REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER, 2013, FOR THE FOURTH SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED BY RESOLUTION OF THE HOUSE ON 26TH SEPTEMBER, 2014

Consisting of:

Mr V Mwale, MP (Chairperson); Ms M G M Imenda, MP; Ms C Namugala, MP; Mr P Mucheleka, MP; Mr C Matafwali, MP; Mr C Mweetwa, MP; Mr A C Milambo, MP; Mr J Zimba, MP; and Mr M Mbulakulima, MP.

Following the Presidential appointment of Mr V Mwale, MP to a Cabinet position, Ms M G M Imenda, MP was elected as Chairperson of your Committee. Further, Brig Gen Dr (Rtd) B Chituwo was appointed to serve on your Committee, reverting the number of Members on your Committee to nine.

However, following the demise of Mr C Matafwali, MP, the membership of your Committee reduced to eight. May His Soul Rest In Eternal Peace.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report on the Report of the Auditor-General on the Accounts of Parastatal Bodies and other Statutory Institutions for the Financial Year ended 31st December, 2013.

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 eight (8) meetings to consider the Report of the Auditor-General on the Accounts of Parastatal Bodies and other Statutory Institutions for the Financial Year Ended 31st December, 2013.

Procedure adopted by the Committee

4. With technical guidance from the Auditor-General, the Accountant-General and the Controller of Internal Audit, your Committee considered both oral and written submissions from Controlling Officers and Chief Executive Officers of the seventeen (17) institutions that were subject of the Audit Report. Additionally, the Secretary to the Treasury was requested to comment on all the seventeen institutions.

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

Auditor-General's Comments

5. The Auditor-General reported that the Report on the accounts of selected parastatal bodies and other Government-funded institutions for the financial year ended 31st December, 2013, was submitted to the President for tabling in the National Assembly in accordance with the provisions of the Constitution of Zambia and the *Public Audit Act, Chapter 378 of the Laws of Zambia.*

Scope of Audit

The Report was a result of a programme of test checks and reviews of audited accounts of selected organisations for the financial years up to 31st December, 2013.

In preparing the Report, draft paragraphs were sent to the Controlling Officers of the affected organisations for comments and confirmation of the correctness of the facts presented. Where the comments received varied materially with the facts presented, the paragraphs were amended accordingly.

Submission by the Secretary to the Treasury

The Secretary to the Treasury submitted as set out below.

Paragraph 1
Introduction

6. The Secretary to the Treasury submitted that the facts were as stated in the Report of the Auditor-General and that the audit of accounts of the seventeen (17) prastatal bodies was done within the provisions of the Constitution of Zambia and the *Public Audit Act, Chapter 378 of the Laws of Zambia.*

Paragraph 2
Scope of Audit

The Secretary to the Treasury submitted that the scope of audit by the Auditor-General covered test checks and reviews of audited accounts of the years ending 31st December, 2009 to 2013 of the seventeen (17) selected parastatal bodies. Furthermore, the interaction of the Auditor-General with Chief Executive Officers through their Controlling Officers helped to enhance good corporate governance values in the management of Boards for parastatal bodies entrusted with the responsibility of managing public resources. The Report of the Auditor-General highlighted various weaknesses in the management of resources in public institutions which received funds through grants and capital reserves during the years under review.

Paragraph 3
Internal Controls

The Secretary to the Treasury assured your Committee that the Treasury had assigned the Controller of Internal Audit to review internal control systems in parastatal bodies. In addition, the Boards of Directors and management teams had been directed to enhance internal control systems and mete out disciplinary action against erring officers.

Paragraph 4
Failure to Submit Audited Financial Statements

The Secretary to the Treasury submitted on each one of the institutions that were reported as not having produced audited financial statements as set out below.

Citizens Economic Empowerment Fund

The Commission did produce accounts for the year-ended 31st December, 2013 and these were approved by the Finance and Administration Committee of the Board on 29th January, 2014. The Commission despite having the duly approved accounts for 2013 and 2014, could not submit to the Auditor-General as the Commission's understanding was that they first needed to resubmit accounts for the years ended 2010 to 2012, which had been submitted to the Auditor-General previously without the balance sheets in the respective years. The financial years 2010 to 2012 accounts were being revised following consultations with the Auditor-General. Further, the Commission's financial statements for 2013 and 2014 had been approved by the Board and would be submitted to the Auditor-General.

Committee's Observations and Recommendations

Your Committee notes the efforts that have been made to bring the Commission up to date in the production of audited financial statements. Your Committee resolves to close the matter and requests the Auditor-General to take note of the matter in future audits.

Times Printpak

The Company was unable to produce the accounts for the financial year ended 31st December, 2013, because of inadequate staff and skills in the Finance Department at the time. The accounts 2013 and 2014, were currently being audited and the exercise was expected to be concluded by end of May, 2015.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that lack of skills is being given as an excuse when the Company is capable of employing qualified accounting officers from the job market. Your Committee, therefore, urges the Controlling Officer to liaise with the Board to ensure the Accounts Section of the Company has qualified and skilled personnel. Your Committee also urges the Controlling Officer to ensure that the Company is up to date with its audited financial statements. Your Committee awaits a progress report on the matter.

Zambia Institute of Advanced Legal Education (ZIALE)

The draft audited accounts were awaiting approval by the Council at the time of audit because at its previous sitting, the Council failed to constitute a quorum. The Council finally constituted a quorum and the 2013 accounts had since been approved and were available for audit verification. Further, the 2014 accounts were currently being audited and would be presented for approval at the next Council meeting.

Committee's Observations and Recommendations

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

ZESCO Limited

The Company was still clearing issues raised by the external auditors on the utilisation of the Euro Bond funds received from the Treasury appearing in the 2012 accounts before signing off the financial statements for the year ending 31st December, 2013. The matter had since been resolved and the financial statements were approved by the Board on 30th January, 2015.

