

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR- GENERAL FOR 2010 ON THE ACCOUNTS OF PARASTATAL BODIES FOR THE FIRST SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON 2 NOVEMBER, 2011

Consisting of:

Mr V Mwale, MP (Chairperson); Mr H H Hamududu, MP; Mr C Mulenga, MP; Ms M Imenda, MP; Mr M Mbulakulima, MP; Mr C Matafwali, MP; Mr G Namulambe, MP; Mr A Milambo, MP; and Mr P Mucheleka, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report on the Report of the Auditor-General for 2010, on the Accounts for Parastatal Bodies.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held fifteen (15) meetings to consider the Report of the Auditor-General for 2010, on the Accounts of Parastatal Bodies.

Procedure adopted by the Committee

4. With technical guidance from the Auditor-General, the Accountant-General and the Controller of Internal Audit, your Committee considered both oral and written submissions from Controlling Officers and Chief Executive Officers of the twenty-one institutions that were reported on in the Audit Report. The Secretary to the Treasury was also requested to comment on all the twenty-one institutions.

In recognition of the fact that most of the matters raised in respect of the Zambia Telecommunications Company Limited were before the Courts of law your Committee resolved not to consider them as doing so would be contrary to our convention relating to not debating matters which are subjudice. Your Committee requested the Office of the Auditor-General to keep the matters, in view in future audits.

This Report also contains your Committee's observations and recommendations on the issues raised on the Ministry of Education, on Head 80 incorporated in the Auditor-General's report as an addendum.

Auditor-General's Comment

5. The Auditor-General reported that the Report of selected bodies for 2010, was submitted to the President for tabling in the National Assembly in accordance with the Constitution of the Republic of Zambia and the *Public Audit Act*, Cap 378 of the laws of Zambia.

Scope of Audit

- i) The Report was a result of a programme of test checks and reviews of the audited accounts of selected organisations for the financial years up to 31 December, 2010. Due to limited financial resources, the programme of work was restricted to twenty-one organisations.
- ii) In preparing the Report, draft report paragraphs were sent to Controlling Officers of the organisations' parent ministries and Chief Executive Officers for confirmation of the correctness of the facts presented. Where the comments were received and varied materially with the facts presented, the relevant items were amended appropriately.
- iii) Specific mention was made of non-preparation of financial statements, failure to remit statutory contributions, poor financial performance and weakness in procurement procedures in the respective organisations.

Response by the Secretary to the Treasury

6. The Secretary to the Treasury thanked the Auditor-General for having executed her role diligently, by providing a comprehensive report to the President and Parliament on the Accounts for Parastatal Bodies for the Financial Year ended 31 December, 2010. He noted that the report would greatly assist the Ministry of Finance as supervisor of these Institutions to identify the various weaknesses needing corrective measures.

The Secretary to the Treasury further submitted that Government particularly took note of:

- non-preparation of Financial Statements;
- weaknesses in the procurement system;
- failure to remit statutory obligations;
- lack of proper guidelines in implementation of Information Technology Systems in Parastatals;
- undercapitalisation of most of these organisation; and
- lack of controls and guidelines in the management of election funds by Local Authorities

As regards the scope of Audit and methodology used by the Auditor-General, the Secretary to the Treasury submitted that Government appreciated the interactive manner that characterised the Auditor-General's engagement with the various Chief Executive Officers of the affected organisations. This is encouraging as it provided checks and balances in the management of state-owned enterprises.

On Internal controls, the Secretary to the Treasury informed your Committee that the Treasury would continue engaging the Controlling Officers and the Chief Executive Officers on the need to cooperate and appreciate the role of the Auditor-General in their execution of duties, as custodian of Public Resources.

The Secretary to the Treasury explained that the Government was aware that some of the highlighted issues in the Auditor-General's report had been addressed by specific institutions. Nevertheless, where gaps still existed, Government was trying to resolve these issues by directing Boards and Management to

improve on these weaknesses, making changes at management level and strengthening the supervisory framework by putting professional persons on Boards to provide oversight to these institutions.

Further, the Government intended to strengthen monitoring and supervisory framework by developing policy and legislative framework. In this regard, a draft *State-owned Enterprise Policy and Act* on the supervision and monitoring of parastatal bodies has been developed and were undergoing internal Government procedures. Parliament would be updated once the process was finalised.

After the submission, your Committee wished to find out what the Government was doing to curb the practice of Controlling Officers neglecting or delaying to respond to matters that were still outstanding. The Secretary to the Treasury responded that he had found it unacceptable that even correspondence from his office on the matter was being ignored and he had resorted to writing to the Appointing Authority to indicate the laxity of some of the Controlling Officers in ensuring accountability.

Asked what the Government was doing to ensure that all parastatal bodies abide by the requirement to prepare financial reports, the Secretary to the Treasury submitted that the Government appreciated the importance of financial statements as it was the only way shareholders would know what was happening in a Company. He noted that under the current policy and legal framework, it was difficult to deal with people that were erring hence the new legal framework and policy which was being proposed to correct the situation. Consultation was currently being undertaken on the new legal framework and policy before being resubmitted to Cabinet for approval.

As to what Government was doing to ensure that all parastatal bodies met the requirement to remit statutory obligations to National Pension Scheme Authority (NAPSA), Zambia Revenue Authority (ZRA) and Local Authorities Superannuation Fund (LASF) as they fell due, the Secretary to the Treasury submitted that due to the fact that many bodies were facing liquidity problems amidst many demands, Government would resort to making deductions at source whenever there was a disbursement to be made.

On the challenges being faced by Administrator-General and Official Receiver's Office in resolving the issue of payment of terminal benefits due to Ex-LINTCO workers and what the Government was doing to address the matter, the Secretary to the Treasury explained that indeed the matter had taken long mainly due to the absence of a master list, which was understood to have been lost in a fire at Deloitte and Touche, the initial liquidator. He added that the Administrator-General had been asked to come up with a strategy to bring the matter to a close.

Regarding hefty allowances received as fees by staff under the Administrator-General and Officer Receiver's Office every time they participated in a receivership, the Secretary to the Treasury explained that he was aware that the Act allowed the Administrator-General to retain 5% for use on the hire of professional staff, but was not aware how it was being administered at the moment.

On how binding circulars and instructions issued by the Government from time to time were on independent entities, the Secretary to the Treasury responded that circulars were meant to bring sanity and equity in the public service, unfortunately when it came to conditions of service some bodies claimed to have the independence and the funding to make their own decisions. Unfortunately, there was no policy on how Government could intervene and prevent a certain decision from being taken.

On Government having suspended funding to the Citizens Economic Empowerment Commission (CEEC), the Secretary to the Treasury explained that the Controller of Internal Audit has completed her audit and a report was being awaited while the Auditor-General was undertaking another audit. The way forward in respect of the Commission, would only be determined after the two reports were presented and

studied. He submitted further that the model of the fund was actively being reconsidered in order to deal with the issues of patronage that had affected repayments.

Your Committee also wished to find out what measures were being put in place to ensure accountability of funds given to Local Authorities by the Electoral Commission of Zambia (ECZ) for election related activities. In response, the Secretary to the Treasury submitted that the major challenge was that the Commission did not have offices at district level, thereby relying heavily on Local Authorities, which, in most cases, did not have the capacity to handle huge sums of money. He added that Government was considering giving Treasury authority to enable the Commission expand its offices to the district level.

On the increasing number of institutions encountering failure of software packages and thereby having to change at great cost, the Secretary to the Treasury submitted that Government was also concerned with this state of affairs and was seeking ways to have it resolved by having a framework to follow, instead of the current situation where departments were not guided.

Regarding failure by MoFED Tanzania to obtain a clearing license, the Secretary to the Treasury informed your Committee that the delay was caused by the fact that the Company did not know the procedures to be followed in obtaining a clearing licence in Tanzania. He explained that this had since been clarified and it was hoped that the Company would be issued with a clearing certificate soon.

Committee's Key Observations and Recommendations

7. Your Committee has made observations and recommendations on every matter that was raised by the Auditor-General in her report, but set out below, are a few key observations and recommendations which your Committee wishes to highlight.

a) Failure to Produce Annual Reports

Your Committee expresses concern at the continued failure by most parastatal bodies to produce annual reports as provided for in their companies' articles of association. Main culprits in this regard include the Citizens Economic Empowerment Commission (CEEC), Tanzania Zambia Railway Authority (TAZARA), Tobacco Board of Zambia (TBZ) and the Zambia Postal Services Corporation (ZAMPOST). This is unacceptable as in the absence of these reports, stakeholders such as the Government and Parliament are denied the opportunity to understand and assess the performance of the parastatal bodies.

Your Committee notes the submission of the Secretary to the Treasury that under the current policy and legal framework, it is difficult to deal with agencies that are erring hence the new policy and legal framework which is being proposed by the Government to correct the situation.

Your Committee, therefore, urges the Government to expedite the process of putting the policy and legal framework in place, which will enhance the supervisory role of the Government on the parastatal bodies.

b) Failure to follow tender procedures

Your Committee notes with concern the increasing cases of parastatal bodies failing to follow tender procedures which unfortunately in, most cases, has been let to go unpunished. For example, at Mulungushi International Conference Centre, a tender for the installation of air conditioning units awarded to one company at a contract price of K210,330,470 was split into

four LPOs and four payments were made to the Company on the same day. Your Committee notes that this is great dishonest which should not be tolerated.

Your Committee, therefore urges the Secretary to the Treasury to impress upon the managements and Boards in these parastatal bodies to strictly observe procurement procedures.

c) **Failure to pay Terminal Benefits**

Your Committee expresses concern at the failure by some Parastatal bodies to pay terminal benefits to their former employees resulting in huge outstanding amounts being accrued which the institutions themselves cannot afford to offset. The case in point is the University of Zambia (UNZA) whose outstanding long service bonus and gratuity to serving and retired employees has risen to K312,621,214,030. Another example is the TAZARA with outstanding amounts of up to K31,448,946,724.

Your Committee urges the Secretary to the Treasury to work with UNZA management to help address this matter as it has been outstanding for too long.

d) **Failure to attend to Outstanding Issues**

Your Committee notes with concern at the failure by the controlling officers to respond in a timely manner to matters raised by your Committee in their reports. This has resulted in many matters remaining outstanding for many years rendering the recommendations of your Committee meaningless due to passage of time. For example, the current appendix to your Committee's report shows that out of a total number of 315 outstanding issues only 111, representing 35%, have been satisfactorily attended to and recommended for closure by your Committee, while 204 representing 65% have remained outstanding. The main reason for this state of affairs is failure by the controlling officers to provide responses to the issues. This situation should not be allowed to continue as it undermines the oversight role of your Committee and indeed the House.

Your Committee is consoled by the assurance by the the Secretary to the Treasury when he appeared before it that he would monitor the matter closely and report to the Appointing Authority, any controlling officer who would be found wanting in ensuring accountability of public funds. Your Committee, therefore, urges the Secretary to the Treasury to keep his word to enhance monitoring of the performance of controlling officers in order to prevent laxity in their work. Your Committee will keep this matter in view in future.

e) **Failure to conclude payment of Ex-Lint Company of Zambia(LINTCO) workers**

Your Committee expresses concern that despite the Office of the Administrator-General and Official Receiver paying out K38,519,656,621 as of December, 2011, to ex-LINTCO employees, there are still counter claims and the matter seems far from being resolved. Your Committee is concerned that due to unavailability of a master list of all the ex LINTCO workers this matter might not be concluded soon as claimants will continue coming forward.

Your Committee urges the Government to devise ways to ensure that this matter is brought to its conclusive end. Further, the Administrator-General and Official Receiver is urged to improve record keeping by having readily available details of all the employees that have been paid to date.

f) **Citizens Economic Empowerment Commission (CEEC)**

Your Committee observes that although the Government had good intentions when it established the Citizens Economic Empowerment Commission (CEEC), it has failed to perform its mandate due to mismanagement. The Commission has become a regular feature in the report of the Auditor-General with all sorts of accounting irregularities which have resulted in the Treasury suspending a lot of funds. Further, the Commission has performed dismally in having the loans paid back to the extent that billions of kwacha have remained unpaid. This is against the spirit of the fund as it was meant to operate as a revolving fund.

Your Committee, therefore, urges the Government to address matters to do with the Commission expeditiously so that it cannot be kept in limbo for a long time which could lead the things at the institution degenerating further. Further, your Committee urges the Management of the Commission to enhance efforts to ensure that there is repayment of the loans within the agreed periods so that the money can be made available to other needy Zambians.

g) **Failure to Account for Electoral Commission Funds**

Your Committee expresses concern at the failure by the Local Authorities across the country to account for the large sums of money availed to them for purposes of undertaking election related activities. Your Committee notes that the Electoral Commission of Zambia (ECZ) uses the local authorities because it has not been decentralised to district level, which arrangement has proved costly to the nation due to massive abuse of these funds by the local authorities.

Your Committee urges the Government to consider granting Treasury authority to the ECZ to decentralise its operations up to the district level. In the meantime, the Controlling Officer for the ECZ should engage the Ministry of Local Government and Housing to devise ways of enhancing accountability of these funds. Mechanisms should be put in place to ensure that officers failing to account for the funds face disciplinary actions unlike the present situation where nothing seems to be done despite the rampant irregularities.

h) **Redundant/Defective Software Failures**

Your Committee observes with concern the rising number of organisations that are being cited in the Auditor-General's report for procuring defective software packages that end up being a security risk or becoming completely redundant. The case in point includes institutions such as the UNZA, the Road Transport and Safety Agency (RTSA), the National Saving Credit Bank (NATSAVE) and the TAZARA. All these institutions procured software, which unfortunately has to be replaced, at great cost, due to failures that surfaced after procurement. In the view of your Committee, this is attributable to failure by managements in these institutions to carry out due diligence studies in order to minimise the risk of failure and avert loss of public funds.

Your Committee, therefore, urges the Government to develop measures that will assist in arresting this trend. The procurement of software should be subjected to rigorous scrutiny in order to reduce on the failure rate.

i) **Poor Corporate Governance**

Your Committee observes with concern the general poor corporate governance exhibited in some parastatal bodies during the period under review. In most cases, decisions were made by

management without approval of the Board while in some cases there was lack of adequate members of the Boards which was at variance with the various Acts governing their mandates. These organisations included the ZAMPOST, TBZ, National Housing Authority (NHA), Mulungushi International Conference Centre and the NAPSA. This resulted in decisions being made that were not in the best interest of the organisation.

The worst case scenario in this regard is at the ZAMPOST, where during the period from April, 2006 to January, 2011, there were only three members on the Board but the Board continued to hold meetings. This was contrary to the *Postal Services Act*, which stipulates that five members of the Board shall form a quorum. Your Committee is concerned that during this time a lot of decisions were made by this Board that were not in the best interest of the organisation as can be seen in your Committee's report under ZAMPOST. Your Committee lays the blame for this state of affairs on the parent Ministry that failed, in its duties, to ensure that an effective Board was in place as stipulated by the Act.

Your Committee urges the Government to ensure that membership of Boards at all times is according to the provisions of the relevant Acts for all parastatal bodies in order to ensure that the principles of good corporate governance are upheld. No organisation should be allowed to operate without sufficient membership of the Boards if they are to deliver on their various mandates for which they were established.

j) **Failure to Observe Government Guidelines**

Your Committee notes with concern that some Government agencies are ignoring Government guidelines and circulars on the basis of the independence and autonomy granted to them by the law. Your Committee is of the view that Government circulars are issued to ensure that there is equity and sanity in public institutions and the habit of ignoring such guidelines should, therefore, be discouraged.

For example, despite the Public Service Management Division Circular No. B.2 of 2007, which stipulates that non private practice allowance shall be paid to legal practitioners in Government service and that officers in receipt of such an allowance shall not be eligible for payment of recruitment and retention allowance, the ECZ was paying both retention and non-practice allowance at the rate of 20% of their monthly basic salary. The Management stated that the payment of retention allowance and non- private practice allowances was determined by the Commission in accordance with the *Electoral Commission Act No. 24 of 1996* which supersedes Government circulars.

Your Committee is of the view that in order to ensure sanity and equity in public institutions, all government agencies should, despite the independence granted to them in the enabling Acts, endeavour to ensure that their decisions are in line with Government guidelines. The Secretary to the Cabinet is urged to constantly engage all Government agencies to ensure Government's intentions in the circulars are appreciated and complied with.

CONSIDERATION OF SUBMISSIONS

ADMINISTRATOR-GENERAL AND OFFICIAL RECEIVER

Query

Paragraph 4

8. The Office of the Administrator-General and Official Receiver (OAG & OR) was created by the *Administrator General Act*, Cap 58 of the Laws of Zambia to administer, as a statutory obligation, the estates of any person who dies intestate leaving property as executor under a Will or when executors named in the Will renounce their appointment in favour of the Administrator General.

Accounting and Other Irregularities

a) **Inadequate Staffing Levels**

The Controlling Officer submitted to your Committee that the Ministry establishment did not, at the time of audit, have positions in the provinces despite having offices. Therefore, provincial offices have been occupied by staff transferred from Headquarters. The Controlling Officer reported that the establishment for the Ndola office has since been approved by Public Service Management Division (PSMD) and the Ministry was awaiting for treasury authority to permanently fill up the positions. Your Committee was further informed that the Estates Examiner who was manning the Ndola regional office died last year. Due to manpower challenges, the Ministry could not replace him on time. However, the Ministry has since transferred an Estates Examiner, an Accounts Assistant and a Registry Clerk from Lusaka to the Ndola office to fill some of the vacancies.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until all the vacancies are filled so that the office can adequately execute its mandate. Your Committee will await a progress report on the matter.

b) **Revenue**

i. *Lack of Segregation of Duties*

The Controlling Officer informed your Committee that the Department has attached one Registry Clerk who has accounting qualifications to perform accounts duties, with a view of promoting her to the position of Accounts Assistant. The officer handled receipting, while the custody of cash was handled by the Accountant.

Committee's Observations and Recommendations

In closing the matter, your Committee strongly urges the Controlling Officer to ensure strong internal controls are in place at all times to safeguard public funds.

ii. *Failure to Prepare Bank Reconciliations*

The Controlling Officer informed your Committee that at the time of audit, not all the accounts maintained were reconciled. This was due to lack of staff as there were only two Accountants in the Department. Your Committee was, however, informed that all the bank reconciliation statements had been prepared and were available for verification.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Controlling officer to caution the accounting staff who failed to perform their duties as a shortfall in staff cannot be an excuse enough.

iii. *Failure to maintain a Register of Accountable Documents*

Your Committee was informed that the register of accountable documents was not available to the auditors at the time of audit as the Department depended on the register kept at the Ministry headquarters. The Ministry receives a lot of receipt books from the Ministry of Finance, which it records in the register and stored at the Ministry headquarters. The Ministry would only release one or two receipt books at a time to the Department when need arose. The Controlling Officer submitted that the register of accountable documents was now maintained at the Department and was available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all accounting documents are properly maintained and available at all times. The Office of the Auditor-general is requested to verify the matter before it can be closed.

iii. *Failure to maintain a General Revenue Cash Book*

Your Committee was informed by the Controlling Officer that the General Revenue Cash Book was not maintained at the time of audit. However, the General Revenue Cash Book has since been maintained and the auditors indicated, during verification, that this matter would be kept in view for the next audit. The total revenue raised in 2010, was K86,726,046.25.

Committee's Observations and Recommendations

Your Committee notes the response and closes the matter subject to verification.

c) **Unretired Imprest-K31,557,784**

The Controlling Officer submitted that imprest amounting to K31,557,784 issued to seven officers has been retired. The documents were available to the auditors when they came for verification and were still available for further verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to ensure imprest is retired in accordance with financial regulations and urges the Controlling Officer to ensure that disciplinary action is taken against the accounting officer(s) who should have followed up the retirement of the imprests. Meanwhile, the retirement details should be available to the Office of the Auditor-General for verification. They await a progress report on the matter.

d) **Inadequately supported payments**

The Controlling officer informed your Committee that receipts for fifty-six payments totaling K192,132,310 made from the deceased estates account were not given to the auditors at the time of audit. The receipts were at the material time filed in the estates files and were now available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to produce the supporting documents during the audit process and urges the Controlling Officer to ensure that disciplinary action is taken against the officer (s) responsible for the omission. Your Committee resolves to close the matter subject to verification.

e) **Non-Current Assets**

i. *Failure to Update the Fixed Asset Register*

The Controlling Officer submitted that the register of fixed assets was not regularly updated at the time of audit. However, the updated register was availed to the auditors when they came for verification and was still available for further verification.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Controlling Officer to caution the officers who fail to maintain the registers as per their job descriptions.

ii. *Failure to account for Disposal Proceeds*

The Controlling Officer informed your Committee that the two properties, namely farm number 47a/1/V, Mapepe, and a residential house, stand number 11749/15 situated in Lusaka were sold by the Department in 2008 and 2004, respectively. The farm was sold to the highest bidder through a tender process at K460,000,000 on the 2 of January, 2008, and the house was sold at 150,000,000 as per the valuation report in 2004. Contracts of sale and print-outs from Ministry of Lands were available for verification. The proceeds amounting to K150,000,000 for the residential house were deposited in the estates account in 2004, while the proceeds of the farm amounting to K228,000,000 were deposited in a fixed deposit account at ZANACO Bank and K232,000,000 was deposited in the estates account.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification. Your Committee, however, strongly cautions the Controlling Officer to pay attention to future audits so that such queries could be resolved before the matter is included in the final audit report.

iii. *Failure to Label Assets with Unique Identification Marks*

The Controlling Officer informed your Committee that the Ministry has written to the Ministry of Works and Supply requesting them to label all the equipment. Officers from

the Ministry came to view the assets, but have not come back. As a follow up on the issue the Ministry has written to the Permanent Secretary, Ministry of Transport, Works, Supply and Communication and the evidence was available for verification.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the properties are properly labeled and verified by the Office of the Auditor-General.

f) Investments

i. Failure to account for Investment Funds

The Controlling Officer submitted that the Department transferred K90,426,412,197.01 to Ministry of Finance leaving a balance of K8,728,005,500.33 for the running of RAMCOZ (in liquidation). The money was left to carter for incidentals such as closure of creditors files, transfer of RAMCOZ assets, outstanding court cases, fuel and travel expenses, outstanding terminal benefits, security of assets, Luanshya Municipal Council rates, RAMCOZ officers salaries, RAMCOZ office expenses and advertising on winding up of RAMCOZ. Documents showing expenditure and cashbooks were available for verification. The Controlling Officer further reported that two dollar accounts with a balance of US\$338,544.11 and US\$21,130.03 totalling US\$359,675.03 were surrendered to Ministry of Finance in 2010 and who were currently handling it.

Further, your Committee was informed that section 110 (1) of *the Companies Act*, Cap 388 of the Laws of Zambia, provides as follows -

Where –

(a) A receiver is appointed on behalf of the holder or trustee of any debenture of a company that is secured by floating charge; or

(b) Possession is taken by or on behalf of such a person; of property comprised in or subject to the charge, then, if the company is not at the time in the course of being wound-up, the debts which in every winding-up are, under section 346 (relating to preferential payments) to be paid in priority to all other debts shall be paid out of any assets coming to the hands of the receiver or the person taking possession in priority to any claim for principal or interest in respect of the debentures.

This section –

1. allows the receiver, in this case the Administrator General and official Receiver, to pay for the preferential debts which include taxes, rates and salaries even before paying the debenture holder, in this case, Government; and

2. allows the Receiver to pay those preferential creditors using money realised from the sale of Ramcoz assets

The Controlling Officer noted that the Administrator-General and Official Receiver, therefore, was in order to retain the Nine Billion Kwacha for the use of paying inter alia, rates and terminal benefits. Your Committee was further informed that Government was given the Ninety Billion Kwacha in its capacity as a preferential creditor to Ramcoz.

Committee's Observations and Recommendations

Your Committee in noting the submission requests the Office of the Auditor-General to verify how the nine billion retained by the Administrator-General and Official Receiver was expended. They await a progress on the matter.

ii. *Poor Management of Investment Property*

The Controlling Officer submitted that the warehouse in Ndola was rented by ZRA since 2001. Rental payments were up-to-date and a signed copy of the lease agreement and a statement of account from ZRA were available for verification.

Committee's Observations and Recommendations

Your Committee does not understand why these details were not availed to the auditors during audit and cautioned that not paying attention to audits will not be taken lightly. They resolve to close the matter subject to audit verification.

g) **Pending Litigations**

The Controlling Officer informed your Committee that pending litigations records were available for verification. The background information was found in the estates files, while the pending litigation files only had the information pertaining to court cases.

Committee's Observations and Recommendations

Your Committee expresses concern that records of the litigation cases were not availed to the auditors during audit and urges the Controlling Officer to put up measures to improve record keeping. Further, officers responsible for poor record keeping should be cautioned. They resolve to close the matter subject to audit verification.

h) **Payment of Terminal Benefits – Former Lint Company of Zambia (LINTCO) (In Liquidation) Employees**

i) *Failure to Prove Genuineness of Claims*

The Controlling Officer submitted that at the time of audit, the total number of ex-employees was not availed to the auditors because the liquidation had passed through many liquidators namely; Zambia Privatisation Agency; and Deloitte and Touché, who were interim managers before the Administrator General took over. The Controlling Officer submitted that the previous managers did not handover the ex-employee master list to the current liquidator. The Ministry requested Delotti and Touché, who were the previous interim managers, to handover all documents pertaining to LINTCO, including the master list but this was not availed because it was burnt in a fire. Your Committee was informed that Court judgment COMP. NO. 24 of 1996 allowed ex-employees of LINTCO to use photocopies of redundancy letters.

Committee's Observations and Recommendations

Your Committee finds the reasons advanced for the missing master list unfortunate as the two intial liquidators should have ensured that copies were kept. Your Committee

expresses concern that without a master list the matter will not be resolved and urges the Government to work closely with the initial liquidators and claimants to come up with a credible list to address the matter conclusively. They await a progress report on the matter.

ii. *No details on what was still owed to the Ex-LINTCO Employees*

Your Committee was informed that the Ministry did not avail the auditor's details of how much was owed to ex-LINTCO employees at the time of audit because the amount was not known due to non availability of the ex-employees master list. The actual amount owing was only known upon submission of documents by the ex-employees and claims were computed. Therefore, it was not possible to determine how much was owed to ex-LINTCO employees.

Committee's Observations and Recommendations

Your Committee observes that this matter has stalled and if not urgently addressed, the Government will continue to lose a lot of money. Despite the Administrator-General's Office paying out a lot of money to retirees, counter claims have continued to be lodged in by ex-employees which is worrisome. Your Committee is of the view that the major cause of the problem is the absence of the master list of retirees, which is purported to have been lost in a fire which took place at the initial receivers, Deloitte and Touché. Your Committee, therefore, recommends that the Administrator General and other stakeholders should work together to ensure that the matter is exhaustively addressed.

i) **RAMCOZ (in Receivership)**

i. *Poor Asset Management*

The Controlling Officer informed your Committee that the Official Receiver took over the properties from the previous liquidators in a dilapidated state. The mandate of the Administrator-General and Official Receiver was to sell the assets of the Company (in liquidation) in their current state and not to renovate the properties. As for the safe guarding of the properties, a security company called Safetech was engaged to guard the premises, until last year when the services were discontinued due to the Company increasing its charges. Tenancy Agreements relating to the assets were available for verification.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification

ii. *Outstanding Rentals-K1,778,785,972*

Your Committee was informed that the Department attempted, through the courts, to collect rentals from sitting tenants, but this was discontinued as the Government policy, at the time, was to sell the properties without including rental arrears. The residential houses have since been sold. With regards to the commercial properties, Your Committee was informed that the Administrator-General and Official Receiver has on numerous occasions written demand letters for rentals. The latest letters were written in January, 2012. So far, the Ministry managed to collect K8,700,000.

Committee's Observations and Recommendations

Your Committee notes the submission, but resolves not to close the matter until the amount of rental arrears from commercial properties reduced significantly. They await a progress report on the matter.

iii. *Accident involving Motor Vehicle Registration No. ACD 3104*

Your Committee was informed that the Ministry of Finance was handling the issue at the time of the accident because the person who was driving the vehicle was an Accountant seconded to RAMCOZ from Ministry of Finance. The Ministry has since written a letter to Ministry of Finance requesting for a copy of the police report for their records.

Committee's Observations and Recommendations

Your Committee expresses concern at the Ministry's failure to aggressively attend to this matter and, therefore, urges the Controlling Officer to ensure that the loss report is obtained so that the matter could be closed.

iv. *Lack of Title Deeds for RAMCOZ (In Receivership) Infrastructure*

The Controlling Officer submitted to your Committee that all the sixty-two properties in Luanshya sat on four large farms. The plots were numbered 861,864, 865 and 867 and belonged to RAMCOZ. At the time of audit, the Ministry did not have the original title deeds for the farms. No efforts were made to secure duplicate title deeds as the Ministry was in the process of selling the properties. Subdivisions have been done and diagrams were ready. The new titles would thus, come out in the new owners' names. Furthermore, print outs from Ministry of Lands to prove the Ministry's ownership were available for verification.

