

TFC had now put in place control measures over cash advances given to employees. All officers at TFC were given codes and as they were given advances, the amounts were entered in the system using the codes and the amount owed by each employee could easily be retrieved from the system. This was possible because of the accounting package which had now been installed at TFC.

iv) *Forfeited assets were open to abuse*

At inception, there were not enough vehicles for operations. Permission was sought from Cabinet Office to use the forfeited vehicles until such a time that vehicles were procured for TFC. The forfeited vehicles had since been surrendered to Cabinet Office for disposal and the Government had started the disposal process of these assets following the appointment of an auctioneer. The first sale took place on 3rd March 2006.

Public prosecutors from outside Lusaka had been accommodated in one of the forfeited houses to cut down on rental costs and also to provide security to the property. Once Cabinet Office was ready to dispose of the house, the officers would vacate it.

v) *Service providers not clearly bound by contracts with defined prices and deliverables*

Cabinet Office where expertise on procurement existed was now handling all procurement matters for TFC.

vi) *Payment vouchers totalling ZMK496,308,907.00 not produced for audit verification*

Most of these vouchers were now available for inspection.

vii) *Imprest totalling ZMK193,038,015 involving ten (10) transactions not retired*

Most of the above amount had since been retired.

viii) *General ledgers were not maintained and cashbooks were incomplete*

The books of accounts had since been reconstructed and had been verified by the Auditor-General.

ix) *Goods received notes not raised in respect of stores items costing ZMK399,525,477.00.*

Management had put in place measures to ensure compliance with stores regulations.

x) *Contract document not produced for audit scrutiny*

Towards the end of December 2003, lawyers representing one of the companies under investigation in the United Kingdom attempted to move files from London to Zambia, a move designed to destroy evidence in the ZAMTROP and other cases

under investigation by the TFC. TFC engaged the foreign law firm to block the removal of the files from the United Kingdom. These files had remained a subject of court action to date as the files were placed under the custody of an independent firm of solicitors in the United Kingdom. It was on the basis of this that the participating donors were approached to fund the legal costs as an emergency/crisis measure. This action prompted the unexpected early engagement of United Kingdom lawyers resulting in an unanticipated legal expenditure outside the budget and over-looking other contractual arrangements / processes.

xi) History books, log books for motor vehicles not maintained

TFC management had since written to Ministry of Works and Supply to second a Transport Officer to manage the TFC fleet. As a temporal measure, an acting Transport Officer had been appointed and log books were now in place.

e) *Engagement of Consultants*

- i) Task Force on Corruption had no contract with the individual consultant. The contract TFC had was with the local consulting firm who in turn sub-contracted consultants of their own choice.
- ii) There was no apparent conflict of interest as the individual had separated from the local consulting firm where he was hired as a consultant prior to being hired by the Government.

f) *Non-Adherence to Tender Procedures*

- i) The basis for the adjustment arose from the accounting firm's mismanagement of the initial investigations that resulted into the dissipation of assets. Under a contract concluded in September signed by the Secretary to the Treasury, DPP and ACC - Director of Operations, the accounting firm wrote letters to foreign banks advising them about the investigations of the named accounts instead of freezing those accounts. The negative multiplier effect of this action created additional problems for the TFC and put extra responsibility on the foreign legal firm in the recovery effort as funds in various bank accounts were dissipated in accounts under investigation. It was on this basis that the monthly advances were increased to US\$150,000.00. It was an oversight for management not to seek tender authority before increasing the fees to US\$150,000.00. Management was, however, addressing the issue in consultation with the Attorney-General's Office.

During his appearance before your Committee, the Controlling Officer submitted that the Task Force on Corruption ceased paying the company in March 2005.

In a later submission through the Auditor-General, your Committee learnt that the contract with the foreign legal firm had raised problems for the TFC in that it was claiming a fee of US\$150,000 from the Government to be paid monthly. But because the TFC had disputed both the continued validity of the contract and the revised fees of US\$150,000, the firm had informed the TFC that it had confiscated a sum of US\$2.1 million as lien.

Your Committee observed that under the contract terms the company was to have been paid about US\$210,000 a percentage (10%) of recoveries, however,

US\$2,405,000 was paid. The Controlling Officer in reply stated that the recovery figure could go up as investigations were ongoing. In addition, recovery should not be confined to cash but also on the value of information that led to the recovery of properties. The whole idea was to uphold the principle that Public Service workers are not allowed to misuse public resources or use their offices for personal gain.

- ii) The signing of the Engagement Letter by the Executive Chairman was on the express authority of the Minister of Justice and Attorney General following the consultations made with the Ministry. It was an oversight for management not to seek tender authority before engaging the lawyers. Management was, however, addressing the issue in consultation with the Attorney-General's Office.

The chargeable rates were based on standard cost to a client as authorised by the British Law Society Guidelines. They were, therefore, beyond the influence of the Task Force or Ministry of Justice in Zambia.

- iii) The decision on the local law firm's fixed rate was arrived at after a series of negotiations following negative publicity over their bills tendered to government. They had since requested the DPP's Chambers to shed light on the same should need arise.

The local law firm was first engaged by the Director-General of the Anti Corruption Commission and gazetted by the DPP on 4th January 2002 long before the Task force on Corruption was conceived.

g) *Recoveries Account*

The amounts paid were overdue and were the result of unanticipated legal expenses. At that time, the participating donors were not in a position to fund the Task Force on Corruption. Since the donors knew of the recovery of US\$1 million, they suggested that the Government should settle the arrears highlighted above as their funding would be delayed. It was on this basis that approaches were made to the Ministry of Finance and National Planning. Donors also viewed payment of these bills as part of Government's commitment to the crusade against corruption.

On the basis of the above, the matter was referred to the Ministry of Finance and National Planning who authorised application of these funds as requested on a one-off basis. This was a matter, which was finally handled by the Ministry of Finance and National Planning and the Bank of Zambia. No other payment had since been made from these one-way deposit accounts.

h) *Forfeited Motor Vehicles*

- i) *Seven (7) seized motor vehicles used by Task Force on Corruption*

At the inception of Task Force on Corruption, there were not enough vehicles for operation. Permission was sought from Cabinet Office to use the forfeited vehicles until such a time that vehicles were procured for the Task Force on Corruption. The forfeited vehicles had since been surrendered to Cabinet Office for disposal and the disposal process of these assets had begun following the appointment of a private auctioneer. The first sale took place on 3rd March 2006.

ii) *Police and Loss Report on a BMW 320i*

The Police Report was available. The loss report was being processed.

iii) *Dismantled engine for Toyota Camry*

At the time of the audit inspection, the vehicle was under repair. The vehicle had since been listed for auction.

iv) *Motor vehicles subjected to unfavourable weather conditions*

There was inadequate parking space at Cabinet Office for the vehicles. These vehicles were now being auctioned.

(k) *i) Forfeited Aircraft (9Q-CNN)*

The aircraft was one of the assets listed for disposal and the value indicated above was being treated as the reserve price. The Ministry of Communications and Transport was handling the auction.

j) *Forfeited Real Estates*

The process of transferring of titles for the rest of the properties to GRZ was in progress.

Committee's Observations and Recommendations

Your Committee observe and recommend as follows:

i) *Unconstitutional Expenditure*

The matter should close.

ii) *Weaknesses in Internal Controls and Poor Record Keeping*

Matters on the accounting system, controls on cash advances and abuse of forfeited assets should close subject to verification.

They, however, will await progress on the supporting documents in respect of the expenditure worth US\$302,792.

On the other queries, they recommended as follows:

- a) the Controlling Officer should report progress on the following:
 - remaining payment vouchers for the K496,308,907
 - remaining imprest retirement details for the K193,036,015;
- b) the matter on general ledgers not being maintained should close;
- c) the matter on goods received notes for stores worth K359,525,477 should close subject to verification;

- d) the matter on the contract document should close subject to verification of the same; and
- e) the matter on history and log books for motor vehicles should close subject to verification.

iii) *Engagement of Consultants*

The matter on engagement of consultants should close.

iv) *Non Adherence to Tender Procedures*

Your Committee express disappointment on the failure by the Task Force on Corruption not to follow tender procedures especially that high levels of compliance are expected from them. They call for disciplinary action to be taken against the erring officers.

They strongly urge the Controlling Officer not to advance any more funds to the named foreign consulting firm that had already been paid US\$2,405,000. They would await progress on the normalisation of the contractual arrangements with all foreign-based firms. They will await further progress on the case in which the foreign-based firm has confiscated US\$2.1 million.

Your Committee observe that matters of the Task Force on Corruption will continue to be a problem under its current legal set-up. The queried contracts as well as the outflow of money makes one conclude that the purpose for which it was established may not be achieved.

v) *Recoveries Account*

The matter should close subject to verification of the authorisation.

vi) *Forfeited Vehicles*

The Controlling Officer should report progress on the auction of motor vehicles. Included in the report should be the auction proceed figures.

They further call on him to process the loss report for the BMW as soon as possible and to update your Committee on the insurance of the vehicle.

vii) *Forfeited Aircraft (9Q-CNN)*

The Controlling Officer should expedite the disposal of the aircraft and report progress.

viii) *Forfeited Real Estate*

The Controlling Officer should report progress on the transfer of title to the State on the remaining seven (7) properties valued at K2,500,000,000. Your Committee further request him to ensure that the forfeited properties are secured to avoid being vandalised.

AUDIT QUERY

PARAGRAPHS 24 – 26

Head: 17/01 Ministry of Foreign Affairs – Headquarters
Unit: 01 Human Resources and Administration

Weaknesses in procurement of Goods and Services and other Irregularities – Paragraph 24

26. An examination of financial, accounting and stores records at Ministry headquarters revealed that:

(a) *Installation of Local Area Network and Internet Services*

In October 2001, the Ministry made an advance payment of US\$10,000 (K38,000,000) which was 50.6 percent of the quoted price of US\$19,723 (K74,946,450) to a local supplier for the installation of a Local Area Network (LAN) and internet services at the Ministry.

According to correspondence made available, the payment was in respect of an agreement entered into between the Ministry, ZAMNET and UNZA Computer Centre in 2001. The terms of the agreement could not be ascertained, as the contract was not made available for audit scrutiny.

However, as of May 2005, no work had been done by the supplier at the Ministry and no refund had been received.

(b) *Repair of Motor Vehicles*

There were five (5) Motor vehicles, which had been parked at various garages for periods ranging from one (1) to two (2) years. Out of the five (5) vehicles, two (2) were repaired at a total cost of K39 million but had not been collected while the other three (3) were not repaired as of May 2005.

(c) *Unretired Imprest*

Contrary to Financial Regulation No.186, imprest in amounts totalling K357,067,970 involving twenty three (23) transactions during the years 2003 and 2004 had not been retired as of June 2005.

(d) *Failure to Maintain Store Records*

There were no receipt and disposal details in respect of stores items costing K127,084,703 ordered and paid for during the period contrary to Public Stores Regulation No. 16.

Submission by the Controlling Officer

In response, the Controlling Officer submitted as set out hereunder:

a) *Installation of Local Area Network and Internet Services*

It was correct that the Ministry made an advance payment of US\$10,000.00 (K38,000,000.00) to the University of Zambia Computer Centre for the installation of a Local Area Network (LAN) and internet services at the Ministry headquarters of which no work had been done and a refund had not been made.

Despite several efforts by the Ministry to get a refund, the latest being in February 2006 the University of Zambia had not refunded the money. The Ministry was however, following up the matter with the University who had made an undertaking to make a refund. The Ministry was further considering requesting the Ministry of Finance and National Planning through the Ministry of Education to intervene with the view to recover this money from UNZA grants.

In a later submission, the Controlling Officer informed your Committee that the Ministry had installed Internet services in 2002 at a cost of K219, 816,613.

b) *Repair of Motor Vehicles*

The status of the five (5) vehicles that were parked at various garages was as follows:

Garage	Motor Vehicle Make	Reg No.	Duration of Stay	Status / Remarks
Good day Motors	Kia Sportage	GRZ 483 BM	2 years	Vehicle retrieved to be boarded
Good day Motors	Toyota Corolla	GRZ 415 BM	1½ years	Vehicle retrieved and running
Motor Centre	Toyota Corolla	GRZ 416 BM	1.3 years	Vehicle repaired and running
Jabu Motors	Mitsubishi Rosa	GRZ 858 BG	2 years	Vehicle repaired and running
Meera Auto	Mercedez Benz	GRZ 754 BM	2 years	Vehicle repaired and running

c) *Unretired Imprest*

Your Committee were informed that as of February 2006, a total of K282,680.000 had been retired.

For the remaining balance of K58,165,000, the Ministry had sent reminders to the affected officers and recoveries would be instituted with effect from April 2006.

Your Committee were informed that one officer who had K9,922,970 unretired imprest was from the Office of the President (OP) while the other one who had K6,300,000 unretired imprest was from the Ministry of Information and Broadcasting.

The Ministry had written to the respective institutions for the retirement of the amounts.

d) *Failure to Maintain Stores Records*

It was true that in terms of stores, record keeping had not been up to date. This was mainly due to inadequacies in the staffing levels of the Procurement and Supplies Unit (PSU). At inception, there were no records in the stores. The officers who were manning the stores were not trained and lacked the necessary stores skills. The Ministry only managed to employ trained staff after the restructuring exercise in 2003. The new officers had now embarked on an exercise to update the records. The Ministry also decentralised its funding set up and therefore records were strictly kept for each department. This in itself had since

(b) Personal Emoluments

Between September 1997 and July 2003, amounts totalling BF430,660 and K548,336,205 (€91,351) were paid to six (6) officers as advances against overseas allowances. It was however, observed that the amounts had not been recovered as of June 2005. The officers have since been recalled.

(c) Disposal of Unserviceable Stores

There were several unserviceable stores at the Mission, which included, among others, three (3) motor vehicles, office machinery, cutlery, furniture and fittings. Although a Board of Survey was constituted in June 2003 and recommendations made for the disposal of the unserviceable stores, these had not been disposed off as June 2005.

(d) Failure to Settle School Fees

During the period under review, three (3) officers failed to settle school fees totalling K605,774,318 (€100,920) for their children who were attending school at one of the international schools in Brussels, despite being paid education allowances. The officers have since been recalled and the amounts remain unsettled.

Submission by the Controlling Officer

a) Revenue Collections

It was correct that the Mission did not deposit revenue collected in the form of visa fees in Control 99 at Bank of Zambia. However, the amount allocated to the Mission for Recurrent Departmental Charges (RDCs) in 2003 was only K54,434,674 for the whole year. The amount was not adequate to enable the Mission operate which prompted them to utilise K377,293,198 from the revenue collected. The Mission later applied for and was granted a supplementary provision of K847,243,589 for the year to normalise the expenditures.

Since the funds were utilised without the authority of the Treasury, the Ministry Headquarters would start recovering the amount from their monthly releases and remit to Control 99 with effect from March 2006.

In a later submission, the Controlling Officer informed your Committee that revenue collected was no longer misused in missions abroad following directives to open separate revenue accounts. Before any mission could utilise revenue, authority had to be sought from Headquarters.

b) Personal Emoluments

It was true that amounts totalling BF430,660 were paid to six officers as advances against overseas allowances. Although the officers were informed of their outstanding advances some of them paid some amounts to reduce the amounts owing while others did not. The outstanding amounts were BF 287,119.98 and €52,222.99.

c) *Disposal of Unserviceable Stores*

Your Committee were informed that authority to dispose-off the unserviceable stores had been granted, therefore, the disposal of the items referred to would be done as soon as possible.

d) *Failure to Settle School Fees*

The fees referred to pertained to the period when the Government paid the officers education allowance which six (6) officers were supposed to pay in turn to the schools in this case international english schools in Brussels. However, the fees were too high compounded by the depreciation of the US Dollar against the Euro currency in which the fees were quoted. The fees were to be met from their allowances and this resulted in officers failing to pay. However, the Ministry Headquarters had remitted the funds required to settle the school fees in order to maintain a good record with the schools. These amounts would be recovered from their allowances / salaries and terminal benefits for those who had been recalled and retired.

Committee's Observations and Recommendations

a) *Revenue Collections*

Your Committee observe that delays in bringing to account expenditures and revenues collections in missions abroad cause problems in the accounting system. They therefore strongly urge the Controlling Officer to ensure that there is timely reporting of the expenditures and revenue collections.

They further request the Controlling Officer to invite the Auditor-General's Office to verify the expenditures amounting to K377, 293,198 that were later normalised by supplementary provisions as well as the remittances to Control 99.

b) *Personal Emoluments*

Your Committee observe that there are administrative weaknesses in the recovery of advances. They, therefore, urge the Controlling Officer to double her efforts in making recoveries. They further advise that:

- i) for officers who are serving the Government, recoveries should be instituted from their salaries without delay;
- ii) for officers who have either retired or left government but full recoveries were not made, the Ministry should explore other means of making recoveries, if these fail, loss reports should be submitted.
- iii) for advances that involve officers from other ministries or government institutions, intervention of the Ministry of Finance and National Planning should be sought to resolve the matters.

They will await progress on the recoveries.

c) *Disposal of Unserviceable Stores*

Your Committee request the Controlling Officer to expedite the process of disposing-off the items and report progress.

d) *Failure to Settle School Fees*

Your Committee note the submission and resolve to close the matter subject to the Auditor-General's Office confirming that the fees have been settled in full and recoveries from the concerned six (6) officers have commenced.

Head: 17/31 Ministry of Foreign Affairs
Unit: 02 Mission Abroad – Berlin Administration

Irregularities in procurement of Goods and Services and other Accounting Irregularities – Paragraph 26

28. It was reported that during the financial years ended 31st December 2003 and 2004, total provisions of K6,047,685,358 and K6,761,327,895 were made in the Estimates of Revenue and Expenditure for 2003 and 2004 respectively. Out of the total authorised provisions, K4,283,066,116 was released for 2003 and K4,755,587,309 for 2004.