Committee's Observations and Recommendations

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

Energy Regulation Board (ERB)

The Board could not produce the audited financial statements because of the forensic audit which was being conducted by the Treasury through the Controller of Internal Audit. In this regard, the books of accounts could not be submitted to the external auditors for audit. The draft audited financial statements for 2013, had since been prepared after the conclusion of the forensic audit in November, 2014 and were awaiting approval by the Board.

Committee's Observations and Recommendations

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

Tazama Pipelines Ltd

The delay in the preparation of the financial statements was as a result of the loss of valuable documents due to an exceptional flood incidence which occurred at the Tanzania Regional Offices in March, 2014. All the documents and assets were submerged in water and a lot of effort and time was spent to recover information required to prepare final accounts.

The Company had moved in phases its Tanzania Regional Office currently situated in an area susceptible to flooding to higher ground at its Kigamboni Pump Station. Further, the Company had put in place systems to reduce the time for production of financial statements to three months. The interim audit for the financial year ended 31st March, 2014, had been concluded with final audit expected to end in June, 2015. Approved financial statements were expected to be ready by August, 2015.

Committee's Observations and Recommendations

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

National Sports Council of Zambia

The four (4) year back log of unprepared accounts was due to lack of a qualified accountant at the time for the financial years ended 2009, 2010, 2011 and 2012. A qualified Accountant was recruited in 2012 and he had since cleared the backlog. The accounts had since been signed and were submitted to the Auditor-General on 4th October, 2014. The financial accounts for 2013 and 2014, had been prepared and were being audited by the external auditors engaged, Ernst and Young.

Committee's Observations and Recommendations

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

Zambia Wildlife Authority (ZAWA)

The delay in production of the financial statements was due to high turnover of staff both at ZAWA top management and Board levels during the year under review. The situation had since stabilised and the new management at ZAWA had been tasked to clear the backlog and the financial statements for the financial year ending 31st December, 2013, had since been audited and would be presented for approval at the next board meeting. Further, the new management had since prepared the statements for 2014, that were awaiting assertion by the external auditors to be engaged by the Board. Additionally, the management had undertaken to prepare the half year financial statements for 2015, pending implementation of the decision to close the Authority and revert it to a Department under the Ministry of Tourism and Arts.

Committee's Observations and Recommendations

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

Hotel and Tourism Training Institute (HTTI)

The Institute had been using the services of the Office of the Auditor-General as, due to financial constraints, it was not possible to have previous accounts audited. The Institution was now able to acquire the services of external auditors following the improvement of the liquidity position. Therefore, in compliance with the provision of Article 121 of the Constitution of Zambia and the *Public Finance Act* No.15 of 2004 and *Public Audit Act*, the Office of the Auditor-General had been engaged in the process of engaging external audit services. Further, the Institute had embarked on the compilation of a financial statement for the year ending 31st December, 2012 in order to establish the opening balance to be used by the external auditors.

Committee's Observations and Recommendations

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

Zambia Postal Services Corporation (ZAMPOST)

There was a back log of five years of unprepared accounts because of inadequate staff in the finance department at the time for the financial years 2008, 2009, 2010, 2011 and 2012. Financial statements for the periods from 2008 to 2012, had since been audited and approved by the Board. Further, the draft audited financial statements for 2013 and 2014, awaited Board approval and the Corporation was diligently pursing the matter. It was expected that the Board would approve the audited financial statements by mid-2015.

Committee's Observations and Recommendations

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

Nitrogen Chemicals of Zambia (NCZ)

The Company was faced with difficulties in raising funds to pay for the audited accounts. Further, the external auditors had their own challenges. Those combined factors led to the delay in submission of audited financial statements. PriceWaterhouse Coopers started auditing NCZ accounts in August, 2007, for the financial years 1998 to 2004. The audited financial statements for the years 1998 to 2004, were received by NCZ on 10th November, 2014, for consideration and approval by the Board of Directors. The accounts for the financial years 2005 to 2014, could not be audited before the financial statements for the year 2004, were approved. As soon as the NCZ Board of Directors approved the audited accounts for the years 1998 to 2004, NCZ would engage another audit firm to audit the financial years 2005 to 2014. Management accounts for the year 2013, were available for audit verification.

Committee's Observations and Recommendations

Your Committee observes that the issue of the Nitrogen Chemical of Zambia's failure to prepare audited financial statements has taken too long to resolve. Your Committee, therefore, urges the Secretary to the Treasury to assist the Company to resolve the matter. Your Committee resolves to await a progress report on the matter.

Food Reserve Agency (FRA)

The Agency's activities had kept on growing due to changes in its mandate as instructed by the shareholders and this resulted in an increased volume of transactions which were mainly processed through a manual system as opposed to an automated system. The demand on the increased volume of activities had led to staff shortages. The external auditors PKF Accountants and Business Advisors had since been engaged to audit the financial statements from 2011 to 2014, as soon as the Agency concluded making the adjustments to the accounts from 2009, to 2010, which were yet to be signed off by the Board of Director. The Agency's external auditors had since made an undertaking to conclude the audit for the remaining period up to 31st December, 2014, as soon as the Agency concluded making the adjustments to the accounts.

Committee's Observations and Recommendations

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

Zambia Education Publishing House (ZEPH)

The Zambia Education Publishing House failed to produce financial statements because of lack of funds and skilled manpower to prepare books of accounts. Preparation of financial statements had already started with books of accounts for 2005, 2006 and 2007, ready for external audit. In order to speed up the preparation of accounts, Management was contracting accounting firms for accounting services with the hope of completing preparation of accounts up to 2014, before the end of 2015.