Committee's Observations and Recommendations

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

v. *Missing Payment Voucher-K65,000,000*

The Controlling Officer submitted that the payment voucher amounting to K65,000,000 was misfiled at the time of audit. However, the Ministry has since located the voucher and it was available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution the officer responsible for the anomaly and to submit the traced payment voucher to the Office of the Auditor-General for verification after which the matter can be closed.

vi. *Unretired Imprest-K32,173,680*

The Controlling Officer informed your Committee that all the imprest totalling K32,173,680 issued to six officers has been retired.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to ensure imprest is retired in accordance with financial regulations and urges the Controlling Officer to ensure that disciplinary action is taken against the accounting officer(s) who should have followed up the retirement of the imprests. Meanwhile, the retirement details should be availed to the Office of the Auditor-General for verification before the matter can be closed.

vii. *Irregular Payments- Administrator-General's Fees*

The Controlling Officer submitted that the payments made to the members of staff were in accordance with *the Companies Act, CAP 388* of the Laws of Zambia.

Section 285 (4) of *the Companies Act* provides as follows-

“Subject to any order of Court, the Official Receiver when acting as a liquidator or provisional liquidator of a company shall be entitled to receive such remuneration by way of commission or otherwise as may be prescribed”.

Further, section 109(6) of the Law of Property Act, 1925 provides that -

“The receiver shall be entitled to retain out of any money received by him, for his remuneration, and in satisfaction of all costs, charges, and expenses incurred by him as receiver, a commission at such rate, not exceeding five per centum on the gross amount of all money received, as is specified in his appointment, and if no rate is so specified, then at the rate of five per centum on that gross amount, or at such other rate as the court thinks fit to allow, on application made by him for that purpose”.

The above section allows the person appointed as the Official Receiver to receive remuneration in their capacity as Official Receiver. These fees were not Government revenue.

Committee's Observations and Recommendations

Your Committee is not satisfied by the response by the Controlling Officer as it is of the view that the offices of the Administrator-General and Official Receiver is a public office and receives funds from the Treasury for its operations and, therefore, what is collected should form part of Government revenue. The Controlling Officer, is therefore, urged to seek guidance from the Attorney-General on how these fees should be handled. They await a progress report on the matter.

j) Mansa Batteries (In Receivership)

i. *Use of Revenue at Source-K174,104,939*

The Controlling Officer submitted to your Committee that due to the nature of the business of a guest house, where stocks needed to be purchased on a daily basis, it became necessary for money to be used at source. She stated that accounts were located and controlled from Lusaka and all the money used at source had been accounted for.

Further, as advised by the auditors, one account has been transferred back to Mansa so that the daily takings could be banked immediately. This account would be monitored on a monthly basis by accountants from Lusaka.

Committee's Observations and Recommendations

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

ii. *Unreconciled Talk-Time Sales*

The Controlling Officer informed your Committee that the total number of talk time purchased in the period 2009 and 2010 was 41,649 scratch cards and the total profit made was K11,342,250. Your Committee heard that K8,312,500 was for Airtel, K684,750 for Celz/Zamtel and K2,345,000 for MTN. Records were availed to the auditors and were still available for further verification.

Committee's Observations and Recommendations

Your Committee wonders why these records were not available during audits and cautioned that in future such conduct will not be taken lightly as your Committee will recommend disciplinary action. Your Committee resolves to close the matter subject to audit verification.

iii. *Missing Receipt Books*

The Controlling Officer informed your Committee that five receipt books were available and were availed to the auditors for verification.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification

iv. *Uncollected House Rental Revenue*

The Controlling Officer submitted that the accrued rentals as at 31 December, 2010, amounted to K282,290,000. Demand letters were written to the tenants last year and they have since started paying the outstanding rentals. The Controlling Officer stated that the outstanding balance would be vigorously pursued. However, documents were available for verification.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the balance is recovered.

v. *Failure to maintain the Register of Accountable Documents*

The Controlling Officer submitted that the register of accountable documents was not maintained at the time of audit. However, it has since been opened and was available for verification. The total number of receipt books used in 2009 and 2010, was seventy-nine.

Committee's Observations and Recommendations

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

vi. *Failure to Prepare Bank Reconciliation Statements*

The Controlling Officer informed your Committee that bank reconciliation statements had been prepared and were available for verification.

Committee's Observations and Recommendations

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

vii. *Payments Made Without Authority-K109,000,000*

The Controlling Officer submitted that the payments made to the members of staff were in accordance with the *Companies Act*, Cap 388 of the Laws of Zambia.

Section 285 (4) of the Companies Act, Cap 388 of the Laws of Zambia provides as follows -

"Subject to any order of Court, the Official Receiver when acting as a liquidator or provisional liquidator of a company shall be entitled to receive such remuneration by way of commission or otherwise as may be prescribed".

Section 109(6) of the Law of Property Act, 1925 provides as follows:

"The receiver shall be entitled to retain out of any money received by him, for his remuneration, and in satisfaction of all costs, charges, and expenses incurred by him as receiver, a commission at such rate, not exceeding five percentum on the gross amount of all money received, as is specified in his appointment, and if no rate is so specified, then at the rate of five per centum on that gross amount, or at such other rate as the court thinks fit to allow, on application made by him for that purpose".

The above section therefore, allows the person appointed as the Official Receiver to receive remuneration in their capacity as Official Receiver. These fees were however, not Government revenue.

Committee's Observations and Recommendations

Your Committee is not satisfied by the response by the Controlling Officer as it is of the view that the Administrator General and Official Receiver is a public office and receives funds from the Treasury for its operations and, therefore, what is collected should form part of Government revenue. The Controlling Officer is, therefore, urged to seek guidance from the Attorney-General on how these fees should be handled. They await a progress report on the matter.

k) **Kapiri Glass (In Receivership)**

i. *Missing Payment Voucher and Backing Sheets-K500,000,000*

The Controlling Officer informed your Committee that all documents were available and ready for verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to produce the missing payment voucher and backing sheets during the audit and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the missing payment voucher and backing sheets. Your Committee resolves to close the matter subject to verification.

ii. *Failure to Maintain Cashbooks and Ledgers*

The Controlling Officer submitted that bank reconciliation statements had been prepared and cash books were available for verification.

Committee's Observations and Recommendations

Your Committee recommends that disciplinary action should be taken against the officer(s) who failed to maintain the said cashbooks and ledgers and they await a progress report on the matter.

CITIZENS ECONOMIC EMPOWERMENT COMMISSION (CEEC)

Query

Paragraph 5

Background

9. The Citizens Economic Empowerment Commission (CEEC) was established under the *Citizens Economic Empowerment Act No.9 of 2006*. The Commission has the following functions among others:

- to promote the empowerment of citizens that are or have been marginalised or disadvantaged and whose access to economic resources and development capacity has been constrained due to various factors including race, sex, education background, status and disability;
- to promote gender-equality in accessing, owning, controlling, managing and exploiting economic resources;
- to encourage effective and meaningful participation of targeted citizens in the economy in order to contribute to sustainable economic growth;
- to ensure equal opportunities for, and where necessary, ensure preferential treatment to, targeted citizens ,citizens empowered companies, citizen influenced companies and citizens owned companies in accessing procurement contracts and other services of any state institutions; and,
- to review the framework for the provision of development services to micro and

small businesses in response to changing circumstances.

Review of Operations

Secretariat

a) Understaffing of the Commission

The Controlling Officer submitted to your Committee that the current staff establishment was sixty-five members of staff. As of May, 2012, the Commission had filled five more positions leaving twelve positions still vacant. Your Committee was informed that the vacant positions could not be filled due to the insufficient budgetary allocation. Consequently, Management wrote to the Management Development Division (MDD) to request for an organisational restructuring of the Commission and approve the recommendations on the staffing levels.

Committee's Observations and Recommendations

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

b) Failure to Produce Financial Statements

i. Audited Financial Statements

The Controlling Officer submitted that the Commission has finalised the 2009 and 2010, Accounts and has since written to the Auditor-General to have them certified.

Committee's Observations and Recommendations

Your Committee expresses concern that the Commission failed to be current with the preparation of financial statements without cause and urges the Management to ensure that in future, financial statements are prepared in accordance with financial regulations. Your Committee resolves to close the matter as soon as the statements of accounts are certified.

ii. Annual Administration Reports

The Controlling officer submitted that the annual administration reports for 2009 and 2010, have not been prepared due to the non finalisation of the financial statements for respective years. Once the financial statements have been certified, the Annual Reports would be produced.

Committee's Observations and Recommendations

Your Committee expresses disappointment at the failure by the Commission to finalise the financial statements during the audit process. Your Committee resolves not to close the matter until the annual reports are produced and verified. Your Committee therefore, resolves to await a progress report on the matter.

c) **Inadequately Supported Payments-K183, 288,963**

The Controlling officer informed your Committee that Management has put measures in place to ensure that this did not recur in future. Measures put in place include orienting staff on accounting procedures and making follow-ups on payments for supporting documentation. Management has included this as a performance measure.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Commission to produce the supporting documents during the audit process and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the omission. Your Committee resolves not to close the matter until the supporting documents are availed to the office of the Auditor-General for verification. Your Committee will, therefore, await a progress report on the matter.

d) **Unretired Imprest - K78,002,000**

The Controlling Officer submitted that management has commenced the process of recovering the unretired imprest from the officers concerned.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution the erring officers and provide a progress report on the recoveries.

e) **Failure to follow Tender Procedures**

The Controlling officer informed your Committee that in line with public procurement guidelines, Management has put measures in place to make sure that all procurements were in accordance with public procurement guidelines. Among the measures put in place to institute compliance included, segregation of duties and all procurement related functions dealt by the procurement unit.

Committee's Observations and Recommendations

Your Committee resolves to close the matter, but requests the office of the Auditor-General to keep the matter in view in future audits.

f) **Missing Payment Vouchers - K19,432,000**

The Controlling Officer informed your Committee that the two outstanding payment vouchers could not be located due to the poor filing system at the time. Measures put in place to correct this anomaly included orienting staff in record keeping and regular internal audit reviews.

Committee's Observations and Recommendations

Your Committee resolves to uphold this query until the missing vouchers are availed for verification. Your Committee further questions the rationale behind not having staff oriented in record keeping and regular internal audit.

g) **Unaccounted for Petty Cash - K74,095,172**

The Controlling Officer submitted that management has commenced the process of recovering the unretired petty cash imprest from the officers concerned.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against the officers in addition to the recoveries. Your Committee awaits a progress report on the matter.

h) **Irregular Purchase of Talk Time - K104,650,000**

The Controlling Officer informed your Committee that the Commission paid amounts totalling K104,650,000 as airtime allowances to various members of staff. This was according to the agreed conditions of service as stated in their contracts of employment. However, since the entitlement to air time in the CEEC conditions of service was only restricted to senior management, this anomaly has since been corrected by not procuring airtime for officers that were not entitled to the facility.

Committee's Observations and Recommendations

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

i) **Non Payment of Statutory Contributions**

The Controlling Officer informed your Committee that Management has since entered into an agreement with NAPSA to liquidate the arrears over a period of forty-eight months with repayments of K67,032,755 per month and the Commission had since started remitting the agreed monthly installments commencing April, 2012. With regard to Pay-As-You-Earn (PAYE), the Commission was still negotiating suitable payment terms on the outstanding amounts of K7,159,580,371 but ZRA as the Authority has not consented to the Commission's proposal. The Controlling Officer, however, submitted that the Commission was up to date with the current remittance of both PAYE and NAPSA contributions.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the Office of the Auditor-General verifies the availability of the said agreements. They await a progress report on the matter.

EMPOWERMENT FUND

a) **Misapplication of Empowerment Funds - K21,000,000,000**

The Controlling Officer submitted that during the budgeting process in 2009, the staff compliment of the Commission had not yet been fully filled. Consequently, the budget that was approved was based on the number of staff recruited at the time. Towards the end of 2009, all vacant positions were filled. This resulted in the approved budget not being adequate to cater for the increased staff levels. Management then decided to use the K9,197,300,000 from the Empowerment Fund towards meeting operational costs which included payment of personal emoluments as the approved budget was inadequate.

Your Committee was informed that Management should have sought for a supplementary budget or authority from the Board of Commissioners to use the Empowerment Fund. Since authority was only sought after using the funds, the Board recommended that the Management should write to the Minister responsible for Commerce Trade and Industry, requesting for the regularisation of the expenditure. However, authority was still being awaited from the Treasury. As a result of this anomaly, the contracts of employment for the Director General, Director of Finance and Director of Empowerment Fund were not renewed. Further, the Board of Commissioners was dissolved.

Committee's Observations and Recommendations

Your Committee cautions the Commission for not following laid down procedure in the utilisation of Empowerment Funds and resolves not to close the matter until retrospective authority is obtained and verified by the Office of the Auditor-General.

b) Unpaid Loans - K159,598,828,919

The Controlling Officer informed your Committee that with regard to the receivables exceeding the repayment periods, the outstanding amounts did not exceed 180 days as the total amounts for disbursed projects included partially funded projects amounting to K35,741,065,539, which were not eligible for repayment as they had not been fully funded at the time of the audit. This left a balance of K108,343,989,641 as fully funded amounts. However, the whole amount of K108,343,989,641 was not due at the date of audit as this represented loans which were still running. Only loans totalling K52,947,151,823 were due as of December 2010 which represented 33% of the total receivables outstanding for periods exceeding 180 days.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that measures are put in place to ensure all loans are paid off on the due dates. Your Committee, therefore, resolves to await a progress report on the matter.

c) Projects

A scrutiny of selected projects carried out in October 2011 revealed the following:

Lusaka Province

i. *Tidy Hire Investments - K300,000,000*

The Controlling Officer submitted that the Management has written to Road Transport and Safety Agency (RTSA) for change of ownership and a response was being awaited. With regard to none servicing of the loan, Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

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

ii. *Lukwinu Investments - K2,000,000,000*

The Controlling Officer informed your Committee that the collateral that was used to secure the loan was valid, though it was a third party legal mortgage. The owner had consented, in writing to the use of his asset as collateral for the loan. With regard to the non-servicing of the loan, Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

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

iii. *Emmaloy Investment Ltd - K2,000,000,000*

The Controlling Officer informed your Committee that at the time of approving the loan, the Commission placed a debenture on the current and future assets of the Company to secure the loan. With regard to none repayment of the loan, Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee expresses disappointment that it has taken so long to recover the funds and resolves to await a progress report on the matter.

Northern Province

i. *Mwame Coach Services Ltd - K1,811,000,000*

The Controlling Officer submitted that the Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed. With regard to the ownership of the two buses, title was changed into CEEC's name as absolute owner.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the loan was recovered. They await a progress report on the matter.

ii. *Nellas Lodge - K900, 000,000*

The Controlling Officer informed Your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee expresses concern at the Ministry's failure to aggressively pursue this matter and urges the Controlling Officer to aggressively pursue the matter and provide a progress report.

North Western Province

i. *Mutanda Leisure Resort - K250,000,000*

The Controlling Officer submitted that the leasing of the guest house by the promoter for a period of ten years was a normal business transaction and the lease period of ten years exceeded the repayment period of the loan by two and half years. Further, Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee is disappointed at the Commission's failure to recover the funds and urges the Controlling Officer to actively pursue the matter. The matter will not be closed until the loan is repaid

ii. *Hanshel Girls Secondary School - K617,925,000*

The Controlling Officer informed your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the balance is recovered. Your Committee will therefore, await a progress report on the repayment of the loan.

Eastern Province

i. *Chipata Laundry - K250,000,000*

The Controlling Officer informed your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed. Further, the promoter has also been sued for illegally relocating the equipment without informing the Commission.

Committee's Observations and Recommendations

Your Committee observes with great disappointment the Commission's failure to adequately address this matter. Your Committee observes that other than referring the matter to the lawyers, there is no evidence indicating that the Commission is actively pursuing other ways of recovering the funds which is unacceptable. The matter will not be closed until the loan is repaid.

ii. *Malimidwe Farm Ltd - K960,000,000*

The Controlling Officer informed your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Given the large sums of money involved, your Committee resolves not to close the matter and will therefore; await a progress report on the recovery of the amounts owed.

- iii. *Chipata Hatchery Ltd - K250,000,000*

The Controlling Officer informed Your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the loan is recovered and will therefore await a progress report.

Copperbelt Province

- i. *Adonai Trading (Chililabombwe) - K500,000,000*

The Controlling Officer informed your Committee that the promoter proposed a payment plan which she has adhered to and was up to date with current repayments. This project was therefore classified as performing.

Committee's Observations and Recommendations

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

- ii. *Lulambe Scientific (Kitwe) Limited - K185,607,455*

The Controlling Officer informed your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

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

- iii. *Vividline Limited - K250, 000,000*

The Controlling Officer submitted to your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the loan was recovered.

Central Province

- i. *Vegeance Hospitality - K1,464,920,287*

The Controlling Officer informed your Committee that the Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee observes with great disappointment the Commission's failure to adequately address this matter. Your Committee resolves not to close the matter until the loan is repaid.

- ii. *Kechas General Dealers - K3,276,766,213*

The Controlling Officer submitted that at the time of approving the loan, there was no maximum threshold on how much any one project could borrow. It was left to the discretion of the Board to evaluate each project based on the business case presented. Management has however forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owing.

Committee's Observations and Recommendations

Your Committee expresses concern at the Ministry's failure to aggressively attend to this matter and therefore, urges the Controlling Officer to aggressively pursue the matter so that the loan can be repaid.

Western Province

- i. *Gasilo General Dealers-K259, 000,000*

The Controlling Officer submitted to your Committee that Management has forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee observes that the collateral for the loan was intolerable given that it has no economic value and questions the validity of its approval. Your Committee therefore, resolves not to close the matter until the amounts owed are recovered.

- ii. *Sibnet Limited - K1,997,027,000*

The Controlling Officer informed your Committee that promoters had completed the project and the lodge was officially opened for business on 8 June 2012. However, Management had forwarded this matter to the Commission's lawyers for commencement of litigation to recover the amounts owed.

Committee's Observations and Recommendations

Your Committee expresses concern that the Commission has opted for litigation on this case instead of seeking to come up with a repayment plan with the client which is cheaper. A progress report is awaited on the recovery of the loan.

ELECTORAL COMMISSION OF ZAMBIA (ECZ)

Query

Paragraph 6

Background

10. The Electoral Commission of Zambia was established under Article 76 of the Constitution 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.

Accounting and other Irregularities

a) **Unretired Imprest-K44,414,000**

The Controlling Officer submitted that the imprest in question has since been recovered either through payroll deductions for members of staff still with the Commission or from terminal benefits for those that have since separated from the Commission. The payroll recoveries were effected in January 2012.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter but urges the Controlling Officer to caution accounting officers who failed to ensure that financial regulations on imprest were followed.

b) **Inadequately supported payments-K361,625,000**

The Controlling Officer submitted that the payees signed in the cheque register at the time of collection of the cheques for the payments in question. However, receipts had since been attached to the payment vouchers.

Committee's Observations and Recommendations

Your Committee is concerned with the failure by the Commission to produce the supporting documents during the audit, and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the omission. The Office of the Auditor-General is requested to verify the receipts before the matter can be closed.

c) **Payments made without Competitive Quotations-K386,430,030**

The Controlling Officer submitted that starting from 2011, the Commission has ensured that all procurements followed tender procedures.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter. However, your Committee is concerned at the manner the law was ignored with impunity when officers responsible knew that any procurement needed to be accompanied by three quotations.

d) **Irregular Payment of Non-Practice and Retention Allowance-K1,058,553,669**

The Controlling Officer submitted that payment of Retention and Non Private Practice Allowances was determined by the Commission in accordance with the powers vested in it under the *Electoral Commission Act. No. 24 of 1996*. The Commission, under this Act, was mandated to determine the Conditions of Service for the members of staff. The Commission resolution establishing these allowances was enclosed for reference.

Committee's Observations and Recommendations

Your Committee observes that a circular regarding payment of non-practice allowance as well as recruitment and retention was issued by Cabinet Office to guide all state funded institutions and it was unfortunate that the Commission, in exercising its independence did not take into consideration the spirit of the circular. Your Committee is of the view that ECZ as a Government agency should be bound by circulars issued by Cabinet Office and the payment of both retention and non practice allowance is irregular and should be stopped forthwith. They await a progress report on the matter.

e) **Failure to Tax Mid Term Gratuity**

The Controlling Officer submitted that starting July 2011, the Commission started deducting Pay-As-You-Earn (PAYE) tax on all mid-term gratuities. However, previously, the total tax was computed and remitted upon the expiry of an individual's contract. However, even though previously the mid-term gratuities were paid as an advance upon the expiry of an individual's contract, the full tax on the gratuity was computed and remitted accordingly.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that regulation governing the administration of tax are adhered to at all times. The Office of the Auditor-General is requested to verify the matter before it can be closed.

f) **Irregular Payment of Leave Days**

The Controlling Officer submitted that the resolution was made by the Commission based on its independence derived from the law and the resolution is now available for inspection.

Committee's Observations and Recommendations

Your Committee is concerned that in exercising its independence, the Commission ignored its own decisions and advice from the Internal Auditor, with regard to the effective date to accommodate individuals who were paid before the effective date. This is highly irregular and your Committee urges the Auditor-General to verify the matter before it can be closed.

Local Authorities

a) Failure to prepare bank reconciliation statements

The Controlling Officer informed your Committee that as a way of addressing the anomaly, all finance officers at the Councils were provided with some basic training on the minimum requirements of their office, including the conducting of monthly bank reconciliations. The biggest challenge was that the Commission does not have control over the finance officers, these were Council employees who are legally answerable to the Council. Furthermore, the high staff turnover in the Councils made it difficult to consolidate on the training that was provided by the Commission from time to time.

Committee's Observations and Recommendations

Your Committee urges the Commission to continue pursuing the issue of decentralising the Commission to provincial and districts levels in order to monitor its finances effectively. Further, the Commission should engage the Controlling Officer, Ministry of Local Government and Housing on how the accountability of these funds can be enhanced. They await a progress report on the matter.

b) Overdrawn Bank Account-K66,541,150

The Controlling Officer submitted that the cause of these overdrafts was twofold, namely the bank charges and the cheques that were presented after the funds in these accounts had been recalled by the Commission. The Commission engaged the banks not to levy bank charges on any Elections Accounts maintained by the Councils and only to do so centrally at the Commission's Bank Account held in Lusaka since the Council Bank Accounts were only opened for the purposes of elections at the behest of the Commission. The Commission also noted that the overdrafts occurred when the unutilised funds were recalled whilst there were outstanding cheques.

Committee's Observations and Recommendations

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

c) Inadequately supported payments-K4,773,691,561

The Controlling Officer submitted that the Commission has since written to the Councils in question to provide the required documentation. The Commission was still waiting for the responses from the Councils.

Committee's Observations and Recommendations

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

d) Unretired Imprest-K1,049,415,500

The Controlling Officer submitted that the Commission has since written to the Councils in question for them to retire the funds. The Commission was still waiting for the responses from the Councils.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until responses were obtained from the concerned councils. Your Committee awaits a progress report on the matter.

e) **Missing Payment Vouchers-K2,572,655,701**

The Controlling Officer submitted that the Commission has written to the councils in question to provide the required documentation. The Commission was still waiting for the responses from the Councils.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until all the missing vouchers are found. Your Committee further urges the Controlling Officer to take a more aggressive approach such as sending audit teams to the councils as soon as the purpose for which the funds were released is completed.

f) **Irregular drawing of fuel by non-authorized vehicles-K288,602,202**

The Controlling Officer submitted that the Commission has written to the councils concerned to explain the above anomalies. The Commission was still waiting for the responses from the Councils.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until the Commission gets a satisfactory explanation as to what transpired. They await a progress report on the matter.

g) **Unacquitted Expenditure-K1,740,527,669**

The Controlling Officer submitted that the Commission has since written to the Councils in question asking them to provide the required documentation. The Commission was still awaiting the responses from the councils.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until it is addressed. The Controlling Officer is urged to be more aggressive by sending audit teams to the councils as soon as the purpose for which the funds were released is completed.

h) **Unapproved Expenditure-K 820,059,038**

The Controlling Officer submitted that the Commission was fully aware of this weakness in most councils and has always ensured that all finance officers at the councils were provided with basic financial training, including the need to make payment only for approved activities. As earlier mentioned in (a) above, the biggest challenge was that the Commission did not have control over the Finance Officers as they were Council employees and were legally answerable to the Council. Furthermore, the high staff turnover in the Councils makes it difficult to consolidate on the training that was provided by the Commission from time to time.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until evidence is adduced indicating that the matter has been addressed.

i) **Uncompetitive Procurement-K123,240,000**

The Commission engaged all councils in 2011 advising them, inter alia, on the need to adhere to the *ZPPA Act* in all procurements. This requirement has been included in most of the basic financial training that the councils were provided with by the Commission.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to verification by the Office of the Auditor-General. Further, the Office of the Auditor-General is urged to keep the matter in view in future audits.

j) **Fuel without details of receipt and issue-K2,029,407,367**

The Controlling Officer submitted that the Commission has written to the councils concerned to provide explanations for the lapses noted. The Commission was still waiting for their responses.

Committee's Observations and Recommendations

Your Committee expresses concern at the weak controls in the handling of the funds from the Commission by the councils and resolves not to close the matter until an explanation as to what transpired is availed.

k) **Failure to maintain proper accounting records**

The Controlling Officer submitted that the Commission has prioritised financial management and record keeping in its annual engagement with the councils, emphasising the need for strict adherence to the requirements of the *Public Finance Act*. From time to time, all finance officers at the Councils are provided with some basic training on the minimum requirements of their office, including the need to keep proper accounting records with a discernible audit trail for future reference and accountability.

Committee's Observations and Recommendations

Your Committee notes that the cause of the accounting short comings was as a result of lack of commitment on the part of the Controlling Officers, in the respective councils towards ensuring accountability and observance of financial guidelines. Your Committee awaits a progress report on the matter.

l) **Irregular Payment of Allowances-K221,100,000**

The Controlling Officer submitted that the instance in question involved Police Officers that were deployed later after the initial approved list has been sent to the Council. In instances such as this, the Police Command usually reinforced and changed Officers according to the need on the ground. The list that they provided in the first place was for planning purposes.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the office of the Auditor-General.

m) **Failure to Account for Election Materials and Assets**

The Controlling Officer submitted that the items in question were all returned to the Commission by the councils. They only lacked documented evidence of having returned them after use. The Commission has now prepared delivery and receipt documents for all subsequent equipment movements during and after elections, in order for both parties to have documentary evidence of any movements.

Committee's Observations and Recommendations

In closing the matter your Committee cautions the Controlling officer against poor record keeping and directs her to avail the records to the Office of the Auditor-General after which the matter should be closed.

n) **Choma District Council-Failure to Raise Payment Vouchers-K1,785,168,000**

The Controlling Officer submitted that the Commission did train the Choma District Council accounting officers, together with the other Councils' accounting officers, in 2011 on the minimum basic documentation required to account for the ECZ funds. The biggest challenge with the Councils was that there was high staff turnover.

Committee's Observations and Recommendations

Your Committee finds this explanation unacceptable as the requirement to raise a payment voucher before any payment is made is well known even to the Town Clerk who was encashing the cheques. The matter of the vouchers should be raised and authorised in retrospect in order to regularize the payments. They await a progress report on the matter.

o) **Kasempa District Council- No Receipt - K12,143,500**

The Controlling Officer submitted that the Council was asked to obtain the receipt from the supplier in question, but have failed to do so. As a way forward, the training provided to Councils now includes the aspect of the importance of record keeping and prioritised the aspect of retaining of the evidence for payments made for any good or service where there is a cash outflow.

Committee's Observations and Recommendations

Your Committee wonders what the reasons for the failure to obtain the receipt are if the supplier received the payments and urges the Controlling Officer to impress on the Council the need to obtain the said receipt failure to which the matter should be reported to the Police for further action. They await a progress report on the matter.

p) **Mwinilunga District Council – Co-mingling of Funds-K276,000,002**

The Controlling Officer submitted that all the Councils, including Mwinilunga District Council, have since been advised against the co-mingling of any funds in the ECZ bank account.

Committee’s Observations and Recommendations

Your Committee resolves not to close the matter subject to verification.

q) **Mpongwe District Council – Unaccounted for Funds-K9,975,000**

The Controlling Officer submitted that the Council has been asked to account for the funds in question in totality.

Committee’s Observations and Recommendations

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

EXAMINATION COUNCIL OF ZAMBIA (ECZ)

Query

Paragraph 7

Background

11. The Examinations Council of Zambia (ECZ) was established by the *Examination Council of Zambia Act No. 15 of 1983*. The core functions of the Council are: to conduct examinations; carry out relevant research in examinations; advise any public institution on the development and use of any system of testing or examining; formulate syllabuses for examinations; promote international recognition of qualifications; and organise training workshops for examiners, markers and other personnel connected with examinations.

Accounting and Other Irregularities

a) **Sub-Committees of the Council**

The Controlling Officer acknowledged that the Director of the Examinations Council of Zambia (ECZ) sat on all sub-committees of the Council. Following the observation made by the Auditors, the proposals were made to revise the membership of the respective committees subject to approval by Council. The Controlling Officer noted that with these changes, the Director would sit only on two committees.