An examination of accounting and other pertinent records revealed the following:

(a) *Overpayment of Overseas Allowances*

According to the regulations, diplomatic staff are supposed to be paid their Foreign Service Allowances in the local currency, which is equivalent to the United State Dollar at a prevailing bank rate.

A scrutiny of records during the period under review revealed that the foreign currency exchange rate used to convert dollars to euro when paying allowances was higher than the bank rate used to convert remitted funds from headquarters. In this regard, embassy staff were overpaid by amounts totalling K202,501,015 (€33,736) and K158,616,131 (€23,671) for the years 2003 and 2004 respectively and no recoveries had been effected as of June 2005.

(b) *Personal Advances*

A total amount of K468,168,547 (€77,995) was paid as personal advances to the former Ambassador during the period March 2002 to November 2003. The former Ambassador was recalled from the Mission in November 2003 and subsequently retired from the Civil Service. It was noted, however, that the advances had not been recovered as of June 2005.

(c) *Purchase of Representation and Utility Vehicles*

According to the Tender Regulations, a Head of Mission abroad is allowed to procure services, goods and works to a value limit of K5,000,000 equivalent or less. Any procurements over and above K5,000,000 must be approved by the Permanent Secretary, Ministry of Foreign Affairs.

It was observed however that contrary to the regulations, in August 2004, the Mission purchased a Mercedes Benz type S 320 CDI Saloon Long from Daimler Chrysler at a purchase price of K403,530,000 (€67,255) and a Ford Galaxy costing K180,119,839 (€30,020) from a car Dealer.

The Mission did not follow laid down regulations in the procurement of the two vehicles.

(c) ***Property Management***

(i) *Chancery: 13158 Berlin, Strasse Vor Schonholz 23.*

In July 1999, the Mission entered into an agreement for the purchase of a four (4) storey building for use as the Zambian chancery in Berlin at a contract price of K20,425,234,596 (DM7,350,000) which was paid in January 2000.

A review of records at the Mission revealed that although the Ministry of Works and Supply in their report of March 1999 stated that the building was structurally sound and suitable for use as a chancery, and was offered on a turn key basis, the Mission however, engaged a contractor at a cost of K7,765,340,074 (€1,293,680) to renovate the chancery in July 1999. Another contract was entered into with the same contractor in August 2001, at an additional contract amount of K3,363,091,906 (€560,280) bringing the total contract sum to K11,128,431,979 (€1,853,960). The works included a new construction/extension building with linking structure.

As of February 2005, the contractor had been paid a total amount of K12,420,304,501 (€1,930,123) comprising renovation works K8,735,592,611 (€1,337,378), penalties K535,601,096 (€81,998) and water damage & rent of containers K597,588,637 (€91,488). The total payment was K497,484,898 (€79,163) in excess of the contract sum.

A physical inspection of the chancery conducted in June 2005 revealed that the works had not been completed and the building was not in use. The Mission is currently operating from a rented property.

(ii) *Ambassador's Residence: 33/35 Majakowekiring, 13156 Berlin, Pankow.*

In February 2000, the Mission acquired a property for use as the ambassador's residence at a total cost of K10,421,038,059 (€1,736,111).

A review of a report dated August 1999 by Ministry of Works and Supply revealed that at the time of acquisition, the building required minor renovations such as painting. However, in August 2001, the Mission engaged a contractor to carry out works which included reconstruction of the garage, redevelopment of the yard and repairing the swimming pool at a contract sum of K2,889,937,264 (€385,288) In this regard, the contractor was paid a total amount of K1,013,416,976 (€168,832) between February 2001 and July 2003.

It was not clear as to why the Mission engaged the contractor to undertake construction works instead of minor works as recommended by the Ministry of Works and Supply.

(iii) *Engagement of Consultants*

In July 2004, the Mission engaged two consultants and paid them a total sum of K33,049,491 (€5,060) for attending meetings on the renovation works of the Chancery without the authority of the Permanent Secretary at the Ministry of Foreign Affairs.

Further, enquiries made at the Mission in June 2005 as to what services the two consultants rendered proved futile as no records were made available making it not possible to ascertain the purpose of the payment.

Submission by the Controlling Officer

a) *Overpayment of Overseas Allowances*

The Controlling Officer submitted that following the discovery, a directive was given to the Head of Mission to institute recoveries from all members of staff who were affected within a reasonable period.

However, the recoveries had not yet been made to the affected members of staff and a reminder had been sent to the Ambassador to furnish her with a progress report.

During their tour, your Committee were informed that Mission staff had made no objection to the recoveries. However, they had made a request that deductions should be effected from their salaries and not living allowances. The deduction from the Ambassador would be through his allowances.

The officers were, however, uncomfortable with the deductions especially that the anomaly in the exchange rate was internally discovered and had hoped that the overpayment would be written-off because:

- a) officers felt victimised because other officers involved had already left the Mission and worse still others had left government service;*
- b) the practice appeared to exist in other missions as well which operated in high cost countries like Japan, Belgium, Switzerland and the United Kingdom;*
- c) the visiting audit teams had nothing to do with the reporting of the anomaly because it was the Ambassador who brought it to the attention of the Controlling Officer.*

The Ambassador further stated that the manner in which the matter was reported was misleading as it appeared as though there was deliberate fraud on the part of those who were running the Mission.

b) *Personal Advances*

The debt owing to Government was brought to the attention of the former Ambassador.

However, the former Ambassador had not yet been paid his gratuity to date. The Ministry had requested the Ministry of Finance and National Planning to recover the amount owing to Government from his second contract, which was under consideration by the Public Service Commission. Due to the amount owing, the Ministry of Finance and National Planning had not yet paid him for the first contract as well.

c) **Purchase of Representational and Utility Vehicles**

The Controlling Officer submitted that the Ambassador was admonished and advised to follow tender procedures in future. The Ministerial Tender Committee took note of the irregularity.

During your Committee's tour of the Mission, the Ambassador agreed that the Mission did not follow tender procedures when procuring the vehicles. This was because, there were delays in getting authority from Lusaka and the old vehicles were expensive to maintain.

d) **Property Management**

i) *Chancery: 13158 Berlin, Strasse Von Schonholz 23*

The Controlling Officer agreed that the Mission engaged a contractor at a total cost of €1,853,960 (ZMK 11,128,431,979) engaged as follows:

Contract	Date	Euro	ZMK
Initial Contract	July 1999	1,293,680	7,765,340,074
Second Contract	August 2000	<u>560,280</u>	<u>3,363,091,906</u>
Total		<u>1,853,960</u>	<u>11,128,431,979</u>

Your Committee were informed that the total amount that was paid to the contractor as of February 2005 was Euro 1,930,123 as stated in the report broken down as follows:

	Euro
1. Construction Works	1,756,637
2. Penalties for delayed payments	81,998
3. Damage to building by water and Renting of container	<u>91,488</u>
Total	<u>1,930,123</u>

The total amount paid indicated as if the contractor was overpaid by €76,163 against the contract sum of € 1,853,960 when in actual fact he was paid € 1,756,637 for construction works.

Your Committee were informed that the works did not include a new construction /extension building with linking structure. The building had no plan for any extensions.

During their tour, your Committee observed that the twenty-seven room building was not in a habitable state and required additional resources to complete the renovations. The only part that was complete was the heating system. Remaining works included painting, electrical fittings, windows, plastering and flooring.

In the attic, some of the timber that was fitted had developed cracks.

Your Committee also observed that there was no new construction or extension of the building.

The Ambassador in his brief to your Committee stated that although the Audit Report indicated that the building was structurally sound and suitable for use as a chancery at the time of purchase, they were of the opinion that the building needed major renovations.

Although there were no construction works being undertaken, the Mission was still incurring heating, electricity, security and water bills. In light of this, the Ambassador suggested that the Government should either source €1.5 million to complete the remaining renovation works or sell the building in its current state.

If the building was complete, there was the question of how to optimally utilise it as it had more room than required by the Mission. This was further complicated by the fact that that renting-out part of the Building would require substantial amounts to modify it. The property was insured at €4.2 million because it was incomplete. Title deeds to the property were available

ii) *Ambassador's Residence: 33/35 Majakowekiring 13156 Berlin, Pankow*

The works were undertaken according to the recommendations by the Ministry of Works and Supply. The mistake was made on the payment voucher description that mentioned reconstruction when in fact it was minor works. The Mission had acknowledged this anomaly and would endeavour to make correct narrations.

During the tour of the Residence, your Committee observed that it was recently renovated, though there were some electrical fittings that were missing such as bulb holders.

Your Committee were informed that the house was last occupied during the pre-World War II period.

The contract to purchase and renovate the house was signed by the Permanent Secretary (BEA). The contractor was not engaged to undertake any construction works but minor works.

Although the swimming pool was renovated, the family was not using it because of the high electricity bills especially that this was a shared-cost between the Government and the Ambassador.

Your Committee noted pipes in the basement that needed insulation as a guard against adverse weather conditions. The pipes were laid side by side with electrical wires, therefore, in case of a pipe burst the electrical wires were likely to be affected. The Ambassador informed your Committee that two African embassies were gutted by fire, which was attributed to electrical faults.

In terms of inventory, the inventory list was maintained. Your Committee noted the unserviceable stores that were in the garage at the Residence awaiting disposal.

On insurance, your Committee were informed that the Residence had adequate insurance cover and the title deeds for the residence were also available.

e) ***Engagement of Consultants***

The engagement of the two consultants was necessitated by the fact that there were problems regarding payments to the contractor and threats of cancelling the contract. There was no officer at the Mission who was knowledgeable with the contract to provide suitable advice.

Consequently as a matter of urgency, the Ambassador engaged the services of a team of two consultants in order to understand the contract regulations in Germany.

As a result, the Mission was able to discover the existence of two contracts; the original contract, which had been terminated by the contractor, and the second contract, a replacement by the contractor, which carried a higher contractual amount than the original.

Through the help of the consultants, the Mission was able to terminate the second contract that was attracting high interest rates arising from non-payment of renovation bills by the Mission. All in all, the work by the two consultants led to decisions that saved the Government a lot more money. The Mission, however, regretted that prior permission to engage consultants was not obtained from the Permanent Secretary due to the exigencies of the situation.

Committee's Observations and Recommendations

Your Committee observe and recommend as follows:

a) ***Overpayment of Overseas Allowances***

The matter should close subject to confirmation of the effected recoveries. However, the Controlling Officer should put in place measures to ensure that all missions do not use inflated exchange rates.

b) ***Personal Advances***

The Controlling Officer should report progress on the recovery of the advances amounting to K468, 168,547 (€77,995) from the former Ambassador.

c) ***Purchase of Representational and Utility Vehicles***

The matter should close subject to the Auditor-General's Office verifying that the transactions were regularised.

d) ***Property Management***

i) ***The Chancery Building***

(i) the matter on the extension / new construction should close;

(ii) the matter on the over payment should close subject to a reconciliation on the figures;

- (iii) the Controlling Officer should ensure that the Chancery Building despite being incomplete in terms of renovations should be adequately insured because a substantial amount has already been spent; and
- (iv) the Ministry should source funds to complete the building considering that the engineers from the Ministry of Works and Supply had indicated that 80% of the works had been done.

ii) *The Residence*

The matter on the construction works should close.

e) *Engagement of Consultants*

The matter should close subject to the Auditor-General's Office verifying that the deal was regularised.

AUDIT QUERY

PARAGRAPH 27

Head:	29/03	Ministry of Local Government and Housing Chalimbana Local Government Training School Department
Unit:	1	Human Resources and Administration
Programme	5	Rehabilitation and Construction of the Institute

29. It was reported that in the Estimates of Revenue and Expenditure for the financial year ended 31st December 2004, a provision of K500 million was made for the rehabilitation of the school infrastructure. The funds were released in full.

In this regard, the Ministry on 13th December 2004 entered into an agreement with a local contractor to do the works at a contract price of K484, 116,272 for a duration of fourteen (14) weeks from the date of signing. The scope of works included extensions of the tutorial block and Library/Resource centre, rehabilitation and renovation of the kitchen, the Principal's residence, the common room and Zambezi, Luangwa, Kafue, Chongwe and Zungulila hostels at Chalimbana Local Government Training School.

An examination of records maintained at the Ministry revealed that as at August 2005, amounts totalling K464, 368,054 had been paid to the contractor between December, 2004 and July 2005 leaving a balance of K19, 748,219.

A visit to the site in October 2005 revealed that works valued at K82,175,800 relating to the Library/Resource Centre, Tutorial Block, Principal's residence, Kitchen, Common room and the five (5) hostels had not been done.

It was further observed that out of the K82,175,800 provided for the works, an amount of K43,750,100 relating to additional works was not provided for in the contract and there was no authority for the variation in the scope of works.

Submission by the Controlling Officer

The Controlling Officer in response submitted as set out below:

- a) It was true that the Ministry of Local Government and Housing received K500,000,000 for rehabilitation and renovation of infrastructure at Chalimbana in the year 2004. This amount was to be utilised as follows:
- i) K484,116,272.13 for civil works; and
 - ii) K15,883,272.87 for tendering.
- b) It was true that the Government through the Ministry paid the contractor Risbel Enterprises an amount of K242,000,000 as advance towards the rehabilitation and renovation of infrastructure at Chalimbana. The amount paid was in accordance with the provisions of the contract.
- Further, the amount was guaranteed by Commercial Leasing Zambia Limited unconditionally and irrevocably on 16th December 2004 for the amount not exceeding K242,000,000.
- c) The variation was inevitable, because in the course of implementation of the project, it was noted that the scope of works required at students' hostels (Zungalila hostel) needed immediate attention. When the contractor attempted to change roofing sheets and ceiling board, it was discovered that the trusses and purlins were completely rotten. The variation was duly authorised by the Ministerial Tender Committee.
- d) Work according to the revised schedule was successfully completed and handed over to the Ministry by the contractor.

Committee's Observations and Recommendations

Your Committee resolve to close the matter subject to verification of the completed works and authority to vary.

AUDIT QUERY

PARAGRAPH 28

**Head: 37/01 Ministry of Finance and National Planning
Human Resources and Administration**

Accounting and other Irregularities

30. It was reported that in Paragraph 30 of the Auditor General's Report for the financial year ended 31st December 2003, mention was made of a number of irregularities at the Ministry of Finance and National Planning. In particular, specific mention was made on the under banking of revenue, unretired imprest, irregularities in the management of motor vehicles, irregular drawings of fuel and construction of the Central Statistical Office block.

A recent review of accounting and stores records for the year ended 31 December 2004 revealed that there was no improvement. In particular the following was noted:

(a) Unretired Imprest

Contrary to Financial Regulation No. 186, imprest amounting to K12,187,058,399 involving three hundred and twenty seven (327) transactions issued during the period under review had not been retired as of November 2005. It was observed further that subsequent imprests

totalling K 1,417,351,506 were issued during the period to ten (10) officers who had not retired the earlier imprest, contrary to Financial Regulation No.180

(b) ***Procurement of Goods and Services***

- (i) There were no receipt and disposal details in respect of stores items costing K164,411,300 purchased during the period contrary to Public Stores Regulation No.16.
- (ii) In December 2004, the Ministry paid a total amount of K132,784,215 to a local supplier for the supply of sixteen (16) and five (5) laser jet printers which were to be delivered within a period of 4-6 weeks from the date of payment.

However as of November 2005, only the sixteen (16) computers costing K102,470,133 had been delivered while the five (5) laser jet printers costing K30, 314,082 had not been delivered.

(c) ***Transport***

A review of transport records at the Ministry Headquarters revealed the following:

(i) ***Loss of Motor Vehicles***

During the period January to October 2004, six (6) motor vehicles were involved in road traffic accidents and a motor vehicle registration number GRZ 503 BP a Toyota Land Cruiser valued at K170,000,000 was stolen on 12th February 2004. However, no loss reports and insurance claims had been processed as of November 2005 contrary to Public Stores Regulation No. 126

(ii) ***Motor Vehicles in garages***

A follow up made on the repairs of motor vehicles revealed that four (4) motor vehicles which were reported in the previous report as having been either repaired but not paid for in full or not repaired at all were being held at the respective garages. In addition, there were six (6) other motor vehicles that were taken to various garages for repair works but had not been repaired as of November 2005. It is likely that the longer the vehicles remain unrepaired in the various garages, the more likely loses will occur through pilferage of spare parts and the Ministry losing track of such vehicles.

It was further noted that in the case of a local garage where GRZ 517 BK was and had been repaired, but the repair costs of K8, 574,647 unpaid, storage charges have since accumulated to K74, 382,000 since January 2003.

(d) ***Outstanding Bills***

According to records obtained from the Ministry, Government institutions owed various suppliers amounts totalling K624, 283,519,571 for goods and services. Out of the amount owed, Government paid a total amount of K48, 050,487,336 in 2004 leaving a balance of K576, 233,032,235.

It was further observed that out of the amount paid, payment vouchers in amounts totalling K14, 634,305,794 lacked supporting documents such as invoices, bills, acquittal sheets while vouchers in amounts totalling K1, 319,112,734 were missing.

Submission by the Controlling Officer

a) *Unretired Imprest*

The Controlling Officer informed your Committee that the figure of K12,187,058,399 reported as unretired imprest by the Auditor-General was not correct and that the correct figure was K11,871,240,108. The difference of K315,818,291 was due to double-counting.

The position was that imprest in the sum of K5,750,278,245 was actually retired and the retirement details were available for audit verification. The unretired imprest amounting to K831,622,595 was being recovered from the officers under the Ministry of Finance and National Planning and the information was available on the payroll, but the remaining amount of K5,289,267.96 was issued to officers under State House on Presidential Affairs Funds. He added that the officers involved were written to and that a follow-up letter had since been written.

b) *Procurement of Goods and Services*

- i) The receipt and disposal details in respect of stores items costing K164,411,300 were available for audit verification.
- ii) The matter concerning the five undelivered laser jet printers costing K30,314,087 was before the courts of law.

c) *Transport*

i) *Loss of Motor Vehicles*

1. *Toyota Camry GRZ 967 BM*

Zambia State Insurance Corporation paid the claim.

2. *Toyota Land Cruiser GRZ 503BP*

This was awaiting payment from Zambia State Insurance Corporation.