Committee's Observations and Recommendations

Your Committee observes that the Zambia Education Publishing House's failure to produce audited financial statement is as a result of lack of capacity on the part of the Company and urges the Secretary to the Treasury to assist the management of the company to resolve the matter. Your Committee resolves to await a progress report on the matter.

Livestock Development Trust

The Livestock Development Trust Board requested the Auditors to consider working on all the outstanding financial years and release the report at the same time to make the assignment cost effective but this delayed the audit work. Grant Thornton was engaged on 16th December, 2014, to carry out the assignment and would audit the accounts up to 31st December, 2014. Grant Thornton were currently on site carrying out the assignment.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the finalisation of the audited accounts.

Coffee Board of Zambia

The Coffee Board of Zambia had had its financial statements for the three years 2011, 2012 and 2013, audited by its external Auditors. However, the financial statements had not been released due to non-payment of audit fees as a result of financial constraints. The Treasury had directed the Ministry of Agriculture and Livestock to provide a budget line for payment of audit fees for all Boards under its charge to avoid recurrence of non-preparation of financial statements.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the release of the audited financial statements.

Kafubu Water and Sewerage Company (KWSC)

The Company had no board in place for two years to facilitate the appointment of external auditors. Further, the Company had a high staff turnover at senior level in the Finance department. These factors affected the external audit of the Company's financial statements for the financial years from 2008 to 2013. The Board was constituted in June, 2013. The appointment of the Board and the Director of Finance facilitated the external audit of the Company's financial statements by the external auditors, Grant Thornton. The table below shows the status as at 30th April, 2015:

	FINANCIAL YEAR	STATUS
1	2008	Financial Statements audited in 2014 and signed off by the Board
2	2009	Financial Statements audited in 2014 and signed off by the Board
3	2010	Financial Statements audit completed in 2014 and Board to sign off the accounts by 31st May, 2015
4	2011	Audit completed and External Auditors to submit final draft by 31st May, 2015
5	2012 85	Audit to commence by 18th May, 2015 and accounts for two to be signed off by end third quarter 2015
6	2014	Audit to commence by October, 2015 and accounts to be signed off by 31st December, 2015

It was expected that the Company would be up to date with audited financial statements by 31st December, 2015.

Committee's Observations and Recommendations

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

Kitwe City Council (KCC)

The Council currently had a contract with its external auditors to audit the accounts from 2004 to 2006, and intended to extend the contract to incorporate the financial years 2007 to 2013. However, the major drawback had been lack of funds to pay audit fees. The Council had embarked on a programme that would see the financial statements of 2014 and 2015, prepared using a newly developed software called Accounting and Financial Management Information System by 31st December, 2015.

Committee's Observations and Recommendations

Your Committee questions the commitment of the management of Kitwe City Council towards the preparation of financial statements. Your Committee urges the Secretary to the Treasury to ensure that Kitwe City Council is up to date with audited financial statements. Your Committee resolves to await a progress report on the matter.

Local Authorities Superannuation Fund (LASF)

The draft financial statements were not prepared at the time the Auditor General was on site in January, 2014 because the year 2013, had just closed on 31st December and the Fund was still performing its year end procedures. However, after the conclusion of the year-end review processes, the draft financial statements were prepared in 2014, in readiness for statutory audits by the Fund's external auditors. After the review process of the draft financial statements and planning procedures with external auditors, the engagement letter was finally signed on 11th July, 2014 and the audit of the draft financial statements for the year ended 31st December, 2013, commenced.

The current position was that the draft financial statements were on hold because the external auditors had noted serious going concern indicators from the financial results which included, among others, declining membership with more pensioners than contributing members, poor liquidity and solvency ratios, non-capitalisation of the scheme by financing the actuarial deficit and increasing liabilities arising from non-payment of retirement benefits. The external auditors had requested the Government to confirm to them the measures that would address these issues. Further, the draft financial statements for the year ended 31st December, 2013, awaited approval by the Board, but the Fund currently did not have a Board to approve the accounts.

Committee's Observations and Recommendations

Your Committee observes that the Institution's auditors have raised fundamental policy issues which require the urgent attention of the Government. Your Committee, therefore, urges the Secretary to the Treasury to bring the matter to the attention of the Secretary to the Cabinet. Your Committee resolves to await a progress report on the matter.

Luapula Water and Sewerage Company (LpWSC)

The Luapula Water and Sewerage Company (LpWSC) was faced with a number of challenges in service provision, the following three being the most critical: Firstly, in all the districts, LpWSC had old dilapidated and uneconomic infrastructure. Sanitation infrastructure was particularly problematic. In addition, the utility Company also had responsibility for new districts which had almost non-existent infrastructure. Service delivery was therefore below expectations, with the utility supplying only 10 hours on average a day and reaching only twenty per cent of the population. Secondly, the Company was almost insolvent and barely able to meet its staff costs, as well as obligations to suppliers and statutory agencies. Inability to pay emoluments had led to staff being de-motivated. At the same time, the perception of the Company by the general public and customers was not very positive and was reinforced by poor ranking in the NWASCO benchmarking exercises.

Since the company was at the stage where the trial balances for the 2009 to 2014 financial years were being finalised in readiness for the production of the draft financial statements, your Committee would be kept updated on further progress concerning this matter.

Committee's Observations and Recommendations

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

Mukuba Hotel

The challenge that led to the failure to prepare audited financial statements was deemed by the Board to be negligence on the part of management at the Hotel. As a consequence, the Board terminated the contracts of the General Manager and the Chief Accountant. A new management had been put in place and tasked to ensure that audited financial statements were prepared and finalised. The financial statements for the financial years 31st March, 2011, 2012 and 2013, had been prepared and were awaiting external audit.