Committee’s Observations and Recommendations

Your Committee is concerned that the Director was allowed to sit on all the sub-committees as this is against the tenets of good governance. The matter should be closed subject to verification by the Office of the Auditor-General.

b) **Irregular Payment of Honorarium to seconded Council Employees**

Delay in payment of honorarium

The Controlling Officer informed your Committee that management should have made the payments soon after the resolution of the Council. This was not done because documentation relating to the seconded officers concerned was not up to date. It took time to update these records and hence the delay.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

Overpayment of Honorarium

The Controlling Officer submitted that honorarium payment was based on the 2011 basic salaries following the advice by the Labour Commissioner to the Examinations Council of Zambia. The ECZ was advised that computation of honorarium be based on the 2010 basic salaries, which was the time that the payment was being made.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

c) **Status of Employment for the Director**

Your Committee was informed by the Controlling Officer that it was true that the Director continued to contribute to the Public Service Pensions Fund even though he was on contract effective 1 April 2008. Your Committee was informed that the ECZ management would discontinue remitting the pension contributions on his behalf effective June 2012.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until pensions contributions in respect of the Director are discontinued and verified by the Office of the Auditor-General.

d) **Wasteful Expenditure**

i. *MTN Consultancy*

The Controlling Officer submitted that ECZ engaged MTN Special Engagements to assist the Council in the recruitment of a Chief Accountant after which MTN Special Engagements recommended four candidates to management. However, reservations were expressed regarding each candidate and management considered these reservations very seriously. All the four candidates had very limited experience in the public sector.

The Controlling Officer further submitted that MTN Special Engagements was contracted to ensure objectivity.

Committee's Observations and Recommendations

Your Committee wonders why the ECZ engaged the MTN Special Engagements when it could have carried out the recruitment exercise on its own. It is dismayed that the officers picked were all not suitable. In closing the matter, your Committee cautions ECZ to establish a foolproof recruitment process.

ii. *Failure to use Tamper Proof Envelopes-K27,740,000*

The Controlling Officer acknowledged that the ECZ purchased 25,000 tamper proof envelopes for packaging examinations at a cost of K27,740,000 however the envelopes could not be used for this purpose because their sealing properties has expired. To this effect, the envelopes could only be used for other purposes which did not require high security. At the time they were imported into the country, a quality check was conducted which certified them fit for use.

Committee's Observations and Recommendations

Your Committee observes that was clear a case of gross negligence of duty and officer responsible for the purchases should be cautioned. The matter should be closed following verification by the Office of the Auditor-General that envelopes were used on other purposes as indicated by the Controlling Officer.

e) *Inadequately Supported Payments-K125,262,326*

The Controlling Officer submitted that out of payments totalling K125,262,326 that were inadequately supported only K9,947,006 have been adequately supported.

Committee's Observations and Recommendations

Your Committee observes with disappointment that ECZ is unable to keep records of receipts and other supporting documents, a situation which should not be allowed to continue. Your Committee recommends that the staff responsible be cautioned while the remaining payments in respect of the balance of K115,315,320 should be supported and availed to the Office of the Auditor-General for verification.

f) *Management of the Guest House*

The Controlling Officer acknowledged that at the time of audit the guest house was in a poor condition and in a state of disuse. ECZ had contracted AFE Limited to renovate the guest house but they failed to undertake the works and the contract has since been terminated. AFE Limited should have been paid the sum of K49,000,000 upon completion of the renovations but since the contract was terminated, the Company was only paid K25,000,000 for the works done. On the way forward, the Council at its 99th meeting resolved to have the guest house sold and sought approval from the Secretary to the Cabinet which was still being awaited.

Committee's Observations and Recommendations

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

g) **Payment of Loan to the Director**

The Controlling Officer submitted that it was true that the Director did not use a loan application form to apply for the loan of K30,000,000 and his loan was approved by the Chairperson of Council. Following the approval, the Human Resource Development Officer referred the approved loan to Accounts Department for payment. ECZ Management has since designed and implemented loan application forms for all categories of loans. However, Director's application was not changed although the K30,000,000 loan has been fully recovered.

The Controlling Officer informed your Committee that the audit observations and the need for the Director's loan to have been considered by the loans committee of the Council as opposed to the Chairperson unilaterally approving the loan were correct.

He informed your Committee that efforts were in place to secure the Certificate of Title for the said piece of land for which the K80,000,000 loan was obtained. In future, no housing loans and car loans would be disbursed without collateral. The Controlling Officer submitted that of the K80,000,000 loan, K62,000,000 of the principal amount has been recovered leaving a balance of K18,000,000 to be recovered in the nine outstanding months.

Committee's Observations and Recommendations

Your Committee recommends the revision of the conditions for application and approval of loans. Your Committee further recommends that the conditions should be applied uniformly to all the members of staff, including the Director. The matter is recommended for closure subject to verification.

h) **Failure to surrender Documents of Title as Security**

The Controlling Officer informed your Committee that efforts were being made to secure certificates of title from Mr Liswaniso and Mr Chola.

Committee's Observations and Recommendations

Your Committee observes that procedures for loan application and consideration are not being strictly adhered to by the ECZ Management. Your Committee recommends strict adherence, transparency and objectivity in the consideration and approval of loans.

i) **Irregular Payment of Loan**

The Controlling Officer submitted to your Committee that the officer concerned applied for a house loan of K70,000,000 when her entitlement was K 122,305,299.60 in 2005. The loan could not be approved at the time as there were no funds available. In 2010 when funds became available, the application was considered with an adjustment for her from an initial K70,000,000 to K170,000,000 as by 2010 she had qualified for the upward adjustment in her a house loan application following a salary increment beyond the 2005 level. As at 2010 her entitlement was K237,163,536.60.

Committee's Observations and Recommendations

Your Committee wonders why a fresh application form was not filled in to avoid suspicion of foul play regarding loan application and approval. Your Committee urges the Controlling Officer

to have the matter verified with the auditors before it can be closed.

LUSAKA WATER AND SEWERAGE COMPANY (LWSC)

Query

Paragraph 8

Background

12. The Lusaka Water and Sewerage Company (LWSC) was incorporated in 1988 following recommendations by the Germany Technical Assistance to Zambia (GTZ). The company started operating as a Limited Liability Company in 1990. LWSC was wholly owned by Lusaka City Council until 2008 when the Company took over operations of Kafue, Chongwe and Luangwa district Councils. The agreed shareholding after the takeover was 60%, 20%, 10% and 10% for Lusaka, Kafue, Chongwe and Luangwa Councils respectively.

The Company's share capital comprises 5,000,000 authorised equity shares of K1 each of which 3,000,000 were issued and fully paid. The Company also operates in accordance with the provisions of *National Water Supply and Sanitation Act No. 28 of 1997* and the *Companies Act No. 388 of 1995*. The principal function of the Company is to provide water and sewerage services in the city of Lusaka and surrounding satellite towns namely Chongwe, Kafue and Luangwa.

Review of Operations

a) Unaccounted for Water

The Controlling Officer submitted to your Committee that the unaccounted for water was mainly caused by leakages in the water infrastructure, unmetered water sources, unmetered consumption and illegal connections and vandalism. To correct the situation, the Company created a Non-revenue Water department in June, 2010 and so far a clear road map showing the critical areas requiring focus has been identified. Further, the Company purchased a full set of equipment required for proactive leakage detection and control. The Controlling Officer also submitted that management implemented a meter installation project between June 2009 and July 2010 to install 34,000 customer meters and as of January 2011, a total of ninety-one new distribution system meters were installed in-house and more have been bought for the remaining locations.

Committee's Observations and Recommendations

Your Committee observes that the levels of unaccounted for water are still too high and urges the management of the Company to continue devising and implementing innovative ways of correcting the situation. Your Committee closes the matter but urges the Office of the Auditor-General to keep the matter in view in future audits.

b) Profitability- Statement of comprehensive income for the financial year ended 31 December 2007 to 2009

The Controlling Officer submitted that the net profit margins had been lower compared to the gross profit margin because of the high administrative and other operating expenses incurred as the Company expanded its operations. To correct the situation, management was working towards increasing profitability through cost containment and revenue improvement.

The Controlling Officer further submitted that the Company was assessing more efficient ways of utilising labour by conducting a job evaluation in 2011. Other cost containment measures involved energy reduction and revision and enhancement of the process and procedures to minimise wastage. Further, the Company has endeavoured to improve water supply through increased water sources (mainly from ground water-boreholes) which has resulted in more service connections from fifty-one thousand in 2007 to over seventy-one thousand to date. Consequently revenue increased from K77 billion in 2007 to K140 billion in 2010 and unaudited estimate of K179 billion in 2011. He added that profit after tax has also improved from a loss of K4 Billion in 2007 to a profit of K7 billion in 2010 and unaudited further profit of K9 billion expected for 2011. Accumulated losses reduced from K25 billion in 2007 to K17 billion in 2010 and were expected to reduce further in 2011, to below K10 billion, once the annual audit is finalised.

Committee's Observations and Recommendations

Your Committee in noting the strides that have been taken to improve the profitability of the Company, urges the management to continue working hard to make the Company more profitable. The Office of the Auditor-General is requested to keep the matter in view in future audits.

c) Financial Position as of 31 December 2007 to 2009

The following were observed:

i. *Liquidity*

The Controlling Officer submitted that the main reason for poor liquidity was the current business model that allowed customers to be billed after they had consumed the services which required a lot of follow-up for the customers to make payments. To correct the situation, the Company was implementing a dedicated customer management system in which consumer properties has been assigned to staff that were following up on collections of outstanding debts. As regards collections from the Government the Company has continued to engage the Ministry of Finance and various Government departments and institutions to make payments as required.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the management to continue to aggressively follow up on the outstanding debts. The matter should be kept in view in future audits.

ii. *Under-capitalisation*

The Controlling Officer submitted that to correct the situation, the Articles of Association were amended in 2008 following the change in shareholding and operational area which now included districts of Chongwe, Luangwa and Kafue. Article 59(2) has been replaced with Article 13(66) which states that the Directors may exercise the powers of the company to borrow money, to charge any property or business of the company or all, or any of its uncalled capital and issue debentures or give any other security for a debt, liability or obligation of the company. Meanwhile, the Company was pursuing the implementation of the resolution to convert the ADB/ADF loan to equity by the

Government. The latest correspondence to the Government by the Company was in August 2011.

Committee's Observations and Recommendations

Your Committee expresses concern that it has taken too long for the Government to implement its assurance to convert the ADB/ADF loan into equity and urges the Controlling Officer to continue engaging the Secretary to the Treasury so that the matter can be resolved without further delay. They await a progress report on the matter.

d) **Inadequately supported payments-K8,146,020,423**

The Controlling Officer submitted that out of an amount K8,146,020,423 billion not supported, K7.7 billion was in respect of payments to suppliers that did not have receipts over the period 2007 to 2010. All these cheques or payments were collected and signed for in the cheque collection books. Payments to some institutions such as ZRA were taken by LWSC directly to them. Furthermore, most suppliers sent monthly statements of account and these were used to reconcile the payables ledger. Goods and services for all these payments were received and verified. However, all suppliers collecting cheques were now required to issue a receipt before collection. Further, management was in the process of compiling all missing receipts and statements to confirm receipt where the latter could not be traced for all receipts that could not be traced during the audit.

Committee's Observations and Recommendations

Your Committee urges the management of LWSC to ensure that all payments are adequately supported in accordance with financial regulations and availed to the Office of the Auditor-General for verification. They await a progress report on the matter.

e) **Failure to follow Tender Procedures-K139,593,452**

The Controlling Officer submitted that the accommodation and conference facilities costing K139,593,452 were hired from the named institutions on the basis of availability at the time the respective functions were held. Three quotations were not obtained in these particular cases as the other institutions that were contacted did not have the facilities available for hire at that time and could therefore not quote. The payment to Shreeji Investments in the amount of K20.8 million was erroneously included in the report as the records showed that this was procured on a competitive basis. Further, only one quotation was obtained for the payment to Zambia Capital Enterprises at an amount of K1.6 million due to the urgency of the requirement. The special washers procured were urgently required to replace the worn out washers for the pumps at Iolanda Treatment Plant.

Committee's Observations and Recommendations

Your Committee expresses disappointment that no effort was made to obtain a no objection from the Zambia Public Procurement Authority (ZPPA) and warns that this would not be taken lightly in future. The matter is closed subject to verification that the practice has been stopped.

f) **Urban Water Supply Infrastructure Maintenance Project- Matero-K20 billion**

The Controlling Officer submitted that this was due the high failure rate of the meters installed on the project which was noticed after a year of installation. LWSC did not play any role in the assessment of materials prior to installation as no documentation was availed by the Chinese consultant supervising the contractor. The Contractor was engaged by MLGH through the Chinese Government who handled the process. However, LWSC worked on the installations in Matero for the purpose of its business and objective.

Committee's Observations and Recommendations

Your Committee expresses regret that the Ministry of Local Government and Housing did not involve the recipient company in the assessment of the materials that were used on the projects. Your Committee resolves to close the matter but urges the Ministry to guard against such practices in future.

g) **Irregular Payment of Christmas Bonus-(2007) K310,250,000 & (2008) K474,350,000**

The Controlling Officer submitted that the payment of christmas bonus was done at management's discretion although it was ratified by the board. Management stopped paying such bonuses in 2010.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General that this practice of paying christmas bonus stopped in 2010 as submitted.

MINISTRY OF FINANCE ECONOMIC DEVELOPMENT (MOFED) TANZANIA LIMITED

Query

Paragraph 9

Background

13. Ministry of Finance Economic Development (MOFED) Tanzania Limited is a freight and forwarding service provider based in Kurasini next to the dockyard in Dar es salaam, Tanzania. It was originally formed to provide freight and forwarding services to the former Zambia Consolidated Copper Mines (ZCCM), but now provides the same service to some of the privatized Zambian Copper Mines and Tanzanian importers and exporters as well.

MOFED Tanzania Limited was incorporated in the year 2005 and is wholly owned by the Government of the Republic of Zambia.

Accounting and Other irregularities

a) **Board of Directors (More than prescribed seven)**

The Controlling officer acknowledged that the number of Board members was eight due to the problem of forming a quorum. However, the situation has since been rectified and now there were only seven members.

Observations and Recommendations of the Committee

Your Committee resolves to close the matter subject to verification.

b) Failure to produce Audited Accounts and File Annual Returns

The Controlling Officer informed your Committee that the annual returns has now been filled in for the years 2005; 2006; 2007; 2008; 2009 and 2010 and that a filling fee of Tshs. 337,500 was paid on 6 December, 2011. He added that copies were available for verification.

Committee's Observations and Recommendations

Your Committee recommends that the officer charged with the responsibility of submitting the returns in question, be cautioned for failure to do so. Further, copies of the said returns should be availed to the Auditor General's Office for verification before closing the matter.

c) Failure to obtain Clearing Licence

The Controlling Officer submitted that the concerns had been noted and that management, working with the Zambian Mission in Tanzania, was addressing the matter. Applications for customs clearing licences were considered only once per year and the application was in the hands of the Tanzania Revenue Authority (TRA) for consideration.

Committee's Observations and Recommendations

Your Committee observes that this matter has taken too long and is not healthy for the performance of the Company as it limits profitability. Your Committee resolves to await a progress report on the matter.

d) Income

i. *Lack of Policy on Discounts- USD 1,613,506.*

The Controlling Officer submitted that the policy has been put in place. Management took the policy to the Board and it was approved by the Board on 4 April, 2012 and that minutes were available for verification.

Committee's Observations and Recommendations

Your Committee expresses disappointment that the Company operated without policy guidelines on how discounts could be granted and notes that this facility could have been exposed to abuse. The matter is recommended for closure subject to verification that the practice has been stopped.

ii. *Questionable Waivers of Storage Charges - USD631,790*

The Controlling Officer informed your Committee that the policy has since been put in place. Management took the policy to the Board and it was approved on 4 April, 2012 during the 10th Ordinary Board meeting held in Lusaka.

Committee's Observations and Recommendations

Your Committee recommends that the approved policy should be availed to the Auditor General's Office for verification. Further, disciplinary action should be taken against the officer(s) who authorised the waivers without approval from the Board. The matter is recommended for closure subject to verification.

iii. *Under-Billing of Invoices:- USD372,860*

The Controlling Officer informed your Committee that the observation was noted and measures would be put in place, according to Board policy guidelines to be formulated.

Committee's Observations and Recommendations

Your Committee takes great exception to the absence of operational guidelines at MOFED and recommends that the Company management be cautioned for not providing for this anomaly. The policy guidelines should be put in place without further delay.

e) **Procurement of Goods and Service**

i. *Use of non Vat-Registered Suppliers: US\$ 228,157 not recovered in the VAT*

The Controlling Officer submitted to your Committee that all their suppliers were now Value Added Tax (VAT) registered in Tanzania.

Committee's Observations and Recommendations

Your Committee recommends that a verification exercise be conducted to ascertain that all suppliers dealing with MOFED are now VAT registered as submitted by the Controlling Officer.

ii. *Failure to follow Tender Procedures: Tsh. 266,330,134.98 and USD 586,251.88*

The Controlling Officer submitted that failure to follow tender procedures was mainly due to weak supervision on the part of management and the Board has since appointed a new Chief Executive Officer and a new Chief Financial Officer. The Board has directed management to strictly adhere to MOFED Financial Regulations and Tender Procedures.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

iii. *Questionable Procurement of Forklifts-USD 154,560*

The Controlling Officer submitted that the Company entered into a contract with Perfect Machinery to supply a set of five forklifts out of which only four were accepted the MOFED while one was rejected due to faults on its hydraulic system. He submitted further that later another set of five was procured from from K & K Cargo Logistics. He went further to explain that K & K Cargo Logistics and Perfect Machinery were sister companies. According to the logic of the previous management, K & K Cargo were allowed by the MOFED management to use own equipment as MOFED then, was in a

collapsing state, therefore, unable to provide equipment to K & K Cargo, a client company to MOFED. As MOFED was being revamped, new equipment was procured to service clientele by the use of MOFED's own equipment. A mutual agreement was made, which resulted in MOFED requesting the client company to sell off its forklifts so that they do not compete with the service provider in MOFED yard. The purchase terms payment was spread over a period for both sets of forklifts. However, the Board terminated the services of the previous management and appointed a fresh team to correct the anomaly. Further, the refund was only received on 5 November, 2010 of USD 27,360 on invoice No.27584 for the forklift that was rejected by MOFED.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until it is verified by the Office of the Auditor-General. Particularly, documents to show that MOFED owns the Company should be availed for verification.

- iv. *Inadequately supported Payment Vouchers: Tsh. 910,434,805.10 and USD 199,304.84*

The Controlling Officer informed your Committee that the observation had been noted and the payments have since been fully supported.

Committee's Observations and Recommendations

Your Committee recommends that since this practice is rampant in many Government departments, disciplinary action should be taken against officer(s) concerned. The traced documents should be availed for verification.

f) Non – Current Assets

- i. *Lack of Title Deeds for Land and Building*

The Controlling Officer submitted to your Committee that indeed there were no Title Deeds. However, a Consultant has since been engaged to process Title Deeds for the mentioned properties. It was expected that new titles would be issued to MOFED Tanzania Limited.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the processing of the title deeds in question and their verification before the matter can be closed.

- ii. *Hiring out Company Assets without Board of Survey Recommendation or Board of Directors' Authority: Tsh400, 000 per trailer, per month for a period of two years.*

The Controlling Officer submitted that the Barreto case was before the courts of law in Tanzania.

Committee's Observations and Recommendations

Your Committee resolves to await the outcome of the court process.

- ii. *Ownership of Scania trucks: K107, 006,267 (\$22,599)*

The Controlling Officer submitted to your Committee that the assumption was that the name which appeared on the blue book was the sole owner of the motor vehicles. In this regard, Parkville Financial and Management Services, was the name appearing. However MOFED Tanzania Limited used the vehicles as instructed by the Board to recover the said amount.

Committee's Observations and Recommendations

Your Committee requests the Office of the Auditor-General to reverify this matter to determine whether the arrangement does not disadvantage MOFED. They await a progress report on the matter.

g) Staff costs

- i. *Wrong Calculations of the Chief Executive Officer's Retirement Package: USD114,264.84*

The Controlling Officer informed your Committee that the Board would soon make a decision on the matter.

Committee's Observations and Recommendations

Your Committee recommends that the Chief Executive, who should have known what was due to him, be made to refund the excess payment and the officer who computed the gratuity be disciplined.

- ii. *Hire of Generator for the Chief Operations Officer's Residence: USD6,359*

The Controlling Officer submitted to your Committee that the climate in Dar-es-Salaam was hot and humid and needed air conditioning and lighting for both offices and residences. The irregular supply of power left the option of using a generator for pumping water, cooking and air conditioning. The Chief Operations Officer has paid for these services from his pocket, hence the cheque being made in his name. As for direct purchase of a generator, this method was used only for officers living in company houses. However, management took the matter to the Board over the possibility of purchasing a domestic generator but the Board did not grant the Authority. He added that hiring of the generator has been cancelled.

Committee's Observations and Recommendations

Your Committee finds the explanation of the Controlling Officer unacceptable and therefore recommends that the officer concerned be sanctioned. They await a progress report on the matter.

- iii. *Purchase of Cell-phones for Top Management: Tsh1, 900, 000*

The Controlling Officer informed your Committee that the matter was taken to the Board and approval was granted on 4th April, 2012 during the 10th ordinary Board meeting held in Lusaka.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification of the approval of the Board by the Auditor General's Office.

iv. *Irregular payment of Fuel/Telephone Allowance to Staff: USD 16,000*

The Controlling Officer submitted that the matter was taken to the Board and approval was granted during the 10th Ordinary Board meeting held on 4 April, 2012.

Committee's Observations and Recommendations

Your Committee takes exception to the practice at MOFED, of doing things without seeking approval from relevant authorities and recommends that officers who processed and sanctioned these payments be disciplined. They await a progress report on the matter.

h) **Un-acquitted Payments: K114, 961,955 (Tsh36, 154,969) and US\$36,875**

The Controlling Officer submitted that entertainment and education allowances for CEO and Chief Operations Officer were part of Conditions of Service as stipulated in their contracts of employment. Acquittal details for Directors fees and sitting allowances for 2011, amounting to USD 18,330 were available for verification.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until all the acquittal forms are availed for verification. Further, your Committee recommends sanctions against the officers who paid out the allowances. They await a progress report on the matter.

i) **Inventory**

i. *Goods Without Receipt and Disposal Details: K501,648,089 (Tsh.157,765,855)*

The Controlling Officer submitted to your Committee that the following books which were not availed during the audit had been introduced – Purchase Requisition, Goods Received Notes, Stores Ledger for fuel, oil and other items, Stores Issue Note. Secondly, regarding auction without Board approval, the error was accepted. However, procedure by the MOFED tender committee was followed and that documents were now available for verification.

Committee's Observations and Recommendations

Your Committee observes that the tendency to avail documents required for audit long after it is concluded is unacceptable and should not go unpunished. Your Committee, therefore, recommends that stringent disciplinary measures be taken against erring officers to curb the practice. Your Committee resolves to close the matter subject to verification.

- ii. *Irregular Disposal of Bitumen from the Bonded Warehouse: K10,731,488 (Tsh3,3375,000)*

The Controlling Officer submitted that these bitumen drums were brought to MOFED in 2003. The client who brought them was Quick Service C & F Co. Ltd and that since then, the drums were abandoned by the client till 2011, when MOFED decided to sell them, the reasons behind that decision were:

- the lifespan of bitumen is only five years but it had stayed for more than ten years at MOFED and had therefore expired;
- most of the drums were rotten and had holes and bitumen had begun to spill down and making the yard dirty and posing a health hazard to employees;
- the bitumen drums were occupying space which could have been utilised by other clients from whom MOFED could have earned income, but spillage was preventing MOFED from storing new containers; and
- the drums have had long-term storage charges to the extent that the amount exceeded the value of the bitumen itself, whereby the client could not have managed to pay. This is why out of 108 drums, only 22 were not damaged. The rest were all damaged, hence the decision to dispose of them. The Act of warehousing in Tanzania of 2006 was followed and hence the disposal.

Committee's Observations and Recommendations

Your Committee observes that the reasons advanced for the act do not amount to an emergency, warranting MOFED to break the law. Your Committee, therefore, recommends that the officers concerned be strongly cautioned. They await a progress report on the matter.

- iii. *Unaccounted for Inventory Items*

The Controlling Officer informed your Committee that the items were disposed of during the May 2008 auction and procedure prior to the auction was followed except for the authority of the Board. The remaining items were verified and coded by a board of surveys team sent by the Ministry of Finance. He added that the schedule of the items due for auction was available.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

j) Ndola Regional Office

- i. *Failure to register MOFED Ndola as a Company in Zambia*

The Controlling Officer informed your Committee that the local management attempted to register the company by initially doing a name search with Patents and Companies Registration Agency (PACRA). The Board approved the change of name and registration was awaiting approval of the new name by the Cabinet.

Committee's Observations and Recommendations

Your Committee wonders how the name-search with PACRA and approval by Cabinet could have taken five years. Your Committee, therefore, considers this as blatant disregard for the law and recommends disciplinary action against the officers concerned.

ii. *Failure to obtain Lease Agreement for Office Rental*

The Controlling Officer submitted that several reminders had been sent to the estate manager who kept on promising to provide the agreement and copies of correspondence to this effect were available.

Committee's Observations and Recommendations

Your Committee recommends that the said correspondence, which ideally, should have been availed to the audit team at the time of the audit, should be verified by the Auditor General's Office before this matter can brought to rest.

ii. *Inadequately Supported Payments: K13,400,050 (US\$2,830) and K4,721,283*

The Controlling Officer informed your Committee that the acquittal/retirement for both payments were available.

Committee's Observations and Recommendations

Your Committee wonders why, the acquittal documents were not availed to the audit team and recommends that the officer concerned be disciplined. The matter is recommended for closure subject to verification.

MULUNGUSHI INTERNATIONAL CONFERENCE CENTRE (MICC)

Query

Paragraph 10

Background

14. The Mulungushi International Conference Centre (MICC) was constructed in 1970 initially to host the Non-Aligned Movement Summit. After the summit, the Centre was managed by the Ministry of Works and Supply. Later, MICC was handed over to the Ministry of Tourism, Environment and Natural Resources. When the Presidential Housing Initiative (PHI) was established in November 1998, Ministry of Tourism Environment and Natural Resources handed over the centre to PHI under the National Housing Authority (NHA).

Accounting and Other Irregularities

a) **Failure to Incorporate the Centre**

The Controlling Officer submitted that failure to constitute a team to spearhead the process was the main reason for the delay but the team was now in place and the exercise to incorporate the centre has begun and would be completed by August 2012.

Committee's Observations and Recommendations

Your Committee is concerned that the Ministry has allowed the Centre to operate without being incorporated or having Articles of Association. Your Committee, therefore urges the Ministry to ensure that the legal and policy frameworks required for the Centre to operate as a commercial venture are put in place without further delay. They await a progress report on the matter.

b) Lack of Strategic Plan

The Controlling Officer submitted that this was as a result of high labour turnover at senior management level and absence of the Board of Directors in certain periods. However, strategic and business plan for 2012 to 2016 was approved by the Board in February 2012.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the management to continuously review the strategic plan to facilitate corrective measures and continuous planning.

c) Lack of Approved Staff Establishment

The Controlling Officer submitted that the anomaly was caused by the absence of the Board of Directors to approve the staff establishment but this was rectified in February 2012 when the Board approved the new staff establishment.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

d) Qualified Financial Statements for 2007 and 2008

The Controlling Officer acknowledged that accounts of the Centre for 2007 and 2008 were qualified due to lack of qualified staff. He stated that following the recruitment of a Finance Manager in January 2010 and a General Manager in July 2010, the preparation of financial statements has since improved. Further, matters raised by external auditors were attended to immediately to avoid qualification of financial statements.

Committee's Observations and Recommendations

Your Committee requests the Office of the Auditor-General to verify the matter before it can be closed.

e) Unaccounted for Funds-K519,117,108

The Controlling Officer submitted that deposit slips relating to the sum of K519,117,108 have been found and were available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to put measures in place to improve record keeping but resolves to close the matter subject to verification.

f) **Circumvention of Tender Procedures-K413,015,000**

The Controlling Officer submitted that this was caused by the absence of a tender committee which has since been put in place and the practice had stopped.

Committee's Observations and Recommendations

Your Committee finds the practice of splitting payments in order to circumvent tender procedures an unacceptable and dishonest act and directs the Controlling Officer to caution Management against this practice in future. Your Committee resolves to close matter subject to verification by the Office of the Auditor-General.

g) **Inadequately Supported Payments-K1,135,397,453**

The Controlling Officer submitted that the documents went missing due to poor record keeping and the search was continuing.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Centre to find any of the supporting documents and directs the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the omission. The supporting documents should be found and availed to the Office of the Auditor-General for verification. They await a progress report on the matter.

h) **Missing Payment Vouchers-K967,394,963**

The Controlling Officer submitted that overall record keeping at the Centre was poor and Management was making efforts to trace the missing payment vouchers which relate to the period 2007, 2008 and 2009.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Centre to find any of the missing payment vouchers and directs the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the omission. The missing payment vouchers should be found and availed to the Office of the Auditor-General for verification. Further, Management should put in place corrective measures to strengthen internal controls. They await a progress report on the matter.

i) **Irregular Recruitment of Finance Manager**

The Controlling Officer submitted to your Committee that as far as management was concerned, the correct recruitment procedure was followed and the person considered best suited for the job was employed and so far management was happy with his performance both in terms of preparation of accounts and financial control.