3. *Ford Ikon, GRZ 266 BS*

The vehicle was taken to the garage for repairs under insurance and the insurance paid, although the garage claimed that the roof top of the ware house fell on the vehicle.

The matter was reported to police and the loss report was completed.

4. *Toyota Camry, GRZ 236 BP*

The insurance company paid for the vehicle repairs.

5. *GRZ 213 BN*
The vehicle was repaired.

6. *Mitsubishi Van GRZ 666 BJ*
The vehicle was repaired.

ii) Motor Vehicles in Garages

1. *Toyota Land Cruiser GRZ 291 BL*
The vehicle was repaired and released from the garage.

2. *Nissan Blue Bird GRZ 213 BN*
The garage had released the vehicle.

3. *Toyota Corolla GRZ 365 BP*
The vehicle was paid for and would be released as soon as the rear lens were replaced.

4. *Toyota Camry GRZ 167 BL*
The vehicle was paid for and released.

5. *Toyota Prado GRZ 911 BM*
The vehicle was paid for and was released.

6. *Nissan Sentra GRZ 417 BK*
The matter was reported to the police.

7. *Ford Ikon GRZ 266 BS*
The matter was reported to the police.

8. *GRZ 517 BK*
The Ministry did not pay the garage any money. The garage owners were claiming to have repaired the vehicle and wanted payment. An inspection of the vehicle by officers from the Ministry revealed that it was not repaired as per claim. It was at this point that the Ministry reported the matter to the Police to institute investigations. When the Police questioned the garage owner, he started claiming storage charges that were not only exorbitant but also unreasonable.

The Controlling Officer informed your Committee that the relevant documents on the above listed vehicles were available for further audit verifications.

d) Outstanding Bills

On the outstanding debt to local suppliers of goods and services, the Controlling Officer submitted that the amount had reduced to K173,365,319,550.05 in the year 2005. The Office of the Accountant-General was committed to dismantling the debt depending on the availability of funds.

The K14,634,305,794 which was said to have no documents was queried because the payments were part payments and that original supporting documents were attached to the initial payments and were available for further scrutiny.

Your Committee were informed that for the missing payment vouchers in the sum of K1,319,112,734, a search through the box files revealed the following vouchers included as part of the missing vouchers:

1.	Voucher No.	001915 01/06/04	10,000,000.00
2.	“	001948 15/06/04	3,000,000.00
3.	“	001845 09/05/04	9,750,000.00
4.	“	001902 01/06/04	10,000,000.00
5.	“	003542 31/12/04	4,655,000.00

He further explained that the other vouchers included in the query had either wrong reference or cheque numbers that did not match with the actual payment vouchers found. Because of these complications, he was unable to confirm immediately but indicated that efforts were being made to determine as to what happened to the reported missing vouchers and that explanation shall be made available at an appropriate time.

Committee's Observations and Recommendations

a) Unretired Imprest

In noting the submission, your Committee request the Controlling Officer to reconcile the imprest outstanding amounts with the Auditor-General's Office. They further advise the Controlling Officer to quickly resolve the imprest problem with State House otherwise the amount would remain outstanding for a long time under the Ministry of Finance and National Planning. They will await progress on the matter.

b) Procurement of Goods and Services

Your Committee note the response and resolve to close the matter on the receipt and disposal details.

They request the Controlling Officer to report progress on the court case involving the unsupplied five (5) laser jet printers.

c) Transport

i) Loss of Motor Vehicles

Your Committee resolve to close matters on the:

- Toyota Camry GRZ 967 BM;

- Toyota Camry GRZ 236 BP;
- GRZ 213 BN; and
- Mitsubishi GRZ 666 BJ, subject to verification.

They will await updates on the Toyota Landcruiser GRZ 503 BP which was awaiting payment from ZSIC, and the Ford Ikon GRZ 266 BS which matter was under police investigations.

ii) *Motor Vehicles in Garages*

Your Committee resolve to close the matter on the following vehicles subject to verification:

- Nissan Bluebird GRZ 213 BN
- Toyota Camry GRZ 167 BL
- Toyota Prado GRZ 911 BM

They will await progress reports on the Toyota Corolla GRZ 365 BP, Nissan Sentra GRZ 417 BK and GRZ 517 BK.

d) Outstanding Bills

Your Committee resolve to wait for an update on the dismantling of the K403, 867,712,685 that the Government owes various suppliers for goods and services.

They further resolve to close the matter on the vouchers worth K14, 634,305,794 that lacked supporting documents subject to verification.

They, however, will await progress on the K1, 281,707,734 (K1, 319,112,734 less K37, 405,000) worth of missing payment vouchers.

AUDIT QUERY

PARAGRAPH 29 – 30

Head:	46/01	Ministry of Health Human Resource and Administration
Programme:	05	Grants and other payments
Activity	001	Central Board of health

Accounting and other Irregularities – Paragraph 29

31. It was reported that the Central Board of Health (CBoH) was established in 1995 under the *National Health Service Act* of 1995. Its functions are to formulate and implement the policy for the health sector, supervise, advise and monitor the technical performance of all districts and hospital management boards in the country. The board is also responsible for setting up of financial objectives and framework for management boards as well as coordinating the technical capacity of the management board.

A Board of Directors comprising ten (10) members appointed by the Minister of Health managed the Board. The Director General is responsible for the day-to-day technical, administrative and financial activities of the Board.

It was observed, however, that the Minister of Health dissolved the Board of Directors in July 2004 and as of June 2005, the board had not been reconstituted.

An examination of accounting and other records maintained at CBoH revealed the matters set out hereunder:

(a) Double Payments of Salaries

The CBoH had a total staff establishment of two hundred and forty six (246) employees out of which nineteen (19) were medical doctors and nine (9) were from the nursing profession.

It was observed that out of the two hundred and forty six (246) employees, fifty-six (56) had dual employment in that they were employees of both the CBoH and Ministry of Health contrary to the provisions of the Terms and Conditions of service for the Public Service.

It was observed that as of December 2004 the dual employees had been paid a total amount of K3,067,250,709 from CBoH as well as K1,024,169,240 from Ministry of Health.

In view of the above, all Government salaries in amounts totalling K1,024,169,240 paid to seconded officers was irregular and the amounts paid are recoverable.

(b) Unretired Imprest

During the period under review, imprest issued to fifty eight (58) officers, in amounts totalling K971,545,400 had not been retired as of March 2005 contrary to Financial Regulation No.186.

Submission by the Controlling Officer

In reply, the Controlling Officer submitted as follows:

a) Double Payment of Salaries

The Ministry of Health acknowledged that certain staff working under the CBOH were civil servants and were receiving a salary from the civil service and top-up from the Central Board of Health in line with what had been set-up at the Central Board of Health. This had come to be commonly referred to as dual employment.

- As a Ministry, they had taken some measures to address the situation by convening a technical committee in 2001 to look at the feasibility of implementing the delinkage of civil servants from the public service to health management boards.
- The recommendations of the report were never attended to and addressed due to the complexity of the matter.
- The waiting scenario by the affected employees caused more concern because it was assumed that the Government would address the issues raised in the technical report.

The officers affected were critical and core in the health sector. To remove anything from an already demotivated staff would worsen the situation.

The loss of human capital which would be caused by forcing staff to pay back the top-ups was far greater compared to the amount they could pay back. Human capital in the Health Sector was already severely limited.

The intervention to address the problems of delinkage and their implications required several stakeholders. The Ministry of Health alone could not provide a sustainable solution in that the other stakeholders namely Public Service Management Division, Ministry of Justice, Cabinet Office and Ministry of Finance and National Planning had to be involved.

The Ministry of Health seeing that there was no way out, came up with a radical decision to repeal the National Health Services Act of 1995 in its entirety because it had seen that the costs and solutions to address the delinkage process could not be guaranteed by the Government and donors.

In other words, the concerns surrounding dual employees had now been addressed.

It was a considered decision by Ministry of Health that a loss report arising from paying top-ups to employees be seriously considered to avoid a massive brain drain which would further plunge the health services into lack of skilled manpower and therefore capacity to address the disease burden including HIV/AIDS, Malaria, Tuberculosis, Maternal and Child Health which have continued to affect the Zambian population for a long time.

While they appreciated that the Audit Report was correct, the Ministry of Health's response to the crisis had been swift and credit should be given to the team for having resolved an issue, which had almost been forgotten, but growing as a cancer. He, therefore, requested your Committee to pardon the loss to the Ministry of Health.

When asked how the employees would be handled in terms of conditions of service when co-opted into the Public Service, the Controlling Officer informed your Committee that the process was gradual in that all former Central Board of Health (CBOH) staff would have their contracts running and continue receiving their old salaries. However, at the expiry of the contracts, employees would be free to continue employment under Public Service conditions.

b) *Unretired Imprest*

The procedure currently in place included the following:

- all imprest was systematically followed up and the retirements thereof were charged to the respective expenditure items;
- where necessary and appropriate, unretired imprest was recovered from the holder's salary; and
- where termination of employment (due for instance to death, resignation or other causes) occurred prior to retirement of imprest, any unretired imprest was recovered in full from the imprest holder's terminal benefits.

As was in the correspondence with Audit Office, the retirement documents for the imprest in question were compiled and submitted to the Auditor-General's Office for review and clearance. The documents were available for verification.

(ii) *Fuel*

There were no disposal details in respect of fuels costing K108,191,952 procured during the period under review contrary to Public Stores Regulation No.16.

(d) *Unauthorised Transit Allowance*

Eight (8) payments made to expatriate doctors amounting to K389,873,763 had no requisite supporting documents, such as air and baggage tickets.

Further, no Cabinet authority was obtained in respect of transit allowance payments amounting to K145,484,873.

(e) *Non-Adherence to Procurement Procedures*

Fixed assets costing K1,700,451,890 were purchased without being subjected to competitive tender, and in the case of motor vehicles, the Plant, Vehicle and Equipment Committee (PVEC) authority was not obtained. Further, the Ministry did not maintain a fixed assets register, contrary to Public Stores Regulation No.71.

An inventory of office equipment and furniture revealed that no ledger cards were maintained and assets were not marked with GRZ numbers making them susceptible to theft.

(f) *Irregularities in Fleet Management*

There were fifteen (15) non-runner vehicles at the Vehicle Service Centre and could not be repaired, two (2) at the ministry headquarters and five (5) at various private garages. These vehicles had been parked for periods ranging from 2002 to 2005.

(g) *Delays in installation of Diagnostic and Surgical Equipment*

In October 2001, Government through the Ministry of Health signed a three-year bilateral agreement with the Government of the Royal Kingdom of the Netherlands for the rehabilitation of diagnostic equipment and equipping of surgical installations in seventy-one district hospitals. The value of the bilateral contract was K150 billion (€25 million) and the exercise was to be completed by December 2004.

According to the agreement, GRZ was to provide K75 billion (€12.5 million) as counterpart funding by 31st December 2004. However, as of October 2005, GRZ had only provided K27,506,400,000 (€4,584,400). Consequently, only seventeen out of the seventy-one hospitals targeted had been equipped with diagnostic equipment representing 24% completion.

(h) *Misapplication of Funds*

During the period under review, an individual who was wrongly diagnosed with HIV/AIDS claimed compensation and was paid K25, 000,000 from Recurrent Departmental Charges vote contrary to the provisions of the Appropriation Act.

(i) ***Misapplication of Grants***

Out of a total amount of K5,315,777,881 received in respect of grants for grant aided institutions for the months of August, September, and October, 2004, K4,037,494,947 was paid to the grant aided institutions. The balance of K 1,278,282,934 was misapplied at the Ministry headquarters.

Submission by the Controlling Officer

a) ***Unsupported and Expenditure***

On the K6,473,706,840 involving sixty-five transactions which were unsupported or inadequately supported, he had verified the documentation in question and all supporting documentation had been reviewed and attached to the relevant payment vouchers.

On the payments worth K8,168,691,258 that had no payment vouchers, he had since re-organised the filing system in Accounts Section. So far, payment vouchers totalling K3,089,114,079 had since been traced and were available for verification.

He further informed your Committee that the Ministry had computerised its filing system of accounting documents. All 2005 transaction documents had been electronically stored.

b) ***Unretired Imprest***

He agreed with the Auditor-General's observations. He had since written to all concerned officers reminding them to retire all their outstanding imprests failure to which he would proceed to recover the monies. A total of K210,699,993.24 had since been retired.

c) ***Stores***

i) ***Stationery***

The receipt of goods was done using the goods received vouchers and the documents were availed to the auditors for verification. In addition, disposal details in respect of various stores were usually done through the goods issued vouchers. These documents were also made available to the auditors.

He admitted that stationery worth K103, 054,000 was sourced from unregistered suppliers. The companies that were awarded business were actually registered with the Registrar of Companies though not appearing on the internal list of registered suppliers done under the Ministry of Health.

The internal list of registered supplier done under the Ministry was only to act as a database or a guide and the Regulations still allowed suppliers not registered internally to participate in tenders as long as they were duly registered with the Registrar of Companies.

This happened in situations involving stationery for workshops and there was limited time for hosting of the same. The Ministry owed many registered suppliers who were reluctant to provide the services in advance. The procurement process was followed and items delivered without any monetary loss to the Government. The situation was under control since registration had been centralised and was being done by Zambia National Tender Board.

ii) *Fuel*

During the period October 2004 to December 2004, the stores section had run out of fuel requisitions and in the interim period, measures were put in place to ensure authentic and accountability in the administration of fuel.

A form was designed to record fuel received and issued out clearly marking the vehicle number. This form was further subjected to internal control measures, that is, raised by the Transport Officer and duly approved by the Assistant Director – Administration.

All these measures were put in place with a view of transferring information onto the main ledger books once the orders were delivered. He, however, pointed out that the auditors had problems accepting the improvised form. All the documents were available for verification.

d) *Unauthorised Transit Allowance*

The eight (8) payments made to expatriate doctors were refunds for air passage expenses incurred by doctors, however, efforts were being made to trace the supporting documents for verification.

The transit allowances referred to without Cabinet authority were actually excess baggage allowances, which expatriate doctors, and their spouses and children were entitled to when proceeding on vacation after end of contract. It was processed as follows:

Officer	80 kg
Spouse	80 kg
Children	80 kg per child

The doctors did not require Cabinet authority when travelling out of the country.

e) *Non-Adherence to Procurement Procedures*

He agreed with the Auditor-General's observations. The vehicles bought by the Ministry were brand new.

All the suppliers of goods and services were subjected to competitive tender, except for franchise dealers such as:

- i) Southern Cross Motors / Marunouchi;
- ii) Toyota (Z) Limited; and
- iii) Action Auto.

These were the sole distributors of particular vehicle brands and they did servicing of the same vehicles. Documents like quotations and other tender document including Ministerial Tender Committee Minutes were availed to the auditors and were still available for any further verification. Motor vehicles were acquired using donor funds and this proved difficult to obtain PVEC authority before purchasing the same. The Ministry was in the process of establishing a consolidated Fixed Asset Register, following the dissolution of the Central Board of Health.

f) *Irregularities in Fleet Management*

Out of the fifteen (15) vehicles, so far one (1) GRZ 620BN had since been repaired. The remaining fourteen (14) vehicles were beyond economical repair and were awaiting boarding by the Ministry of Works and Supply.

The two vehicles AAP 9084 and AAP 1833 at Dell Motors had all their bills paid for in full in 2002, but the vehicles had never been released. The Ministry did write to the Ministry of Justice seeking legal guidance but to date nothing had been communicated. He had since written a reminder to his counter part at the Ministry of Justice advising her to commence legal proceedings against Dell Motors.

The three vehicles AAX 4485, GRZ 620 BN and GRZ 808 BJ had since been repaired.

g) *Delays in Installation of Diagnostic and Surgical Equipment*

As at April 2006, the first and second batch of equipment had been installed and these included among others X-rays, Ultrasound, operating theatre, sterilisation and dental equipment. In addition, the project had so far installed equipment in twenty-two hospitals except for Nyimba Hospital that was pending the completion of the new building.

The third batch involved a survey in which eleven hospitals were surveyed in November 2005. All data collected from the survey was currently being processed and delivery of equipment and commissioning was expected between May – July 2006. The process in batch four would cover fourteen hospitals in Eastern, Luapula, North-Western and Southern Provinces while on the other hand batch five would cover eleven hospitals, Northern, Central, Copperbelt, Eastern and North-Western Provinces.

The process in batch six would cover twelve hospitals on the Copperbelt, Eastern, Southern and Western Provinces.

The Netherlands Government had threatened to stop the project if the outstanding counterpart funds amounting to €5,118,884 were not paid by the end of November 2005.

As at 23rd March 2006, the Government had paid a total of €9,292,606 (to cover batches (1-4). The outstanding balance was now only €3,496,705 which would cover the final batches of (5 and 6)

When asked whether the equipment being installed was new, the Controlling Officer assured your Committee that the equipment was new.

h) *Misapplication of Funds*

He agreed with the observation that a former Police Officer was wrongly diagnosed with HIV/AIDS. Following this, the officer was retired on medical grounds. However, after extensively going through voluntary testing and counselling from various institutions, he tested negative. It was from this background that he sought legal advice through NKM and Associates who eventually took up the matter and sued the Attorney-General. The initial claim for compensation and damages amounted to K100,000,000.00. However, after

considerable consultations and meetings, it was resolved to pay him K25,000,000 without admitting any liability but to end the matter.

The Congolese Doctor who carried out the diagnosis had his contract terminated.

On the circumstances that led to the officer being wrongly diagnosed as being HIV positive, the Controlling Officer informed your Committee that within any profession, there were different levels of competences despite possessing the right qualifications on paper. He assured your Committee that the Ministry had strengthened the processes of recruitment. Prospective doctors were now required to undergo both extensive practical and theoretical tests.

i) Misapplication of Grants

It was not correct to state that K1,278,282,934 in form of grants was misapplied at the Ministry Headquarters. The Ministry Headquarters had a huge stock of outstanding bills belonging to the same institutions and the bills were centrally procured and paid for.