Committee's Observations and Recommendations

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

The Secretary to the Treasury ended his submission by stating that the Industrial Development Cooperation (IDC) had taken over the over-sight functions of state owned enterprises incorporated under the *Companies Act, Chapter* and the Banking and *Financial Services Act Chapter.*

DEVELOPMENT BANK OF ZAMBIA (DBZ)

AUDIT QUERY PARAGRAPH 6

Background

7. The Development Bank of Zambia (DBZ) was incorporated as a development finance institution by *Act of Parliament No. 35 of 1972*, which was later amended by Act No. 24 of 2005. The Bank started its operations in 1974, initially as a joint venture, with Government and parastatal financial institutions on one hand and local private sector, foreign bilateral and multilateral institutions on the other.

Review of Operations

An examination of accounting and other records and a review of the management information systems for the financial years ended 31st December, 2008 to 2013, carried out in March, 2014, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) **Dual Directorship**

The Controlling Officer submitted that the mandate to appoint members of the Board of Directors under section 4(3) of the *Development Bank of Zambia Act, Chapter 363* of the Laws of Zambia lies exclusively with the shareholders. Management had since submitted to the Ministry of Finance about the Board member who had dual directorship.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is resolved by the Bank of Zambia without any further delay. Your Committee awaits a progress report on the matter.

b) **Enterprise Development Fund Multi-Purpose Credit Facility (EDF-MCF) — Penalty Interest not Charged**

The Controlling Officer submitted that no penalty was charged for the default on the loan to Anglo Leasing Services Limited because the EDF loan agreements did not provide for any penalties for delayed payments, hence the Bank could not charge penalties. The EDF loan agreements were inherited from the previous fund managers, the Bank of Zambia.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is resolved by Bank of Zambia without any further delay. Your Committee awaits a progress report on the matter.

c) **Outstanding Loans-K254,991,000**

The Controlling Officer acknowledged that the Bank did not avail the Auditors a detailed list of customers in respect of outstanding loans amounting to K254,991,000. The Controlling Officer explained that this was because the Bank did not have a robust loan accounting system. The customer statements were generated or printed out individually and the output was then captured in excel spreadsheets. These excel spreadsheets were saved on desktop computers and it was difficult to trace some of these files at the time of audit.

The Controlling Officer, however, explained that the lists of loan balances for the years ended 31st December 2011, 2012 and 2013, were provided to the Auditors on 12th January, 2015. The other outstanding loan balances as at the years ended 31st December, 2008, 2009 and 2010, were not available at the time of audit but had since been traced. The files for the years ended 31[51] December, 2008 and 2009, were saved on the desktop computer of the former Acting Director of Finance who left the Bank at the end of 2009. Going forward, the ICT Department had been advised to procure software for auto archiving data on desktop computers.

Committee's Observations and Recommendations

Your Committee is concerned about the poor record management at the Bank. Your Committee is specifically concerned that the management at the Bank did not seem to be bothered by the state of the records, resulting in their failure to act promptly to address the matter. Your Committee urges the Controlling Officer to ensure that management of the Bank takes immediate steps to put the records in order. Your Committee resolves to await a progress report on the matter.

i. *Syndicated Loan to Zambian Airways*

The Controlling Officer acknowledged that the matter was still before the Courts of law for determination. He, however, explained that the correct breakdown of the syndicated loan to Zambian Airways is as given in the table below:

Bank	**Amount (US$)**
DBZ	3,000,000
Investrust	1,500,000
Intermarket	1,000,000
	5,500,000

Committee's Observations and Recommendations

Your Committee notes that the matter is before the courts of law and resolves to await a progress report.

ii. *KIFCO Packaging: K17,417,193*

The Controlling Officer agreed with the reported figures but explained that these figures were in the old currency and should be rebased. Subsequently, this facility had been restructured to support the turnaround efforts: effective 1st April, 2014, fifty per cent of the outstanding loan balance, being K8.7 million, out of K17.4 million was converted into preferential equity share capital in order to ease liquidity pressure on the client.

The Controlling Officer submitted that recalling the loan would have resulted in the total collapse of the Company, which in turn, would have had an adverse effect on the socio-economic state of Kabwe, where the Company was based. As the Company was the largest single employer in Kabwe, and Central Province as a whole, the effects of this would have been massive unemployment, which was against the Bank and the Government's developmental objective of employment creation.

The outstanding loan balance on the KIFCO account as at 31st January, 2015, was K9,398,533.03 and K1,290,690.24 on the long term loan and working capital facility, respectively. Further, K8,708,596.97 million was being held in the subscription for shares account pending the business valuation.

The Controlling Officer submitted further that previously, although the demand for KIFCO's packing bags was very high, the company did not have the capacity to meet the demand. However, in 2013, the Development Bank of Zambia financed an additional line of production which became operational in 2014 and had enhanced the production of these bags and improved the Company's cash flow.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all the outstanding amounts are repaid by the client. Your Committee resolves to await a progress report on the matter.

iii. *Consolidated Milling Limited (CML)*

The Controlling Officer agreed with the reported figures and submitted that recoveries amounting to K1,429,767 had since been made and the outstanding balance on this off-balance sheet loan account as at 28th February, 2015, was K1,177,494.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the outstanding balance amounting to K1,177,494 is recovered. Your Committee awaits a progress report on the matter.

iv. *Mofu Industries Limited-US$110,918*

The Controlling Officer submitted that the account was still under foreclosure proceedings.

Committee's Observations and Recommendations

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

d) **Purchase of Airtime for Staff and Board Chairperson**

The Controlling Officer submitted that the provision of airtime to selected members of staff to facilitate effective communication was approved prior to 1stJanuary, 2008 and was subsequently formalised in the conditions of service in 2014. Following recommendations from the audit, management had discontinued providing airtime to members of staff and would inform the next meeting of the Staff Committee, accordingly. The management would make some recommendations to the Board of Directors on the recommendations of this audit. Further, a limit had been introduced on the Managing Director's post-paid mobile phone account.