Committee's Observations and Recommendations

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

j) **Non-Maintenance of Inventory Records**

The Controlling Officer submitted that the matter has been resolved following audit verification by the Auditor General's Office.

Committee's Observations and Recommendations

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

k) **Lack of Lease agreements for tenants**

The Controlling Officer submitted that this was caused by Management offering office accommodation to tenants without ensuring that accompanying tenancy agreements were signed before occupation. However, lease agreements have now been signed by all the tenants and were available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by Management to ensure that lease agreements are signed before the clients takes occupancy of the office accommodation and notes that in future this will not be taken lightly. They await a progress report on signed and verified tenancy agreements.

l) **Payables - Non Remittance of Statutory Contributions-K12,247,077,953**

The Controlling Officer explained that cash flow problems affected the Centre's ability to meet statutory obligations when they fell due. Management had written to Zambia Revenue Authority (ZRA) proposing a payment plan and was awaiting a reply. In the meantime, the Centre has started to make some payments towards the statutory contributions arrears.

Committee's Observations and Recommendations

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

m) **Lack of Approved Conditions of Service**

The Controlling Officer submitted that the conditions of service were inherited from Zambia Mining and Industrial Corporation (ZIMCO) times and have since been ratified by the Board of Directors.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

n) **Irregular Award of Salary Increment**

The Controlling Officer submitted that the salary increments to non-unionised staff followed the award of 23% salary increment to unionised staff. The same rate was applied to Management staff in order to maintain the salary differential and this had since been ratified by the Board and records were available for verification.

Committee's Observations and Recommendations

Your Committee notes with concern the failure to consult the Ministry or indeed the Board on the matter and cautions that in future this would not be taken lightly as stern disciplinary action would be recommended. Your Committee, therefore, resolves to close the matter subject to verification.

o) Irregular Payment of Talk Time Allowance-K5,000,000

The Controlling Officer submitted that following the directive of the Board, the former Chief Executive of NHA refunded the amount of K5,000,000 on 17 February, 2012.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

NATIONAL HOUSING AUTHORITY (NHA)

Query

Paragraph 11

Background

15. The National Housing Authority (NHA) was established by an *Act of Parliament* in 1971 under Cap 195 of the Laws of Zambia with the objective of providing, securing and promoting the provision of housing throughout the Republic of Zambia. Subject to any direction given by the Minister of Local Government and Housing, the NHA has the sole management and control of the properties, income and funds of the Authority and of the affairs and business thereof.

The Authority may provide accommodation by;

- the erection of houses on any land acquired.
- the conversion of any building into houses.
- acquiring, enlarging and repairing any house or building.
- providing for the management and control of houses owned by any person.
- clearing squatter areas and thereafter making necessary improvements and re development of such areas.

Accounting and Other irregularities

a) Unremitted Income from Seized Properties by Taskforce-K3.7 Billion

The Controlling Officer submitted that funds were used in the operations of the NHA and would engage the Ministry of Finance on how this would be paid back.

Committee's Observations and Recommendations

Your Committee considers this as an act of gross financial indiscipline and urges the Controlling Officer to caution Management against such disregard of instructions in future. In order to recover the money, the Ministry of Local Government and Housing should deduct the money from the NHA's future grants before sending it to them. They await a progress report on the matter.

b) **Irregular Payment of Car Allowance-K82 Million**

The Controlling Officer submitted that the Permanent Secretary of the Ministry of Local Government and Housing in his capacity as Chairman of the Board approved the payment but when the matter was taken to the Board in 2012, the Board did not ratify the payment preferring only to take note. Management would seek further instructions from the Board bearing in mind that the previous CEO's dues had not yet been paid in full.

Committee's Observations and Recommendations

Your Committee is of the view that the Board is not helping the situation as it has failed to come up with a clear stand on the matter. Therefore, it urges the Board to come up with a clear stand on the matter failure to which the amounts should be recovered from the concerned officer. They await a progress report on the matter.

c) **Non-Payment of Tax on Education and Utility Allowances-K385, 856, 916**

The Controlling Officer explained that the failure to deduct Income Tax was caused by the lack of capacity within the NHA to generate increased activity to sustain operations and Management would engage ZRA on how to resolve the matter. Further, a proposal on the fusing of all allowances into basic pay so that all tax was captured would be made to the Board.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until it is fully addressed. They await a progress report on the matter.

d) **Irregular Computation and Payment of Gratuity-K173,788,477**

The Controlling Officer submitted that the overpayments in question were as a result of misinterpretation of the gratuity clauses in the Conditions of Service on the part of the Authority but no disciplinary action had been taken because the affected employees were separated from the Institution.

Committee's Observations and Recommendations

Your Committee is disappointed that the overpayment was only revealed by the Auditor-General and directs the Controlling Officer to surcharge the officers who authorised the payment of gratuity in question. They await a progress report on the matter.

e) **Inadequate Supported Payments-K858,312,899**

The Controlling Officer submitted that there was failure on the part of concerned staff to keep records in safe custody and none of the missing documents have been found. Management has since issued guidelines to prevent recurrence in future.

Committee's Observations and Recommendations

Your Committee notes that the figure involved was colossal and recommends that the matter be forwarded to the investigative wings in order to establish what really transpired. They await a progress report on the matter.

f) **Uncompetitive Procurements-K1,894,229,247**

The Controlling Officer explained that there was no omission on the part of the Authority as procedure was followed and documentation to this effect was available for audit scrutiny.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to avail the necessary documentation to the Office of the Auditor-General before the matter could be closed. They await a progress report on the matter.

g) **Non-Payment of Statutory Contributions-K15, 687, 535, 499**

The Controlling Officer submitted that the Authority was facing a lot of financial challenges due to absence of GRZ subvention as provided for in the *NHA Act*. Management would engage ZRA with a view to explain financial challenges being faced leading to inability to pay. As regards Local Authorities Superannuation Fund (LASF), the Authority has traded in a property worth K825m leaving a of balance K300m which was being paid in instalments

Committee's Observations and Recommendations

Your Committee is concerned that Management does not seem to have any plan on how it will resolve the matter and urges the Controlling Officer to assist the Authority to engage ZRA with a view to coming up with a flexible payment plan. Your Committee awaits a verification report from the Office of the Auditor-General on the current status and a progress report on the payment plan.

h) **Lack of Debtors' Policy-K14,218,595,066**

The Controlling Officer submitted that the Authority has no debt policy in place as it only relies on lease agreements and the *Business Premises and Rent Acts* for commercial and residential properties. The Authority would, therefore, formulate a debtors' policy to take care of both residential and commercial properties.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that an Institution that is facing liquidity problems has no debtor's policy in place to help it pursue debt more aggressively and attributes this to poor Management in the organisation. Your Committee, therefore, directs Management to immediately come up with a debt policy and with concrete steps to reduce the outstanding amounts. Further, your Committee resolves not to close the matter until the outstanding amount reduced significantly and awaits a progress report.

i) **Lease Agreement**

The Controlling Officer submitted that some tenants did not have agreements in place but by February 2011, lease agreements had been prepared and distributed to all residential and commercial properties. He added that these would be reviewed annually to ensure tenancies were secured.

Committee's Observations and Recommendations

Your Committee is perturbed that the Authority failed to ensure that lease agreements with tenants were signed. Your Committee directs the Controlling Officer to come up with a policy of ensuring that lease agreements are signed immediately tenants accepted and paid for the occupancy. Your Committee resolves to close the matter subject to verification.

j) Breach of Conditions of Sale by NHA Pre-Sales-K2,474,600,000

The Controlling Officer submitted that this was caused by the use of contractors who did not have necessary capacity to undertake the works. Further, there was lack of supervision by the Authority which compromised the works. To correct the situation, the Authority has taken over some properties to finish off outstanding works.

Committee's Observations and Recommendations

Your Committee wonders why the Authority failed to put in place measures to engage reliable and adequately capacitated contractors and ensure they were properly supervised. Your Committee is also disappointed that the parent Ministry failed to supervise the Authority adequately on this matter. Your Committee resolves to close the matter subject to verification.

k) Irregular Sale of Land at Northgate Gardens-K1,275,000,000

The Controlling Officer submitted that National Housing Authority - China Jiangsu International (CJI) was a joint venture approved by the Board. Land transferred was NHA's contribution to the venture but the Authority requested for some consideration to be given regarding the land in order to deal with urgent financial needs. The transaction has now been recorded in accordance with the relevant accounting standards and accompanied by appropriate note in the financial statements.

Committee's Observations and Recommendations

Your Committee urges the NHA Management to always ensure that the correct procedures are followed to prevent such reoccurrences in future. Your Committee resolves to close the matter subject to verification.

l) Lack of Maintenance Policy

The Controlling Officer admitted that there was no maintenance policy in place since properties were transferred from the Indeco Estates Development Company Limited (IEDCL) and Zimco Properties Limited (ZPL) in 2005.

Committee's Observations and Recommendations

Your Committee expresses disappointment that the Authority has no maintenance policy despite the matter having been identified and brought to the attention of Management during audit. Your Committee finds the lack of action, in this regard, unacceptable and directs the Controlling Officer to ensure that the matter was resolved without further delay. They await a progress report on the matter.

m) **Under Capitalisation of NHA**

The Controlling Officer submitted that a decision to capitalise was made by GRZ in 2005, when assets of Indeco Estates Development Company Limited (IEDCL) and Zambia Properties Limited (ZPL) were transferred to NHA. The Board would engage the Secretary to the Treasury to capitalise the transferred assets.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to pursue the matter and urges management to ensure that the transaction is followed up and completed in shortest time. They await a progress report on the matter.

NATIONAL INSTITUTE OF PUBLIC ADMINISTRATION (NIPA)

Query

Paragraph 12

Background

16. The National Institute of Public Administration (NIPA) was established in 1962 as a Staff Training College for the Civil Service. This was one of the strategies adopted by the Government to meet the emerging challenges of building a new nation after Zambia's attainment of independence on 24 October, 1964.

The Institute has over the years evolved to meet the nation's training and development challenges. In 1998, the Institute was transformed into a commercial entity under the *National Institute of Public Administration Act* No. 15 of 1998, as part of the Public Service Reform Programme (PSRP) launched by the Government in 1993.

Upon the NIPA Bill being assented to by the President in October 1998 and following the appointment of the Governing Council comprising of nine (9) members by the President in December 1999, the new Institution started its operations under the new mandate on 1 January, 2000.

Review of Operations

a) **Financial Performance**

The Controlling Officer informed your Committee that during the period under review, the total reported income for the period was K71,725,513,000 of which K149,107,000 (0.2 % of total reported income) was from the Government. The major sources of income for the Institute were tuition and accommodation fees. These were established following market surveys which were used to arrive at the low cost of the fees charged by the Institute. The low cost of fees and quality training delivery account for the rise in the student population over the years from 300 in the year 2000 to more than 5000 at present.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

- i. *Operating surplus decreased from K3,872,945,000 to K3,237,884,000*

The Controlling Officer submitted that Personal Emoluments were adjusted according to Terms and Conditions of Service which provided for payment of salaries based on inflation and performance related merit increments, awarded to deserving employees who met expected levels of performance based on a formal annual performance appraisal.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

- iii. *Total comprehensive income declined from K22,095,386,000 to K4,178,696,000 representing 81%*

The Controlling Officer submitted to your Committee that the comprehensive decline in income was noted. A revaluation of assets would be conducted in 2013, the fourth year from the last revaluation in line with International Accounting Standard Number 16-Property, Plant and Equipment and other relevant International Financial Reporting Standards.

Committee's Observations and Recommendations

Your Committee observes with displeasure the Institution's failure to conduct valuation of assets. The Controlling Officer is directed to ensure that the proposed asset revaluation for 2013 is done without fail. Your Committee resolves not to close the matter until the revaluation of assets is done and verified by the Auditors.

b) Statement of Financial Position as at 31 December 2008, 2009 and 2010

- i. *Liquidity*

The Controlling Officer stated that the observations on the liquidity position of the Institute were noted.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

c) Irregular composition of the Governing Council

The Controlling Officer submitted that the *NIPA Act* provided for the appointment of the Chairperson by the President whilst a Vice-Chairperson was elected from amongst the nine councillors. What was referred to as the tenth person on the Council was the councillor appointed as Chairperson of the Council in accordance with section 5(2) of the Act.

Committee's Observations and Recommendations

Your Committee observes that according to the *NIPA Act*, the Governing Council is supposed to have nine (9) members only. The Institution's practice of appointing an extra member from the private sector is therefore wrong. Your Committee urges the Controlling Officer to regularise this anomaly. They await a progress report on the matter.

d) **Irregular payment of Sitting Allowances**

The Controlling Officer submitted that the sitting allowances paid were all approved by the Council.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification of the Council approval.

e) **Failure to obtain three Competitive Quotations**

The Controlling Officer submitted that three quotations were obtained for procurements amounting to K1,615,847,334.58 and details were available for verification. Further, procurements amounting to K554,141,478 were made without three quotations owing to emergency circumstances. As a way forward, the Institute has scheduled a reorientation programme on Public Procurement Procedures and Guidelines for old and new members of staff in the procurement, administration, internal audit and accounts and finance departments to be coordinated by the Institute's Integrity Committee by the third quarter of 2012.

Committee's Observations and Recommendations

Your Committee observes that NIPA breached the *Public Procurement Act* on the pretext of emergency circumstances. Your Committee directs that the measures proposed to be achieved by the Institute with regard to orientation of staff, be effected without fail. Your Committee also strongly urges the Controlling Officer to ensure that procurement procedures are followed each time procurements of various goods and services are undertaken. Your Committee resolves to close the matter.

f) **Resurfacing of Two Car Parks**

The Controlling Officer submitted that the seventy-five percent (75%) was paid in line with the conditions in the quotation by the bidder. An amount of K74, 744,645.12 which was 75% of the K99,659,526 (as quoted) was paid on 17 September, 2008 as approved by the Procurement Committee on 21 August, 2008. The contract with Talco was signed on 18 September, 2008. The Procurement Committee at the time of awarding the contract in the sum of K99,659,526 to Talco Trading Company for the resurfacing of the car parks was not aware of this material misrepresentation with regard to registration and was considered on the basis that the price was competitive and the delivery period was favourable.

Committee's Observations and Recommendations

Your Committee is disturbed that the contract was awarded to a company which was not registered and had no track record in the construction industry. Your Committee further questions the motive for paying the same contractor a sum K74,744,645.12 before the contract was signed. Given that the works done were of poor quality, your Committee directs that the matter should be reported to the relevant investigative wings for further investigations. They await a progress report on the matter.

g) **Stores items without disposal details**

The Controlling Officer submitted that all general stores had bin-cards. When goods were bought, the goods received notes (GRN) were raised and recorded on the bin-cards. These stores items were disposed of through the stores requisitions. Stores requisitions for capital items were deemed direct issues. The reported amount of K535,848,023 for fuel related to the drawings by the pool vehicles as the Institute did not stock fuel. Fuel was drawn from the filling station on a need based arrangement and reimbursements were made by way of retirement of the monthly float.

Committee's Observations and Recommendations

Your Committee notes that the Controlling Officer's response does not explain why the disposal details were not availed to the Auditors at the time of audit. Your Committee strongly cautioned the Controlling Officer to ensure that the work of the Auditors is taken seriously by availing all the necessary details at time of audit. Your Committee resolves to close the matter subject to verification by the Auditors.

h) **Non-coding of Assets**

The Controlling Officer in his response to your Committee stated that coding of NIPA assets would commence on 18 June, 2012 as advised by the Ministry of Transport, Works, Supply and Communications: Department of Office Equipment Maintenance Services.

Committee's Observations and Recommendations

Your Committee resolves to close the matter after the Auditors have verified that the coding has commenced.

i) **Lack of Title Deeds**

The Controlling Officer submitted that NIPA acquired Title Deeds for its main campus on 8 April, 2008. Progress on Burma Road Campus Title Deeds was delayed when the Land Agency was withdrawn from the Lusaka City Council. The Institute was pursuing the matter with the Ministry of Lands.

Committee's Observations and Recommendations

Your Committee expresses surprise that an Institution that has been in existence for such a long time does not have Title Deed to its property and strongly urges the Controlling Officer to ensure that the remaining title should be pursued vigorously. Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

j) **Irregular Sale of Executive Director's Personal to Holder Vehicle**

The Controlling Officer submitted that after evaluating the recommendation of the Disposal Committee (a sub-committee of management), management referred the matter to the Tender Committee which resolved that the vehicle should be sold at a revised rate of K7,800,000 from the initial recommended K11,750,000 after taking into account repair costs of K11,200,000 as per valuation from Sterling Motors Limited. The sale of the personal-to-holder motor vehicle was approved by the Governing Council in line with the NIPA Transport Policy.

Committee's Observations and Recommendations

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

NATIONAL PENSION SCHEME AUTHORITY (NAPSA)

Query

Paragraph 13

17. The National Pension Scheme Authority (NAPSA) was established under the *National Pension Scheme Act* No. 40 of 1996. The Authority started operations on 12 February, 2000 following the transformation of the Zambia National Provident Fund (ZNPF) which had been in existence since 1966.

The functions of the Authority are to:

- implement policies relating to the National Pension Scheme;
- control and administer the operations of the Scheme; and
- control and manage on custodial basis the assets and liabilities of members who contributed to the defined contribution plan previously established under the now defunct *Zambia National Provident Fund Act*.

Review of Operations

a) Financial Performance

Statement of Changes in Net Assets Available for Benefits from 2008 to 2010

The Controlling Officer submitted that figures as captured by the Auditor-General were correct. Nevertheless, Management increased the net assets to K4,863,872,350,000 as at 31 December, 2011, representing a 23 % increase over the 2010.

Committee's Observations and Recommendations

While commending management for the good performance, your Committee urges them to put measures in place that will sustain the current trends.

b) Statement of Net Assets Available for Benefits from 2008 to 2010

The Controlling Officer stated that the statement of net assets were the same as in (a) above.

Committee's Observations and Recommendations

Your Committee notes the response in (a) and (b) and commend management for the good works and urges them to continue working hard.

c) Staff Related Costs

i. Recovery of Staff Loans

The Controlling Officer informed your Committee that the Authority decided to discontinue all staff loans effective January 2008 due to the fact that at the time some of the staff who had loans were resigning and relocating to other countries, the Authority

had no capacity to make follow ups or in some cases such members had no means to repay the loans. Furthermore, the Authority applied staff terminal benefits towards outstanding loans on separation. In exceptional cases, especially with regard to house loan, the amounts owed by staff might exceed the terminal benefits payable, in which event the legal department took the necessary action to safeguard the interests of the Authority.

However, the Audit Report did not identify the ten ex-staff being referred to. According to records at NAPSA, the following members of staff still owed the Authority as at 30 April 2012:

Name	Outstanding Amount as at 30 April, 2012(ZMK)	Action taken and current status
Mr Kapambwe Lambwe	13.9 million	Payment Plan in place.
Mr Kizito Nyirongo	14.6 million	Payment Plan in place.
Ms Follie Sikalongo	20.5 million	Payment Plan in place.
Ms Julie Kabanda	1.7 million	Payment Plan in place.
Mr Kingsley Daka	0 million kwacha	Has since paid off the whole loan amount
Mr Nkweto Tembwe		Judgement was passed in favour of the Authority. Property has since been repossessed
Mr Mabvuto Palale	8.3 million	Making follow ups to contact him in person since he is out of jurisdiction and his lawyers have since withdrawn representation.
Mr Eugene Chisanga	12.6million	Awaiting hearing date from the Court.
Ms Jenipher Temani	10.2 million	The debtor is understood to have died and the Authority will be taking a position on the matter.

The Controlling Officer, further, stated that follow ups had been made by the Authority to ensure that all outstanding monies were collected. The Authority was pursuing this matter through litigation, structured loan repayments and individual follow ups on the debtors. As a result, the outstanding amounts had been steadily reducing and currently stood at K81,800,000.

Committee's Observations and Recommendations

Your Committee observes that there is a difference in the number of staff and loan amounts between the Audit Report and records at NAPSA. It, therefore, directs the

NAPSA Management to reconcile their information with the Auditor-General's Office and awaits a progress report on the matter.

ii. *Income Tax/PAYE*

The Controlling Officer responded that in 2010, NAPSA submitted a VAT refund claim of about K10 billion to ZRA, who then undertook a VAT audit of NAPSA prior to payment of the claim. Subsequently, ZRA reduced the refund and paid NAPSA K8, 406, 805, 706.04 after disallowing some items and charging NAPSA with K123, 480, 000 for non-submission of PAYE annual returns from 2003 to 2010. According to NAPSA records, NAPSA submitted most of these returns.

After the VAT Audit, NAPSA requested ZRA to avail NAPSA PAYE statements from 2003 to 2010 for reconciliation purposes. NAPSA were recently availed statements from 2007 to 2010. A perusal of the statements availed by ZRA indicated that some PAYE remittances made by NAPSA were mis-posted. Instead of ZRA capturing them to NAPSA's account, the remittances were posted to the NAPSA Sports Club Account. ZRA were yet to revert to NAPSA with statements for the period 2003 to 2006. ZRA had stated that they had been unable to give NAPSA statements because ZRA changed its IT system in 2007 and needed to involve ZRA IT Department to retrieve statements from 2000 to 2006.

The Controlling Officer stated that NAPSA has since availed ZRA with annual returns for the periods 2003/4, 2004/5, 2007/08, 2008/09, 2009/10, 2010/1. He stated that NAPSA had not re-submitted 2005/06 and 2006/07 returns as NAPSA awaited statements from ZRA.

ZRA had mis-posted some remittances made by NAPSA. For instance, in the recent statements availed to NAPSA for 2011, five mis-posts amounting to K8.5 billion were identified, which were credited to the NAPSA Sports Club Account instead of NAPSA/ZNPF. These items would form part of the reconciliation exercise NAPSA had engaged with ZRA, and should assist in resolving the penalty amount mentioned since the full quantum of these had not been brought to NAPSA's attention.

Committee's Observations and Recommendations

Your Committee notes that NAPSA has been charged penalties and interest for delayed payment of taxes to ZRA and that the figures are yet to be reconciled. Your Committee, therefore, directs NAPSA Management to ensure that the reconciliation exercise is done with ZRA. It also directs NAPSA Management to ensure the information is verified with the Auditor-General's Office. Your Committee awaits a progress report on the matter.

iii. *Non-Compliance to Conditions of Service*

The Controlling Officer informed your Committee that the Station Manager for Mazabuka fell ill and was admitted to Lusaka Trust Hospital on 8 April 2011, and was subsequently discharged from hospital on 21 April, 2011. Since then, the Station Manager has been on sick leave to date.

The Station Manager was on six months continuous sick leave up to 7 October 2011 at which point the Authority should have placed him on half pay for implementation

through the October, 2011, payroll in line with Clause 4.11 (b) of the Conditions of Service for Senior and Non-Represented Staff which reads:

“in the subsequent years of service, a maximum period of six (6) months on full pay and six months on half pay and thereafter a medical registered practitioner will determine his/her suitability for continued employment”.

The Controlling Officer submitted that although the Station Manager has been ill since 8 April, 2011, he could not be put on half pay at the time of the audit because supporting documents were still being awaited from the medical authorities to authenticate the continued sick leave. The half pay was subsequently effected through the December, 2011, payroll. The Controlling Officer informed your Committee that the Ministry of Health, in a letter dated 30 April 2012 was requested to constitute a Medical Board to examine the Station Manager and authority has since been given to convene the medical board.

Committee’s Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that in future there is strict adherence to regulations. The matter is recommended for closure subject to verification by the Office of the Auditor-General.

d) Irregularities on Employee Contributions

i. Unprocessed Returns

The Controlling Officer responded that in the past, employers were required to submit contribution data on two types of returns, that is, hard copy and or soft copy. The hard copy returns then required that internal data entry staff manually transcribed the data from the returns onto the scheme’s data system. This process created delays compounded by poor and inadequate information submitted by employers. This led to backlogs.

However, the situation was now different as it was mandatory for employers with ten or more workers on their payroll to submit soft copies of their returns. Another measure introduced in the system was that all current returns were captured before the next return in the following month and this has been made possible because the soft copy returns that were now submitted have drastically reduced the time in which these were captured. Management also recruited temporary staff to specifically clear the backlog of unprocessed returns accumulated since the inception of the scheme. It was hoped that through this exercise, the Authority would clear a significant number of the backlog.

He further stated that in view of the measures put in place by management, the contribution amount in respect of unprocessed returns reduced from K209,786,146,716 at the time of the audit to K182,896,426,693.94 as at 20 May 2012.

Committee’s Observations and Recommendations

Your Committee notes with concern that there are delays in crediting individual member accounts of their contributions which can negatively affect members when being paid their benefits. Your Committee, therefore, directs NAPSA Management to put in place

measures that will ensure that the backlog is reduced to acceptable levels. They await a progress report on the matter.

ii. *Outstanding Contribution Payments-K2,078,589,363,246*

The Controlling Officer responded that efforts have been made through various methods of compliance which included inspection, dialogue and entering into agreements, prosecution as well as consent agreements with employers to ensure outstanding contributions and penalties were settled. In 2010, Management engaged KPMG, a private accounting firm and a professional debt collector to collect the outstanding contributions from parastatal companies, local authorities and the Government. Further, the Controlling Officer stated that as at 1 June, 2012, the contribution in arrears and penalties stood at K1,329,166,219,418.41, reflecting a reduction of 36%.

Committee's Observations and Recommendations

While noting the response and efforts being made to reduce the outstanding contributions, your Committee urges the Controlling Officer to ensure that NAPSA Management puts in place measures to ensure the current gains are sustained. Your Committee awaits a progress report on the matter.

iii. *Failure to Maintain Members' Register*

The Controlling Officer submitted that members of the Scheme provided contact details which were maintained in the registration system and were updated as and when members provided the Authority with new details. He further stated that the Authority required that all members who qualified for the payment of any benefit provided by the Scheme completed a claim form which contained among other details, the current physical contact address and contact phone number(s). This was so because the details provided by a member at the time of joining the Scheme were normally outdated as the member would have changed jobs and addresses at the time of making a claim. The value of providing contact details on claim form was that the Authority captured current contact details for ease of communication.

In addition to the claim form which a member completed, the Authority has developed an Automated Claims Received Register which was running on a pilot basis in Lusaka. The register has all the contact details and once the payment was ready, the claimant was informed immediately or necessary follow ups made if the payment was not collected.

The Controlling Officer stated that in order to address the problem of stale cheques, the Authority has introduced a new payment method and this was payment of benefits through bank transfers. The number of uncollected benefit payment cheques have continued to decrease since members were easily contacted on phone. As at 31 May 2012, the total number of benefit cheques which were in the custody of the Authority stood at 1,660 with a total value of K6,694,781, 051.04 broken down as follows; 719 benefit cheques with a value of K4,448,886, 620.32 were still valid and the beneficiaries were still collecting their respective payments at various NAPSA offices, 941 benefit cheques with a value of K2, 245, 894,431.72 had gone stale following the expiry period of (6) six months for the benefit cheques which were made by November 2011.

Committee's Observations and Recommendations

While commending the Management for the efforts being made in reducing the unclaimed cheques by beneficiaries, your Committee urges the Controlling Officer to ensure that the Automated Claims Received Registers are rolled out to all NAPSA Offices. Your Committee requests the Office of the Auditor-General to verify the availability of registers containing details of members.

e) Irregularities in Investments

i. *Zambian Lotto Limited*

The Controlling Officer responded that Zambian Lotto suspended servicing the debt in August 2011 after a total of K1,200,000,000 had been paid but stopped for a while due to liquidity problems until May 21, 2012 when they paid a sum of K1,500,000,000 and transfers were now expected as per agreement. The total paid to date by Zambian Lotto was now K2,700,000,000.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to ensure that the debt is recovered as per agreement and resolves to close the matter subject to verification by the Office of the Auditor-General.

ii. *Purchase of land from Meanwood Properties Ltd*

The Controlling Officer submitted that it was the practice that a detailed investment appraisal was carried out and justifications/recommendations made before the Authority engaged in an investment activity. However, this could not be done, as firstly, the Investments Directorate was of the view that NAPSA needed not to have bought the land at that cost and for other reasons that were advanced. Secondly, the Board of Trustees took the decision to buy the whole lot of 1,500 acres except that a reduction to 1,479 acres was necessary due to the land fronting a stream. NAPSA would continue as per practice to carry out a thorough project evaluation/appraisal before engaging investment activities.