Most of the centrally incurred costs were in respect of expatriate doctor's air tickets and hotel bills. The doctors were accommodated in Lusaka prior to their final destinations across the country.

Their transit bills (hotel and air) on expiry of their contracts or proceeding for holidays to their home countries were also supposed to be met by the Ministry as per contractual obligations.

The other bigger component of these centrally paid for costs were repatriation allowances and training cost. Beneficiaries, here again, were the same institutions and not the Ministry Headquarters.

With respect to K218, 621,702 meant for the health posts, the money was not misapplied. The cheque from First Alliance Bank to Standard Chartered Bank Health Post Account simply bounced and was currently in the process of being replaced.

Committee's Observations and Recommendations

Your Committee observe and recommend as set and hereunder:

a) Unsupported Expenditure

They commend the Controlling Officer for introducing the system of electronically storing accounting documents.

The matter on payment vouchers worth K6,473,706,840 that were unsupported or inadequately supported should close subject to verification.

Progress should be reported on the remaining missing payment vouchers worth K5,079,577,179.

b) *Unretired Imprest*

The Controlling Officer should institute recoveries immediately. There is no point in pursuing imprest that has remained unretired for over twelve months, when the Financial Regulations are clear on the matter.

c) *Stores*

All the documents for the stationery and fuel should be verified.

d) *Unauthorised Transit Allowance*

Progress should be reported on the supporting documents.

e) *Non-Adherence to Procurement Procedures*

The Controlling Officer should provide all documents supporting his explanation that the purchases were subjected to competitive tender.

He should further report progress on the consolidated Fixed Asset Register following the dissolution of the Central Board of Health (CBOH).

f) *Irregularities in Fleet Management*

You Committee find it odd that two vehicles despite having been paid for in 2002 had not been released up to 2006. Worse there is no indication on why the vehicles have not been released. They, therefore, request the Controlling Officer to urgently seek audience with Ministry of Justice on how to resolve the matter.

They will await updates on the vehicles at the garage and on the fourteen (14) that were awaiting boarding.

g) *Delays in Installation of Diagnostic and Surgical Equipment*

Your Committee whilst appreciating that the Government has partly honoured its obligation on the programme, they express disappointment that this was only after the other Government threatened to pull out of the project. They, therefore, urge the Controlling Officer to ensure that the balance of €3,496,705 is made available in time to avoid another threat from the other Government.

They will await progress on the programme.

h) *Misapplication of Funds*

Your Committee request the Controlling Officer to have the transaction regularised.

i) *Misapplication of Grants*

Your Committee observe that there was a co-operation problem at the Ministry of Health. They strongly feel that the explanation should have been provided to the auditors at the

material time. They request the Controlling Officer to invite the auditors to verify the documents that support his explanation.

Your Committee find it difficult to understand why the 2004 cheque for health posts was still not replaced in 2006. They, therefore, request the Controlling Officer to resolve the matter within 2006.

AUDIT QUERY

PARAGRAPH 31 – 32

Head: 77/01 Ministry of Defence – Headquarters
Unit: Various

Accounting Irregularities – Paragraph 31

33. It was reported that in the 2004 Estimates of Revenue and Expenditure, a total provision of K539,267,466,069 was made for the Ministry as tabulated below:

Department	Provision K
Headquarters	78,967,385,582
Zambia Army	220,363,953,996
Zambia Air Force	151,398,238,617
Zambia National Service	79,965,732,702
Defence Medical Services	4,047,170,870
Defence Intelligence	2,036,760,572
Land Development services	2,447,753,730
Research & Development	40,470,000
Total	<u>539,267,466,069</u>

Out of the provision of K78,967,385,582 for the Ministry headquarters, K56,066,039,152 was released representing 71% of the provision.

An examination of financial and stores records maintained by the Ministry during the period under review disclosed the following:

(a) **Poor Record Keeping**

It was observed that sixteen (16) payments amounting to K693,691,443 had no relevant supporting documents such as invoices, receipts and acquittals to support the transactions and twenty nine (29) payment vouchers amounting K13,482,201,117 were missing contrary to Financial Regulations 156.

(b) **Stores**

Stationary costing K324,240,150 purchased during the period under review had no receipt and disposal details contrary to Stores Regulation No.16.

(c) ***Unretired imprest***

Imprest amounting to K1,395,180,246 involving seventy-two (72) transactions, issued in 2004, had not been retired as of September 2005 contrary to the Financial Regulation No. 186.

(d) ***Unidentified Payments – Repatriation Account***

Due to lack of records, the purpose for which payments totalling K353,000,000 was made from the account during the period could not be established.

Submission by the Controlling Officer

In reply, the Controlling Officer submitted on the matters above as set out hereunder:

a) ***Poor Record Keeping***

Of the sixteen (16) payments amounting to K693,691,443.00, payments amounting to K662,831,443 had receipts, invoices and acquittals attached. The Office of the Auditor-General had been requested to verify the documents.

Of the twenty-nine (29) payment vouchers amounting to K13,482,201,117.00 which were missing, twenty-one (21) had been found and were available for verification by the Auditor-General's Office. Effort was still being made to locate the remaining eight (8) payment vouchers amounting to K64,304,320. The vouchers may have been misfiled.

b) ***Stores***

The receipts and disposal for stationery costing K324,240,150.00 purchased during the period under review were available for verification.

c) ***Unretired Imprest***

There was overcast on the total of the reported seventy-two (72) transactions. The total should have read K974,634,796 instead of K1,395,180,240. Of the seventy-two (72) transactions, nine (9) transactions were double-counted amounting to K150,269,000. Of the remaining transactions, thirty-two (32) transactions amounting to K461,555,906 had been retired, leaving a balance of thirty-one (31) transactions amounting to K362,809,890.00. Most of the unretired transactions involved officers who were from their services. The officers had been communicated to and recoveries would be effected soon if retirements were not done.

In a later submission, your Committee were informed that imprest from five transactions had been further retired leaving a balance of K345,889,890.

The documents for the imprest that had been retired were available for verification.

d) *Unidentified Payments – Repatriation Account*

The purpose for the Account was specifically to cater for repatriation of servicemen who retired before 1999 and who had not been paid repatriation. The schedules with lists of names of beneficiaries were available for verification.

Committee’s Observations and Recommendations

Your Committee observe and recommend the following:

a) *Poor Record Keeping*

All the supporting documents and payments vouchers that have been traced should be verified.

The Controlling Officer should report progress on the remaining documents.

b) *Stores*

The matter should close subject to verification.

c) *Unretired Imprest*

The Controlling Officer should institute recoveries of the unretired imprest from the concerned officers. The Financial Regulations are clear on the matter. Progress should be reported.

They further advise the Controlling Officer to undertake more sensitisation campaigns on the need to retire imprest to safeguard the integrity of the defence forces.

d) *Unidentified Payments – Repatriation Account*

The matter should close subject to verification, however, they advise the Controlling Officer to make documents available during the audit exercise to avoid unnecessary queries.

Head:	77/03	Ministry of Defence Zambia Air Force
Activities:	02	Procurement and Supply Services

Weaknesses in the Procurement of Goods and Services and other Irregularities – Paragraph 32

34. It was reported that in paragraphs 81 and 82 of the Auditor-General’s report on the accounts for the financial year ended 31st December 2002, mention was made of the Service Commands’ failure to comply with financial regulations and the Public Accounts Committee’s directive to them that the tendency should cease and that the Service Command be compelled to comply with all established procedures and regulations.

A recent audit carried out in July 2005 at the Zambia Air Force (ZAF) revealed the matters set out below:

(a) *Non Adherence to Tender Procedures*

- (i) Between January 2003 and December 2004, ZAF paid K590,000,000 to a local company towards the supply of four hundred and eighty (480) stoves. It was however observed that ZAF did not enter into a formal agreement with the supplier and no Tender Board authority was obtained for the purchase of the stoves.
- (ii) In May 2003, ZAF made a payment of K120,000,000 to a local company for the supply of various types of medals. It was, however, observed that no formal contract was entered into with the supplier and there was no Tender authority obtained.

As of July 2005, no medals had been supplied and no refund was obtained from the supplier.

(b) *Wasteful Expenditure*

During the period November 2002 and August 2003, ZAF paid two local companies amounts totalling K334,093,193 towards improvement of water reticulation at its Livingstone and Mumbwa Bases. However, there were no contracts produced to support the payments.

Visits to the sites in April 2005 revealed that water reticulation at the bases had not improved in that nine (9) elevated tanks installed at Mumbwa Base, two (2) boreholes drilled at Mumbwa Base and two (2) submersible pumps installed at Livingstone Base were not functional. The money spent on the exercise is therefore wasteful.

(c) *Rehabilitation of substations –Mumbwa Base*

In November 2001, ZAF entered into an agreement with a local contractor for the rehabilitation of substations at its Mumbwa Base at a contract price of K387,148,063. The works included, among others, realigning four (4) transformers and replacing nineteen (19) street poles. In this regard, amounts totalling K125,897,987 were paid to the contractor between December 2002 and October 2003. An inspection of the works conducted in March 2005 revealed that the contractor had replaced the nineteen street poles but had only realigned one (1) transformer leaving three (3) still tilting.

(d) *Stores*

There were no receipt and disposal details in respect of various stores items costing K2,595,323,386 bought during the period January 2002 to December 2004 contrary to Public Stores Regulation No.16.

Submission by the Controlling Officer

In his submission on the queries, the Controlling Officer stated as set out hereunder:

a) *Non Adherence to Tender Procedures*

- i) Two hundred and seventy-nine (279) stoves had been delivered. Of these, thirty-two (32) were solid plate Defy stoves and two hundred and forty-seven (247) were four plate Telefunken stoves. The prices quoted by Messrs Leisley Howard were the

lowest of the three (03) companies that submitted quotations. Zambia Air Force entered into a formal agreement with this company, regrettably before Tender Board Authority was granted. Due to the non-delivery of the balance, ZAF was in the process of commencing legal proceedings.

- ii) Zambia Air Force entered into a formal agreement with ZAMSAFETY Equipment Limited, again regrettably without prior Tender Board Authority due to the urgency of the demand at that time (Honours and Award Parade). Although, the company had not yet delivered the medals for the amount paid, they had given a written undertaking to deliver the medals as soon as they were ready. These medals were customer specific (specially designed for the Zambia Air Force) hence the delay in delivery.

In a later submission, your Committee was informed that the Company had failed to honour their contractual obligations prompting ZAF to rescind the contract and seek a refund.

When asked why the authorities in the Zambia Air Force failed to get Tender Board Authority before entering into the agreements, the Controlling Officer replied that the actions were regrettable, that was the more reason why they had requested the Auditor-General's Office to undertake the audits. The Ministry had put in place remedial measures in that all the services had Tender Committees with effect from 2004.

Three officers who were involved in some of the cases were charged. One was dismissed from the Force, while the other two were imprisoned.

b) *Wasteful Expenditure*

- i) Messrs Chemolide (Z) Limited were contracted to supply and install two (02) submersible pump sets, complete with delivery lines at a cost of K56,436,274.00 to two (02) boreholes which had earlier been drilled by another company. The company was paid in full and undertook the job on 14th February 1999. After four (04) days, one of the boreholes collapsed. The other one functioned properly for over a year and malfunctioned later after an electric fault. Further, Messrs Chemolide Industries (Z) Limited were contracted to make improvements to the water supply system of Zambia Air Force (ZAF) Mumbwa. The contract entailed the replacement of the leaking overhead tanks by ten (10) fibreglass tanks. The system did not function satisfactorily. The company was made aware of this problem which they agreed to rectify within the terms of contract. At his appearance before your Committee, he informed them that the case had been taken to court.
- ii) Messrs Getwell Limited were contracted by Zambia Air Force to drill two (02) boreholes at Zambia Air Force, Livingstone at a cost of K48,629,137.00 of which a sum of K32,424,937.00 was paid to the company between November 2002 and October 2003. The water was not found on the two boreholes. However, refund of the funds was not possible due to the clause in the contract, which stipulated that dry boreholes would be treated as wet boreholes. This was a standard clause in such contracts.

c) *Rehabilitation of Substations – Mumbwa Base*

Micherbs Limited were contracted to re-align four (04) transformers and replace nineteen (19) electric poles at a cost of K387,148,063.00 in January 2002. The company replaced all the nineteen (19) poles and one transformer. They were only paid a sum of K125,897,987.00 towards the contract sum. The balance had not been paid because the company did not complete the works as per contract.

d) *Stores*

The stores, which Air Headquarters paid for, were delivered directly to the user stations. Receipt and disposal details were with the user stations.

In conclusion, the Controlling Officer stated that the Zambia Air Force wished to underscore the fact that it had to the best of its ability complied with Financial Regulations. Established procedure and regulations were being followed. Most issues raised related to the period prior to December 2002 and some as early as 1999.

Committee's Observations and Recommendations

a) *Non-Adherence to Tender Procedures*

Your Committee request the Controlling Officer to report progress on the court cases for the unsupplied stoves and medals.

b) *Wasteful Expenditure*

Your Committee note the response and request the Controlling Officer to report progress on the case that was in court involving Chemolide Industries (Z) Limited.

In noting the submission on Getwell Limited, they advise the Controlling Officer to ensure that contracts on boreholes should include siting to avoid losing out when a borehole does not yield any water.

c) *Rehabilitation of Sub-Station – Mumbwa Base*

Your Committee request the Controlling Officer to report progress on the rehabilitation works with respect to realigning the remaining three transformers.

d) *Stores*

Your Committee resolve to close the matter subject to verification of the receipt and disposal details from the user stations.

AUDIT QUERY

PARAGRAPH 33

Head: 80/01 Ministry of Education – Headquarters
Programme: 02 Sector Plan implementation – Provinces

Weaknesses in Accounting for Education Sector Plan Support Funds

35. It was reported that in paragraph 36 of the Auditor-General's report for the financial year ended 31st December 2001, mention was made of the implementation of the Basic Education Sub Sector Investment Programme (BESSIP) whose overall objective was to address the decline in educational services provided by the Government.

However, the implementation of BESSIP created imbalances in the development of the education sector in that it focused mainly on basic education. High schools, colleges and universities were not included in the programme. Due to this imbalance, in February 2003 the Ministry changed its implementation strategy and paradigm to a Sector Wide Approach (SWAP).

In this regard, eight (8) Cooperating Partners and the Zambian Government signed a Memorandum of Understanding in February 2003 towards the funding and implementation of the Ministry of Education Sector Plan (MOESP) covering the period 2003 to 2007 which encompassed SWAP. The agreement was signed based on the vision and goals of the Ministry of Education of providing quality lifelong education for all. This education should be accessible, inclusive, equitable and relevant to individual, national and global needs. It is based on a holistic approach to develop the Education Sector at all levels although Basic Education was to be priority.

The year 2003 formed the first implementation year of the Sector Plan and was largely preparatory, while external resources continued to be made under the BESSIP bridging work plan and budget. The financing of the programme activities effectively started in September 2003.

Funds Received

During the year ended 31st December 2004, the Ministry received a total of K298,306,479,207 for the sector from Cooperating Partners, as detailed below:

DONORS	TYPE OF MODALITY	PLEDGES		RELEASES	
		US\$	ZMK	US\$	ZMK
CIDA	Direct Support	1,210,000	5,808,000,000	1,618,973	7,693,114,603
Netherlands	Direct Support	6,000,000	28,800,000,000	7,656,246	36,326,731,860
Norway	Direct Support	12,000,000	57,600,000,000	17,467,220	82,057,225,514
DFID	Direct Support	10,100,000	48,480,000,000	11,283,195	52,119,825,000
Ireland DCI	Direct Support	10,249,292	49,196,602,000	6,884,893	32,810,302,213
Finland	Direct - Other Support	3,000,000	14,400,000,000	3,105,045	14,562,661,050
USAID	Other Support	6,000,000	28,800,000,000	29,000	138,039,286
UNESCO		-	-	6,000	28,800,000
ADB	Designated	8,546,196	41,021,741,000	2,137,118	10,093,689,065
IDA/world Bank	Designated	8,462,434	40,619,683,000	4,988,127	23,443,356,778
Japan (JCVF)	Designated	1,222,005	5,865,624,000	-	-
Denmark	Designated/Other	7,200,000	34,560,000,000	8,249,292	38,224,199,475
JICA	Direct Support	1,566,714	7,515,427,000	-	-
DFID	Other Support	4,800,000	23,040,000,000	-	-
DFID (TA fund)	Other Support	480,000	2,304,000,000	-	-
EC- ZECAB	Other Support	395,000	1,896,000,000	-	-
EC-IMIS	Other Support	TBD	TBD	-	-
EC	Designated	2,923,556	14,033,069,000	-	-
UNICEF	Designated	3,079,000	14,779,200,000	-	-
	SUB-TOTAL-DONOR	87,234,197	418,719,346,000	63,425,109	297,497,944,844
GRZ	COUNTER PART	-	-	170,757	808,534,363
	GRAND TOTALS	87,234,197	418,719,346,000	63,595,866	298,306,479,207

As could be seen from the table above, the Cooperating Partners in 2004 pledged to release US\$87,234,197 (K418,719,346,000) but only released US\$63,425,109 (K297,497,944,844). It was observed in this regard that six (6) released more than pledged, four (4) released less than pledged, eight (8) did not release anything while one (1) released without a corresponding pledge.

Disbursements

Out of the K298,306,479,207 released to the Ministry, K195,412,452,541 was disbursed to the provinces, districts and other beneficiary institutions throughout the country in line with the Annual Work Plans and Budgets as follows:-

Grants to Boards

	K	US \$
Lusaka Province	17,598,073,415	3,692,104.26
Copperbelt Province	32,444,885,823	6,421,308.36
Central Province	19,964,046,599	4,202,947.62
Northern Province	27,238,718,695	5,744,892.15
Western Province	18,597,548,259	3,915,317.44
Eastern Province	20,761,292,071	4,340,797.75
Luapula Province	15,299,747,339	3,199,561.53
North Western Province	14,876,020,902	3,111,346.62
Southern Province	28,632,119,438	6,934,821.32
Total	195,412,452,541	41,563,097.05

The balance of K102,894,026,666 had not been disbursed as of 31st December 2004.