Committee's Observations and Recommendations

Your Committee observes that the purchase of airtime amounting to K41,497 for members of staff and the Board Chairperson is irregular as it is contrary to the applicable conditions of service. Your Committee, therefore, urges the Controlling Officer to ensure that this practice is stopped and resolves to close the matter subject to audit verification.

e) **Irregular purchase of Gift Vouchers-K59,000,000**

The Controlling Officer submitted that the Kwacha figures were in the old currency and should be rebased. The expenditure was incurred during the financial years: 2010, 2011, 2012 and 2013 and management had since discontinued the provision of gifts, including vouchers during the Christmas period.

Committee's Observations and Recommendations

Your Committee observes that the gifts are irregularly provided because they are contrary to the entitlements of the Board Members. Your Committee urges the Controlling Officer to ensure that the practice is discontinued forthwith. Your Committee resolves to close the matter subject to audit verification.

f) **Non-remittance of Statutory Contributions-K10,480,084**

The Controlling Officer submitted that the Kwacha figures were in the old currency and should be rebased. These amounts actually related to credits in favour of the Bank. As a general rule, statutory contributions were remitted on the due dates. However, in this instance, it had been noted that it was the PAYE annual returns that seemed not to have been lodged in some prior years, and management had taken note of this. Going forward, management had identified the need to strengthen capacity in handling of tax matters within the Bank's organisational structure. The position of Senior Accountant - Tax had been established and recruitment for this position was in progress.

Committee's Observations and Recommendations

Your Committee is concerned that despite the matter being brought to the attention of management, no action has been taken to address the anomaly, which is unacceptable. Your Committee, therefore, urges the Controlling Officer to ensure that the Bank takes steps to start remitting statutory obligations as they fall due. Your Committee resolves to await a progress report on the matter.

g) **Weaknesses in Management Information Systems (MIS)**

i. *Lack of an IT steering Committee*

The Controlling Officer submitted that the role of the IT Steering Committee in the Bank was performed by the Management Executive Committee. The Controlling Officer, however, explained that in future the Bank would officially write to the members of this Committee to also perform the functions of the IT Steering Committee and oversee IT Projects as per the audit recommendation.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to avail the letters referred to and the terms of reference showing that the Management Executive Committee of the Bank has been tasked with the roles performed by an IT steering committee. Your Committee awaits a progress report on the matter.

ii. *Lack of an IT Risk Management Framework*

The Controlling Officer submitted that the policies had been drafted and were awaiting Board approval. Further, the Bank had an Internal Audit Unit to monitor risks and establish a risk framework which would result in the creation of a risk register. This would be reviewed by the Manager Internal Audit and ICT Manager. The Bank had also established and would put in place a Risk Management Department to draw up a Bank-wide Risk Management Framework which would oversee this and other risk functions in the Bank.

Committee's Observations and Recommendations

Your Committee notes the measures being put in place to correct the situation and resolves to await a progress report on the matter.

iii. *Inadequate Staffing of the Information and Communication Technology (ICT) Department*

The Controlling Officer submitted that the delay in the implementation of the Integrated Core Banking System (ICBS) project was caused by the need to await clearance from the Attorney-General's Office. Further, the department had failed to proceed with the recruitment process because the infrastructure for the new staff to perform their roles was not yet in place. Recruitment would proceed as soon as the project commenced.

Committee's Observations and Recommendations

Your Committee observes that inadequate staffing of the ICT Department is unacceptable as it has the potential of affecting the quality of ICT services in the Bank. Particularly, over-reliance on individuals performing a critical job function could result in such individuals having too much control of the system. Your Committee, therefore, urges the Controlling Officer to ensure that the recruitment of relevant ICT staff is expedited. Your Committee resolves to await a progress report on the matter.

iv. *Information Communication Technology (ICT) Policies not approved by the Board of Directors*

The Controlling Officer submitted that the policies had been finalised and were awaiting Board approval.

Committee's Observations and Recommendations

Your Committee expresses concern that the Bank operated without ICT policies for a long time, which is unacceptable as ICT decisions made in this situation are often haphazard. Your Committee resolves to await a progress report on the matter.

v. *Lack of Backup Policy*

The Controlling Officer submitted that the Backup Policy was part of the policies which were awaiting the Board's approval.

Committee's Observations and Recommendations

Your Committee observes that the Bank's failure to have a Backup Policy in place is unacceptable because it means that the organisation's data is not protected as it would be lost in the event of an equipment failure, intentional destruction or a disaster. Your Committee awaits a progress report on the matter.

vi. *Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) Management Response*
The Controlling Officer submitted that the Bank was in the process of implementing a Front End Solution with an off-site recovery site. Currently, tape backups were being done although simulation of data had proved to be a challenge as the current infrastructure in place was obsolete.

Committee's Observations and Recommendations

Your Committee observes that operating without a business continuity plan and a disaster recovery plan is unacceptable as the Bank risked losing its data in case of equipment failure, intentional destruction or a disaster. Your Committee, therefore, urges the Controlling Officer to ensure that efforts to have the two plans in place are expedited. Your Committee resolves to await a progress report on the matter.

vii. *Lack of Service Level Agreements (SLAs)*
The Controlling Officer submitted that all the current service level agreements were being reviewed and would be strengthened with the adoption of ICT Policies which were awaiting approval by the Board.

Committee's Observations and Recommendations

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

viii. *Outdated Loan Management System*

- Outdated Operating System
- Expired Antivirus

The Controlling Officer submitted that the anomaly was as a result of the delay in the implementation of the Integrated Core Banking System. The Bank was hopeful that the clearance of this project by the relevant authorities would be expedited to enable the Bank implement a modern ICT infrastructure.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the upgrading of the outdated loan management system.

ix. *Poor Administration of the Active Directory*

- **Failure to Disable Default Administrator Account**

The Controlling Officer submitted that the disabling of the default administrator account would be done on the new servers to be installed as per audit recommendation. The Bank had already completed the process of acquiring a Front End Solution to resolve this challenge.