Committee's Observations and Recommendations

Your Committee expresses concern that the Authority did not obtain a "No Objection" from ZPPA for the purchase of the land and that although it was normal practice for the Authority to carry out investments appraisals prior to committing to an investment, the Authority did not carry out any appraisal before procuring the land. Your Committee, therefore, strongly cautions the Controlling Officer to ensure that NAPSA Management and the Board adhere to the provisions of the *Public Procurement Act* No. 12 of 2008. The matter is recommended for closure.

iii. *The Redevelopment of Society House and Central Arcades*

The Controlling Officer informed your Committee that the matter for engaging an independent consultant was shelved by the Board of Trustees for reasons of saving the Institution consultant fees of K588 million. Thereafter, the Board resolved to proceed

with the investment on the back of a report which was prepared by Fernridge Consulting (Pty) Ltd of South Africa. The report was prepared in 2009 and covered Retail Feasibility and Residential Study for Heart of Africa under Legacy Holdings Zambia which was intended for development near the Baobab Land along Kafue Road.

Committee's Observations and Recommendations

Your Committee notes with concern that the Board resolved to proceed with investing contributor's money using a report for Legacy Holdings Zambia of 2009 near Baobab Land along Kafue Road and without engaging an independent consultant to conduct a market analysis to establish the viability of the Society House and Central Arcade projects. Your Committee, therefore, urges the Controlling Officer to ensure that in future such investment are preceded by detailed studies to ensure they bring favourable returns to the Authority. Your Committee awaits a progress report on the redevelopment of the two projects.

iv. *MKP-NHA North Gate Project*

The Controlling Officer responded that the Board of Trustees engaged NHA/MKP negotiations to reduce the price from the revised offer for medium cost houses of K595 million to K500 Million per unit. As at 31 May 2012, about 216 units were 80% complete while the remaining 100 were at different stages of construction. MKP advised that by December 2012, all the units would have been roofed and some of them would be completed to hand over level.

Committee's Observations and Recommendations

Your Committee wonders why the Board approved the project at the cost of K500 million per unit when their own Investments Department had recommended a price of K440 million per unit. Your Committee requests the Office of the Auditor-general to verify the matter and provide a report.

f) **Non performing Fixed Deposits**

The Controlling Officer responded that NAPSA was unable to relate to the figures raised amounting to K2,923,903,702 and K262,683,304 respectively as reported by the Auditor-General's Office. He stated that recoveries from Banks in liquidation entirely depended on dividends paid by the Central Bank and no effort could be exerted to ensure recoverability.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to verify the figures with the Office of the Auditor-General and awaits a progress report.

g) **Outstanding Government Debt**

The Controlling Officer informed your Committee that the Authority had agreed with the Government on the liquidation of the debt owed by GRZ up to August 2011 when the exercise of debt verification and auditing was finalised. He concluded by stating that the Government had since been engaged through Ministry of Finance and the contract to settle the outstanding arrears and penalty has been drawn awaiting signing by the Attorney-General before payment could start.

Committee’s Observations and Recommendations

Your Committee notes the response and directs the Controlling Officer to ensure that the debt owed by the Government in terms of arrears and penalties is recovered and awaits a progress report on the matter.

h) Outstanding rentals

The Controlling Officer responded that the institution continued to take measures which included engagement of bailiffs to ensure recovery of all outstanding rentals. Reconciliations were also still in progress to ensure tenants who had paid in Lusaka, for example, but who rent various offices throughout the country had their rental position appropriately reconciled.

Committee’s Observations and Recommendations

Your Committee notes the response and directs the Controlling Officer to ensure that all outstanding arrears are recovered by December 2012 and awaits a progress report on the matter.

i) Non- Current Assets – Properties

i. Properties owned by the Authority without Title deeds

The Controlling Officer responded that Management was in the process of acquiring Title Deeds for the ZNPF/NAPSA properties and gave the update as set out in the table below.

Item	NAPSA PROPERTIES	STATUS OF TITLE DEEDS
1	<ul style="list-style-type: none"> Levy Business Park 	<ul style="list-style-type: none"> Title Deed is in place.
2	<ul style="list-style-type: none"> NHA Housing- the Title Deed was handed back to NHA to facilitate removal of portions of land not belonging to NAPSA 	<ul style="list-style-type: none"> The block Title Deed has been obtained, but there was need for sectional Title deed to be obtained. A tender was done to engage a company to do the partitioning. However due to some internal procedure, there would be need for re-tendering.
3	<ul style="list-style-type: none"> Ibex Hill gardens- the Title Deed was being processed by NHA and the portion to NAPSA was as well being processed. 	<ul style="list-style-type: none"> Survey diagrams for individual units were done and passed on to NHA. NAPSA was awaiting Title deed to be issued by NHA.
4	<ul style="list-style-type: none"> Northgate Gardens- the Title deed was being processed by NHA. 	<ul style="list-style-type: none"> The Title Deed was being processed by NHA.
5	<ul style="list-style-type: none"> Kalulushi Housing Project- there was no Title Deed. 	<ul style="list-style-type: none"> Applications for issuance of offer letters were made to the Ministry of Lands and some offer letters have been received whilst others were being processed.

Item	ZNPF PROPERTIES	STATUS OF TITLE DEEDS
1	<ul style="list-style-type: none"> Provident House-Chipata 	<ul style="list-style-type: none"> Awaiting execution of the lease which was to be uplifted from Ministry of Lands.
2	<ul style="list-style-type: none"> Provident House- Kawambwa 	<ul style="list-style-type: none"> Survey diagrams were with the survey diagrams

		in Mansa to be uplifted and sent to NAPSA for further action.
3	<ul style="list-style-type: none"> Livingstone Guest House- 	<ul style="list-style-type: none"> Process to acquire the Title Deed was to be commenced with the Livingstone City Council.
4	<ul style="list-style-type: none"> Godfrey House plot 6131 	<ul style="list-style-type: none"> Title Deed surrendered to Ministry of Lands to effect the direct lease into NAPSA.
5	<ul style="list-style-type: none"> Offices – Jacaranda Road 	<ul style="list-style-type: none"> Plot offered to NAPSA, formal application for acquisition of Title Deed to the Ministry of Lands to be made.
6	<ul style="list-style-type: none"> Luangwa House- Lusaka 	<ul style="list-style-type: none"> Title deed was in the name of Lusaka City Council and assigned to ZNPF, process to have the Title Deed in the name of NAPSA to be began.
7	<ul style="list-style-type: none"> Provident House- Mansa. 	<ul style="list-style-type: none"> Awaiting survey diagrams from Mansa Survey Department. And appeal on service charges which had been placed at K12 billion.
8	<ul style="list-style-type: none"> Office complex- Mazabuka 	<ul style="list-style-type: none"> The plot was on offer from Ministry of Lands. Therefore, application for the Title Deed would now commence with the Ministry of Lands.
9	<ul style="list-style-type: none"> Provident House- Mkushi 	<ul style="list-style-type: none"> The property was to be surveyed. However a search at the Ministry of Lands showed that the property has not yet been surveyed. Therefore, NAPSA has to now request for survey diagrams and submit them to the Ministry of Lands for preparation of the Lease.
10	<ul style="list-style-type: none"> Provident House – Senanga 	<ul style="list-style-type: none"> Waiting to uplift Title deed from Ministry of Lands and NAPSA was pursuing this issue.

Committee’s Observations and Recommendations

Your Committee notes the efforts being made to acquire Title Deeds for properties belonging to NAPSA/ZNPF and urges Management not to relent but to pursue the individual cases until they are resolved. They await a progress report on the matter.

ii. Poor maintenance of Properties

The Controlling Officer responded that rehabilitations for Kingstone building commenced in January 2012 when the contractor mobilised on site. NAPSA has earlier given notices to tenants to vacate the building to facilitate rehabilitations, but some tenants obtained injunctions against vacating the property. Profound flats in Ndola were offered for sale to sitting tenants and some tenants had since paid in full while others had

made part payments and some had not paid. In the meantime appeals had been made to higher offices against selling prices which tenants claimed were too high. NAPSA had been directed to put the matter on hold until consultations had been concluded. Properties that had not been refurbished would be attended to during the year 2012 when tender processes are concluded.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to ensure that awaiting decision of the prices to be made the houses should be maintained to prevent them from degenerating further. The Office of the Auditor-General is urged to verify the matter before it can be closed.

iii. *Unrecovered Balances from Sale of NAPSA Houses to Sitting Tenants*

The Controlling Officer responded that the Authority made first offers to sitting tenants in August 2008 with a discount inducement of 10% if tenants paid in full by 31 October 2008. Some Tenants took advantage of the cash discount and settled in full a sum amounting to K7.2 billion. But other tenants made part payment while some did not. Tenants, subsequently sent written representations to various offices until June 2011 when NAPSA was directed by the Ministry of Labour and Social Security to offer 50% discount to individuals and 35% to corporate/institutional tenants. A fresh deadline of December, 2011, was extended failure to which defaulting tenants would forfeit their units to public tender. In October 2011, NAPSA was subsequently directed not to evict any tenants until consultations had been concluded.

Committee's Observations and Recommendations

Your Committee notes that NAPSA sold off contributor's property at a discount thereby rendering the investment in real properties not profitable and that a balance totalling K10,489,360,500 had not been paid as at 31 October 2011. Your Committee, urges the Controlling Officer to as much as possible allow NAPSA to operate professionally by not issuing directives that undermine the profitability of its commercial ventures. Your Committees urges that this matter should be attended to without further delay. They await a progress report.

j) *Irregular Procurement of a Motor Vehicle*

The Controlling Officer responded that the purchase of the vehicle was approved by the Minister of Labour and Social Security as an entitlement (condition of service) to the Board Chairman's office. The amount was specified and the Board Chairman could choose a vehicle of his choice within the approved amount. That was why it was not subjected to tender procedures. He further stated that on 8 February 2011, a letter was written by the Director General to the Board Chairperson informing him that the Minister of Labour and Social Security decreed that ALB 623, which had been purchased for the Chairman, revert back to the pool and to be availed to all Trustees on Authority business. Consequently, some of the fuel drawings for this vehicle were made after the above stated decision and were for Authority trips by the Trustees and should, therefore, not be treated as drawings on the entitlement for the Board Chairman. For this reason, there was need to reconcile the quantities of fuel drawn with the Office of the Auditor-General. The Controlling Officer concluded by stating that the vehicle was currently in the pool.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

k) Authority Vehicles Disposed of but Insured

The Controlling Officer stated that the Authority vehicles once sold, and with communications to various Directorates concerned, were removed from the fixed assets register and also any insurance premiums remaining on the books were claimed from the insurers. However, due to the manual nature of systems, there was a risk of lack of communications when certain assets were sold and outstanding premiums were consequently not claimed. However, it would have been helpful to sight details of vehicles under discussion.

Committee's Observations and Recommendations

Your Committee notes the response and directs the Controlling Officer to ensure that insurance premiums for the said vehicles is claimed and verified by the Office of the Auditor-General. Your Committee awaits a progress report on the matter.

l) Irregular Procurement of Promotional Services in the London Times from Upper Reach- €26,400

The Controlling Officer responded that the *National Pension Scheme Act* No. 40 of 1996 provided the Board with overall powers on all functions and duties of the Authority. However, the law equally allowed the delegation of these functions to management and the engagement of services for promotional materials has generally not been facilitated through the Board. Management went ahead to make payment without the approval of the Board because of the undue political influence from State House.

Committee's Observations and Recommendations

Your Committee notes with dismay that the Authority paid Upper Reach, a London based advertising company a colossal amount of €26,400 for advertisements as part of a promotion on Zambia which appeared in the London Times of 2 December, 2010 without approval from the Board. Your Committee, therefore, urges the Controlling Officer to ensure that NAPSA operations were run professionally in line with the principals of good corporate governance and not through political influence.

NATIONAL SAVINGS AND CREDIT BANK (NATSAVE)

Query

Paragraph 14

Background

18. The National Savings and Credit Bank (NATSAVE) which is wholly owned by the Government was established in 1972 by the *National Savings and Credit Act No. 24 of 1972*, to replace the Post Office Savings Bank of Zambia with a view to promoting national savings and to provide for matters incidental to or connected with the foregoing. In October 2005, the Act was amended to conform to the *Banking and Financial Services Act No. 21 of 1996*.

Review of Management Information System

a) Non Integration of Management Information Systems

The Controlling Officer submitted that one of the objectives of the SITEX project was to ensure that the new core banking system was interfaced with other legacy systems within the bank. However, following the numerous challenges the Bank faced with the Rubikon System, management felt that it was not prudent to interface these systems before the Rubikon system was stabilised. Management has, however, planned to implement a data warehouse in its IT Strategic Plan through which the integration of management information systems would be achieved within the planning period running up to 2015.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a progress report on the implementation of a data warehouse.

Weaknesses in the administration of the contract – Rubikon Banking System

i. Poor Network Connectivity

The Controlling Officer reported that the Bank's mission required it to extend banking services to unbanked rural areas and in most of these areas, ICT infrastructure was not well developed. In this regard, the bank run a hybrid connectivity system involving the use of VSAT, fixed data lines, and wireless. A number of sites have since been upgraded from the VSAT and DSL connectivity to GPRS which had resulted into improved connectivity. In addition, the Bank used internet modems to provide back-up when the main connectivity lines option failed.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a verification report.

ii. Failure to Implement Channel Manager (Mobile Banking) and Banking Intelligence

The Controlling Officer submitted that the Bank has now implemented the channel manager that served as an interface for all service channels. Further, 11 of the 15 ATM's have since been installed and were operational. The Bank went live on its ATM services on 1 April, 2012 and was officially launched by the Ministry of Finance on the 16th April,

2012. Further, the Bank's ATMs had been connected to the ZAMLINK Switch which had more than 100 ATMs countrywide, hence the Bank's customers could transact from any of such ATMs on the Link.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a verification report on the matter.

iii. *Malfunctioning of Loans Module*

The Controlling Officer stated that the system was configured to generate a report upon request even though the Bank experienced system failure at times.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to ensure that the loans module is configured to automatically generate a report on a loan that has reached maturity date and awaits a progress report on the matter.

iv. *Irregular Compounding of Interest*

The Controlling Officer explained that the system was able to capitalise interest on loans in the month where recoveries had not been received. Further, the loan modules has two ways of treating interest: either capitalising the interest regardless of repayment status of the loan or only capitalising on default. The Rubikon System has the functionality for both. In Zambia, it was industry practice to capitalise all interest in the loan account to net-off with the full repayment if the loan was performing.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

v. *Failure by the System to Stop Accruing Interest on Non-performing Loans*

The Controlling Officer stated that the Auditors correctly noted that the system was not configured to stop accruing interest on non-performing loan. However, the matter was among the outstanding issues referred to the vendor and was also part of the arbitration process.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to verification by the Office of the Auditor-General.

vi. *Bad Loans wrongly Classified as Pass*

The Controlling Officer explained that the Auditors correctly noted that bad loans were not correctly classified according to Section 17(3) of Part IV of Statutory Instrument No. 142 of 1996. However, this matter has since been resolved and bad loans can now be correctly classified.

Committee's Observations and Recommendations

Your Committee resolved to close the matter subject to verification by the Office of the Auditor-General.

vii. *Failure of the System to Automatically Generate Dormant Account Reports*

The Controlling Officer reported that the system was actually configured to do so though the Bank experienced system failure at times.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to ensure that the system failure experienced by the Bank is corrected so that the system can automatically generate reports for dormant accounts and awaits a progress report on the matter.

viii. *Failure of the System to accrue Interest on Fixed Deposits Accounts*

The Controlling Officer explained that the issue has been raised for resolution by the system vendor and it was amongst the outstanding issues in Rubikon. Whilst waiting for a solution, management was undertaking a manual computation at maturity of the Term Deposit since the transaction volumes were not significant.

Committee's Observations and Recommendations

Your Committee notes the response and awaits the outcome of the arbitration process.

ix. *Failure to Implement the Offline module*

The Controlling Officer explained that offline module was tested in Rubikon in three of NATSAVE's branches and the results were not acceptable by the Bank. As a result, management could not proceed with the implementation of the offline module.

He further stated that management had since devised other means of ensuring that there is business continuity in times of outages such as the use of Airtel and MTN modems in accessing the system during network outages and was one of the issues submitted for arbitration.

Committee's Observations and Recommendations

Your Committee notes the response and awaits the outcome of the arbitration process.

x. *Frequent Failure of the Report Server*

The Controlling Officer stated that all managers have access to the system reports. The problem has been that the report server itself experienced frequent freezing. This issue has also been referred to the vendor who has been trying to find a solution for it and it was one of the outstanding issues in the Rubikon application. Further, Management has devised a mechanism of ensuring that the reports were generated and emailed to branches every day after end of day processing.

Committee's Observations and Recommendations

Your Committee notes the response and awaits the outcome of the arbitration process.

xi. *Failure of the System to Collect Automated Administration Charges*

The Controlling Officer responded that the system was able to automatically collect administration fees. However, it was best industry practice to pend charges whenever the balance on an account was not sufficient for subsequent collection when the position improves.

Committee's Observations and Recommendations

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

xii. *Unreconciled Suspense Accounts Transactions*

The Controlling Officer explained that the Bank has since established a reconciliation team to deal with the backlog and any on-going issues. The task was expected to be finalised by 31 December, 2012.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a progress report on the matter.

xiii. *Failure to Print Deposit Slips*

The Controlling Officer explained that the matter has also been escalated by the vendor and was part of the arbitration process.

Committee's Observations and Recommendations

Your Committee notes the response and awaits the outcome of the arbitration process.

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

The Controlling Officer explained that it would be difficult to have SLAs in place when the current system was unstable. However, management intends to put SLAs in place once a robust system has been put in place at an estimated cost of between K300 million and K500 million.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer to ensure that a robust system that will support the Service Level Agreements is installed. Your Committee awaits a progress report on the matter.

d) **Lack of a Business Continuity Plan (BCP) and Disaster Recovery Centre (DRC)**

The Controlling Officer explained that while the BCP was in place, it has not yet been updated with the changes according to the new core banking system. He, further, stated that the Bank has a Disaster Recovery Site which, however, did not replicate data on a real-time basis. The Site was updated with weekly backups. However, the daily backups were being done on a daily basis. At Head Office the Bank, has three extra test environments for the system which could be used immediately should there be a problem with the production environment.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a verification report on the matter.

ROAD TRANSPORT AND SAFETY AGENCY (RTSA)

Query

Paragraph 15

Background

19. In Paragraph 16 of the Report of the Auditor General on Accounts for the Financial Year ended 31 December 2007 mention was made of the weaknesses and irregularities in operations of the Zambia Transport and Information System (ZAMTIS) at RTSA.

In an effort to address the weaknesses and irregularities in the operations of the ZAMTIS, RTSA decided to undertake a system upgrade. In this regard, RTSA signed a contract with Face Technologies Ltd on 17 September 2009 for the upgrade of the ZAMTIS at a contract sum of K4,856,405,000 (US\$971,281). The contract duration was twelve (12) months commencing upon signing the contract.

The scope of works for the upgrade was software management and maintenance for the following functions:

- motor Vehicle Examination;
- the system to block the change of registration mark in data correction;
- the system to identify key or mandatory fields;
- Toll fees configuration; and
- the Certificate of Fitness for RSL and PSV.

Review of Management Information System

a) **Project over-run resulting in Wasteful Expenditure**

The Controlling Officer submitted that the maintenance and upgrade of the Zambia Transport Information System (ZAMTIS) contract between the Road Transport and Safety Agency and Face Technologies was signed in July 2009. The maintenance contract was for a period from 10 July 2009 to 9 July 2010. However, as at the end of the contract period, a number of components required for the upgrade of the system has not been received by the Agency. These included hardware such as regional servers, desk tops and printers and software such as the operating system. It was therefore necessary to extend the contract by three months for the upgrade to be completed due to the delays caused by the lengthy procurement processes. The fee paid for the extended period to the vendor was mainly on reimbursable items such as travel and lodging. The ZPPA took more than three months to clear the request from RTSA which then necessitated the

extension of the maintenance contract by a further three months. Further, as was common in project management, some activities were dependent on completion of other activities and hence the delay.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

b) Incomplete Works

The Controlling Officer submitted that the Agency was aware of the incomplete works which led to the breakdown in relations with the vendor of the system, Face Technologies Ltd. As a result of the incomplete works, the RTSA withheld payment amounting to USD 243,332 which represents the value of incomplete works. The contract was valued at USD 971,281.

Committee's Observations and Recommendations

Your Committee expresses regret that the procurement of such defective software is costing the country a lot of money and urges the Controlling Officer to ensure that proper studies are carried out before adopting and purchasing software. Your Committee awaits a progress report on the matter.

c) Non-functional Driving License Administration Module at Chipata, Mwami and Chirundu

The Controlling Officer submitted that the Agency has since rolled out the Driver's Licence Module at the Chipata Office. The appropriateness of the infrastructure at Mwami and Chirundu being border stations were mostly related to revenue collection transactions. Mwami and Chirundu were not planned for Driver's Licence Module as these were essentially border posts.

Committee's Observations and Recommendations

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

d) Lack of Disaster Recovery Site

The Controlling Officer submitted that the Agency was in the process of finalising the establishment of a hot site.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the hot site was functional. They await a progress report on the matter.

TANZANIA ZAMBIA RAILWAY AUTHORITY (TAZARA)

Query

Paragraph 16

Background

20. The Tanzania Zambia Railway Authority (TAZARA) was established under the *Tanzania Zambia Railway Act*, Cap 768 of the Laws of Zambia, which was later repealed and replaced by the *Tanzania Zambia Railway Act*, Cap 454 to provide for sound commercial principles of operation, a secure, efficient and safe system of public transport of passengers and goods by rail between and within Zambia and Tanzania. The railway line covering 1,860 km from Kapiri Mposhi to Dar-es Salaam was constructed with funding from the Government of the People's Republic of China. The railway line is jointly owned by the Governments of Zambia and Tanzania with equal shareholdings. TAZARA started its operations in 1976 and operates a freight and passenger train service. Its Headquarters is in Dar-es-Salaam, Tanzania with two regional Headquarters in Mpika (Zambia) and Dar-es-Salaam (Tanzania).

Review of Operations

a) **Failure to Prepare Financial Statements**

The Controlling Officer submitted that the financial statements were delayed because the Reporting Manager for the TAZARA audit at PricewaterhouseCoopers retired just before he could sign the audit report and the new Manager could not obtain assurance that the audit of 2007/08 was in compliance with the audit standards and, therefore, could not sign the report. As a result, the 2007/2008 financial year audit was redone, consequently delaying the engagement of the auditor for the 2008/09 financial year. This was resolved and the Company was now current as all financial reports up to June 2011 were fully signed.

Committee's Observations and Recommendations

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

b) **Non-injection of Fresh Capital**

The Controlling Officer submitted that Management has consistently reminded the shareholders on the need to inject working capital in TAZARA and the two governments had promised to inject funds in various areas including retirement benefits and recapitalisation.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to await a progress report on the matter. Further, your Committee advises the Authority that in addition to awaiting funds from the shareholders, management should continue seeking other ways of resolving the problems the Authority is facing.

c) **Financial Performance**

The Controlling Officer submitted that TAZARA from inception been incurring losses mainly arising from circumstances that were beyond management's control. He gave an example of the capital structure of TAZARA which had borrowings from the Chinese Government that were supposed to be stated at their fair values and whose valuation gave rise

to exchange losses.

Committee's Observations and Recommendations

In noting the submission, your Committee observes that the purpose of every commercial venture is to make profits and increase the wealth of its share holders which TAZARA has unfortunately failed to do since its inception. Your Committee, therefore, urges the Controlling Officer to ensure that measures are put in place to revitalise the Company so that it can operate profitably. The Office of the Auditor-General is requested to keep the matter in view, in future audits.

d) Statement of Financial Position

The Controlling Officer submitted that the reasons for the negative working capital were mainly due to insufficient cash-flows generated by TAZARA as outlined above. He stated that in order to correct the situation, Management was considering requesting the Board of Directors to approve the disposal of obsolete stocks and assets that would improve the cash levels. In addition, management has also requested the two Governments to take over some of the liabilities which would result in reduced obligations.

Committee's Observations and Recommendations

In noting the submission, your Committee is not convinced that injection of fresh capital by the two Governments on its own can improve the working capital and urges the Controlling Officer to consider undertaking a detailed study on what can be done to revitalise the Company. The Office of the Auditor-General is requested to keep the matter in view, in future audits.

e) Credit Management

i. *Accounts Receivable Days*

The Controlling Officer submitted that most of the amounts sitting in the receivables were debts that had accrued over a long period and have been disputed. A further search at the Business Registration and Licensing Authorities, both in Tanzania and Zambia revealed that most of these companies have either been de-registered or wound up.

Committee's Observations and Recommendations

Your Committee expresses disappointment that the Authority despite facing liquidity problems has not been aggressive enough in the implementation of its credit policy to reduce on the receivables. Your Committee is of the view that unless the Authority Management can raise money from its operations, intervention from shareholders will not be enough to sustain the Company. The Office of the Auditor-General is requested to keep the matter in view in future audits.

ii. *Accounts Payable Days-K99,183,089,397 (Tsh23,615,021,285)*

The Controlling Officer acknowledged that the Authority took between 798 days and 1,324 days to settle its creditors during the financial years 2006 to 2008 mainly

because of limited capacity. TAZARA has not been able to generate sufficient cash flows for it to adequately service its obligations as they fell due.

Committee's Observations and Recommendations

Your Committee resolves to close the matter but urges the Controlling Officer to keep the matter in view in future audits.

iii. *Outstanding/Dormant Debtors-K97,706,284,125*

The Controlling Officer submitted that most receivables were debts that had accrued over a long period and have been disputed. A further search at the Business Registration and Licensing Authorities, both in Tanzania and Zambia, revealed that most of these companies have either been de-registered or wound up. A recommendation has been made to the Board to have these debts written off. However, for those that were recoverable such as TRH (Tanzania) and SNCC (DRC), management's efforts had yielded positive results.

Committee's Observations and Recommendations

Your Committee observes that despite having a credit policy, the Company accumulated huge sums of bad debts over a long period of time mainly due to the Management's failure to adhere to its credit policy for a long time. The matter will remain outstanding until a significant improvement in credit management is attained.

iv. *Debts not recognised in TAZARA Books of Accounts-K268,971,200*

The Controlling Officer submitted that the *TAZARA Act* of 1995 exempted TAZARA from any taxes and levies on its capital gains and, therefore, payment of 10% commission to the Mpika District Council from the sale of TAZARA property was voided in law. He observed that since the Court judgment was already delivered against TAZARA, this would be disclosed in the financial statements and the status would be explained as the likelihood of loss was remote.

Committee's Observations and Recommendations

Your Committee is of the view that since the courts of law have ruled in favour of the plaintiff, Management needs to recognise the debt in its books as per acceptable accounting standards. The matter will remain outstanding until the debt is duly recognised.

f. **TAZARA Main Business Operations**

i. *Decline in Freight and Passenger Traffic*

The Controlling Officer submitted that the capacity constraints in terms of rolling stock and motive power has made it impossible for TAZARA to achieve its revenue targets over the last number of years. The capacity constraints were due to lack of resources to adequately repair and maintain rolling stock and motive power, resulting in deferred maintenance which made it impossible for TAZARA to achieve the freight and passenger traffic targets over the last number of years.

Committee's Observations and Recommendations

In closing the matter, your Committee observes that it is the responsibility of Management and the Board to address such challenges. The Office of the Auditor-General is urged to keep the matter in view in future audits.

- ii. *Unpaid Demurrage Charges-K1,199,722,154 (Zambia) and K7,820,469,170 (Tanzania)*

The Controlling Officer submitted that some outstanding demurrage charges have been collected. Notably, a total of USD 44,000 equivalent to ZK 228,360,000 was collected from TRH. He added that to forestall the accrual of demurrage charges, management would ensure demurrage charges were paid before consignments were released.

Committee's Observations and Recommendations

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

- iii. *Under Declaration of Weight/ Overloading of wagons*

The Controlling Officer provided no response on the matter.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until a satisfactory response is provided by the Controlling Officer.

g. TAZARA infrastructure

- i. *Lack of Title Deeds*

The Controlling Officer submitted that Title Deeds for the Senior Management Guest House have since been retrieved from Zambia National Commercial Bank (ZANACO) and was with TAZARA while the quotations for the survey of the other houses which were not on Title had since been obtained.

Committee's Observations and Recommendations

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

- ii. *Failure to Insure Assets*

The Controlling Officer submitted that TAZARA still did not have any insurance cover for its locomotive, wagon, bridges and culverts due to prohibitively high quotes for the insurance premiums demanded by insurance companies.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Authority to ensure the locomotives and urges the Controlling Officer and the Management to engage the shareholders on the matter in order to come up with a solution.

iii. *Failure to Revalue Assets*

The Controlling Officer submitted that bids for the revaluation have since been submitted before the central tender committee for selection.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the assets in questions are revalued.

iv. *Damages to the Permanent Way*

The Controlling Officer submitted that to try and resolve the matter, five heavy duty motor trolleys were being repaired by Afrirail at a cost of USD 85,000 which would be used by the Gang men to effectively monitor and repair the permanent way. Further, tamping and ballasting works of sections of the railway line that had deteriorated have been enhanced.