An examination of accounting and stores records maintained at Ministry headquarters and at selected Provincial and District Education Offices, colleges and schools carried out in June 2005 on the accounts for the year ended 31 December, 2004 revealed the following:

(a) *Imprest*

In paragraphs 44 to 79 of the Auditor-General's Report on the accounts for the financial year ended 31st December 2003 mention was made among others of the weakness in issuance and retirement of special imprest.

A review of the situation in November 2005 revealed little improvement in that most of the imprest issued was either retired late or was not retired at all as illustrated in the table below:

Province	Imprest Issued	Imprest Retired	Imprest Retired	Unretired imprest	Imprest not Captured in the Financial Report
		in 2004	in 2005		
	K	K	K	K	K
Northern	182,402,738	17,864,000	52,890,338	111,648,400	164,538,738
N/Western	-	-	-	-	
Luapula	67,945,000	-	67,945,000	-	67,945,000
Southern	257,173,000	26,262,000	230,911,000	-	230,911,000
Central	295,972,823	-	194,493,800	101,479,023	295,972,823
Eastern	-	-	-	-	
Copperbelt	-	-	-	-	
Lusaka	629,676,815	-	332,740,000	296,936,815	629,676,815
Western				-	
	1,433,170,376	44,126,000	878,980,138	510,064,238	1,389,044,376

(b) *Eastern Province*

Misapplication of Funds – School Grants

During the period under review, a total amount of K311,507,422 was misapplied in five (5) districts in that the moneys were used to procure or meet transportation costs for five (5) trucks as shown below:

District	Amount K	Remark
Nyimba	90,000,002	Used to purchase a truck
Petauke	33,821,420	Used to meet transportation expenses for a donated light truck
Katete	120,488,000	Used to purchase a truck
Chipata	29,920,000	Used to meet transportation expenses for a donated light truck
Chadiza	37,278,000	Used to purchase a truck
	<u>311,507,422</u>	

In spite of a directive from the Controlling Officer in April 2005 to reimburse the money, this had not been done as of November 2005.

(c) *North Western Province*

District Education Board-Chavuma

The district board received a total of K27,780,626 in November and December 2004 in form of bursaries for the vulnerable pupils in the district. It was observed that although the controlling officer indicated that the whole amount was paid to the beneficiaries, an amount of K15,280,626 was not acquitted by the beneficiaries to confirm that they received the money.

(d) *Central Province*

(i) *Raphael Kombe High School*

In December 2004 the Ministry of Works and Supply was engaged by the school to connect the ablution block to the sewer pipes at a cost of K45,144,614 and a total amount of K26,717,600 was paid. The works started in December, 2004 and were expected to be completed in January 2005. However, as of June 2005, work had stalled as the school was advised by the Senior Buildings Officers that the work should be re-done as it was of sub-standard. Consequently, the amount of K26,717,600 spent on the works was wasteful.

(ii) *Mukonchi High School*

Contrary to Public Stores Regulations No.193, no loss report had been processed in respect of a television set and a decoder costing K5,705,000 stolen from the school in November 2004.

Submission by the Controlling Officer

Funds Received

Contrary to the auditors' observation that six (6) co-operating partners released funding more than pledged, four (4) released less than pledged, eight (8) did not release anything and that one (1) released without the corresponding pledge, the position on this matter was that the funds which had been released more than the pledge by six (6) co-operating partners were actually funds which rolled over from the 2003 Annual Work Plan Budget. These funds were to be released by donors in December 2003 but were released in January 2004. The funds were disbursed to provinces, districts and schools in the first quarter of 2004 when the approval for the 2004 Annual Work plan and Budget (AWPB) was being awaited. Below was the schedule showing the 4th Quarter release of 2003 which was received by the Ministry in the first quarter of 2004.

Donor	Pledge-2004 (US\$)	Actual 2003 4th Quarter Release in Jan 2004 (US\$)	Total Release (US\$) 2004
CIDA	1,210,000	408,973	1,618,073
Netherlands	6,000,000	1,656,246	7,656,246
Norway	12,000,000	5,467,220	17,467,220
DFID	10,100,000	1,183,195	11,283,195
Finland	3,000,000	105,045	3,105,045
Denmark	7,200,000	1,049,292	8,249,292
Total	<u>39,510,000</u>	<u>9,869,971</u>	<u>49,379,971</u>

The releases of these funds were reported in the year income was received in line with cash accounting principles provided for by the International Public Sector Accounting Standards (IPSAS).

As regards the eight (8) donors who did not release anything in line with their pledges, the position on this matter was that these were other support funds which were not funded through the Ministry but the sponsoring agency administered the payment for the services or goods procured on behalf of the Ministry. They were normally a stand alone project for a specific activity. Below was a schedule of donors with their pledges which were designated or supported by respective donors.

Donor	Type of Modality	Amount Pledged (US\$)
Japan (JCVF)	Designated	1,222,005
JICA	Direct support	1,566,716
DFID	Other support	4,800,000
DFID (T \$ Fund)	Other support	480,000
EC-ZECAB	Other support	395,000
EC – IMIS	Other support	TBD
EC	Designated	2,923,556
UNICEF	Designated	<u>3,079,000</u>
Total	Total	<u>14,466,277</u>

It was, however, regretted that four (4) donors did not meet their pledges as they had released less than what was pledged. Being entities outside their control, the Ministry could not do much other than reminding them. Below was what was pledged and actual releases:

Donor	Type of Modality	Amount Pledged (US\$)	Amount released (US\$)	Balance not released (US\$)
Ireland DCI	Direct support	10,249,292	6,884,893	3,364,399
USAID	other support	6,000,000	29,000	5,971,000
ADB	Designated	8,546,196	2,137,118	6,409,078
IDA/World Bank	Designated	8,462,434	4,988,127	3,474,307
	Total	<u>33,257,922</u>	<u>14,039,138</u>	<u>19,218,784</u>

The Donor who released funds amounting to US\$6,000 without a corresponding pledge was UNESCO. The funds from UNESCO were merely sent through the Sector Pool Account to facilitate the preparation of the Education Bill Report.

The ADB and World Bank funds were old loans that had been revived. The Ministry was not creating new debt stock.

When asked how the Ministry was ensuring that donor funds that were given as direct support were properly accounted for, the Controlling Officer informed your Committee that this was done through monthly technical meetings. In addition, there was a Monitoring Committee on Disbursement and Utilisation of funds.

On whether donors could have withheld support due to the failure by the Ministry to meet benchmarks, she submitted that annual work plans for the Ministry were agreed by all parties, therefore, if there were any misgivings donors could have pointed this out. She was of the opinion that donors were operating under the impression that the Ministry had no capacity to utilise the pledged amounts. So far, the only worry that the donors had was the lengthy tendering procedures.

Disbursements

It was true that the Ministry received a total amount of K298,306,479,207 from the co-operating partners and a total amount of K195,412,452,541 was disbursed to provinces, districts, colleges, schools and other beneficiary institutions through out the country in line with the 2004 Annual Work Plan Budget (AWPB).

It was, however, regretted that an amount of K102,894,026,666 had not been disbursed as of 31st December 2004. All the funds had since been disbursed to provinces and other education institutions based on the 2004 Annual Work Plan Budget.

a) Imprest

It was regretted that imprest issued to provinces in the years 2004 to 2005 was not fully retired resulting into understating the expenditure for the year 2004. The Ministry was undertaking a data capturing exercise of the retired imprest by education boards and individuals on both BESSIP and Sector Plan accounts. When the data capturing exercise was completed, they would be able to determine the level at which the imprest had reduced. They

had written reminder letters to education boards and individual officers with outstanding imprest to retire failure to which deductions from individual salaries would be effected.

The Controlling Officer clarified that some of the moneys were not strictly imprest. The Ministry was calling them grants in the current arrangements. The situation was likely to improve following the recruitment of accounting staff.

b) *Eastern Province*

Misapplication of funds – School Grants

It was regretted that school grants meant for various schools in the province were misapplied by the Head Teachers Association to purchase trucks in the five mentioned Districts in the Province. The trucks had been registered in GRZ numbers and were being used by the respective District Education Board Secretary's offices in transporting various education materials and teachers on transfer and other various Ministry assignments.

Progress would be reported on the recoveries of these school grants as the District Board Secretaries had been instructed to reimburse the money.

At the time of submission, Chipata had back paid about K24 million of the amount. The Head teachers were warned on their actions. The irregularities were partly as a result of lack of guidelines on the utilisation of school grants in the beginning.

c) *North-Western Province*

District Education Board – Chavuma

It was regretted that an amount of K15,280,626 was not acquitted by the beneficiaries under the bursaries scheme in the District. Efforts were being made to ensure that the District Education Board Secretary accounted for the remaining balance.

d) *Central Province*

Raphael Kombe High School

i) It was regretted that works on the connection of the sewer pipes from the ablution block to the sewer line had stalled due to the senior Buildings Officer's advice that the work was of sub-standard even after paying K26,717,600 to Ministry of Works and Supply who were contracted to do the work.

However, the acting Provincial Buildings Engineer from Ministry of Works and Supply had agreed to change the sewer line to go into the second pond. He had even written to Nkana Water and Sewerage Company for authority to divert the line and he was still waiting for feedback so that works could be completed.

The Controlling Officer further clarified that moneys were not paid as cash, but were used to procure materials for the project.

ii) *Mukonchi High School*

The School authorities had reported the case to the Police and Police were still investigating the matter. The Ministry would submit a loss report should the investigations from the Police fail to yield any positive results.

Committee's Observations and Recommendations

Your Committee observe and recommend as follows:

i) ***Funds Received***

They advise the Controlling Officer to continue impressing upon the donors to fund the Sector Plan. They further advise the Controlling Officer to ensure that there are positive results in terms of education standards considering the amount of investment going into the education sector.

ii) ***Disbursements***

The matter on the disbursements should close subject to verification.

On the other queries they recommended as follows:

a) ***Imprest***

The Controlling Officer should provide an update on the data capturing exercise that will assist clear the unretired imprest backlog. However, they implore her to ensure that recoveries are instituted from concerned officers' salaries.

b) ***Eastern Province***

The Controlling Officer should ensure that school grants are utilised for the intended purposes and not for schools to advance themselves the funds. They resolve to wait for an update of the repayments.

c) ***North-Western Province***

The Controlling Officer should report progress on the unaccounted for K15,280,626 meant for the bursaries scheme.

d) ***Central Province***

i) Progress should be reported on the works at Raphael Kombe High School.

ii) The Controlling Officer should submit a loss report on the stolen items as the matter had taken two years to resolve. Your Committee further urge the Controlling Officer to advise schools to be insuring property especially now that they are in a position to purchase, through grants, some fairly costly pieces of equipment.

AUDIT QUERY**PARAGRAPHS 34 – 35**

**Head: 89/02 Ministry of Agriculture and Cooperatives
Administration**
Programme: 01 Personal Emoluments

Accounting Irregularities – Paragraph 34*i) Provincial Agricultural Co-ordinator, Central Province*

36. It was reported that during the financial year ended 31st December 2004, the Provincial Agriculture Coordinator's Office was funded K4,366,636,529 for personal emoluments as shown below:

Purpose	Amount Released K
Payroll	4,215,286,530
Housing Allowances	141,349,999
Other Emoluments	10,000,000
	4,366,636,529

A further amount of K238,542,300 was funded to cater for the Seed Certification Control Institute, Fisheries Department, Crop Forecast, Veterinary Department and Recurrent Departmental Charges in Central Province shown below:

Institution/Purpose	Amount K
SCCI	9,500,000
Fisheries	5,800,000
Crop Forecast	61,000,000
Veterinary Services	80,000,000
RDCs	82,242,300
Total	238,542,300

An examination of records pertaining to the utilisation of the funds revealed weaknesses in internal controls in that there was no internal auditor. Due to the above and other internal control irregularities the following were observed:

(a) ***Misapplication of funds***

A total amount of K106,100,000 was paid to forty four (44) officers as advances from the salaries account during the period January to December 2004. As of October 2005, only K21,300,000 had been recovered leaving a balance of K84,800,000 outstanding.

(b) ***Non-Remittance of Pay As You Earn (PAYE)***

Amounts totalling K16,376,541 deducted as PAYE from officers' Overtime and Leave Commutation Allowance during the period May to November 2004 had not been remitted to Zambia Revenue Authority as of October 2005.

(c) ***Unauthorised Over time Payments***

A total of K 31,753,013 was paid to fifteen (15) officers in the period May to November 2004 for overtime without authority. Furthermore, it was observed that the amount paid was K21,753,013 in excess of the K10,000,000 released for other emoluments.

(d) ***Loans and Advances not being Recovered***

Contrary to Financial Regulation No. 140, deductions in respect of loans totalling K18,000,000 paid to three (3) officers in April 2004 had not commenced as of October 2005.

Provincial Agriculture Coordinator, Copperbelt Province

A total amount of K7,787,446,824 was released in 2003 (K4,263,196,770) and 2004 (K3,524,250,054) for personal emoluments for the Office of the Provincial Agriculture Coordinating Office (PACO).

The money was to be used to pay salaries (K7,387,068,535) and housing allowances (K400,378,289).

An examination of pertinent records maintained at PACO revealed the following:

- (a) contrary to the provisions of the Appropriation Act of 2004, amounts totalling K1,006,168,220 were paid as loans to twelve (12) officers from the Salaries Account between October 2002 and October 2004 and that the running deductions were based on amounts unrelated to the actual loan amounts obtained;
- (b) there was poor custody of accounting records in that two hundred and forty seven (247) payment vouchers on which expenditure totalling K1,574,085,953 was incurred between January 2003 and October 2004 were unvouched as they were either missing or inadequately supported;
- (c) there were one hundred and four (104) cheques in amounts totalling K664,386,442 raised during the period April 2002 to October 2004 as third party payments which were not remitted to the payees. As of April 2005, the cheques had not been remitted;
- (d) during the period January 2003 and October 2004 amounts totalling K882,491,727 were deducted as Pay As You Earn (PAYE). However, out of the amounts deducted, only

K754,491,727 was remitted to Zambia Revenue Authority (ZRA) resulting in an under payment of K128,000,000 contrary to the Income Tax Act CAP 323 of the Laws of Zambia; and

- (e) out of the K400,378,289 released by the Ministry of Finance and National Planning for payment of housing allowances, payments amounting to K178,504,682 were unvouched in that they either had no supporting documents or were missing.

Submission by the Controlling Officer

In response, the Controlling Officer submitted as follows:

a) *Misapplication of Funds*

Arrangements had been made to effect recoveries from all the officers who were paid advances from the Salaries Account. So far K41,200,00, had been recovered from nineteen (19) officers who had recoveries running on their pay slips. Recoveries for the other fifteen (15) officers valued at K13,660,000 had been instituted. The pay slips and Form 6 were available for verification.

b) *Non Remittance of Pay As You Earn*

He regretted the non-remittance of Pay-As-You-Earn (PAYE) amounting to K16,376,541 for the period under review. Consequently, he had changed the Central Province Management team in order to improve and streamline the operations in the province, among other matters. The failure was on Pay-As-You- Earn (PAYE) for overtime.

Furthermore, he had given instructions to PACO Central Province to commence dismantling the unremitted Pay-As-You-Earn (PAYE) on a staggered basis, so that in due course, remittances of this nature became current.

When asked how the payments would be financed, he informed your Committee that one or two expenditures at a particular time would be sacrificed in order to pay Zambia Revenue Authority (ZRA).

c) *Unauthorised Overtime Payments*

This practice had since been stopped. The PACO, had been directed to seek authority prior to officers working overtime.

d) *Loans and Advances not being Recovered*

Loan deductions from three (03) officers totalling K18,000,000 commenced in November 2005 and were running. The pay slips were available for verification.

Provincial Agriculture Co-ordinator – Copperbelt Province

- a) He acknowledged the irregularity of the payment of K1,006,168,229 to twelve (12) officers as loans and, therefore, begged your Committee's indulgence on the matter. Consequently, he had instituted recoveries from the twelve (12) officers besides ensuring that this practice was discontinued forthwith. The administration at provincial level was also changed.

Furthermore, K41,550,267.64 had since been recovered. The officers pay slips were available for verification.

When asked why it should always take auditors to notice such practices, the Controlling Officer replied that there was need to strengthen internal controls at provincial level. The problem was compounded by the overstaying of officers at one station that resulted in complacency.

When it was pointed out to him that it would take as long as seventy-five (75) years for some of the officers to repay the loans at the current levels of deduction, the Controlling Officer informed your Committee that unfortunately deductions were the only legally feasible way of recovering the moneys. There was also the possibility of recovering the balance from officers' benefits.

- b) They had managed to acquit fifty-seven (57) payments to the value of K201,238,000. The documentation pertaining to the fifty-seven (57) payment vouchers was available for verification. In addition, he had instructed the PACO, Copperbelt Province to vigorously pursue the matter for the purpose of fully acquitting (190) unvouched payment vouchers.
- c) The (104) cheques valued at K664,386,442 reported to have been unremitted had actually gone stale and as a consequence expired and were kept in a safe for record purposes. These had been replaced in favour of the intended payees.
- d) As at 31st July 2003, there were no pension contributions that were unremitted for the year 2002.

Included in the K664,386,442 were remittances made to Pensions Fund totalling K290,199,684 whose receipts were available for verification. Remittances for stale cheques totalling K54,761,047.75 were now being dismantled on a staggered basis.

Remittances to Zambia Revenue Authority were made on a monthly basis, however, cheques that became stale were being replaced on a staggered basis.

He would ensure that all outstanding third party payments were remitted to the beneficiary institutions. Consequently, he had changed the management team at the Province in order to ensure compliance to regulations.

- e) He had managed to acquit K76,089,890 out of the K178,504,682 unvouched housing allowances paid. The acquittals were available for verification.

Furthermore, he was vigorously pursuing the matter with the PACO – Copperbelt in order to resolve the matter in the shortest possible time.