Committee's Observations and Recommendations

Your Committee observes that the recommendation of the audit should be implemented expeditiously as failure to do so means that the payroll system remains vulnerable to hackers. Your Committee resolves to await a progress report on the matter.

- **Shared Administrator Account**
  The Controlling Officer submitted that the administrator password had been reset and assigned to the ICT Manager while the other two ICT staff had been allocated rights only for the specific roles they performed.

  Committee's Observations and Recommendations

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

JUDICIARY
AUDIT QUERY PARAGRAPH 7

Accounting and Other Irregularities

8. An examination of accounting and other records maintained at the Judiciary Headquarters and selected stations carried out in June, 2014, revealed accounting irregularities to which the Controlling Officer responded as set out below.

a) **Missing Payment Vouchers-K4,093,232**

Contrary to Financial Regulation No. 65, fourteen payment vouchers in amounts totalling K4,093,232 made during the period under review were not availed for audit.

The Controlling Officer submitted that the payment vouchers in amounts totalling K3,976,030 were traced and the matter was resolved during the verification exercise. As for the balance of K117,202, payment vouchers had been traced and were ready for audit scrutiny.

Committee's Observations and Recommendations

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

b) **Unsupported Payments-K4,158,433**

The Controlling Officer submitted that all the supporting documents that were missing at the time of audit had been traced by the various stations.

Committee's Observations and Recommendations

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

c) **Unaccounted for Stores-K576,230**

The Controlling Officer submitted on each one of the stations as set out below.

i. *Headquarters-K478,341*
Supporting documents in amounts totalling K445,906 were traced and the matter was resolved during the verification exercise. As for the balance of K32,435, supporting documents had since been traced and were ready for audit scrutiny.

Committee's Observations and Recommendations

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

ii. *Chipata-K1,587*
Supporting documents in amounts totalling K1,587 were traced and the matter was resolved during the verification exercise.

Committee's Observations and Recommendations

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

iii. *Mongu-K23,102*
Supporting documents in amounts totalling K11,200 were traced and the matter was resolved during the verification exercise. As for the balance of K11,902, supporting documents had since been traced.

Committee's Observations and Recommendations

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

iv. *Solwezi-K3,000*
The Supporting documents in amounts totalling to K3,000 had been traced.

Committee's Observations and Recommendations

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

v. *Ndola-K21,700*
Supporting documents amounting to K19,000 were traced and the matter was resolved during the verification exercise. As for the balance of K2,700, the Controlling Officer submitted that the payment was in fact not made to Zambia Telecommunications Company, but to Habro Investment Limited. Further, the amount in question on cheque number 020955 was not K2,700, as quoted but K3,500.

Committee's Observations and Recommendations

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

vi. *Fees-K48,500*
The Controlling Officer submitted that supporting documents in amounts totalling K48,500 had been traced.

Committee's Observations and Recommendations

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

d) **Unretired Accountable Imprest-K1,612,072**

The Controlling Officer submitted as set out below.

i. *Headquarters-K504,832*
Impress amounting to K395,052 was retired and the matter was resolved during the verification exercise, leaving a balance of K109,780. Instructions to commence deductions were issued.

Committee's Observations and Recommendations

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

ii. *Chipata-K15,062*
Imprest amounting to K15,062 was retired and the matter was resolved during the verification exercise.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

iii. *Mongu* **-** *K11,582*
Imprest amounting to K11,582 had been retired and the retirement documents were ready for audit scrutiny.

Committee's Observations and Recommendations

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

iv. *Mansa-K59,490*
Imprest amounting to K20,923 was retired and the matter was resolved during the verification exercise. As for the balance of K38,567, retirement documents were traced.

Committee's Observations and Recommendations

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

v. *Ndola-K161,923*
Imprest amounting to K161,923 was retired and the matter was resolved during the verification exercise.

Committee's Observations and Recommendations

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

vi. *Livingstone-K1,400*
Instructions to commence deductions were issued.

Committee's Observations and Recommendations

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

vii. *ZAJIS-K245,797*
Imprest amounting to K196,420 was retired and the matter was resolved during the verification exercise. Instructions to commence recoveries on the balance of K49,377 were issued.

Committee's Observations and Recommendations

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

viii. *Fees Account-K611,987*

Imprest amounting to K546,303 was retired and the matter was resolved during the verification exercise. As regards the balance of K65,684, the retirement documents for K4,898.22 had since been traced. Instructions to commence recoveries on the balance of K60,785.78 were issued.

Committee's Observations and Recommendations

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

e) **Failure to Produce Reports-K24,190**

The Controlling Officer submitted on each station as set out below.

i. *Mongu-K10,890*

Scrutiny of the records showed that the payment made was subsistence allowance paid to the officer who was travelling on duty to Mongu to enable him be part of the panel that was constituted to conduct job interviews for Local Court Officers.

Committee's Observations and Recommendations

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

ii. *Livingstone-K13,300*

The report in support of the trip that was undertaken was availed to the auditors and the matter was resolved during the verification exercise.

Committee's Observations and Recommendations

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

f) **Unremitted Taxes - Ndola and Lusaka Subordinate Court**

The Controlling Officer submitted that the Judiciary had since made a provision in the 2015 budget.

Committee's Observations and Recommendations

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

KAFUBU WATER AND SEWERAGE COMPANY LIMITED (KWSC)

AUDIT QUERY PARAGRAPH 8

Background

9. The Kafubu Water and Sewerage Company Limited (KWSC) was established on 15th September, 1998, in accordance with the provisions of the *Companies Act, Chapter 388 of the Laws of Zambia* and Section 9 (c) of the Water Supply and *Sanitation Act, No 28 of 1997*. KWSC was a commercial water utility company limited by shares and wholly owned by Ndola City, Luanshya Municipal and Masaiti District Councils.