Committee's Observations and Recommendations

Your Committee notes the efforts being put in place by Management and urges that for such efforts to be meaningful, they need to be sustained. In this regard the Office of the Auditor-General is urged to keep the matter in view, in future audits.

v. *Uprooted Siding Tracks*

The Controlling Officer submitted that following the receipt of funding for cement procurement through the Chinese technical assistance in the 14th Protocol, Management had put in place a work plan to restore most of the uprooted tracks. The production of re-enforced concrete sleeper at Kongoro sleeper plant was ongoing.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

vi. *Defective and Non Existence of Sign Posts*

The Controlling Officer submitted that this was due to vandalism in both Zambia and Tanzania, and Management was continuously lobbying the relevant Ministries of Commerce and Industry in both Tanzania and Zambia to find ways in which the scrap metal business could be effectively regulated.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Controlling Officer to continue

devising ways of addressing the situation. The Office of the Auditor-General is urged to keep the matter in view in future audits.

vii. *Dysfunctional Locomotive Engines*

The Controlling Officer submitted that Management had recommended to the Board to dispose of the engines since they had become uneconomical to repair through an open tender, however, there was no documentary evidence to show that Management had made such a recommendation to the Board.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to immediately avail evidence that the matter is tabled before the Board to the Office of the Auditor-General. They await a progress report on the matter.

viii. *Defective Weigh Bridges*

The Controlling officer submitted that Management was working on repairing the defective weighbridge at New Kapiri Mposhi while the Yombo Weigh Bridge was repaired and functional.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

ix. *Dilapidated Workshop Buildings – Mpika*

The Controlling Officer submitted that repair works awaited Government funding.

Committee's Observations and Recommendations

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

x. *Investment Property*

The Controlling Officer submitted that Management had proposed to the Board of Directors to create a Real Estate Department and employ qualified personnel. Further, Management had provided ZK175 million in the current budget for the repair of Minet House in Ndola.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the concerns of the auditors are fully addressed. Your Committee awaits a progress report on the matter.

h) **Kongolo Quarry plant**

i. *Dysfunctional Secondary Crusher at Kongolo Quarry*

The Controlling Office submitted that the process for procuring the spare parts for the

repair of the secondary crusher had already commenced.

Committee’s Observations and Recommendations

Your Committee resolves not to close the matter until the secondary crusher is repaired. They await a progress report on the matter.

ii. *Lack of Equipment*

The Controlling Officer submitted that TAZARA has been grappling with this problem in all its operational areas, mainly due to lack of recapitalisation.

Committee’s Observations and Recommendations

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

i) **Dysfunctional Construction Unit**

The Controlling officer submitted that the construction unit in Zambia was undertaking external projects such as building schools and molding bricks.

Committee’s Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

j. **Under Utilisation of the TAZARA Training Centre (TTC)**

The Controlling Officer submitted that Management was equally concerned on the underutilisation of the Training Centre and external programs were now being undertaken at TAZARA training centre in order to make the centre self sustaining.

Committee’s Observations and Recommendations

Your Committee resolves not to close the matter until it is verified by the Office of the Auditor-General that the utilisation of the Centre has improved. They await a progress report on the matter.

k. **Irregularities in the Management of Human Resources**

i. *Acting Appointments Longer than the Statutory Period*

The Controlling Officer submitted that the provisions of the TAZARA staff regulations provide for two types of acting appointments, namely: acting appointment for administrative convenience and acting appointment with a view to confirmation which attract different treatment. A member of staff was appointed to act on administrative convenience, this was done in cases where the officer appointed to act in such a position does not have the requisite qualifications to warrant promotion to that higher office. On the other hand acting appointment with a view to confirmation was limited to six months after successful evaluation of that individual's performance. It was therefore possible to find employees acting for long periods as revealed in the

audit report.

Committee’s Observations and Recommendations

Your Committee resolves to close the matter.

ii. *Inadequately Qualified Accounting Staff*

The Controlling Officer submitted that the scheme of service was ready and there was deliberate arrangement to send accounts personnel for further training.

Committee’s Observations and Recommendations

Your Committee resolves not to close the matter until accounting staff are adequately qualified. They await a progress report on the matter.

iii. *Overtime Paid in Excess of Budgeted Amounts*

The Controlling Officer submitted that to control overtime, Management and the unions had worked out a new crew working method aimed at cutting down overtime.

Committee’s Observations and Recommendations

Your Committee resolves to close the matter as it is verified by the Office of the Auditor-General.

iv. *Non Payment of leave travel allowance*

The Controlling Officer acknowledged that amounts totalling K1,158,080,609 (Tsh2,459,064) and K573,887,109.60 (Tshl 36,639,788) involving 412 employees for Zambian and Tanzanian Regions, respectively, were still outstanding. The Authority were in discussion with the shareholders to take over some of these accrued staff liabilities that recently culminated into the two Auditor General offices in both Tanzania and Zambia being mandated by the Board and Council of Ministers to carry out a verification on the true indebtedness of TAZARA’s pension liabilities.

Committee’s Observations and Recommendations

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

v. *Outstanding Terminal benefits*

• **Zambia Region-K10,514,111,401**

The Controlling Officer submitted that the TAZARA Conditions of Service provide for compulsory retirement age of fifty-five years with provision that either party (employee or employer) shall give six months notice of intention to retire. As stated in the Trust Deed among the benefits that are payable at retirement of an employee is a lump sum benefit. The calculations for the lump sum benefit in respect of employees who retired after 1 July, 2009, were

based on twenty-four months instead of thirty months because employees who retired from July to December, 2009, were served with notices of retirements between January, 2009, and July, 2009.

These notices were served under the 2007—2009 Collective Agreement in force then, having been validly extended, in which the lump sum provided for was twenty-four months. In February, 2010, the 2009-2011 Collective Agreement was approved and registered with the Industrial Court and Management took cognizance of Clause 22.2 in this Collective Agreement which changed lump sum payment from twenty-four months to thirty months and corrigendum letters were to this effect done. Corrigendum letters also took into account the approved salary increments which were a part of the concluded negotiations for the 2009—2011 Collective Agreement. The Controlling Officer added that the plan had been put in place even though the Authority was experiencing cash flow challenges.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

- **Tanzania Region-K20,934,835,323 (US\$3,612,940.23)**

The Controlling Officer submitted that a plan had been put in place even though the Authority was experiencing cash flow challenges.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until there is evidence that the Authority is implementing the plan to offset the terminal benefits. They await a progress report on the matter.

iv. *Outstanding Pension Contributions*

- **Zambia State Insurance Corporation- K96,553,648,234**

The Controlling Officer submitted that the administration of the pension scheme has been a problem to TAZARA for a long time but the two Governments were committed to taking up the pension liabilities. Meanwhile TAZARA has continued remitting USD 220,000 every month to the two pension institutions (NIC and ZSIC).

Committee's Observations and Recommendations

Your Committee observes that overreliance on the two Governments for subventions is not a lasting solution and urges management to come up with strategies to make the Company viable. The matter will remain open until there is a significant reduction in the outstanding amounts. They await a progress report on the matter.

- **National Insurance Corporation- Tanzania-K122,988,999,143**

The Controlling Officer submitted that the administration of the pension scheme has been a problem to TAZARA for a long time to the extent that the outstanding liability has become unmanageable and TAZARA was not able to address it from its internal resources. This had already been brought to the attention of the Board of Directors and the governments of Tanzania and Zambia who have resolved to deal with it.

However, Management had signed some Financing Agreements with the Fund Managers where monthly remittances of USD 220,000 were paid to buy the annuities for the retired workers. The two governments were committed to taking up the pension liabilities. Meanwhile, TAZARA has continued remitting USD 220,000 every month to the two pension institutions (NIC and ZSIC).

Observations and Recommendations of the Committee

Your Committee resolves to close the matter subject to verification of the agreement with the Fund Manager.

- **Outstanding Statutory Contributions**

National Pension Scheme Authority (NAPSA)-K215,906,775,781

The Controlling Officer submitted that the Authority entered into financing agreements in which monthly remittances of USD 40,000 were paid towards the debt. Further, management has brought the matter to the attention of the shareholders who were willing to assist in liquidating the debt.

Committee's Observations and Recommendations

Your Committee notes the submission but resolves not to close the matter until the payment agreement is available for verification and it is established that it is in force.

National Social Security Fund (NSSF)-K24,109,890,350

The Controlling Officer submitted that the Authority entered into financing agreements in which monthly remittances of USD 40,000 were paid towards the debt. Further, management has brought the matter to the attention of the shareholders who were willing to assist in liquidating the debt.

Committee's Observations and Recommendations

Your Committee notes the submission but resolves not to close the matter until the payment agreement is available for verification and it is established that it is in force.

- **Unremitted Pay-As-You-Earn (PAYE) and Value Added Tax (VAT)**

Zambia Revenue Authority-K74,502,927,004

The Controlling Officer submitted that this was as a result of the perennial cash flow problems the Company was facing which have been brought to the attention of the two shareholder Governments.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until there is a significant reduction in the amount of taxes not remitted to ZRA. They await a progress report on the matter.

Tanzania Revenue Authority-K46,703,619,473 (US\$8,998,000.94)

The Controlling Officer submitted that this was as a result of the perennial cash flow problems the Company was facing which have been brought to the attention of the two shareholder governments. Meanwhile, Management was in discussion with Tanzania Revenue Authority over a possible debt swap between the outstanding amounts of taxes with the fuel tax refunds owed to TAZARA.

Committee's Observations and Recommendations

Your Committee urges the Ministry to come up with measures to address the matter of failure to pay taxes and provide a progress report on the matter.

- **Outstanding Workers Compensations Contributions**

The Controlling Officer submitted that TAZARA's indebtedness to statutory organisations such as Workmen's Compensation was a result of inadequate cash flows generated from operations.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until measures to address the failure to pay taxes and other statutory contributions are devised and implemented by the Authority.

- **Outstanding Legal Fees-K9,091,887,064**

The Controlling Officer submitted that there was a mix up in the way the legal fees were reported in that there were two different classes of payments made. The first category included fees paid to the lawyers themselves for representing TAZARA; and second were amounts awarded to the decree holders like a creditor or ex employee who wins a case. According to records, the current outstanding legal fees stood at USD 445,000 only while decree holders were owed USD 6.7 million. In this regard, Management has some agreements with both the law firms and the decree holders to settle the outstanding debt according to the agreed schedule. For example the Euro Products case where out of USD 1.5 million, TAZARA has so far paid USD 1 million.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until evidence is provided to support the Controlling Officers submission. They await a progress report on the matter.

l) Irregularities in the Procurement of Goods, Services and Public Works

i. *Failure to Obtain Three Competitive Quotations-K808,970,780 (Tsh192,612,090.40)*

The Controlling Officer submitted that purchase of fuel from Tawaqal for Tshs 151,190,000 was done to meet emergency needs as the fuel purchases were being done from Head Office and taken to the various consumption areas. In cases where, due to blockage of the line because of accidents and fuel did not reach the consumption area, emergency supplies were procured in order not to disrupt operations.

For the rest of the queried amounts, the Controlling Officer submitted as set out below.

- Tshs 6,252,138.80 was spent on settlement of utility bills such as TANESCO (power supply) and TTCL (land phones/faxes) that were for services consumed.
- Tshs 7,050,000 was paid to Mbeya District Council for TAZARA plots of land since it is only the local authorities that have the mandate to allocate plots.
- Tshs 25,935,657 was for payment of June, 2007 salaries.
- The remaining balance was for purchase of small items whose cost was too low to warrant the cost of tendering.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure to avail these details to the Office of the Auditor-General during audit and cautions that in future this practice will not be tolerated. Your Committee urges the Authority to ensure that procurement procedures are followed regardless of the amounts involved. The Office of the Auditor-General is requested to keep the matter in view, in future audits.

ii. *Missing Gas Oil at New Kapiri Mposhi-K33,270,000 & Mpika- K36,720,420*

The Controlling Officer submitted that the reported undelivered gas oil in Tanzania Cost and Profit Centre were an accumulation of very small amounts of leakages over a period of five years. A closer examination of these losses revealed that the highest loss per single FT was 1,000 litres which when accumulated over a longer period of time like five years could amount to significant quantities. These losses could be due to small leakages in the fuel tanks conveying such fuel or the differences in temperatures between when the fuel was received and recorded and when it was being discharged. He noted that such discrepancies were acceptable even by the tax authorities such as TRA.

As regards the missing fuel at Kapiri Mposhi, the Controlling Officer submitted that the matter was reported to TAZARA police for investigation. The involved officers were arrested and the case has since been brought before courts of law. Further, administrative action was taken through dismissal of one senior officer.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the office of the Auditor-General.

iii. *Wasteful Expenditure-K21,450,000 and K21,900,000*

The Controlling submitted that the matter had been cleared by the office of the Auditor-General.

Observations and Recommendations of the Committee

Your Committee resolves to close the matter.

iv. *Procurement of an Ambulance for Kongolo Quarry*

The Controlling Officer acknowledged that the Authority made a part payment of US\$13,000 to Toyota (T) Limited towards the procurement of an ambulance costing US\$48,000, leaving a balance of US\$35,000. He submitted that Management had arranged funding from the proceeds from the sale of quarry products to completely pay for the ambulance.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the ambulance is delivered.

v. *Redundant Software-K904, 954,350*

The Controlling Officer submitted that a feasibility study would be undertaken before implementation of any other software. Management made an effort to recover the Oracle Software and tried to seek Board approval for the same. However, the Board resolved that Oracle should be scrapped as it was obsolete and a public tender be floated.

Committee's Observations and Recommendations

Your Committee expresses concern that the Authority incurred such a huge expenditure on software which is not being used and urges the Controlling Officer to ensure that officers who caused the excess expenditure due to negligence of duty are sanctioned. The matter will remain outstanding until disciplinary action is taken.

vi. *Failure to Pay for House Furniture*

The Controlling Officer submitted that Management was following up to recover the costs of the furniture and computers from the former Regional General Manager, Zambia Region.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the recoveries in question are made and evidence verified by the Office of the Auditor-General.

m) Poor Management of Contracts

i. Failure to enter into a Contract

The Controlling Officer submitted that the operations of Ishozi were based on a memorandum signed between the caterer and TAZARA.

Committee's Observations and Recommendations

Your Committee expresses concern that the Authority chose to enter into contracts with the two companies without written contracts and urges the Controlling Officer to strongly caution Management for this conduct. The matter will not be closed until evidence is availed to show the action taken by the Ministry.

ii. GE Transportation LLC Contract Overrun

The Controlling Officer submitted that the GE contract had overrun its period due to a number of issues that were beyond TAZARA's control such as late arrival of shipments and additional spare parts which were required while the project was in progress. Out of the the five overhaul kits that were reported not to have been delivered by the Auditors, three had since been delivered while two were still awaited.

Committee's Observations and Recommendations

Your Committee expresses disappointment that the two kits have not been delivered and Management has not made any effort to regularise the overrun contract. Your Committee, therefore, resolves not to close the matter until the remaining kits were received and the contract is regularised. They await a progress report on the matter.

iii. Under Charging- Transportation of Copper

The Controlling Officer submitted that the rates had since been revised upwards effective August 2011 and were of fair value even though they were on the high side as compared to road competitors.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

iv. Irregular Sourcing of Legal Firms

The Controlling Officer submitted that there was no competitive tendering in legal matters but selective tendering was used and documents were shown to the Auditors.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

n) **Other Irregularities**

i. *Missing Receipts Books*

The Controlling Officer submitted that the matter was still being investigated by Management to establish the extent of the loss and once established, disciplinary action will be taken against the staff concerned.

Committee's Observations and Recommendations

Your Committee expresses concern at the slow pace Management is handling the matter and urges that if no progress is made it should be reported to the investigative wings for further actions. They await a progress report on the matter.

ii. *Use of Revenue at Source-K735, 086,904 and Tsh15, 800,840*

The Controlling Officer submitted that in order to mitigate hardships such as death, sickness of workers and their registered dependants at wayside remote stations where there are no banking facilities, Management from time to time issued control orders to use revenue at source. However, this practice had been reduced tremendously following the increase in the number of banking institutions and saving schemes in rural areas.

Committee's Observations and Recommendations

Your Committee observes that the practice has not stopped and urges the Authority to devise other ways of attending to emergencies. The Office of the Auditor-General is requested to verify the matter to establish the current status.

iii. *Teeming and Lading*

The Controlling Officer submitted that the officer responsible for the anomaly was demoted for flouting the financial regulation by allowing exchange of cheques on revenue funds and issuing cheques on an insufficiently funded expenditure bank account.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

iv. *Misappropriation of Funds-K434,447,517*

The Controlling Officer submitted that Management took disciplinary action against the staff involved. The staff has since been demoted from the position of booking clerk to a Pointsman and transferred to another station. As for the cashiers involved in the misappropriation of this cash, all were reported to the Zambia Police and their cases were dealt with in the courts of law. In addition, appropriate administrative

action was taken against them. To prevent the recurrence, all station under-remittances were now thoroughly investigated by both the Internal Audit department and the Coaching Section of the Finance and Accounts Revenue section. In most cases, such station masters were surcharged and recoveries of such underremittances were recovered from their salaries.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

v. *Outstanding Rental Income-K2,796,492,080 (Tsh665,831,447)*

The Controlling Officer submitted that the outstanding rentals were being pursued for recovery through TAZARA's own legal experts. Further, Management was in the process of reviewing the organisation's structure of TAZARA in which it was proposed to employ real estate experts who would be giving expert advice to Management on the optimal returns from rentals of TAZARA properties.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the outstanding rentals were recovered. The Authority is strongly urged to devise more aggressive ways of collecting the rentals as the current status is highly unacceptable. They await a progress on the report on the matter.

vi. *Non-Core Assets approved for Sale*

- **Irregular Sale of 32,547.703 Square Meters of Land**

The Controlling Officer submitted that Management through a Circular Resolution No.01 of 2006 dated December 2006 sought authority from the Board of Directors to sell these properties below their value as valued by the Government Valuation Office.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the circular in question and Board decision on the matter is availed to the office of the Auditor-General for verification.

- **Missing Documents on the Sale of the Properties-K51,553,782,000 (US\$4,214,282.40)**

The Controlling Officer submitted that the proceeds of sale from the disposal of all TAZARA properties were dully receipted and banked in TAZARA bank accounts. The Board of Directors suspended the sale of any TAZARA property including warehouses and staff houses effective 1 April 2008.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until all documents in respect of the sale of the authority's property are availed to the Office of the Auditor-General for verification.

TOBACCO BOARD OF ZAMBIA (TBZ)

Query

Paragraph 17

Background

21. The Tobacco Board of Zambia (TBZ) was established by the *Tobacco Act* Cap 237 on 1 April 1968 with a mandate to promote, protect and maintain the production, sale, preparation for subsequent use and export of tobacco grown in Zambia among others.

Accounting and Other Irregularities

a) Audit Committee

The Controlling Officer submitted that Management had earlier written to the dissolved Board to reconsider the composition of the Audit Committee to be in line with the recommendations of the Auditors. The Ministry has since written to the Secretary to the Treasury to appoint an Audit Committee which would be in compliance with the financial regulations.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the Audit Committee is constituted in accordance with financial regulations. They await a progress report on the matter.

b) Irregular Increase of Board Allowances-K128,400,000.

The Controlling Officer submitted that the TBZ Management had taken note of the Auditors' recommendation and had since written to the Minister of Agriculture and Livestock (MAL) to regularise the new Board allowances.

Committee's Observations and Recommendations

Your Committee expresses concern that the Act was not followed in the increment of allowances for the Board and urges the Controlling Officer to strongly caution the officers who misled the Board into taking this decision. Your Committee resolves not to close the matter until the retrospective approval to increase and pay allowances is granted by the Minister. Your Committee awaits progress report on the matter.

c) Board Sitting Allowances

The Controlling Officer submitted that the payments being referred to were made to the former Board Chairman whenever he was invited to represent TBZ at various official functions where costs of travel and allowances were not paid for by the organisations hosting such functions. In such instances, TBZ was obliged to meet the Chairman's expenses in terms of travel and allowances. However, Management has advised the new Board on the recommendations of the

Auditors concerning payment of allowances on activities to which they were invited by other organisations.

Committee's Observations and Recommendations

Your Committee advises the Controlling Officer to avail all the documentation in respect of the meetings attended by the Board Chairperson to the Office of the Auditor-General for verification before the matter can be closed.

d) Failure to Produce Annual Reports

The Controlling Officer submitted that the delay in producing audited financial statements for the years 2008, 2009 and 2010 had been caused by external auditors who have not yet moved in to start the audit for the years in question. This was so despite the fact that engagement letters were signed for the years in question. However, the Board has directed Management to write to the Office of the Auditor-General so that new auditors can be engaged to conduct the audits for the years in question.

Committee's Observations and Recommendations

Your Committee are of the view that the Board was not giving the matter of preparation of annual reports the seriousness it deserves and urges the Controlling Officer to engage the Office of the Auditor-General so that the matter of external auditors can be addressed.

e) Irregular Sale of TBZ Pool Housing Units to Employees

The Controlling Officer submitted that following the audit, the Board resolved to offer the houses to the affected members of staff at the market value with a discount of forty percent (40%) instead of reversing the sale which could have attracted litigation before the Courts of Law. In this regard, a letter seeking authority to re-offer the houses with a 40% discount has been written to the Minister with a copy of the valuation report.

On the sale of a pool house to the Operations Manager, your Committee was informed that the Operations Manager applied to occupy the Chipata House No. 1463 when the TBZ Board directed Management to operate the tobacco sales floors in the Eastern Province in February 2011. Since the house was vacant, the Operations Manager opted to be staying in the house as he was spending much of the time supervising tobacco sales floors in Eastern Province. At the time the houses were being offered for sale, the Operations Manager was a sitting tenant for Chipata House No. 1463.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until authority to re-offer the houses at 40% discount has been granted by the Minister. As regards the Chipata house, your Committee resolves that evidence should be availed confirming that the officer concerned was transferred to settle in Chipata failure to which the Board should reverse the sale of the House.

f) **Disposal of Motor Vehicles**

i. *Isuzu motor vehicle No. AAR 785 - K14,000,000*

The Controlling Officer informed your Committee that TBZ Management tried to recover this money from Eastern Fodya Association of Zambia (EFAZ) but it has not been easy and Management opted to withhold all financial assistance to EFAZ to enforce settlement of this debt.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the vehicle was sold to the EFAZ in total disregard of the circular which limited eligibility to bid for the vehicle to members of staff of TBZ and urges the Controlling Officer to caution Management against such acts. Further, measures should be taken to ensure that the vehicle is paid for. Your Committee awaits a progress report on the matter.

ii. *Sale of Vehicle No. ABA 5269 to the Executive Director at a loss- K18,240, 000*

The Controlling Officer submitted that the sale of motor vehicle number ABA 5269 at K14, 560,000 was approved by the Board at the full Board meeting held in June 2009.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to avail documentary evidence to the Office of the Auditor-General to indicate that Board approval was granted to sell the motor vehicle in question at K14, 560, 000. They await a progress report on the matter.

iii. *Unauthorised discounts in the sale of Motor Vehicles-K10,700,000*

The Controlling Officer submitted that the discounts offered to the members of staff were approved by a Committee which was appointed to evaluate the bids for the motor vehicles. The minutes were available for verification.

Committee's Observations and Recommendations

Your Committee questions the logic for offering further discounts to bidders who had already offered to buy the vehicles at their preferred prices. Your Committee is further concerned that offering the discount after selecting the highest bidders was not fair to the losing bidders as their offers could have been higher than what was finally paid. Your Committee urges the Controlling Officer to caution the officers who misled the Board on this matter.

g) **Lack of Approved Conditions of Service**

i. *Payment of Responsibility Allowances-K321,916,250*

The Controlling Officer informed your Committee that TBZ affected employees received the above remunerations as offered to them in their employment appointment letters. The letters of appointment were standard for management staff. The Board approved these allowances through TBZ's annual budgets. However, the new

Conditions of Service were tabled before the full Board on 13 July, 2011. However, the Board which sat on 29 May, 2012 decided that the new Conditions of Service should be tabled before the Staff Welfare Committee and be re-submitted to the full Board for consideration.

Committee's Observations and Recommendations

Your Committee, therefore, urges the Controlling Officer to ensure that all decisions that were taken in respect of conditions of service are tabled before the Board for retrospective approval.

ii. *Payment of Lunch Allowance-K473,487,000*

The Controlling Officer informed your Committee that the TBZ affected employees received the above remunerations as offered to them in their employment appointment letters. The letters of appointment were standard for management staff. The Board approved these allowances through TBZ's annual budgets. However, the new Conditions of Service were tabled before the full Board on 13 July 2011. However, the Board which sat on 29 May, 2012 decided that the new Conditions of Service should be tabled before the Staff Welfare Committee and be re-submitted to the full Board for consideration.

Committee's Observations and Recommendations

Your Committee, therefore, urges the Controlling Officer to ensure that all decisions that were taken in respect of Conditions of Service are tabled before the Board for retrospective approval.

iii. *Irregular Payment of Transport, Education and Housing Allowances-K478,868,915*

The Controlling Officer informed your Committee that the affected employees received the above remunerations as offered to them in their employment appointment letters. The letters of appointment were standard for management staff. The Board approved these allowances through TBZ's annual budgets. However, the new Conditions of Service were tabled before the full Board on 13 July 2011. However, the Board which sat on 29 May, 2012 decided that the new Conditions of Service should be tabled before the Staff Welfare Committee and be re-submitted to the full Board for consideration.

Committee's Observations and Recommendations

Your Committee expresses concern that the Board operated without approved Conditions of Service for employees resulting in Management taking decisions that were not ratified by the Board. Your Committee finds the insinuation by the Controlling Officer that there was approval for the increments through the approval of the budget unacceptable as express approval should be sought even before doing the budget. Your Committee, therefore, urges the Controlling Officer to ensure that all decisions that were taken in respect of conditions of service are tabled before the Board for retrospective approval.

iv. *Negotiated Conditions of Service without Board Approval*

The Controlling Officer submitted that the Ministry had taken note of the recommendations of the auditors and the Board at its sitting on 29 May, 2012 directing that the full amounts paid to the former Board Secretary be recovered from his terminal benefits.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until the funds were recovered. They await a progress report on the matter.

v. *Payment of Non-Private Practicing Allowance*

The Controlling Officer informed your Committee that the Board, at its sitting on 29 May, 2012, directed that the full amounts paid to the former Board Secretary be recovered from his terminal benefits. The overpayments have since been factored in the former Board Secretary's calculations of terminal benefits.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until the auditors confirmed that all the funds have been recovered. They await a progress report on the matter.

vi. *Payment of Agriculture Show Allowances-K163,877,493*

The Controlling Officer submitted that all members of staff were required to attend the agriculture shows in their respective regions. This resulted in the payment of the allowances of K163,877,493 between 2005 and 2010. However, Management has taken measures to reduce the costs by allowing a few members of staff to attend agriculture shows. The TBZ Management has taken measures regarding the payment of agriculture show allowances as allowances would only be paid to members of staff attending the shows as part of the exhibition team.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter after verification by the office of the Auditor-General.

vii. *Payment of Christmas Bonus-K640,228,844.14*

The Controlling Officer informed your Committee that in all cases, Management informed the Board either directly or through the Board Chairman before any Christmas bonuses were paid. Where authority was sought from the Chairman, there was always correspondence to that effect and where authority was sought directly from the Board, minutes were attached.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until evidence to show that the bonuses were approved by the Board is presented. They await a progress report on the matter.

h. Irregular payment of Project Allowances-K75,288,032

The Controlling Officer submitted that the allowances were paid to the officers based on the recommendations of a special Board meeting held to discuss the implementation of the Burley Buying Project. The minutes of this meeting were prepared in readiness for correction and adoption during the next meeting to discuss the progress of the project. However, this meeting did not take place as the Board was dissolved. Management has since taken note of the issues raised.

Committee's Observations and Recommendations

Your Committee notes the submission but resolves not to close the matter until Board approval is availed and verified by the Auditor General's Office.

i) Irregular purchase of Mobile Phone Talk – Time-K23,017,028

The Controlling Officer informed your Committee that payment of K23, 017, 028 to purchase talk time was not irregular as authority to pay talk-time allowance to the affected workers was enshrined in their appointment letters. As for the purchase of two cell phones by the former Board Secretary, the Controlling Officer stated that one phone costing K4,600,000 was returned by the former Board Secretary while the retained phone was per his entitlement.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

j) Unapproved Payment of Advance against Gratuity

The Controlling Officer submitted that the Board at its sitting on 29 May, 2012, directed that the full amount of this advance paid to the former Board Secretary be recovered from his terminal benefits. This has since been recovered through his terminal benefits.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

k) Inadequately Supported Payments-K361,798,944

The Controlling Officer submitted that the supporting documents that were not availed during the audit were in different respective files. These documents were now available for verification.

Committee's Observations and Recommendations

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

l) **Unretired Imprest-K80,904,550**

The Controlling Officer submitted that the imprest retirement documents were filed in their respective files and not to the payment vouchers. These documents have now been filed together with their payment vouchers for verification.