Committee's Observations and Recommendations

Provincial Agricultural Co-ordinator – Central Province

a) *Misapplication of Funds*

In noting the submission, your Committee urge the Controlling Officer to strengthen internal controls at all provincial offices to avoid the occurrence of similar cases. They further advise him to ensure that supervising officers who allow such practices at their stations are disciplined. They, however, resolve to close the matter subject to verification that deductions have been effected from all the officers.

b) *Non-Remittance of Pay-As-You-Earn*

Your Committee will await progress on the matter.

c) *Unauthorised Overtime Payments*

Your Committee while appreciating the measures taken by the Controlling Officer reiterate their earlier advice that supervising officers should be disciplined for allowing such practices to occur. In closing the matter, they also advise him to ensure that the provision of services is not hindered because of overtime.

d) *Loans and Advances*

Your Committee resolve to close the matter subject to verification that the deductions are in progress.

Provincial Agriculture Co-ordinator – Copperbelt Province

Your Committee note the submissions and recommend as follows:

- a) the matter on the loans should close subject to verification of the deductions and disciplinary action against officers who authorised transactions;
- b) the Controlling Officer should report progress on the remaining 190 payments without supporting documents;
- c) the matter on the cheques should close subject to verification that the cheques had been replaced and sent to the owners;
- d) the Controlling Officer should report progress on the payment of the remaining Pay-As-You-Earn (PAYE) amount to Zambia Revenue Authority; and
- e) they will await progress on the remaining supporting documents worth K102,414,792 for housing allowances.

Head:	89/06	Ministry of Agriculture and Co-operatives Veterinary and Livestock Development
Programme:	48	Animal Disease Control
Activity:	001	Production of Vaccines

Weaknesses in Accounting for Funds - Paragraph 35

37. It was reported that a provision of K1,000,000,000 was made in the 2004 Estimates of Revenue and Expenditure for the production of vaccines. However, due to the outbreak of foot and mouth disease in some parts of Southern and Central provinces in July 2004, the Ministry of Agriculture and Cooperatives varied the funds in order to combat the outbreak of the disease. A further variation of K3,826,000,000 was made from the commercialisation of farm Lands programme bringing the total funds available for the foot and mouth disease programme to K4,826,000,000.

Out of the K4, 826,000,000 released to the Ministry, a total of K4,664,356,999 had been utilised as of March 2005 leaving a balance of K161, 643,001.

A scrutiny of the expenditure records carried out in March 2005 revealed the matters set out below:

- (i) A total amount of K1,099,973,297 was paid between September and December 2004, to Botswana Vaccine Institute through the Livestock Cooperative Society based in Zambia for the supply of 150,200 doses of vaccines. It was noted however from the stores records examined that, out of the total doses paid for, 100,200 doses costing K767, 795,729 had no receipt and disposals details.

Nine officers who were issued with accountable imprest totalling K109,576,679 between September 2004 and February 2005 for the purchase of foot and mouth disease vaccines and other materials had not retired the imprest as of March 2005, contrary to Financial Regulation No. 186.

- (ii) Accountable imprest totalling K111,263,000 was issued to an officer in October and November 2004 for the purchase of among other things 10 x 18 litres Knapsack sprayers costing K3,250,000 and 3,600 litres disinfectants costing K103,963,000.

Records examined however revealed that, although the imprest was retired, there were no receipt and disposal details in respect of 10 x 25 disinfectants costing K7,151,000 and 10 x 18 litres knapsack sprayers costing K3,250,000.

- (iii) It was further observed during the audit that accountable imprest in amounts totalling K64,709,400 issued to two (2) officers in January and February 2005 for purchase of life stock extension materials and for facilitating post vaccination surveillance in southern province had not been retired as of March 2005.

Submission by the Controlling Officer

In his response to the queries, the Controlling Officer submitted as follows:

i) Purchase of Vaccines

During the period under review, the Department of Veterinary and Livestock Development ordered and paid for the purchase of FMD vaccine from Botswana Vaccine Institute through

Livestock Services and Co-operative Society, valued at K1,099,973,207. The payments were made in three lots, and were accounted for. Furthermore, the receipt and disposal details for 100,000 doses of vaccines valued at K767,795,729 were available for verification.

- ii) The unretired imprest totalling K109,576,679 paid to nine (9) officers had since been retired.
- iii) Records of unaccounted for materials costing K10,401,000, 10x25 disinfectants and 10 x 18 litres Knapsack sprayers were fully accounted for and available for verification..
- iv) The imprest referred to as not retired totalling K64,709,400 had been retired.

Despite the rapid nature of the spread of Foot and Mouth Disease (FMD), the Ministry was committed to ensuring that internal controls were strengthened to prevent re-occurrence of the above queries.

Committee's Observations and Recommendations

Your Committee note the responses and recommend as follows:

- i) the matter on the vaccines ordered from the Botswana Vaccine Institute should close subject to verification of the receipt and disposal details;
- ii) the matter on imprest should close subject to verification;
- iii) the matter on the knapsack sprayers should close subject to verification; and
- iv) the matter on the imprest for extension materials amounting to K64,709,400 should close subject to verification.

AUDIT QUERY

PARAGRAPH 36

Head: 95/09

**Office of the President – Eastern Province
Buildings Department**

Programme: 4

Rehabilitation and Construction of Buildings

Construction, Rehabilitation and completion of Office Blocks

38. It was reported that in the Estimates of Revenue and Expenditure for the year ended 31st December 2004 total provisions of K558,397,400 were made for the construction, rehabilitation and completion of office blocks in four (4) districts namely Chadiza, Nyimba, Mambwe and Chama. In this regard a total amount of K395,740,200 was released to the districts as shown below:

District	Provision a K	Funding b K	Variance (b-a) K
Chadiza	150,000,000	86,504,000	(63,496,000)
Nyimba	144,200,000	102,239,000	(41,961,000)
Mambwe	144,200,000	101,399,900	(42,800,100)
Chama	119,997,400	105,597,300	(14,400,100)
Total	558,397,400	395,740,200	(162,657,200)

As can be seen from the table above, the projects were under funded. Consequently, the projects had not been completed as of May 2005.

An examination of financial and other records maintained at the Provincial Accounting Control Unit (PACU) and at the Provincial Buildings Engineer (PBE) carried out in May, 2005 revealed that in all districts, amounts spent on allowances for officers were K23,041,000 in excess of the approved budgets as shown below:

District	Budgeted Amount (a) K	Actual Paid (b) K	Amount Paid in Excess of Budget (b-a) K
Chadiza	15,000,000	16,450,000	1,450,000
Nyimba	25,600,000	39,317,000	13,717,000
Mambwe	25,600,000	29,920,000	4,320,000
Chama	25,600,000	29,154,000	3,554,000
	91,800,000	114,841,000	23,041,000

Visits to the various project sites revealed the outstanding works as set out below:

Chama

Flooring, plastering, electrical wiring, fitting doors and fitting window panes,

Nyimba

Flooring, plumbing works, electrical wiring, fitting doors, glazing, fitting ceiling boards, fitting air vents, fitting window frames and glass panes, construction of toilets and painting,

Mambwe

Fitting of doors, fitting of window panes, flooring, plastering, roofing, plumbing works, electrical works and painting

Chadiza

Flooring, plastering, plumbing, glazing, fitting ceiling boards, fitting doors, construction of toilet, painting, electrical wiring, fitting doors and fitting window panes,

It was clear from the foregoing that the under funding of the projects and the over expenditure on allowances impacted negatively on the implementation of the projects.

Submission by the Controlling Officer

In his submission, the Controlling Officer submitted as follows:

Chama District

It was true that there was over expenditure on allowances totalling K3,554,000. On the outstanding works, he reported that the works had now been completed except for the fitting of windowpanes. The windowpanes had already been purchased and would be fitted as soon as the officer travelled to Chama.

Nyimba District

Out of K39,317,000. actual payments made, K6,132,000. was spent on wages. This meant that K33,185,000. was the amount spent on allowances and K7,585,000.00 was the over expenditure.

The outstanding works had all been completed and the building was now in use.

Mambwe District

It was true that the amount on allowances was spent in excess of the budgeted amount. On the outstanding works he reported that materials for the remaining works were on site and the work was in progress.

Chadiza District

It was true that the amount on allowances was over spent by K1,450,000.. He further reported that roofing, fitting of doorframes and window frames had been done and works were in progress.

In all the cases, the works were undertaken by the Buildings Department and workers had, therefore, to travel to the districts to undertake works. Internal variations were made so that the expenditures did not exceed the budget amounts for the activities.

When asked why the Provincial Administration decided to utilise the Buildings Department instead of local contractors in the districts, the Controlling Officer submitted that their previous experiences with the local contractors left more to be desired. Apart from projects given to local contractors being uncompleted, the quality of work was also poor.

On whether the Province had made provisions for the works in the 2006 budget, the Controlling Officer replied that there were no provisions in the 2006 budget. There was enough money on hand to complete the works by the end of April 2006.

Committee's Observations and Recommendations

Your Committee observe that local contractors are capable of undertaking the mentioned works but need closer monitoring.

They request the Controlling Officer to report progress on the completion of works in the three remaining districts; Chama, Chadiza and Mambwe.

AUDIT QUERY

PARAGRAPH 37 – 38

Head:	98/01	Office of the President - Southern Province - Provincial Administration Headquarters
Unit	01	Human Resources and Administration
Programme:	09	Livestock Restocking
Activity:	01	Procurement of Beef and Diary Cattle

Irregularities in the Procurement of Cattle – Paragraph 37

39. It was reported that a provision of K2,000,000,000 was made in the Estimates of Revenue and Expenditure for the year ended 31st December, 2004 for cattle restocking.

An examination of accounting and other relevant documents at the Provincial Administration Headquarters and visits to seven (7) districts revealed the following unsatisfactory features:

(a) *Kazungula District*

The District received K225,000,000 to be disbursed equally to five chiefdoms with each receiving K45,000,000. Visits to three (3) chiefdoms revealed that:

(i) *Failure to Account for K45,000,000 – Musokotwane Chiefdom*

In November 2004, the Provincial Office paid K45,000,000 to a supplier introduced to them by Chief Musokotwane for the supply of one hundred (100) herds of cattle.

However as of May 2005, no animals had been supplied.

In his reply dated 10th November 2005, the Controlling Officer stated that ten (10) herds of cattle had been procured at a total cost of K15,000,000. He further stated that K30,000,000 was obtained by the late Chief and his family had undertaken to repay the money.

As of November 2005, the family had refunded K5,000,000 leaving a balance of K25,000,000.

(ii) *Failure to Account for K45,000,000 – Mukuni Chiefdom*

In November 2004, the Provincial Office paid K45,000,000 to a supplier introduced to them by the Mukuni Cattle Restocking Committee for the supply of seventy five (75) herds of cattle.

However as of May, 2005, no animals had been supplied.

In his reply dated 10th November 2005, the Controlling Officer stated that out of the seventy five (75) herds of cattle paid for, twenty four (24) had been supplied while fifty one (51) were still being sourced.

(iii) *Failure to Account for K45,000,000 – Moomba Chiefdom*

In November 2004, the Provincial Office paid K45,000,000 to the Secretary of the Chief Moomba Cattle Restocking Committee for the supply of seventy five (75) herds of cattle.

However as of May, 2005, no animals had been supplied.

In his reply dated 10th November 2005, the Controlling Officer stated that out of the seventy five (75) herds of cattle paid for, fifty five (55) had been supplied while twenty (20) were still being sourced.

(b) *Kalomo District*

During the period under review, the district procured two hundred and forty nine (249) herds of cattle at a total of K366,800,000.

It was however observed that the distribution of the two hundred and forty nine (249) herds of cattle was not acknowledged by the recipients.

(c) *Choma District*

Failure to Supply Thirty-Six (36) Animals

A total amount of K307,970,000 was paid to various suppliers during the period November 2004 to January 2005 for the supply of a total of two hundred and thirty six (236) herds of cattle. As of August, 2005, two hundred (200) herds of cattle were supplied leaving a balance of thirty six (36) herds of cattle costing K41,275,000 not supplied.

(d) *Gwembe District*

Failure to Supply Twenty-Four(24) Herds of Cattle

In November 2004, a total of K170,700,000 was paid to suppliers for the supply of one hundred and eighty eight (188) herds of cattle. Out of the K170,700,000 paid, K85,500,000 was refunded by some of the suppliers who apparently had no cattle to supply and the balance of K85,200,000 was paid for the purchase of ninety-one (91) animals.

However, as of April, 2005, sixty-seven (67) animals costing K64,350,000 had been supplied leaving a balance of twenty four (24) animals costing K20,850,000 not supplied.

In his reply dated 10th November 2005, the Controlling Officer stated that out of the twenty-four (24) animals costing K20,850,000 not supplied, eighteen (18) animals had not yet been collected from the supplier due to logistical problems.

Submission by the Controlling Officer

In response to the queries, the Controlling Officer submitted that the Restocking Programme was designed by the Ministry of Agriculture and were the driving force behind it. The Programme was under review, therefore, most audit queries and other weaknesses would be taken care of.

The programme had guidelines that were being followed when distributing or purchasing animals. There were three levels of authority that had been designed: provincial, district and local area committees. The local chiefs chaired the area committees.

a) *Kazungula District*

i) Failure to account for K45,000,000. – Musokotwane Chiefdom

The Chiefdom was allocated an amount of K45,000,000. out of which K15,000,000. was paid to procure twelve (12) heifers which had been distributed to the beneficiaries. So far, K20,000,000. of the money obtained by the late Chief Musokotwane had been reimbursed leaving a balance of K10,000,000. which was to be recovered from the Administrator of the late Chief's estate.

When asked whether Chief Musokotwane had executive powers, the Controlling Officer replied that he did not have powers. The Chief had obtained the money from the supplier and not through the normal channel. That was why he was charged posthumously.

ii) Failure to account for K45,000,000.00 – Mukuni Chiefdom

The Chiefdom was allocated K45,000,000 to procure seventy-five (75) heifers. Though it was anticipated that seventy-five (75) heifers were to be purchased from the amount released, it was not possible due to the fact that the suppliers hiked their prices hence the chiefdom managed to buy only forty (40) heifers, which were being distributed. The schedules of beneficiaries would be made available.

iii) Failure to account for K45,000,000.00 – Moomba Chiefdom

The Chiefdom was allocated K45,000,000.00 to purchase seventy-five (75) heifers. However, it was not possible to verify whether the remaining twenty (20) heifers were sourced due to impassable roads in the area because of heavy rains.

b) *Kalomo District*

The District was paid K354,000,000. which was used to purchase 249 heifers. So far, beneficiaries had received 232 heifers, fourteen (14) heifers were yet to be collected and distributed to the beneficiaries in Chief Siachitema's Chiefdom. Now that the livestock ban had been lifted which had prevented them from distributing the animals, the activity would be done before the end of April 2006. Three (3) heifers had died as indicated by the Veterinary Report.

c) *Choma District*

Failure to supply thirty-six (36) animals

A total sum of K302,220,000. was released to the District from which they managed to procure 259 heifers instead of the anticipated 236 heifers, this was due to favourable prices obtaining in certain areas. One cheque bearing an amount of K5,750,000. was cancelled due to the supplier having changed his mind and another had now supplied the remaining animals. 255 animals had been signed for as at April 2006.

d) Gwembe District

Failure to supply twenty-four (24) heads of cattle

The District had procured and distributed 187 heifers to beneficiaries. One animal died and was sold by the Cattle Restocking Committee at a cost of K350,000..

Committee's Observations and Recommendations

Your Committee observe and recommend the following:

a) Kazungula District

i) Failure to account for K45 million – Musokotwane Chiefdom

The Controlling Officer should ensure that loop-holes in the Programme such as the one that led to the late Chief obtaining the money are tightened. They will await progress on the repayment of the remaining K10,000,000.

ii) Failure to account for K45 million – Mukuni Chiefdom

They request the Controlling Officer to report progress on the distribution of the animals.

iii) Failure to account for K45 million – Moomba Chiefdom

They request the Controlling Officer to report progress.

b) Kalomo District

They urge the Controlling Officer to forward the distribution schedules to the Office of the Auditor-General for verification and reconciliation of the cost of the animals. They further urge him to prepare the loss reports for animals that died. They, therefore, would expect a progress report on the matter as well as on the distribution of the remaining fourteen (14) animals.

c) Choma District

They request the Controlling Officer to reconcile the amount that was spent on the animals with the Office of the Auditor-General.

Your Committee, however, resolve to close the matter subject to verification of the distribution schedules and reconciliation.

d) Gwembe District

The Controlling Officer should prepare a loss report for the dead animal less the disposal receipts for the carcass.

Head: 98/08 Office of the President – Southern Province
Programme 3 Roads Rehabilitation (Feed Roads) (PRP)

Rehabilitation of Feeder Roads – Paragraph 38

40. It was reported that a provision of K1,612,184,218 was made in the Estimates of Revenue and Expenditure for the year ended 31st December, 2004 for the rehabilitation of feeder roads and the whole amount was released to the Provincial Administration during the period.

An examination of accounting, stores and other relevant records disclosed that in October 2004, the Provincial Administration paid K60,000,000 to the Livingstone City Council for the rehabilitation of Mukuni, Kaunda and loop roads from Central Police to the market and repair of a grader.

A site inspection of the roads repairs carried out in November 2005 revealed that no works had been done.

Submission by the Controlling Officer

Livingstone City Council was paid a total of K60,000,000 for the rehabilitation of Mukuni, Kaunda and loop roads from Central Police to the market and repair of a grader.

After a consideration of the huge costs that would have been involved in working on the aforementioned roads, it was considered economical to work on the following which needed urgent attention at the time:

- i) Kapondo Street (Shoprite Road);
- ii) Maramba Road; and partially
- iii) Mukuni Road and also to purchase tyres and tubes for the grader these roads were part of the main contract, however, due to insufficient funds, it was not possible to do all the roads mentioned in the contract, the grader was rehabilitated so that they would be able to grade the mentioned roads.