The principal function of the company was to provide water and sewerage services to the towns of Ndola, Luanshya and Masaiti District including surrounding peri-urban areas.

Review of Management Information Systems (MIS) and Operations

A review of MIS and operations for the period under review revealed the matters as set out below.

a) **Billing for Services – Weaknesses in the Pronum Billing System**

i. *Missing Receipts - K4,338.50*

The Controlling Officer submitted that KWSC had pay points in low cost areas in Luanshya where manual receipts books were used. Once issued, the manual receipts from various pay points were posted into the live Promun system on the subsequent day. The 48 receipts issued on 15th April, 2013, were erroneously posted in the system bearing the wrong date of 16th April, 2013. After realising the anomaly and to avoid having different dates with the Customers' original manual receipts, the Cashier informed the IT Section, and the receipts bearing the wrong date of 16th April, 2014 were deleted using the system programme. The receipts were re-entered and the numbering started from the last deleted receipted number. The total receipts issued on 15th April, 2013 were seventy-seven totalling K4,338.50 and were posted into the system and the funds deposited accordingly. The documents were available for verification.

He added that the Promun Billing System had since been upgraded and improved to show the details which included receipts, the amounts, account numbers, date, time and totals of the deleted receipts. Further, a log book had been opened in which all cases of erroneous deletion of receipts were recorded and signed for by the Administrator of the system for future reference.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that concerned officers are cautioned for this anomaly. The matter is recommended for closure subject to audit verification.

ii. *Bills on Disconnected Accounts*

The Controlling Officer submitted that the accounts were erroneously reflected in the system as disconnected because the "disconnected" tag was not unflagged. The disconnection tag was not connected to the monthly billing as it was done manually. The premises were metered, hence the billing and 779 of the billed accounts were paying regularly, reflecting that the Customers were receiving water. The accounts were available for verification.

The Controlling Officer further submitted that the accounts which were erroneously reflected as disconnected had since been unflagged to read active. Further, the Company had enhanced measures to ensure that the 'disconnected' tag on active accounts with consumption was removed and also carried out a monthly physical verification of such accounts.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer as deletion of receipts may result into fraudulent activities. Your Committee urges the Controlling Officer to ensure that erring officers are sternly cautioned for this omission. Your Committee further urges him to ensure that the system is updated regularly to avoid recurrence of the matter. Your Committee will note the matter in future audits.

b) **Comparative Performance of KWSC in the Water and Sanitation Sector**

i. *Non - Revenue Water (NRW)*

The Controlling Officer submitted that the high Non Revenue Water was as a result of dilapidated network infrastructure and low metering levels (i.e. both production and consumer meters). He further submitted that KWSC was working on major network leakages using internally generated resources. KWSC had procured 5,000 ordinary meters to be placed in customer premises in the second quarter of 2015 and create zones (District Metered Areas) for more effective monitoring and control of Non-Revenue Water.

The KWSC had sourced funds through the Danish International Development Agency (DANIDA) amounting to US$104,093,831 for the Kafubu Water and Sanitation Improvement Project. The project would be undertaken from 2015 to 2017.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the network infrastructure is worked on expeditiously to reduce loss of water in the network. Your Committee awaits a progress report on the matter.

ii. *Failure to attain Metering Ratio Benchmark*

The Controlling Officer submitted that KWSC did not meet the sector benchmark for metering ratio due to lack of funds. The Controlling Officer added that the 5000 ordinary meters procured would be installed in the second quarter of 2015, in order to increase the metering ratio. The Company would also procure 5,000 additional meters in 2015, through the Project financed by the NORDEA Bank. Further, the Devolution Trust Fund (DTF) had continued to fund procurement of meters for peri-urban areas and these efforts would help the Company attain 100 % metering by 2017.

Committee's Observations and Recommendations

Your Committee notes the efforts made by KWSC, but observes that the pace of implementation is too slow. This may result in loss of revenue to the company. Your Committee, therefore, urges the Controlling Officer to impress upon management to ensure that the sector benchmark of 100% is attained without any further delay. Your Committee awaits a progress report on the matter.

iii. *Poor Quality of Discharged Sewerage*

- **Ndola District - Mine Masala Township**
- **Ndola - Kabushi Township**

  The Controlling Officer submitted that the Company faced challenges in the treatment of sewerage using conventional (mechanised) methods due to the poor and old state of the infrastructure at the sewerage treatment plants in Ndola. The Company also faced high license fees by ZEMA due to the poor state of the infrastructure. This had resulted in poor quality of sewerage effluent discharged from the plants. This resulted in non-compliance to ZEMA standards. The KWSC was engaging the Nordea Bank with regard to possible financing of rehabilitation of infrastructure. It was hoped that, the treatment plants at Kanini, Mine Masala, Kabushi, Lubuto and Luanshya sewer ponds would be rehabilitated using the financing under the Nordea Bank which would improve adherence to ZEMA standards.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the water network infrastructure is worked on expeditiously to reduce loss of water in the network and also to improve the quality of water and sewerage treatment. Your Committee is of view that it is better to use internal resources than to wait for donors to finance urgent works on the infrastructure, as this poses a health hazard in the catchment area. Your Committee awaits a progress report on the matter.