Committee's Observations and Recommendations

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

m) **Payments without Competitive quotations-K145,450,766**

The Controlling Officer informed your Committee that Management always endeavoured to obtain at least three competitive quotations from which to select the suitable supplier of goods and services. However, during the period referred to, TBZ had no functional procurement department resulting in the auditors' observations on this issue. Management has since rectified this situation by employing a qualified and experienced procurement officer.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter, but urges the Controlling Officer to ensure that his officers do not ignore the guidelines regarding procurement of goods and services in future.

n) **Missing Payment Vouchers-K70,606,131**

The Controlling Officer submitted that some payment vouchers were not available at the time of the audit because they were in files created for the external auditors. These files were available for verification.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to avail the missing payments vouchers to the Office of the Auditor-General for verification, after which the matter should be closed.

o) **Non Repayment of Loan-K3,243,783,759**

The Controlling Officer informed your Committee that despite having written to the associations, no recoveries had been made yet. The TBZ Management was in the process of engaging the tobacco merchants on the modalities of effecting recoveries through the tobacco purchasing process.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until the all the funds have been fully recovered. They await a progress report on the matter.

p) **Non-remittance of debt collections**

The Controlling Officer informed your Committee that the TBZ Management approached Ranchhold Chungu Advocates who indicated that all the monies which were recovered through

him were utilised as legal fees and charges. He said this was as a result of the Board issuing fresh instructions to discontinue the recovery process through the bailiffs who were engaged to help with the recovery of debts. However, the Board directed that the former Board Secretary be charged for engaging a debt collector without an agreement.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until reconciliation is done to ascertain that what was recovered equalled the legal fees. They await a progress report on the matter.

q) Tobacco Schemes Properties

The Controlling Officer acknowledged that tobacco schemes properties, namely; Kapara Tobacco Scheme in Chipata, Sinda Scheme in Katete, Shimano Section Scheme in Kaoma, Kaoma Tobacco Scheme, Gamela and Mochipapa Schemes in Choma, Mukwela Tobacco Scheme in Kalomo, Mulilima Scheme in Mkushi, Kabangalala and Kabile Tobacco Scheme in Mumbwa, were being occupied by tenants without tenancy agreements resulting in some of them not paying rentals.

The Controlling Officer submitted that Management would recommend the appropriate actions be taken on the properties on a case by case basis to the Board. Proposed measures would include sale of some of the properties that were on title and lobbying the Government for finance to maintain others properties. A further option was to hand some property over to the Government departments who could use them.

The Controlling Officer also explained that TBZ Management would institute measures to remove the squatters on TBZ properties and ensure the property register was updated regularly. A decision on the dilapidated properties built on traditional land which do not have Title Deeds, would be made after consulting the various stakeholders including chiefs while squatters would be given a three months' notice to vacate the houses or alternatively lease agreements would be signed with those that were capable of paying rentals for the houses they occupy.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until all issues raised by the auditors are resolved. Further, the TBZ management should ensure that Title Deeds for properties are recorded and all occupants of the properties pay their rentals.

UNIVERSITY TEACHING HOSPITAL (UTH)

Audit Query

Paragraph 18

Background

22. The University Teaching Hospital (UTH) is the principle medical training institution in the country for Medical Students, Interns and Postgraduate Doctors. The Hospital which has a bed capacity of 1,800, serves as a national referral centre, training facility for health care providers and a research centre for finding solutions to existing health problems and the development of science.

Review of Operations

a) **Inadequate Staffing Levels**

The Controlling Officer submitted that the staffing levels have increased since the last audit. The increase was as follows:

Staff	Authorised	As at December, 2010	As at May, 2012
Doctors	192	163	329
Nurses	1,311	784	827
Paramedics	343	237	312

The Controlling Officer further submitted that the ongoing restructuring of the Ministry would provide further improvements in various ways including the recruitment and retention of medical personnel.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Ministry to continuously review the staff establishment in order to ensure that the Hospital has at all times optimal staff to deliver services in accordance with its mandate.

b) **Income-K 45,639,626,000**

The Controlling Officer submitted that the income of K45,639,626,000 comprised of K24,325,146,894 which was internally generated income. The difference amounting to K21,314,479,106 was from donations which were converted into monetary value. The Controlling Officer noted that the Audit covered two years resulting in the hospital accumulating a number of receipt books, which at the time of audit were not properly arranged but had now been put in order.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor record keeping resulting in the misplacement of receipt books. Your Committee, therefore, recommends that officers responsible should be punished in order to avoid the problem reoccurring. The matter should be closed subject to verification by the Office of the Auditor-General.

c) **Missing Payment Vouchers-K964,456,687**

The Controlling Officer submitted to your Committee that out of a total of fifty-eight vouchers amounting to K964,456,678 reported missing, fifty-four vouchers amounting to K955,808,077 had been traced leaving a balance of four vouchers amounting to K8,648,610. The Controlling Officer further stated that efforts were being made to trace the remaining four vouchers.

Committee's Observations and Recommendations

Your Committee wonders where vouchers amounting to K955,808,077 during the audit and urges the Controlling Officer to put strong internal control measures in place. Your Committee resolves not to close the matter until all the vouchers have been found and verified by the Office of the Auditor-General. Further, the Controlling Officer should caution the officers responsible for the omission.

d) **Inadequately Supported Payments-K5,734,136,126**

The Controlling Officer informed your Committee that at the time of audit, the Hospital had a system where the Purchasing Department kept documents such as invoices and Goods Received Notes. As a result, when the audit was conducted, most vouchers did not have the necessary documents attached to them. However, receipts and invoices have since been attached to the payment vouchers and were available for verification by the auditors.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Hospital to produce the supporting documents during the audit process and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the omission. The supporting documents should be availed to the Office of the Auditor-General for verification. They await a progress report on the matter.

e) **Stores Items Without Receipt and Disposal Details-K819,157,878**

The Controlling Officer informed your Committee that at the time of audit, records keeping was not up to date because the Stores Department had no disposal detail books which had since been obtained and were now available for audit verification.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to verification by the Office of the Auditor-General.

f) **Inadequate Storage Facilities for Drugs**

The Controlling Officer informed your Committee that the Hospital has renovated the space within the main pharmacy for the storage of drugs which the auditors reported as being kept in the corridors. Further, the Hospital has a number of satellite pharmacies where some of these drugs were distributed before giving them to patients.

Committee's Observations and Recommendations

Your Committee resolves to close the matter because the Hospital has created space within the main pharmacy for the storage of the drugs. The Auditor-General is requested to keep the matter in view, in future audits.

g) Failure to Follow Guidelines -Non Certification of Disposed of Expired Drugs

The Controlling Officer informed your Committee that although the disposal certificates were not availed to the auditors, disposal guidelines were followed in the disposing of drugs. The challenge was with staff who failed to make follow ups to obtain disposal certificates. However, the disposal certificates have now been obtained and were available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the lack of seriousness by officers who were supposed to collect the disposal certificates and urges the Controlling Officer to ensure that officers who failed to perform their duties diligently are punished. Your Committee further urges the Ministry to work with management in order to strenthorn internal controls so that expired drugs are not found on the market, creating danger to unsuspecting members of the society.

h) Staff Payables-K38,099,226,298

The Controlling Officer informed your Committee that from the total of K38,099,226,298 of staff outstanding debt has reduced to K35,214,000,000. The reason for the slow reduction was because the bill was cumulative as each year staff went on leave while others retired.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves not to close the matter until there is significant reduction in the outstanding amount. Your Committee further requests the Controlling Officer to devise a system that will ensure that the debt is liquidated in order to avoid reoccurrence in the Auditor-General's Report.

i) Weaknesses in the Administration of Staff Accommodation

The Controlling Officer infomed your Committee that the Ministry has directed the officers responsible for housing to maintain a proper register for all institutional houses and their occupants. The institution has further written to the occupants residing at Highland House Flats, Manenekela Flats, new Nurses and Paramedics Flats and Villa Wanga Chalets to pay for their own utility bills including garbage collection bills.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to verification that records are now in place and the occupants are meeting their own utility bills.

j) **Weaknesses in the maintenance of Registers and Non – Recovery of Loans and Advances- K537,533,367**

The Controlling Officer stated that as at 31 May, 2012, a total amount of K220,128,570.43 had been recovered with regards to loans and advances. As for the advances which were given to doctors and other medical personnel who were on the ministerial payroll, the Ministry has started remitting the recoveries on a monthly basis. The delay was because the Hospital was compiling the list of the doctors and other medical personnel so as to come up with a total amount to be refunded.

Committee’s Observations and Recommendations

Your Committee resolves not to close the matter until all recoveries are effected. The Ministry is also strongly urged to urgently compile a list of doctors and other medical personnel who acquired loans and advances in order to know the total amount that is to be refunded.

UNIVERSITY OF ZAMBIA (UNZA)

Query

Paragraph 19

Background

23. The University of Zambia (UNZA) was established by *the University Act* of 1965 and came into effect on 12 November 1965. The Act was repealed and replaced by the *University Act* No. 11 of 1999.

The principal activities of the university are to:

- Provide university education.
- Promote research and advancement of learning.
- Disseminate knowledge and without discrimination.
- Hold out to all persons, who meet all the stipulated academic or professional qualifications, the opportunity of acquiring university education.

Review of Management Information System

a) **Lack of IT Strategic Plan and ICT Policy**

The Controlling Officer submitted that for the past four years, the Centre for Information Communication Technology (CICT) had its own Strategic Plan which was internally used to provide guidance on operations. A copy of the same was availed to the audit team. In line with the Auditor General’s recommendations, CICT would facilitate the adoption of the ICT Strategic Plan by the University of Zambia as soon as possible. Your Committee was informed that at the time of audit, the University of Zambia’s ICT Policy was awaiting final approval by the Council following the meeting of the Council on 23 August, 2011, which deferred the decision. The report was ready for submission for approval by the Council.

Committee’s Observations and Recommendations

Your Committee recommends that the University of Zambia Management should submit the institution’s ICT Policy to the Office of the Auditor General as soon as it is approved by the Council.

b) **The ACCYS Payroll and Human Resources Information Systems Student Record System**

The Controlling Officer submitted that the Ministry has taken note of the lapse and would ensure that all future contracts have periods specified.

Committee's Observations and Recommendations

Your Committee recommends that punitive measures should be imposed on the person responsible for the verification and signing of contracts on behalf of the University of Zambia. This will prevent any future occurrences of the above lapses.

c) **Student Record Systems (SRS)**

i. *Lack of change of Management*

The Controlling Officer informed your Committee that Management has taken note and would ensure that change management procedures to manage changes in the system were put in place.

Committee's Observations and Recommendations

Your Committee observes that the incident above is very serious and can lead to the public loss of confidence in the University of Zambia. Your Committee recommends that punitive measures should be imposed on the persons responsible to avoid any future occurrences. Your Committee also recommends that a thorough pre – purchase research on the security of any IT system should be carried out before the final purchase and installation of the system.

ii. *Failure of the system to detect outstanding debts*

The Controlling Officer submitted that the SRS was not able to detect amounts owing by the students before enrolling for a new semester. In this regard, 929 GRZ sponsored students owing K247, 430,780 were registered in the School of Natural Sciences for the 2010 second semester. Similarly 1,014 students were enrolled in the same school for the 2011 first semester, despite owing K1,045,385,932. The Controlling Officer added that it had noted the lapse in the system. As a way forward, Management has acquired a new student record system called OPUS which was expected to be operational in 2013.

Committee's Observations and Recommendations

In closing the matter, your Committee observes that 2013 is far away a period and strongly advises that the University should come up with a temporary measure to attend to the identified weaknesses whilst awaiting the operationalisation of the OPUS system.

d) **Expired Fire-Fighting Equipment**

The Controlling Officer submitted that at the time of the audit follow up, an inspection of the fire safety status of the entire institution was being undertaken by the Lusaka City Council – Fire Brigade. The report was finally received in May 2012 and a number of recommendations were made including the replacement of the five expired fire-fighting equipment. The University has since commenced the implementation of the recommendations which would be done in phases.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

Accounting and other irregularities

a) Financial performance

The Controlling Officer submitted to your Committee that the University recorded deficits of K54,558,417,000, K375,270,345,000 and K140,957,985,000 in 2008, 2009 and 2010 respectively. The deficit increased from K54,558,417,000 in 2008 to K375,270,345,000 in 2009. It was further discernible from the above statement of comprehensive income that total income in each of the three years was less than the employee benefits expenditure. The correct position on this matter was that in 2008, provisions relating to employees benefits were not recognised in the income statement. However, corrections were made in 2009 and 2010 as per the financial statements.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

b) Financial Position

Statement of financial positions for the period 2008 to 2010

The Controlling Officer informed your Committee that the register for non-current assets was now in place. The valuation report from Government Valuations Department had been finalised, received and updated. This has been incorporated in the 2011, Financial Statements.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

c) Bank Accounts

i. Bank Reconciliation Statements

Your Committee was informed that Management has since put in place a system where bank reconciliation statements are checked and approved by senior officers in the Bursar's department.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

ii. Foreign bank accounts

The Controlling Officer stated that the bank accounts were opened before 1997. Following the removal of all the senior officers in 1997, which included all principle officers, the bank accounts remained opened and the signatories were not known.

Management has since written to Barclays Bank United Kingdom in September, 2011, to have the accounts closed and funds transferred to the local Barclays Account held with Barclays Bank (letter dated 7 May, 2012). The Controlling Officer submitted to your Committee that correspondence with the Bank was available for inspection.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Auditor-General's Office.

d) Failure to carry out annual stock-take

The Controlling Officer responded by stating that UNZA had taken note of the anomaly and would ensure that it is corrected. The 2010 stock-take took place and documents were available for inspection.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

e) Lack of approved Staff Establishment

The Controlling Officer submitted that the University of Zambia had an approved staff establishment approved by the Council of 1998. In 2001, a consultancy firm was engaged to review the staff establishment which was also approved by the Council. However, the 2001 approved staff establishment was partially implemented as it was not accepted by all stakeholders since it did not respond fully to the institutional needs of the affected units. Management has since reconciled the 1998 and 2001 staff establishment with the involvement of all stakeholders and the document has been finalised and was awaiting the Council's approval.

Committee's Observations and Recommendations

Your Committee recommends that the process of obtaining Council approval for the UNZA staff establishment should be expedited as an approved staff establishment is a major requirement for the smooth operation of the University.

f) Failure to settle Terminal Benefits

The Controlling Officer submitted that the failure to settle terminal benefits was due to inadequate financial resources. However, the Government through the national budget allocated funds every year for the dismantling of terminal benefits and Management through its internally generated funds, allocated funds to dismantle the arrears. Documents for 2009 and 2010 allocations were available for inspection.

Committee's Observations and Recommendations

Your Committee observes that UNZA owes a colossal amount of money in terminal benefits and recommends that it should work out a serious road map to be followed in addressing the debt. The Office of the Auditor-General is urged to keep the matter in view, in future audits.

g) **Lack of Tenancy Agreement between UNZA and ZAMPOST**

The Controlling Officer informed your Committee that the Zambia Postal Services (ZAMPOST) was one of the organisations occupying UNZA properties at the Great East Road Campus. It was however, observed that there was no tenancy agreement spelling out the conditions under which ZAMPOST was occupying UNZA property. It was further observed that UNZA did not show any evidence that ZAMPOST was paying rent.

The Controlling Officer submitted that UNZA management has taken note and would ensure that the tenancy agreement was drawn and signed by both parties.

Committee's Observations and Recommendations

Your Committee recommends that the process of drawing up a tenancy agreement with ZAMPOST should be expedited. The await a progress report on the matter.

h) **Failure to repay Loan obtained from Government-K72,248,268,000**

The Controlling Officer submitted that UNZA failed to repay the loan on 28 September, 2011 and decided to write to the Government through the Office of the Secretary to the Treasury requesting for debt relief and documents were available for inspection.

Committee's Observations and Recommendations

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

i) **Poor Project Management**

The Controlling Officer submitted that information relating to the projects was available for inspection. Further in 2009, Management maintained a data base which needed updating. The Controlling Officer endeavoured to ensure that this was done.

Committee's Observations and Recommendations

Your Committee recommends that the process of updating information relating to the projects should be expedited and a report presented to your Committee.

j) **Inadequately supported expenditure – K1,811,104,669**

The Controlling Officer submitted that documents worth K1,043,708,509.12 were available and ready for verification. Time sheets for cleaning contractors were not available but Management would ensure that in future, the time sheet details were availed by cleaning contractors. The current system, however, was that the supervisors in units and schools would certify the works done by cleaning contractors and that was used as a basis for payment. Receipts by cleaning contractors during the period under review were not available. However, evidence indicating the acknowledgements of funds by cleaning contractors was available and ready for inspection.

Committee's Observations and Recommendations

Your Committee notes that the procedure in the management of records was not followed and the officers in charge should be brought to book. This will avoid any future occurrences.

k) **Unretired imprest – K209,456,833**

The Controlling Officer submitted that UNZA had developed a policy on the procedure for collection of unretired imprest. Members of staff who had not retired imprest were denied any future payments. The unretired imprest has since reduced to K128,000,000.

Committee’s Observations and Recommendations

Your Committee recommends that UNZA should ensure that laid down procedures are strictly adhered to as members of staff are required to retire imprest within 48 hours and penalties for non retirement should be applied on any member of staff who ignores the rules. They await a progress report on the outstanding imprest.

ZAMBIA NATIONAL BUILDINGS SOCIETY (ZNBS)

Background

24. The Zambia National Building Society (ZNBS) was established in 1968 under the *Building Society Act* of 1968. The Act was amended under Cap 412 of the Laws of Zambia, *Building Societies (Amendment) Act* No. 67 of 1970 and 2005. The Society is wholly owned by the Government with a share capital of K25,085,538,000.

The ZNBS is also required to operate in accordance with the provisions of the *Banking and Financial Services Act* No. 25 of 2005. The ZNBS operated as a subsidiary of ZIMCO Limited prior to the liquidation of ZIMCO Limited. After the liquidation of ZIMCO Limited on 31 March 1995, the entity was taken over by the Government through the Ministry of Finance.

Review of Operations

Headquarters

c) **Short Term and Mortgage Loans**

The Controlling Officer responded that ZNBS had policy documents or guidelines on the issuance of the Friendly, Building Materials, Home Improvement and Traditional Mortgage loans. In this regard, ZNBS maintained two separate credit policy documents or Manuals. The Loans that sat in the Mortgage Department were covered under the Mortgage Operations Manual, while the ones that sat in the Banking Department were covered under the Banking Operations Manual. The Committee was also informed that the short term loans, which fell under the Banking Department had a maximum tenure of twenty-four months and were not secured by Title Deeds but were backed by borrowers salary and stop orders while mortgage loans, which fell under the Mortgage Department had a maximum tenure of nine years and was secured by Title Deeds.

Committee’s Observations and Recommendations

Your Committee notes the submission but requests the Office of the Auditor-General to verify the approved Mortgage and Banking Operations Manuals are in place and are being utilised.

d) **Unsecured Mortgage debts**

The Controlling Officer responded that as a corrective measure, Management, has instituted Court proceedings to try and recover some of the non-performing loans since some borrowers whose Mortgages were written off were known borrowers. The Controlling Officer further submitted that the unsecured mortgage loans were mainly those given under the Memorandum of Understanding (MOU) or the Deed of Guarantee Arrangement. An MOU was a document signed by ZNBS and the employer that allowed employees to borrow up to a certain agreed limit. The document was itself a guarantee.

Committee's Observations and Recommendations

Your Committee notes that ZNBS has put in place measures to recover some of the mortgage loans that were written off and urges the Controlling Officer to continue pursuing the loans aggressively. Further, your Committee urges the Controlling Officer to ensure that Mortgage loans are adequately insured and awaits a progress report.

e) **Overdrawn Accounts**

The Controlling Officer explained that Management has been working hard to correct the situation such that only 1,398 Savings Accounts with a value of K2,972,913,659.53 remained overdrawn as at 31 May, 2012. The individuals with overdrawn accounts were known especially the ones re-engaged by the mines but it had been difficult to trace the whereabouts of others due to their loss of employment. Management has continued making frantic efforts to try and reduce the above figure, further.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to continue putting measures in place to recover the balance of the overdrawn accounts and awaits a progress report on the matter.

f) **Customer Loans – Poor Management of Home Improvement Loans**

The Controlling Officer responded that Management has developed a deliberate policy aimed at completely phasing out the above category of lending (short term) and instead progressively move to long term lending, which was the mandate for the ZNBS. As an example, ZNBS has progressed from one year lending in 2002 to nine years in 2012. It has, therefore, been planned that the tenure would over time be increased by one year at every six months period. In view of the aforementioned, phasing out of the Home Improvement portfolio and the position of the portfolio as at 30 April 2012 was as outlined below.

Pass	Sub Standard	Doubtful	Loss	Total
K487,598,580.74	K20,154,363.75	K28,568,922.38	K628,552,706.67	K1,164,874,573.54

The outstanding balance has been reduced from K4,982,352,000 with a sum of K1,512,834,523 being classified as bad debt as at 31 March 2010 to K1,164,874,573.54 with a sum of K628,552,706.67 being classified as bad debt as at 30 April 2012, under the loss category. As a way of mitigation, there was a deliberate policy to discontinue giving out loans in this portfolio

from as far back as 31 March 2009 with a view of ensuring that the institution progressively moved back to long term lending, the reason the institution was created for. Further, Management policies were in place prescribing approval limits for each committee from time to time.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that loans under this portfolio are recovered and awaits a verification report on the matter. Further, your Committee notes that Zambia has a shortfall of housing accommodation in which ZNBS is supposed to highly participate. Your Committee, therefore, urges the Controlling Officer to find ways of entering the highly lucrative business of real estate development by coming up with an appropriate business plan and awaits a progress report.

g) **Unreconciled Items**

The Controlling Officer submitted that the balance of K 86 million outstanding on Inter-Branch Suspense Account as at 31 March 2007 related largely to a transaction amounting to K41 million duplicated and mis-posted to the Inter-Branch Ledger codes by Livingstone Branch. The transaction in question should have been posted to the Friendly loan code and Savers portfolio instead of Inter-Branch Suspense Account. The transaction was corrected on 2 April, 2007.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

h) **Property without Title Deeds**

The Controlling Officer responded as outlined below.

Stand No. 919, Kabwe

ZNBS had since obtained Title Deeds for Stand No. 919 in Kabwe following concerted pressure on the Ministry of Lands and the subsequent meeting with the Commissioner of Lands in March 2012.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

Stand No. 1754 Chipata

The property was at offer stage and ZNBS has been pursuing this matter for some time now, but without success, as the Ministry of Lands file could not be traced. However, following the Commissioner of Lands intervention, the said file has since been located. The Society has now been advised to submit Survey diagrams to enable the Ministry of Lands proceed to issue Title. A quotation for the said survey diagrams have been collected.

Committee's Observations and Recommendations

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

Stand No. 1374 Livingstone

The Society lodged an application for duplicate Title on 30 April, 2010 and has been pursuing the matter ever since. The Ministry of Lands has advised that the green file for the above property could not be found. Efforts were now being made to find an alternative means of procuring Title.

Committee's Observations and Recommendations

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

Farm No. 748/HR16

The Society lodged an application for duplicate Title on 8 July 2010, and has been pursuing the same ever since, but without success as the green file could not be located. The Society has been advised to now pursue the Ndola office of the Ministry of Lands following the decentralisation programme undertaken by it.

Committee's Observations and Recommendations

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

Stand No. 637 Kabwe

The Controlling Officer submitted that the Society has been pursuing survey diagrams since 8 October 2009 but without success but efforts to ensure that title deeds for all its properties were obtained, were continuing with the Ministry of Lands.

Committee's Observations and Recommendations

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

i) Delayed Contributions to NAPSA

The Controlling Officer responded that the unremitted member contributions which were previously outstanding were completely paid off by Management in 2009. In this regard, interest and penalties stopped growing since the principal that was previously outstanding was settled. Currently, ZNBS was up-to-date with its monthly contributions. However, the penalty and interest figure amounting to K11,492,978,041, ZNBS Management initiated dialogue with NAPSA Management on the way forward as per letter dated 14 July 2009 and NAPSA response dated 21 July 2009. ZNBS Management would be instructed to seriously settle the matter with NAPSA as it has taken unnecessarily too long.

Committee's Observations and Recommendations

Your Committee notes the response and awaits a verification report on the unremitted member contributions and a progress report on the settlement of the penalty and interest to NAPSA.

ZAMBIA POSTAL SERVICES CORPORATION (ZAMPOST)

Query

Paragraph 20

Background

25. The Zambia Postal Services Corporation (ZAMPOST) was established by the *Postal Services Act* No. 24 of 1994 for the purpose of the provision of Postal Services to the public. The Act was revised in 2009 by the *Postal Services Act No.22 of 2009* which provides for the existence of the Corporation and provides for the operation of postal, banking and other financial services. The Corporation falls under the control of the Ministry of Transport, Works, Supply and Communication.

Accounting and Other Irregularities

Headquarters

a) **Board of Directors**

The Controlling Officer submitted that following the coming into effect of the *Postal Services Act of 2009* in June, 2010, there was delay in the transition and approval process to appoint a new Board. Arising from the foregoing, four members from the old Board continued until the old board was dissolved and a new Board appointed in January, 2011.

He submitted that according to Chapter 2 of the Laws of Zambia, Interpretation and General Provisions, Section 33, “*where by or under any written law any board, commission, committee, council or similar body, whether corporate or uncorporate, is established, the powers of such board, commission, committee, council or similar body shall not be affected by:*”

- i. *any vacancy in the membership thereof, or*
- ii. *any defect afterwards discovered in the appointment or qualification of a person purporting to be a member thereof.”*

Arising from the foregoing, the decisions of the appointed board are valid. The National Union of Communication Workers (NUCW) has representation on the Board. The Ministry was in the process of appointing the remaining two Board Members representing the Competition and Consumer Protection Commission and Zambia Chartered Institute of Certified Accountants who were expected to submit nominations by 19 June, 2012.

Committee’s Observations and Recommendations

Your Committee expresses concern that the Ministry allowed the Board of ZAMPOST to preside over the matters of the institution with three members for such a long time which was against the principals of good corporate governance. In future, the Minister who fails to ensure the Board is appointed time to time should be held accountable.

b) **Failure to prepare Audited Accounts and Annual Reports**

The Controlling Officer submitted that the failure attributed to the prolonged period of converting from the manual Pastel accounting system to the Sun system between the years 2004 and 2006. This prolonged project implementation for the accounting system took long creating a backlog. After the implementation of the Sun system, it was further observed that it had user access

problems which made the preparation of accounts extremely slow. In 2009 Management again embarked on a conversion of the accounting system from Sun system to ACCPAC whose installation is in its final phase.

Arising from the numerous reported irregularities and poor management of the Corporation, Government took steps to redress the matter. Contracts of the old management team were terminated and a new management team was appointed effective 6 January 2012. The current management has demanded the Supplier of the ACCPAC system to expedite the project completion.

The 2008 report has been completed although not yet signed by the Board. The delay has been attributed to the failure to reconcile PAYE arrears with ZRA. In order to expedite the matter, management has decided to use the ZRA figure in its accounts with a view to performing post audit reconciliation. The same approach would be used for the 2009 accounts so that they are signed by the Board to facilitate the simultaneous submission of annual reports for 2008 and 2009. Management intends to present audited accounts to the Board at its sitting for the next quarter of July to September 2012. It was targeted to have 2010 and 2011 accounts finalised before the end of this financial year. It was expected that 2012 audited accounts and annual reports will be finalised and presented within the prescribed time frame.

Committee's Observations and Recommendations

Your Committee finds the reasons given for the failure to prepare financial statements highly unacceptable as a parallel system could have been employed in order to ensure smooth transition. Your Committee puts the blame for this on the absence of a vibrant board and poor supervision by the parent Ministry which should no longer be tolerated. Your Committee will not close the matter until the Institution is up to date with the preparation of statements.

c) Alterations and Refurbishment of House No.12 Mungule Rd, Northrise-Ndola

The Controlling Officer submitted on the lack of bid documents, overpayment to the Contractor and alleged circumvention of tender procedures that Government was pursuing the matter through the National Joint Investigation Team and it was before the Courts for litigation.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the outcome of the Court process.

d) Lack of Audit Committee

The Controlling Officer submitted that the audit Committee was established effective 31 August, 2011.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

e) **Irregular purchase of Gifts for Board members**

The Controlling Officer submitted that there was no guiding policy approved by the Board, leaving the Corporation at the discretion of the Chief Executive. The matter was being pursued by the National Joint Investigation Team. The new management would prepare a policy document for the consideration of the Board consistent with existing best practices in other Public institutions.

Committee's Observations and Recommendations

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

f) **Board Expenses**

The Controlling Officer submitted that guidance was sought from the Ministry of Justice who guided that the decisions were valid because according to Chapter 2 of the Laws of Zambia, Interpretation and General Provisions, Section 33, *"where by or under any written law any board, commission, committee, council or similar body, whether corporate or uncorporate, is established, the powers of such board, commission, committee, council or similar body shall not be affected by-*

- i. *any vacancy in the membership thereof, or*
- ii. *any defect afterwards discovered in the appointment or qualification of a person purporting to be a member thereof."*

Arising from the foregoing, the meetings of the Board are duly recognised.

Committee's Observations and Recommendations

Your Committee while acknowledging the quoted provision, expressed disappointment that the Ministry allowed this situation to obtain especially that it was against the spirit of the *ZAMPOST Act*. As regards the validity of the decisions made by such a Board during this period, your Committee wishes to satisfy itself that this is legal so as not to set a bad precedence to other boards in public institutions. In this regard, your Committee seeks to obtain a legal opinion on this matter from the Attorney-General so that the record can be set straight.

g) **Unretired Incidental Expenses-K80,572,081**

The Controlling Officer submitted that Government was pursuing the matter through the National Joint Investigation Team and that was before the Courts for litigation.