Committee's Observations and Recommendations

Your Committee note the response and request the Controlling Officer to provide them with an update on the rehabilitation of the roads.

AUDIT QUERY

PARAGRAPH 39

Head: 99 Constitutional and Statutory Expenditure

Accounting Irregularities

41. It was reported that a total amount of K1,776,699,660,697 was provided for in the Estimates of Revenue and Expenditure for the financial year ended 31st December 2004 for Constitutional and

Statutory Expenditure namely: Debt Servicing, Constitutional Offices, Contingency and Other. Out of the total provision, a total amount of K1,483,508,363,281 was utilised.

An examination of the accounting records and other relevant documents pertaining to Constitutional and Statutory Expenditure at the Ministry of Finance and National Planning conducted in October 2005 revealed the following:

(a) Constitutional and Statutory Expenditure - Outstanding Loans

During the period under review, there were four (4) officers who were separated and thereafter removed from the payroll. During their service, the officers had obtained loans amounting to K220,000,000. However, at the time of their separation, they had outstanding balances totalling K184,253,333 which had not been recovered as of October 2005.

(b) Constitutional and Statutory Expenditure - Contingency Fund

In 2004, a provision of K11,251,993,770 was made in the Estimates of Revenue and Expenditure for the Contingency Fund. However, the Ministry of Finance and National Planning released K13,218,770,280 which exceeded the authorised provision by K196,677,651.

A scrutiny of records pertaining to the contingency funds and physical verification conducted at the beneficiary ministries revealed that Contingency Funds were misapplied as most of the funds disbursed to the Government institutions were not applied on unforeseen or urgent activities but on meeting electricity bills, payment of salaries, contributions and subscription fees to international organisations, among others as shown below:

Ministry/ Department	Amount K	Remark
Ministry of Finance and National Planning	6,665,070,625	Used to pay ZESCO
Ministry of Commerce, Trade and Industry	3,055,712,326	Used to pay contributions and subscription fees to international organisations to which Zambia is a member
Office of the Vice President	20,000,000	Used to meet costs of official visits and office administration
Cabinet Office	600,000,000	Used to meet costs of commissions and allowances
Ministry of Sports, Youth and Child Development	805,282,489	Used to meet motor vehicle expenses, salaries and grants
	11,146,065,440	

Submission by the Secretary to the Treasury

a) Outstanding Loans

Follow-up action was taken with the National Assembly to recover the balances from the officers' gratuity, but this proved futile as the terminal benefits could not meet the amounts owed to the Government. The loss report was completed.

Guidance was, however, being sought from Ministry of Justice on how to treat the officers' loans.

b) Contingency Funds in 2004

Every year Government provided funds under the Contingency Vote. The purpose of these funds was to cover:

- unavoidable eventualities / expenditures that may not have been foreseen at the time of preparation of the budget; and/or
- items in the budget, whose approved budget allocations may, for one reason or the other, not be adequate to cover the full cost of the activity at implementation and there were no other possible areas in the budget from which savings could be declared.

The items on which the funds were applied in 2004 were absolutely necessary and could not be deferred for the following reasons:

1. Ministry of Finance and National Planning – Payment to ZESCO

In 2004, Government provided for the settlement of electricity bills in order to meet part of the structural benchmarks for the attainment of the HIPC Completion Point. However, the actual outturn on the amount required for this purpose was higher than the approved estimates. Since this was a benchmark for Zambia to reach the HIPC Completion point to enable the country access debt relief, funds had to be varied from other votes, including the Contingency Vote, in order to dismantle the Zesco debt. In order to normalise the expenditure, the Government presented a Supplementary Budget to Parliament for approval and Parliament did approve it.

2. Ministry of Commerce, Trade and Industry – Contributions to the Common Market for Eastern and Southern Africa (COMESA) and Africa Caribbean Pacific – European Union (ACP – EU); Ministry of Foreign Affairs – Commonwealth Foundation; and Ministry of Finance and National Planning – International Development Agency.

The 2004 approved estimates for contributions to the concerned organisations were short of the actual amount required to cover subscriptions for the year due to exchange rate fluctuations. In order not to suffer the consequences of default on these subscriptions that include non-participation in meetings, the activities had to be supplemented by varying funds from the contingency vote.

3. Ministry of Sport, Youth and Child Development – Football Association of Zambia (FAZ)

The funds provided to the Ministry of Sport, Youth and Child Development from the Contingency Vote were to cover the higher than anticipated costs for the National Football Team engagements in the combined Africa Cup and World Cup qualifying fixtures and to cover payment of salaries for the National Team Technical Director.

Not providing the funds would have meant Zambia failing to fulfil the fixtures and the penalties associated with such a development were much higher than the cost of actual participation.

The other items on which these funds were applied included the joint Military Commission under Cabinet Office and the Government Forum under the Office of the Vice-President.

When asked who was responsible for paying salaries of the Football Association of Zambia staff, such as the Technical Director, the Secretary to the Treasury replied that the contract terms under which the Technical Director was recruited were beyond the capacity of Football Association of Zambia. Therefore, Government had to assist.

Committee's Observations and Recommendations

Your Committee observe and recommend the following:

a) *Outstanding Loans*

While appreciating efforts that have been made so far, they are concerned with the pace at which the matter is being resolved. With the passage of time, it will be unlikely that the amounts will be recovered. There is, therefore, need to make follow-ups with the Ministry of Justice on the matter so that a decision can be made on the way forward.

b) *Contingency Fund*

They resolve to close the matter.

Recommendations of the Public Accounts Committee that have not or been partly Implemented – Paragraph 40

42. Due to lack of time during this Session, your Committee did not consider outstanding issues, however, the Committee of Officials comprising officers from the National Assembly, Office of the Auditor-General and Office of the Accountant-General will present a Report to your next Committee for their consideration.

PART 11

CONSIDERATION OF ISSUES ARISING FROM THE INSPECTION TOUR OF MISSIONS

43 Following the numerous reported financial irregularities in Zambian missions abroad, your Committee toured six missions, three in Europe and three in the SADC Region. Details of the tours are given below:

GABORONE MISSION

Consular Problems

During the tour, your Committee learnt that due to the large number of Zambian nationals in Botswana, the Mission was always faced with consular problems like arrests, deaths, destitution and numerous other issues. This forced the Mission staff to use personal resources to help such persons as there was no provision in the budget for such eventualities.

Allowances

Botswana was classified as a middle-income family, therefore, the cost of living was high. There was need to adjust the salaries and allowances of staff posted to the Mission so that they could be commensurate with the cost of living. There was also need to take care of medical insurance for the staff.

Properties

The Mission has nine (9) properties as detailed below:

Plot Nos 1118, 1119 and 1120 Chancery, Queens Road

The Chancery plot situated on plot No.1120 Queens Road in the central business district of Gaborone had been sub-divided into plot Nos.1120, 1119 and 1118. Plot 1120 was used as a Chancery while the subdivided plots 1118 and 1119 were leased out to local private companies at monthly rentals of Pulas 11,216.24 and 8,500.00 respectively as a way of generating extra income for the Mission. The Chancery wall and roof needed repair as the roof was reported to experience leakages during the rainy season, which ultimately affected the walls and the building as a whole. The Chancery despite being located in a busy area had inadequate security and any person could access it at any time. Another observation was that the furniture and carpets were worn out and need to be replaced with ones befitting the status of a diplomatic mission. The Chancery was not insured due to the reported high insurance premiums in Botswana.

Plot 275 Tawana Close

The property is leased out to a private school at a monthly rental of Pulas 6, 665 and was well maintained by the tenant.

Plot 3036 and 3037 Sobhuza Road

This is the Residence for the High Commissioner and was situated on two plots. The house was structurally sound but the rooms, especially the lounge, dining room, kitchen and master bedroom, were small and the finishing of the building did not benefit the Residence of a High Commissioner. It was reported that the house was not built according to the original plan and this needed to be done in order to bring it to the required standard.

The Residence did not have any security features except for a security guard despite the extensive grounds. The lack of security was only peculiar to the Zambian High Commissioner's Residence as evidenced from the other diplomatic residences, which your Committee viewed from a distance. The grounds were also unkempt.

Plot 4859 Dinatla Close

The Defence Advisor occupies the house. Although the property was generally well kept, its rooms were small and leakages in the roof were experienced during the rainy season. There were also cracks in the walls which could worsen if not attended to.

Plot 2485 Tshekedi Road

This property is occupied by the First Secretary (Administration) and had since been renovated. The renovations, though not extensive, had made the house to be of acceptable standard.

Plot 118 Morukuru Close

This house is occupied by the First Secretary (Political) and despite being a sound structure, needed a lot of maintenance especially regarding leakages. The house had adequate security save for a security wall.

Plot 280 Tawana Close

The house was occupied by the Second Secretary (Accounts) and was in dire need of repairs. The servant's quarters were being used to keep unserviceable stores.

Plot 105 Mongana Close

The house has cracks in the wall and the roof leaked extensively during the rainy season. This could pose a danger to the occupants as the electrical wiring of the house needed serious attention.

Plot 262 Kigali Close

This is a dilapidated house situated in a prime area next to the official residence of the former President of Botswana. The house was an eyesore and just needed to be demolished in order to erect a new structure. Due to its disused nature, the house could be used as a haven for thieves.

Committee's Observations and Recommendations

Your Committee are pleased to report that the Zambian Government has sufficient properties in Gaborone which were acquired in the 1960s after Botswana gained its independence. The properties are located in good residential areas.

However, due to lack of maintenance, most of the properties were dilapidated and one had particularly deteriorated to a level where it just had to be demolished. In addition, the Chancery, the High Commissioner's Residence and a few other properties were not secure and were therefore, susceptible to sabotage and theft.

Your Committee, therefore, recommend that the Controlling Officer should immediately see to it that security at the Chancery and High Commissioner's Residence is improved. The High Commissioner's Residence should also be completed according to the original design.

PRETORIA MISSION

Your Committee were informed that due to the appreciation of the Rand against the Dollar, incomes for those who were paid in dollars had also depreciated by almost 50%. There had, however, not been a corresponding increase in the remuneration of the Mission's staff who had been affected by the exchange rate. The Mission was also facing a lot of difficulties regarding Zambians who died or became destitute in South Africa due to the large number of immigrants and business people frequenting the country. Staff usually had to contribute personal funds to help in such instances since there was no provision in the Mission's budget to address such situations. The Mission was also experiencing difficulties in operations due to the inadequate budgetary allocation. This was because apart from the country being vast, the Mission was also accredited to Lesotho and Madagascar.

Properties

The Zambian High Commission in Pretoria, South Africa had a total of three properties and they were all insured. These consisted of the Chancery, the High Commissioner's Residence and the Counselor's Residence.

House 17, Suikerbos Drive

The property is the Residence of the High Commissioner. Although the house was spacious and architecturally beautiful, it had deteriorated due to lack of maintenance and replacement of worn out materials. This had resulted in leakages, cracks in the wall and decay of most wooden fittings like wardrobe units. The staircase was also beginning to wear away.

The Residence's furniture needed replacement especially in the dining area. In terms of security, the Residence was isolated, as it was not located in the "Diplomatic Zone" where security was guaranteed.

1159 Zievogel Street, Arcadia

This is the Chancery. Despite having been recently acquired, the walls of the building were cracking. The building had not received any meaningful maintenance works since it was acquired. It was, however, a good structure with a lot of office space.

The Chancery building was located in the central business district but had inadequate security arrangements, therefore, the Mission staff were at risk.

House No.246 Outenique Avenue, Waterkloof Heights

The house is the residence for the High Commission's Counselor. The house was situated on an extensive piece of land and was still very intact, architecturally. It however, borders a large area of bush, which went up to the main highway. This made the place insecure.

Committee's Observations and Recommendations

Your Committee commend the Government for acquiring the Chancery building and the two other properties as this measure helps in saving public funds instead of paying rent. Your Committee is, however, saddened that the Government does not provide enough funds for maintenance of the properties. This will result in deterioration of the properties that were acquired at great cost.

The security situation is another issue over which your Committee express worry. It is generally said that South Africa is a high-risk country in terms of security. Your Committee, therefore, recommend that security should immediately be enhanced at the Chancery and Commissioner's Residence.

Consideration should also be given to purchase another house for the High Commissioner in or near the "Diplomatic Village" and sell the present residence.

The Mission was handling a huge number of persons in transit or visiting the country due to the fact that Johannesburg is the main transit route for most Zambians. There is, therefore, need to open a consulate in Johannesburg in order to lessen on the number of trips made by the Mission staff to Johannesburg and also make it easy for both Zambians and other nationals to access the Zambian Mission.

HARARE MISSION

Among the problems faced by staff at the Mission was the high inflation rate in the country which had made it difficult to plan for activities, including maintenance and rehabilitation of its properties. Due to the unfavourable exchange rate, the Mission only realised about US \$ 3, 000 per month from rentals. The disparity in the exchange rate had also rendered the incomes inadequate as the cost of commodities seemed to depend on the unofficial rate.

Properties

The Mission has a total of sixteen properties comprising the Chancery building and fifteen residential houses. The Mission rented out six houses mostly to Zambians and five of the seven floors at the Chancery were rented out to business entities. A professional real estate agent manages the leased properties.

As regards the title deeds for the properties, these were not traced at the Mission. Your Committee were informed that the titles to the properties were either with the Ministry of Lands or the Ministry of Works and Supply in Lusaka.

The Chancery

The Chancery is situated in the Central Business District and has seven floors. The Mission occupies the 6th and 7th floors but there were plans to change the occupancy pattern where the Mission would occupy the Ground, 1st and 5th Floors and lease-out the rest. At the time of the tour, two new elevators were being installed in the building to replace the old ones.

The building was generally in a good state although it had cracks in the walls and there were signs of leakages. There was need for major works to rewire the whole Chancery building, repair the toilets and paint both the outside and inside walls. The Chancery had inadequate security as there were no security cameras, metal detectors at the entrances and electrical security fence despite being located in the middle of town.

Properties Occupied by Tenants

House No.44, Sloans Road, Highlands

The structure had cracks in a number of rooms and these needed to be mended. The property, in view of the deteriorated security situation in the country, was not secure, as it had no security fence.

The servant quarters had cracks in one of the rooms and needed rehabilitation including electrical rewiring and painting.

House No. 16, Cockington, Mandara

The house was leased to a Zambian national. The roof was reported to leak during the rainy season and was proved by the stains on the ceiling, which was also being affected. The geyser was not functioning and the bathroom unit needed total replacement. The property was, however, still very intact.

It was also reported that the house needed to be rewired because the electrical system was quite old and outdated. There was also need to work on the dura wall, which was quite short. The drainage pipes were also worn out and needed to be replaced.

House No.10 Townstead, The Grange

The property was leased to a Zambian national. The house required extensive repairs to the roof, ceiling and rewiring. Most of these defects were caused by the leakages through the roof. The house needed painting the including the servants quarters. The swimming pool had cracks and needed mending. The tiles also needed replacing.

House No.5 Cowden Road, Chisipite

The property was leased to a Zambian national. The house was in a very bad state and needed extensive repairs including the servant's quarters. The water system was also reported to have developed faults and needed attention.

The bathrooms were run down and most of the tiles, cisterns and tiles needed to be replaced.

House No.8 Sims Road, Mount Pleasant

The property was generally run down and needed major repairs as it had cracked walls and the ceiling was deteriorating due to ants and termites attacks. The tiles were loose and losing colour especially in the toilets and bathrooms. The doors needed new mortice locks.

The house also needed electrical rewiring and removal of anthills.

House No.10 Carsberg, Alexandra Park

The house was intact but was not well maintained. The kitchen cupboards, tiles and handles had been eaten by termites and needed replacement.

The house generally needed electrical rewiring and replacement of electrical fittings such as bulb holders, sockets and others. The pipes were leaking and thus had affected the tiles, which had to be replaced. The shower was also not working.

The house had leakages in the roof. The servant quarters equally needed attention as it had leakages and other broken down fittings.

House No.7 Samson Close, Mount Pleasant

The house though intact structurally had leakages and the ceiling had been affected. The ceiling needed to be replaced. The walls were cracked and could affect the structure. Toilets also needed to be replaced as they were old and in a poor condition.

Houses Occupied by Diplomats

The High Commissioner's Residence: No. 4 Kevin Avenue, Chisipite

The house was situated in an area where water was a problem and usually had to be delivered. The area also faced constant power outages. The High Commissioner's family, therefore, usually spent a good part of the night in the dark because the standby generator at the Residence had limited capacity. Your Committee experienced the power interruption when they visited the Residence.

The bathrooms needed to be replaced, as they were old and unserviceable. Another area of concern was the inadequate security at the residence, as it had no security cameras or electrical fence. However, the Zimbabwean police had stationed an officer there.

The servant quarters needed serious repairs and were too small for two families. It, therefore, needed to be expanded.

House No.1 Alvold Road, Mount Pleasant

The Counsellor is occupied the house. The property was generally well looked after although it needed to be rewired and the water system needed attention.

Due to frequent black-outs and water shortages, there was need for a generator and a borehole.

House No.9 Pipedale, Borrowdale

The house is occupied by the Defence Attaché and was in a good condition. There were no major defects in the house. There were, however, leakages in the master bedroom and kitchen. The other problems were the power blackouts and water shortage. There was, therefore, need to install a standby generator and to sink a borehole.

House No.13 Shipstone, Greystone Park

The First Secretary (Economics) occupies the house. The house had leakages and needed painting. The electrical system was also giving problems. The house, therefore, required complete rewiring.

Due to erratic water supply, a borehole needed to be sunk and a generator for electricity installed.

House No.4 Arundel Road, Alexandra Park

The house was occupied by the Second Secretary (Finance) and was generally in good condition. The property, however, needed attention especially to the sewerage system. There were frequent blockages due to broken underground sewer pipes. The toilet cisterns and tiles needed replacement. The roof also needed attention as well as painting the house.

House No.17 Droitwich, Northwood

The Second Secretary (Admin) occupies the property. The house required rewiring as the occupants experienced electrical problems. There was a borehole at the property but it needed attention.