Committee's Observations and Recommendations

Your Committee resolves to await the outcome of the Court process.

h) **Unvouched Expenditure-K1,128,082,443**

The Controlling Officer submitted that arising from numerous reported irregularities and poor management of the Corporation, Government took steps to redress the matter. Contracts of the old Management team were terminated and a new management team was appointed effective 6 January 2012. Unfortunately, there was no handover by the previous Management on the matter.

The new management has tasked Internal Audit to review this failure to ensure future compliance. Meanwhile management has directed that there should be no expenditure without supporting documents.

Committee's Observations and Recommendations

Your Committee expresses disappointment that the Corporation failed to produce the documents during audit and have still not found them. Your Committee, therefore, urges the Controlling Officer to ensure that internal controls are strengthened. The Auditor-General is requested to keep the matter in view, in future audits.

i) Irregular Lease of Area Manger's House-Lusaka

The Controlling Officer submitted that disciplinary action has been instituted as the officer concerned had been charged with giving false information to obtain money. The ZAMPOST Disciplinary Code and case hearing was held on Friday, 8 June 2012.

Committee's Observations and Recommendations

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

j) Irregular Procurement of Motor Vehicles

The Controlling Officer submitted that there was an irregularity by the previous management. Arising from numerous reported irregularities and poor management of the Corporation, Government took steps to redress the matter. Contracts of the old Management team were terminated and a new Management team was appointed effective 6 January 2012. The Corporation is now ensuring that procurement procedures are consistent with ZPPA requirements.

Committee's Observations and Recommendations

Your Committee notes that this matter should also be reported to the investigative wings as the action is tantamount to abuse of office by the persons who made the decision. They await a progress report on the matter.

k) Irregular Renewal of Contracts

The Controlling Officer submitted that the Contract for the Post Master General was duly signed by the Board. However, there is no record to show that the corporation sought approval from the Board for the renewal and change of conditions in the contracts for the Director Operations, Director Human Resources and Audit Manager.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until evidence of the renewal of the contracts concerned is availed for verification.

l) Irregular Disposal of Motor vehicles

The Controlling Officer submitted that according to Chapter 2 of the Laws of Zambia, Interpretation and General Provisions, Section 33, "*where by or under any written law any board,*

commission, committee, council or similar body, whether corporate or uncorporate, is established, the powers of such board, commission, committee, council or similar body shall not be affected by-

- i. any vacancy in the membership thereof, or*
- ii. any defect afterwards discovered in the appointment or qualification of a person purporting to be a member thereof.”*

Arising from the foregoing, the meetings of the Board are duly recognised. Therefore, the sale of the motor vehicles was duly approved by the Board.

Committee’s Observations and Recommendations

Your Committee while acknowledging the quoted provision, expressed disappointment that the Ministry allowed this situation to obtain especially that it was against the spirit of the *ZAMPOST Act*. As regards the validity of the decisions made by the Board during this period, your Committee wishes to satisfy itself that this is legal so as not to set a bad precedence to other boards in public institutions. In this regard, your Committee seeks to obtain a legal opinion on this matter from the Attorney-General so that the record can be set straight.

m) Weaknesses in Fuel Management-K168,952,820

The Controlling Officer submitted that Management was introducing the fuel coupon system where a controlling officer authorised refueling in order to compliment the computerised Tom Card arrangement to create an audit trail.

Committee’s Observations and Recommendations

Your Committee notes the submission on the measures being put in place to improve fuel management but resolves not to close the matter until the fuel worth K168,952,820 is accounted for. Further, disciplinary action should be taken against the officer(s) responsible for the omission. Your Committee awaits a progress report on the matter.

n) Irregular Purchase of Cell Phones and Talk-time for Management

The Controlling Officer submitted that the lack of policy document on the purchase of mobile phones and associated talk time had been noted and management had been tasked to prepare a submission for consideration of the Board taking into account prevailing conditions in other public institutions.

Committee’s Observations and Recommendations

Your Committee observes that the procurement of the cell phones and talk time for management was irregular and recommends that the matter should be tabled before the Board for consideration and approval failure to which the concerned officers should refund the money. Your Committee resolves to await a progress report on the matter.

o) Selective Implementation of the Job Evaluation Exercise

The Controlling Officer submitted that the revised salary for the PMG was approved separately by the Board and was not based on the recommendation from the Grant Thornton report. The

Grant Thornton recommendations are still under review subject to the financial performance of the Corporation.

Committee's Observations and Recommendations

Your Committee finds it inappropriate that the Board sat to review conditions of service for the Chief Executive Officer when the process of job evaluation for all staff was still going on. Your Committee is of the strong view that no parastatal should ever be allowed to operate with such a weak Board set up.

p) **Appointment of the Postmaster General**

The Controlling Officer submitted that advice has been sought from the Ministry of Justice on the matter who advised that according to Chapter 2 of the Laws of Zambia, Interpretation and General Provisions, Section 33, "*where by or under any written law any board, commission, committee, council or similar body, whether corporate or uncorporate, is established, the powers of such board, commission, committee, council or similar body shall not be affected by-*

- i. *any vacancy in the membership thereof, or*
- ii. *any defect afterwards discovered in the appointment or qualification of a person purporting to be a member thereof."*

The Board duly approved a revised contract in 2010 retrospectively from 2007 in that all the Board members signed and approved the contract.

Committee's Observations and Recommendations

Your Committee while acknowledging the quoted provision, expressed disappointment that the Ministry allowed this situation to obtain especially that it was against the spirit of the *ZAMPOST Act*. As regards the validity of the decisions made by such a Board during this period, your Committee wishes to satisfy itself that this is legal so as not to set a bad precedence to other boards in public institutions. In this regard, your Committee seeks to obtain a legal opinion on this matter from the Attorney-General so that the record can be set straight.

i. *Irregular Payment of Salary Arrears-K870,692,308*

The Controlling Officer submitted that since the Board duly approved a revised contract in 2010 retrospectively from 2007, the payment of arrears met contractual obligations as per duly revised contract.

Committee's Observations and Recommendations

Your Committee wishes to satisfy itself that this is legal so as not to set a bad precedence to other boards in public institutions. In this regard, your Committee seeks to obtain a legal opinion on this matter from the Attorney-General so that the record can be set straight.

ii. *Irregular Payment of Gratuity- K308,160,000*

The Controlling Officer submitted that since the Board duly approved a revised contract in 2010 retrospectively from 2007. The payment of gratuity met contractual obligations as per duly revised contract.

Committee's Observations and Recommendations

Your Committee wishes to satisfy itself that this is legal so as not to set a bad precedence to other boards in public institutions. In this regard, your Committee seeks to obtain a legal opinion on this matter from the Attorney-General so that the record can be set straight.

iii. *Irregular Payment of Special Allowance to PMG*

The Controlling Officer submitted that this was awarded across the board for all employees in the company. Postmaster General's contract has provisions that cover other conditions of service not directly stated in his contract provided they were in the general conditions of service for all employees.

Committee's Observations and Recommendations

Your Committee observes the cross referencing of Conditions of Service in this matter which is unacceptable as it is bound to be abused. Your Committee, therefore urges the Controlling Officer to ensure that the Conditions of Service for the Post Master General are outlined in a separate document from the rest of staff. Your Committee resolves not to close the matter until the conditions of services for the Chief Executive Officer are clarified in a separate manual.

q) **Non-payment of Statutory Obligations-K152,825,410**

The Controlling Officer submitted that Management has given diligence to improving revenue generation and cost control to enable the Corporation operate profitably. It must be noted that the Corporation has been loss making since 1994 thereby defaulting on statutory obligations. The Corporation was current with monthly obligations to NAPSA and was working on dismantling the backlog from the historical obligations accumulated since 1994. Management has further engaged ZRA to reconcile the amounts outstanding and to agree on a payment plan for the outstanding debt.

Committee's Observations and Recommendations

Your Committee finds the explanation unacceptable as there is evidence that the Corporation failed to prioritise the payment of statutory obligations. For instance during the same period the Corporation paid an amount of K870,692,308 to the Postmaster General which could have been used to offset the outstanding statutory remittances. The matter will remain open until all the statutory obligations are met.

r) **Unacquitted Allowances-K568,737,075**

The Controlling Officer submitted that there was no handover by the previous management on the matter. Management has put corrective measures in place to ensure that all allowances are acquitted. Further, Internal Audit would review the payments made and were still outstanding.

Committee's Observations and Recommendations

Your Committee expresses concern that failure to resolve the query has been attributed to the previous management which is not correct as there are still staff in the accounts section for example, that should help to resolve the matter. Your Committee resolves not to close the matter until the acquittal sheets are properly signed.

s) **Questionable Medical Claims-K85,084,292**

The Controlling Officer submitted that the new management was investigating the matter and recoveries would be made after verifications.

Committee's Observations and Recommendations

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

Lusaka Main Post Office

a) **Inadequately Supported Payments-K1,961,843,022**

The Controlling officer submitted that the matter was being investigated in order to find corrective measures.

Committee's Observations and Recommendations

Your Committee expresses concern at the Corporation's failure to produce the supporting documents during audit and the failure to do so to date. Your Committee urges the Controlling Officer to ensure that the documents are found without further delay. Further, the matter should be reported to investigative wings to establish whether the missing documents are not being used to conceal fraud. The matter will remain outstanding until all the supporting documents are found.

b) **Lack of receipts and Disposal Details-K1,233,752,348**

The Controlling Officer submitted that Management was investigating the matter. Furthermore, Management was ensuring compliance to standard stores control procedures to avoid recurrence.

Committee's Observations and Recommendations

Your Committee notes that Management has nothing to investigate rather than to find the documents and avail them to the Office of the Auditor-General for verification. Your Committee recommends that the matter should be reported to the relevant investigative wings for action. They await a progress report on the matter.

c) **Conveyance mail contract**

The Controlling Officer submitted that since there was no handover by the previous management, a search was being done to locate the existence of a contract.

Committee's Observations and Recommendations

Your Committee observes that this is a clear sign of how bad things had degenerated at the Corporation and blamed the Ministry for failing to put a strong Board in place which could have ensured that proper handover was undertaken at the time of management change. Your Committee resolves not to close the matter until the contract in question is found and availed for verification by the Office of the Auditor-General.

ZAMBIA REVENUE AUTHORITY (ZRA)

Query

Paragraph 21

Background

26. The Integrated Tax Administration System (ITAS) is used by the Zambia Revenue Authority (ZRA) to administer domestic taxes namely; Pay-As-You-Earn (PAYE), Value Added Tax (VAT) and Company Tax.

Review the Integrated Tax Administration System

a) **Failure to adopt ICT standards and frameworks**

The Controlling Officer stated that ZRA has adopted the Control Objectives for Information and Related Technologies (CobIT) as the IT governance framework. This was enshrined in the ZRA ICT Policies. ZRA has been in the process of implementing the CobIT framework in a phased approach. It was expected that the full roll out of the CobIT framework would be undertaken during the course of the year 2012.

The ITAS was implemented using three internationally recognised development frameworks. These were MOSAIC, SSADM (Systems Analysis and Design Methodology) and Systems Development Life Cycle (SDLC). MOSAIC was the development methodology used by BULL, the Company that developed the System.

SSADM was the system implementation framework that ZRA was using to implement systems. SSADM revolved around the use of three key techniques, namely Logical Data Modeling, Data Flow Modeling and Entity/Event Modeling. The ITAS went through the SSADM development methodology that included the Analysis, Design, Construction, Implementation and Post Implementation Stages.

For the actual implementation of the system, the traditional complete seven processes across the life cycle of the system were followed. These comprise the following detailed stages: feasibility study, investigation of the current environment, business system options, requirements specification, technical system options, logical design and physical design.

Committee's Observations and Recommendations

Your Committee resolves to close the matter after verification by the Auditor General's Office.

b) Failure to carry out compliance action

The Controlling Officer submitted to your Committee that although at the time of system development, the compliance module was fully functional, it was not used due to data integrity issues. It was ascertained that should the compliance be run, it would bring up wrong balances on accounts. However, data cleaning up was on going.

ZRA was also in the process of implementing a new tax administration system that would incorporate the compliance module and data would be managed to ensure a compliance run was carried out.

The Controlling Officer further explained that effective automated compliance functions would be done once the new system was implemented. ZRA was currently using an in-house developed system called Tax Administration and Refunds Processing System (TARPS) that was integrated to ITAS for account reconciliations and enforcement actions.

Committee's Observations and Recommendations

Your Committee observes that since a new tax administration system is in the process of being implemented, the matter should be closed subject to verification by the Auditor General's Office.

c) Lack of Network Connectivity to the Central Server

The Controlling Officer informed your Committee that the Kasama local server and the central server in Lusaka were logically connected and hence data was replicated between these two stations. Payments receipted in Kasama were reflecting on the central server and consequently transferred to the TARPS server for reconciling purposes, the taxpayer accounts were created on the central server and then replicated to the Kasama server for taxpayer notices to be generated among other things.

At the time of audit, the network connection was lost due to power failure and therefore replication could not take place. This was however resolved and the situation for Kasama has since been stabilised.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

ZAMBIA ELECTRICITY SUPPLY CORPORATION (ZESCO) LIMITED

Query

Paragraph 23

Background

27. ZESCO Ltd is a company limited by shares, incorporated and domiciled in the Republic of Zambia. The shareholding comprises K400,000,000 made up of authorised share capital of 200,000,000 ordinary shares of K2 each. The Company is wholly owned by Government. The general functions of ZESCO Limited are to generate, acquire, transmit, convert and supply electricity. Other functions include to establish, operate, control and to manage undertakings for the generation or supply of electricity as a public undertaking.

Review of Management Information Systems

a) **Poor Management of ZESCO Information Systems**

The Controlling Officer submitted that the Business Information System (BIS) system was a financial and commercial system whereas the Supervisory Control and Data Acquisition (SCADA) system was an engineering system. As has been explained above, the information produced by the two systems was different and used for different purposes.

Both the SCADA and the BIS were able to produce sufficient information in their respective areas of operations that is SCADA for generation, transmission and distributions systems and BIS for customer and financial systems. The SCADA system collected information on ZESCO installations for the purpose of operations, monitoring and control.

Committee's Observations and Recommendations

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

b) **Supervisory Control and Data Acquisition (SCADA) system**

i. *Lack of Maintenance Contract*

The Controlling Officer submitted that the previous generation of SCADA systems for Transmission (National Control Centre), Distribution (Lusaka and Kitwe Regional Control Centre – RCC) and Generation (all power stations) were proprietary, non-standard and stand-alone. They were built to be robust with high reliability. The issues of risk were minimized by the systems being stand-alone. With upgrade to current open systems, the need for maintenance contracts have been recognised and would be well taken care of. Management has made a provision in the 2012/13 budget for the upgrade of Lusaka and Kitwe RCC SCADA systems. The tendering process was already underway. The upgrade would include a Maintenance Contract.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Controlling Officer to be pro-active and not re-active. ZESCO Management should not only wait for auditors to pin point problems which should ordinarily be detected by the utility company. Your Committee

resolves to await confirmation by the Auditors on the upgrade of the SCADA system for Lusaka and Kitwe.

ii. *Lack of Disaster Recovery Centre (DRC)*

The Controlling Officer informed your Committee that the SCADA systems at Kafue Gorge, Kariba North and Victoria Falls power stations were implemented without DRC, but instead has manual backup mechanism put in place as mitigation to failure. This weakness has been identified and would be addressed during the upgrade of the SCADA systems.

The National Control Centre (NCC) SCADA system despite having the backup server in the same room as the main server has a redundant emergency control centre located off site at Leopards Hill substation. The emergency control SCADA server was automatically updated via a high speed fibre optic link. The emergency control centre was available to be used in case of failure of both the main and backup servers at NCC.

The Controlling Officer further submitted that Management had made a provision in the 2012/13 budget for the upgrade of Kafue Gorge control system. During the upgrade, a DRC would be established and the same philosophy would apply for Kariba and Victoria Falls. The upgrade of existing Kariba North Bank Control system was covered under Kariba North Bank Extension Project contract which was currently underway.

As regards Victoria Falls control system, a provision had been made in the 2012/13 budget to upgrade the control system at Victoria Falls. The backup server would be located in a different location from the Main server during the upgrade of the NCC SCADA system which was at tender stage.

Committee's Observations and Recommendations

Your Committee notes the Controlling Officer's submission and therefore resolves to wait for implementation of the plan before closing the matter.

c) **Lack of Risk Management for Information Systems (IS)**

The Controlling Officer submitted that ZESCO had recognised the importance of having a risk management system in place and recently procured IT governance kits namely COBIT and ITIL which address risk management. This would be followed by training of ZESCO personnel in implementing the IT risk management framework in ZESCO. In addition, ZESCO has put systems in place to mitigate operational risks. These were as detailed below.

- The BIS servers were clustered implying that one server could fail without affecting user operations as applications running on the failed server would shift over from the failed server to the other node in the same cluster without any interruption.
- The system disks on the servers were mirrored and hot swappable.
- The storage arrays where all the data was stored were mirrored such that a failure on one storage array did not affect user operations.
- A disaster recovery site has been established where all data from the main data centre was replicated to the data recovery site. This ensures that all the data that was at the primary site is available for access whenever the primary data centre was not available.

- Full back-up of the production system was carried on a daily basis.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter subject to verification by the Auditors on the acquisition of the IT governance kits.

MINISTRY OF EDUCATION

Query

Head 80

Department : Regional Headquarters, District Education Offices, High Schools, Basic Schools, Teachers' Training Colleges
 Units : Various
 Programmes : Various
 Activities : Various

Accounting and Other Irregularities

28. An examination of accounting and other related records maintained by the Provincial Education Offices, District Education Boards, Teacher Training Colleges, High and Basic Schools and physical inspections of selected projects carried out during the period from February to June 2011 revealed weaknesses in internal control systems in that, there were instances of unvouched expenditure, unaccounted for stores, unapproved payments, unretired imprests, among others. In particular the following were observed:

a) **Missing Payment Vouchers-K6,134,298,900**

The Controlling Officer submitted that 177 payment vouchers in amounts totaling K5,202,740,905 had been traced leaving a balance of seventy-one payment vouchers in amounts totalling K896,988,454 still missing. The Controlling Officer further stated that efforts were being made to ensure that all the missing payment vouchers were found.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to produce the missing payment vouchers during the audit process and that a large amount is still missing. The Controlling Officer is urged to ensure that disciplinary action is taken against the officer(s) responsible for the missing payment vouchers. The traced vouchers should be availed to the Office of the Auditor-General for verification. Your Committee awaits a progress report on the matter.

b) **Unsupported Payments-K2,873,045,492**

The Controlling Officer submitted that 525 payments in amounts totalling K2,330,824,288 have been supported with relevant documents leaving a balance of 106 payments in amounts totaling K501,361,705. The Controlling Officer further efforts were being made to ensure that all the payments were fully supported with relevant documents.

Committee's Observations and Recommendations

Your Committee is concerned that the Ministry failed to produce the supporting documents during the audit process due to poor record keeping and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the omission. The traced supporting documents should be availed to the Office of the Auditor-General for verification. Further, those missing should also be found and verified without further delay. They await a progress report on the matter.

c) Unapproved Payments-K128,915,041

The Controlling Officer submitted that all the payment vouchers in amounts totalling K128,915,041 in respect of Chipata DEBS and Monze High School had since been approved retrospectively.

Committee's Observations and Recommendations

Your Committee observes that this is a very serious anomaly for which the concerned officers should be sanctioned. The matter should be closed as soon as verification is done and disciplinary action is taken.

d) Weaknesses in the Management of imprest

i. Unretired imprest-K4,240,298,697

The Controlling Officer submitted that imprest in amounts totalling K3,307,017,228 involving 616 transactions had been retired leaving a balance of K912,147,863 involving 110 transactions as unretired. The Controlling Officer further stated that efforts were being made by the Ministry to ensure that all the imprest were retired. Further, recoveries have been effected against the salaries of the officers who had failed to retire their imprest.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to ensure that imprest is retired in accordance with financial regulations and urges the Controlling Officer to take disciplinary action against the accounting officer(s) who should have followed up the retirement of the imprest. Meanwhile, the retirement details should be availed to the Office of the Auditor-General for verification. They await a progress report on the matter.

ii. Failure to produce Reports – Kalabo DEBS

The Controlling Officer explained that all the monitoring reports were now available for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the practice of submitting monitoring reports late which renders them less useful and urges the Controlling Officer to discipline the officers

concerned. The Controlling Officer is urged to put measures in place to ensure that retirement of imprest is accompanied by such reports.

e) **Misapplication of funds-K812,814,157**

The Controlling Officer submitted that amounts totalling K227,019,000 had been re-imbursed and used for the intended purposes leaving a balance of K584,795,157 as outstanding.

Committee's Observations and Recommendations

Your Committee strongly cautions the Ministry against misapplying funds without seeking authority and resolves not to close the matter until the expenditures are normalised. They await a progress report on the matter.

f) **Irregular payment of Subsistence Allowance-K21,060,000**

The Controlling Officer submitted that the money was meant for the purchase of men and women attire during the women's day celebrations but regrettably was paid out as subsistence allowance.

Committee's Observations and Recommendations

Your Committee questions the motive for the payment of funds meant for attires as subsistence allowances and urges the Controlling Officer to take disciplinary action against the officers who created this omission. They await a progress report on the matter.

g) **Un-accounted for Stores (K381,593,811) and Fuel (K3,112,486,370)**

The Controlling Officer submitted that details in respect of stores items costing K2,989,301,396 and fuel costing K366,913,811 were traced while efforts were being made by the Ministry to ensure that all stores items have receipt and disposal details.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Ministry to produce the stores records in respect of such huge sums during the audit and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the poor record keeping. The traced receipt and disposal details should be availed to the Office of the Auditor-General for verification while those still missing should be found without further delay. They await a progress report on the matter.

h) **Failure to follow Procurement Procedures-K487,657,549**

The Controlling Officer submitted that competitive quotations and authority was obtained and was available for audit verification as detailed below.

Station	Amount	Remarks
DALICE	15,962,200	Competitive quotations obtained
Monze High School	208,756,000	Competitive quotations obtained

Hillcrest Technical School	11,649,500	Competitive quotations obtained
Chingola DEBS	62,045,000	Procurement authority now available
Mongu PEO	140,790,849	Tender authority obtained from Provincial Tender Committee (PTC)
Katete DEBS	39,854,000	All quotation are available for audit verification
Petauke DEBS	8,600,000	Quotations and authority for single sourcing available for audit verification
Totals	487,657,549	

Committee's Observations and Recommendations

Your Committee wonders where the quotations were coming from as these should have been obtained at the time of procurement and not after the audit. The Controlling Officer is therefore urged to caution the officer responsible for the omission. They await a progress report on the matter.

i) **Failure to Remit Tax**

The Controlling Officer submitted that the DEBS offices have not remitted these funds to ZRA to date due to erratic funding on third party payments from Headquarters. However, the funds would be remitted to ZRA as soon as funding improved on third party payments.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the funds in question are released to the DEBS so that they can meet their tax obligations. They await a progress report on the matter.

j) **Failure to recover Loans (K682,402,857) and Salary Advances (K354,475,800)**

The Controlling Officer submitted that several salary inputs were being forwarded to PMEC for recovery of the said debt but the system was not picking the inputs because of the various configuration changes. Recoveries had, however been effected and deductions were running.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

k) **Irregular recovery of Salary Advances-K59,400,000**

The Controlling Officer submitted that the recovery period of these salary advances, has been normalised and would be recovered within the stipulated time not exceeding six months.

Committee's Observations and Recommendations

Your Committee notes that this could have been a deliberate attempt to circumvent the requirements in the conditions of service and urges the Controlling Officer to take disciplinary

action against the officers responsible for the omission. They await a progress report on the matter.

l) **Non-maintenance of a Revenue Cash Book-K4,441,403,884**

The Controlling Officer submitted that all the five high schools who did not maintain revenue cash books for the recording of boarding fees raised from pupils have done so.

Committee's Observations and Recommendations

Your Committee expresses concern that these documents were not availed during audit and urges the Controlling Officer to caution the officers responsible for the anomaly. The matter is recommended for closure subject to verification, by the Office of the Auditor-General.

m) **North-Western Province**

Provincial Education Office – Solwezi

Weaknesses in the administration of funds for Orphans and Vulnerable Children (OVCs)

The Controlling Officer submitted that seven high schools which had received amounts totalling K111,500,000 have no certificates from social welfare department nor any reports on the vulnerability status from those charged to identify the vulnerable children. The Controlling Officer further submitted that there was a committee which was responsible for selecting vulnerable pupils.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the guidelines are followed strictly so as to reach the identified targets. The Office of the Auditor-General is requested to verify the current position before it can be closed.

Kabompo High School

i. *Misappropriation of Funds – Kabompo High School-K100,000,000*

The Controlling Officer submitted that the balance of K100,000,000 was actually not misappropriated by the accounting officer but was used to settle outstanding bills for food stuffs, electricity, water bills and other school commitments that were acquired before funding. The resolution was passed during a management meeting which was held on the 9th of September, 2010.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until it is verified by the Office of the Auditor-General

ii. *Irregular drawing of Fuel-K56,606,387*

The Controlling Officer submitted that during the time the fuel was being drawn, there was no other money apart from the funds for fuel. Therefore, it was agreed with the

transporter that he could be paid in form of petrol to ferry diesel to the school. The accounting officer had since been cautioned.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

n) **Western Province**

Provincial Education Office – Mongu

i. *Questionable payment and retirement of Imprest-K253,296,971*

The Controlling Officer submitted that all the officers involved had paid back the questionable amounts involved.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution the officers concerned. The matter should be verified by the Office of the Auditor-General before closure.

ii. *Unaccounted for Settling-In-Allowance-K81,679,287*

The Controlling Officer submitted that out of the funds totalling K81,679,287 not accounted for, only K13,060,194 had been accounted for leaving a balance of K68,619,093.

Committee's Observations and Recommendations

Your Committee is concerned that the funds in question cannot be accounted for and urges the Controlling Officer to account for the funds failure to which the matter should be reported the matter to the Police so that the culprits can be prosecuted. They await a progress report on the matter.

iii. *Irregular payment of Settling-In-Allowance- Kalabo District-K2,000,000*

The Controlling Officer submitted that the officer has since paid back the money to the DEBS office.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

o) **Northern Province**

i. *Provincial Education Office- Non submission of Expenditure Returns*

The Controlling Officer submitted that a total amount of K97,529,000 now had expenditure returns leaving a balance of K5,446,000.

Committee's Observations and Recommendations

Your Committee urges Controlling Officer to ensure that expenditure returns are readily available for audit. The Office of the Auditor-General is requested to verify the matter before it can be closed.

ii. *Misapplication of Funds – Nakonde DEBS Office-K361,426,000*

The Controlling Officer submitted that a total of K89,444,383.27 had been disbursed leaving a balance of K271,981,616.73.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution the DEBS against allowing misapplication of funds. They await a progress report on the disbursement of the balance of K271,981,616.73.

iii. *Misapplication of Funds – Mpika District Education Office-K645,311,000*

The Controlling Officer submitted that the DEBS have been advised to re-imburse these funds to the basic schools.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to strongly caution the DEBS concerned and resolves not to close the matter until the funds in question are refunded and given back to the basic schools.

iv. *Unaccounted for Revenue – Muchinga High School-K15,003,000*

The Controlling Officer submitted that all the funds have been accounted for and deposited.

Committee's Observations and Recommendations

Your Committee is disappointed that documentary evidence was not availed during audit and urges the Controlling Officer to take disciplinary action against the officers who caused the query. The traced documents should be availed to the Office of the Auditor-General for audit verification.

p) **Southern Province**

i. *Construction of Musemu Basic School – Namwala District*

The Controlling Officer submitted that the delay of the works was caused by the failure to mobilise the community to avail the required upfront materials such as crushed stones, burnt bricks, building and river sand. However, meetings have been held to encourage the community to meet their commitments of bringing upfront materials since the staff house was estimated to cost K80,000,000 while only K40,000,000 was released.

Committee’s Observations and Recommendations

Your Committee notes with regret that the School Management had failed to obtain support from the community and urges the Controlling Officer to ensure that the matter was addressed without further delay.

ii. *Failure to produce monitoring Reports-Itezhi -tezhi District-K23,127,912*

The Controlling Officer submitted that all the four officers have submitted their monitoring reports which were available for verification.

Committee’s Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against the officers who delayed the monitoring reports thereby rendering them less useful. They await a progress report on the matter.

CONCLUSION

29. Your Committee wishes to express its gratitude to you Mr Speaker and the Office of the Clerk for the support rendered to it when considering the Report of the Auditor-General for 2010, on the Accounts of Parastatal Bodies. Your Committee further wishes to thank the Secretary to the Treasury, Controlling Officers, Chairpersons and other members of the Boards of Directors, and management teams of the institutions that were audited for their cooperation.

Finally, your Committee acknowledges the valuable input from the Office of the Auditor-General, the Accountant-General and that of the Controller of Internal Audit when considering submissions from the witnesses.

V Mwale, MP
CHAIRPERSON

July, 2012
LUSAKA