House No.58 Hurtsview, Reidgeview

This property is occupied by the Second Secretary (C&P) and was in good condition, structurally. There were, however, a few areas that needed attention, such as the toilet in the main bedroom and the kitchen units, all of which required to be replaced. The bedroom wardrobes also needed attention. In addition, due to the frequent power blackouts and water shortage, there was need for a standby generator and borehole.

House No.3 Verdi Lane, Strathaven

The property is occupied by the Third Secretary (P). Although the house was in a good condition, it had cracks in the walls that required attention. There were also other minor items such as broken windows that needed to be replaced.

Committee's Observations and Recommendations

Your Committee are happy that Zambia has a good number of properties some of which are decently maintained. However, there is no deliberate maintenance plan in place as evidenced by the deterioration of the properties most of which were built in the 1950s. The structures are, however, still intact, especially those occupied by mission staff since they are periodically maintained through the Mission's own initiatives. On the other hand most rented-out properties need major rehabilitation works. Of immediate importance, your

Committee request the Controlling Officer to ensure that security at the Chancery and the High Commissioner's Residence is improved.

LONDON MISSION

i) High Commissioner's Residence, 17 Courtenay Avenue, Highgate

During the inspection, your Committee were informed that it was a requirement that old buildings such as the Residence were restored to lengthen their life span. It was, therefore, imperative that Government begins planning for major restoration works on the house. It was quite evident that a number of houses in the area had actually been pulled down and new ones built.

Your Committee observed that as was reported in the Auditor-General's Report on the Accounts for 2003, general maintenance works were undertaken. However, they noticed structural cracks in the lounge, dining and the master bedroom. In a number of places there was water sipping through the walls.

The wooden windows and door frames had deteriorated due to old age coupled with lack of routine maintenance.

Title Deeds

The original title deeds for the property were not available.

Inventory List

An inventory list was available.

Insurance and Security

The property and its contents were insured but the house did not have an addition security system. In case of a theft, this could affect the amount claimable.

Unserviceable Stores

It was observed that there were a lot of unserviceable stores still kept at the house.

ii) 13 Foscote, Hendon NW4

The house was recently renovated and was in good condition. However, the house had a leakage problem and the contractor had not identified exactly what was causing it. The leakage needed attention as the water sippage was affecting the walls in the kitchen as well as the electrical wiring.

Title Deeds

The house had original title deeds. Your Committee were informed that the ownership of the house was at one time not very clear i.e. which wing of government owned it. However, this had been sorted out and it was officially the property for the Mission.

Insurance

The house was insured.

Inventory List

The Mission was not providing any furniture to the staff. The history of the house had made the keeping of an inventory list difficult. However, the few pieces of government furniture were identifiable.

Your Committee was further shown the renovated car garage for the house.

iii) *12 Chelmsford Square, Wilsden*

Though an official of the High Commission was living in the house, it needed urgent maintenance. Your Committee was shown the cracked walls, peeling-off ceiling, leakages, broken in-built wardrobes and worn-out wooden floor. In addition, the house had electrical problems.

Due to the state of the house, the High Commission had received complaints on the property, particularly neighbours who felt that the house was lowering the value of their properties.

Inventory List

The list was available for the few pieces of government furniture.

Insurance

The house was insured.

Unserviceable Stores

The house had a number of unserviceable stores.

Title Deeds

The original copy of the title deeds for the house was not available.

iv) *Chancery Building*

At the time of the inspection, renovation works were still being undertaken.

Your Committee were informed that in July 2005, the Tender Committee of the Ministry of Foreign Affairs approved an allocation of £225,670 for rehabilitation works at the Chancery.

The breakdown of the costs of works was as follows:

-	Roof and Structural repairs	£125,690
-	Interior face lift	£ 77,607
-	Exterior face lift	£ 25,000
-	Security Installation	£ 19,367

The remaining works were:

-	Curtaining	£42,500
-	Basement flooring	£15,000
-	Security grill gate	£ 5,500
-	Furniture	£15,000

There were also other works that were not in the original scope of works. These were:

- rehabilitation of toilets;
- lighting improvement to toilets and corridors; and
- polishing of marble and chandeliers.

The total cost of the remaining works would be in excess of £130,000 once the others were costed.

Your Committee learnt that the Zambia House, as the Chancery Building was called, was a listed building because a famous artist once lived there. There were therefore, restrictions on what works could be undertaken to avoid disturbing the heritage. In fact, the Mission does receive visitors who wanted to see among other things the artist's exhibition room.

Title Deeds

The original copy of title deeds for the property was not available.

Insurance

The building was insured up to August 2006. The Building will need revaluation after completion of the renovations.

Inventory Lists

Although inventory list were available, there were a number of unserviceable stores at the Mission.

Storage of Accountable documents

Your Committee observed that there was laxity in the storage of accountable documents in that general and visa receipt books were not under lock and key.

v) Other Issues

a) Revenue

Your Committee were informed that the Mission's average annual collection of visa and passport fees was about £124,000 in the period 2002 – 2005.

b) Outstanding Bills

Your Committee heard that the Mission did not have pressing outstanding bills, but there was a potential problem on the congestion charge. Central London had been designated a congestion area so any vehicle entering the zone was charged £8. Missions had collectively contested the charge and the matter was before the courts. If the courts ruled against them, the Mission will have to pay about £40,000.

c) Transport

Your Committee were informed that the current fleet of vehicles was adequate but the number of Zambian delegations into the United Kingdom was high and this was putting a lot of pressure on the vehicles as they had to frequently shuttle to and from the Airport within the same day.

d) VIP Lounge Fees

The Mission brought to the attention of your Committee that the Mission was incurring unbudgeted for expenses in form of VIP lounge fees. The Mission was annually incurring an amount of £6,000. The High Commissioner proposed that VIPs should utilise lounge facilities as provided in the business class tickets or carry imprest to settle the VIP lounge fees.

e) Zambians Living in the UK

The Mission was handling between 7 to 10 deserving cases of stranded Zambians in the United Kingdom. However, the number of Zambians living in the United Kingdom that had not registered with the Mission was high.

Committee's Observations and Recommendations

After the inspections and subsequent meeting with the Mission staff, your Committee observed and recommend as follows:

a) Properties

The renovation works that have been undertaken on the properties so far are satisfactory. They, however, express concern on the pending major rehabilitation works that will be needed to restore the High Commissioner's Residence.

They are also concerned with the state of House Number 12, Chelmsford Square, Wilsden.

They, therefore, recommend that:

- i) after the renovation works, the Chancery Building should be revaluated and insured appropriately;
- ii) they be provided with an update on the remaining renovations at the Chancery, and all the three residences particularly Number 12, Chelmsford Square; and
- iii) the Controlling Officer should ensure that measurers are put in place for the pending major rehabilitation works on the High Commissioner's Residence.

b) Other Matters

The Controlling Officer should make provisions for congestion charges that have accumulated to £40,000 should Missions lose their court case.

The Controlling officer should also liaise with Cabinet Office on the issue of VIP lounge fees which some Missions may be settling and are unbudgeted for.

BERLIN MISSION

Revenue

Your Committee heard that the Mission maintained three (3) bank accounts. Main Account for RDCs and Personal Emoluments, Construction Account and a Revenue Account for passport and visa fees.

The Mission on average raised about €31,000 (approximately US\$43,400 as of May 2006) per annum.

The Mission only utilised resources in the Revenue Account upon authorisation from the Controlling Officer.

The Ambassador admitted that at one time the Mission had used about \$7,000 without authority.

Outstanding Bills

As at 8th May 2006, the Mission's outstanding bills amounted to €25,056.98 (approximately US\$35,000). Your Committee were informed that to operate at normal capacity without accumulating bills, the Mission needed €14,000 (approximately US\$19,600) worth of funding every month.

Transport

The Mission needs another bus because the number of persons per visiting delegation was increasing steadily.

PARIS MISSION

The Paris Mission did not have specific audit queries that your Committee were following-up but wished to be familiar with its operations, particularly of a financial nature after it was reopened in 2004.

The Zambian Embassy in Paris was closed down in 1995 and reopened in 2004. The Charge d'Affaires informed your Committee that Zambia's absence from France had partly contributed to the shifting of the UNESCO Regional Office from Zambia to Zimbabwe.

Properties

The Zambian Government only owned one property in France which had been used as a residence, but was in a state of disrepair due to lack of routine maintenance. During the period that the Mission was closed, the property was leased-out to the North-Korean Government and was supervised by the Zambian Mission in Brussels.

Due to its state, the building was vacant although at the time of the visit, one of the maids at Ambassador's Residence and a "stranded" Zambian were temporarily staying there. Your Committee learnt that quotations for the renovation of the residence that were obtained averaged between €1,100,000 and €1,500,000 and were submitted to the relevant departments in Lusaka and it was later decided that the building be sold given the renovation cost and that the proceeds realised from the sale be used to acquire a suitable residence for the Ambassador.

A Government of the Republic of Zambia Board of Survey had visited Paris on two occasions in order to evaluate the property and make recommendations on the way forward.

Subsequently, the Board of Survey led by the Commissioner of Lands, recommended that the property be disposed-off as funding for renovation could not be mobilised in time to make it habitable

by the Ambassador who had hitherto been living in a small rented apartment not befitting the status of a Head of Mission.

Authority was subsequently given by copy of Powers of Attorney for the sale of the property and purchase of a residence and a chancery.

During the visit to Paris by the Auditor-General and her delegation in January 2006, a suggestion was made that the Old Residence be turned into a chancery considering the high rentals of €18,974 (US\$24,000.00) per month being incurred by government on the premises currently being used as a chancery.

After consultations with the Protocol Section in the French Ministry of Foreign Affairs on the intention to turn the old residence into a chancery, the matter had been referred to the Neuilly-sur-Seine Town Hall whose Mayor and councillors would examine the request and decide whether the idea was feasible or not.

However, the neighbourhood had mobilised itself to protest against the idea. In this regard, the Embassy had received an anonymous circular calling on all neighbours to sign a petition in order to block the process. This had been communicated to the Ministry of Foreign Affairs in Lusaka and it was the Mission's assessment that even if the French authorities granted them the permission to operate as a Chancery at the Old Residence, this could pose a security threat to the Embassy and its staff as the resentful neighbours could resort to acts of vandalism on the Embassy.

Your Committee were informed that it had been a deliberate policy by the French authorities to have embassies operate in a designated area which was referred to as "Golden Triangle". Therefore, as a accredited Mission, they were expected to respect the French laws and it would not be well perceived to fight the decree that affected everybody.

When asked if the Lease Agreement with the North Koreans did not state that the occupier should leave the premises upon vacation in the state in which they were found, the Charge d'Affaires replied that there was no copy of the contract available at the Mission, the Brussels Mission that was looking after the property could possibly assist.

Your Committee were informed that the property in its current state was valued between €2.5 million to €2.8 million if renovated the value could go up to €4.4 million.

On title deeds, your Committee were informed that copies were available, however, the original copy was under the custody of their lawyers as was required by French law.

With respect to insurance, the property was not insured at all. Insurance companies that were approached indicated that the risks were very high because the building was not up to the required standards.

A physical inspection of the property by your Committee revealed that the building needed an uplift to operate as a chancery. The occupants altered the interior of the building, which entailed extra costs to restore to the original design. Your Committee, however, did observe that across the street was a big private hospital, which signified that the area was not strictly for use as a residential place. Directly opposite the main entrance to the Old Residence was the mortuary.

Purchase of Property

A property had been identified for purchase as a residence for the Ambassador and authority to purchase the same had been granted by the Ministry of Finance and National Planning and a deposit of €800,000 (US\$965,571.52) had already been paid.

The total cost for the acquisition for the said property was €2,900,000 (US\$3,628,549.33) and the balance of €2.1 million was expected to be paid by 30th June 2006 at 1600 hours, failure to which the deposit paid would be forfeited to the seller as prescribed by French laws to defray expenses for time wasted.

The Ministry of Finance and National Planning had requested the Mission to renegotiate the payment up to June 30th 2006, to enable the Treasury raise the balance. To raise the initial payments, the Ministry of Finance and National Planning had granted authority to utilise revenues in other missions. Of the expected €1,585,853.78, only €805,537.12 had been received.

While appreciating the fact that authority to acquire a building was obtained, your Committee observed that the authority was granted on the understanding that Tender Board Authority would be obtained before proceeding with the purchase. In this case, there was no Tender Board Authority.

The Charge d’Affaires could not explain why the Mission had placed priority on the purchase of a residence other than a chancery building.

Your Committee visited the location of the house the Mission chose to purchase, but did not enter it.

Other Properties

All other properties including staff residences were rented. As per requirement of the French law, a security deposit had been made to be used in case of a default. The Government had so far paid €276,000 as security deposit.

Revenue

When the Mission was reopened, it was not processing any visas for about seven (7) months. At the time of the visit, the Mission had €8,000 in the Visa Account.

Your Committee were informed that the Mission could promote more visits and investments in Zambia but could not do much at the moment because of immigration restrictions particularly for tourists. In addition, there were no proper guidelines on investments in terms of sector and geographical locations.

Transport

The Mission had only two (2) vehicles, the representation and utility vehicles. The transport situation needed to be looked into.

Outstanding Bills

The Mission’s outstanding bills amounted to €22,664.19 as at April 2006. Being in one of the world’s most expensive cities, staff were finding it difficult to send their children to appropriate

schools i.e. where English was used as a medium of learning. They found the US\$9,000 per child education allowance inadequate and were, therefore, forced to top up from their living allowances. This was forcing officers to incur debts.

Way Forward

The Charge d’Affaires informed your Committee that the most important thing to do at the moment was to acquire two key properties, a Chancery and the Ambassador’s Residence.

Committee’s Observations and Recommendations

Following the visit, your Committee make the following observations and recommendations:

- i) Considering that there are issues on whether the old Residence can be turned into a Chancery or not, and that its entrance is directly opposite that of the mortuary, the Controlling Officer should consider the following:
 - source funds and pay-off the balance for the purchased building;
 - source funds and renovate the Old Residence and bring it to market value so that more money can be realised in case of a sale;
 - if the local authorities decide that the Old Residence cannot be used as a Chancery, the Mission can alternatively use it as a residence for other staff; and
 - to avoid paying the high rentals of €18,500 per month, the Mission should be advised to look for affordable cheaper premises.
- ii) The Controlling Officer should ensure that the Old Residence despite being not in a good state is adequately insured.
- iii) The Controlling Officer should obtain retrospective authority from the National Tender Board for the purchase of the Ambassador’s Residence in Paris. Your Committee will await progress on the matter including on the completion of payments and obtaining certificate of title. The Controlling Officer should also indicate measures taken to ensure that tender procedures are followed at all times.

Committee’s General Observations and Recommendations on Missions

After their tours, your Committee make the following general observations and recommendations:

1. Properties in Zambian missions abroad are generally lacking maintenance leading to the level of dilapidation that they are in. They, therefore, urge the Controlling Officer to encourage missions to have contracts for routine maintenance of properties. This your Committee believe, will be cheaper in the long run as there won’t be need for major rehabilitation as is the case in a number of properties today.
2. Considering that there are limited resources for maintenance of properties, your Committee advise the Controlling Officer to devise ways of raising additional resources. The same level of determination that has been shown to mobilise funds for the Paris Mission should apply to moneys for maintenance. The Controlling Officer should particularly ensure that rented-out properties from which the Government is receiving income are in a good state to attract worthy tenants.

3. Your Committee while appreciating that a good number of properties have papers to prove ownership, there is need for the Ministry of Foreign Affairs to ensure that all certificates of title for all properties are always available for scrutiny. Where original copies of title deeds cannot be traced, the missions should apply for duplicates. To this effect, they request the Controlling Officer to prepare a comprehensive list of all properties in missions abroad showing the status of title deeds and sum for which the property is insured.

Beginning 2007, all Missions should have in their possession certified copies of title deeds for properties owned by the State in the respective countries. To ensure compliance, the Controlling Officer should be undertaking regular inspections of Mission.

4. They further urge the Controlling Officer to improve record keeping in missions. It was unfortunate to note that there was very little information available on the property that was leased-out in Paris including the Lease Agreement itself.
5. Your Committee further call for the Ministry of Foreign Affairs to undertake a cost benefit analysis on which is cheaper in the long run, between renting property and servicing of mortgages. They would wait for the results of the exercise.
6. To enable missions attend to urgent matters, there is need for the Controlling Officer to initiate the process of revising the spending threshold without tender committee authority. The current level of K5,000,000 is too low, particularly in high cost countries.
7. Your Committee note there are intentions or plans to sell some “inappropriate” properties and acquire “appropriate” properties from the proceeds. They call on the Controlling Officer to exercise caution on the matter. Examples of success stories on these types of transaction are few if any at all. Property should only be sold where it becomes absolutely necessary, even then, laid down procedures should be followed.
8. Considering the continued fall in the value of the Dollar against major currencies and that living allowances for Mission staff are designated in dollars, your Committee request the Controlling Officer to liaise with the Ministry of Finance and National Planning on ways of lessening the impact of exchange losses. The staff in missions are there to serve the Government and should therefore not be subjected to financial pressure.
9. The Ministry of Foreign Affairs should start considering ways of addressing the issue of Zambians that became destitute in foreign countries. Your Committee wish to advise the Controlling Officer to undertake consultations on the matter with other stakeholders such as the Ministry of Community Development and Social Services and Non Governmental Organisations.
10. Your Committee strongly urge the Controlling Officer to look into the issue of unserviceable stores. Considering that it is expensive to send a board of survey to the missions, the Controlling Officer is advised to liaise with the Ministry of Finance and National Planning, and the Ministry of Works and Supply on how to make the process of disposing-off stores in missions abroad quicker.

Conclusion

44. Your Committee wish to express their gratitude to you Mr Speaker and the Office of the Clerk for the support rendered to them throughout their deliberations. Further, they are indebted to all the controlling officers who appeared before them and the Heads of missions that your Committee visited for their co-operation.

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

May 2006
LUSAKA

F Z Simenda, MP
CHAIRPERSON