c) **Overdue Receivables - K132,756,559**

The Controlling Officer submitted that KWSC had overdue receivables because of the economic status of most domestic customers in peri-urban areas. The Company had put the following mechanisms in place to improve collection efficiency and reduce the receivables:

i. introduction of flexible payment methods for low income areas: clients were put on monthly instalment plan for outstanding debt while paying for their current bills;
ii. engagement of financial institutions such as Barclays Bank, Investrust Bank and Stanbic Bank through which account holders could pay for their water bills through the banks' Direct Debit and Credit Clearing (DDCC) system;
iii. initiating the installation of prepaid metres in Government departments and some commercial entities to be completed by the second quarter of 2015;
iv. engagement of the Government to pay part of the outstanding debt which was a pre-condition for the project to be funded by DANIDA. The Government paid a sum of K25.6 million towards the debt in the third and fourth quarter of 2014; and
v. continuing the engagement with clients to sensitise them and agree on payment plans.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that receivables are collected from the customers with arrears using all the available means. The prepaid meters should be extended to all other remaining areas to avoid accumulation of receivables. Your Committee awaits a progress report on the matter.

d) **Missing Payment Vouchers - K531,784**

The Controlling Officer submitted that KWSC could not avail the payment vouchers at the time of the audit as they had been misplaced. The KWSC had since traced payment vouchers amounting to K87,743.10 while the remaining ones were still being looked for. Further, the responsible officers had been charged. The Company had assigned specific officers to effectively manage and be accountable for all accounting documents.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the officers to avail accounting documents to the Auditors at the time of audit. The Controlling Officer is urged to ensure that all the remaining accounting documents are traced without any further delay. Your Committee awaits a progress report on the remaining payment vouchers.

e) **Failure to Remit Statutory Contributions**

The Controlling Officer submitted that KWSC could not pay the statutory obligations on time due to liquidity problems. KWSC had made part payments towards liquidation of arrears to NAPSA.

An agreement had been entered into with NAPSA to pay K120,000 per month towards arrears while paying the current contributions. The Company was making more efforts to enter into a similar arrangement with ZRA by the second quarter of 2015, to start remitting the current monthly contributions and part of the arrears in installments. KWSC had made arrangements with the statutory bodies to pay fixed amounts per month towards arrears while servicing the current contributions. This would curb the accumulation of bills.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Company is sternly cautioned against failure to remit statutory obligations which is a serious offence. Further, your Committee requests the Controlling Officer to liaise with the Office of the Secretary to the Treasury on how liquidity can be improved in the company to enable it meet its statutory obligations. Your Committee awaits a progress report on the matter.

KITWE CITY COUNCIL (KCC)
AUDIT QUERY PARAGRAPH 9

Background

10. The Kitwe City Council was established by the *Local Government Act, Cap 281 of Laws of Zambia*. It had the responsibility of formulating local policies and approving district development plans. Its main objective was to provide public services to the residents of Kitwe such as refuse collection, road maintenance, policing, street lighting, cleaning services, social and health services.

Review of Operations

A review of accounting and other records and physical inspections of selected projects carried out in February, 2014 for the period from 1st January, 2011, to 31st December, 2013, revealed the matters as set out below.

a) **Failure to Remit Statutory Contributions – K47,097,951**

The Controlling Officer submitted that Kitwe City Council (KCC) did not remit the statutory contributions due to the liquidity problems that the Council had been going through. KCC had since come up with a programme of paying monthly instalments of K100,000 towards arrears to ZRA and LASF, respectively, while current obligations in respect of Division I, II and III were paid in proportion to the percentage of the grant received for this category of employees. KCC would in future ensure that the amount paid against the PAYE indebtedness was increased as soon as the collection efficiency improved.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Council is sternly cautioned against failure to remit statutory obligations which is a serious offence. Your Committee further requests the Controlling Officer to liaise with the Office of the Secretary to the Treasury on how the Council's liquidity can be improved to enable it meet its statutory obligations. Your Committee awaits a progress report on the matter.

b) **Lack of Title Deeds**

The Controlling Officer submitted that this was an oversight on the part of KCC. It arose due to staff turnover, retirements, transfers and failure to handover cases concerning the issuance of title deeds to new staff. The Council had begun to address this matter by the preparation of survey diagrams for existing properties including open spaces. Furthermore, it was not all the properties mentioned in the schedule that did not have title deeds. Some title deeds were available for verification. The Council was going to expedite the process of numbering the properties to facilitate issuance of title deeds.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that numbering is done expeditiously and that all properties are on title without any further delay. Your Committee awaits a progress report on the matter.

c) **Lack of Lease Agreements**

The Controlling Officer submitted that the lease agreements that were entered into between KCC and the thirty-seven tenants had expired at the time of audit. KCC issued an advert inviting applications from members of the public who had intentions to rent Council buildings. The applicants had since been interviewed, but the final selection of new tenants was not yet complete. This process would lead to issuance of new lease agreements with new rental charges for all KCC properties. Kitwe City Council would ensure that all occupied buildings had lease agreements as soon as possible.

Committee's Observations and Recommendations

Your Committee notes the submission, but impresses upon the Controlling Officer to ensure that the process is expeditiously done and that all leased properties have lease agreements without any further delay. Your Committee awaits a progress report on the matter.

d) **Irregularities in Memoranda of Understanding**

i. Memorandum of Understanding between Kitwe City Council and Pridwin Property Investments Limited

ii. Memorandum of Understanding between Kitwe City Council and Platinum Gold Equity Limited

The Controlling Officer submitted that the Council's mandate ended at issuing the land banks in exchange for the plot premiums paid. Thus, the Memoranda of Understanding were merely to prompt the new land owners develop the land within the stated period. Therefore, the question of contracts did not arise in this situation.

With regard to the liquidated damages on Platinum Gold Equity limited for not finishing the developments according to the stated completion period, the Company was still liable to pay the accumulated damages.

The 7 kilometres condition was a concession if the developer had complied with the terms of the development period. This period had since expired, hence the developer was in breach of the Memorandum of Understanding. That was actually why other Shopping Malls mentioned in the query were being developed. The Council would in future use contracts as opposed to MoUs in all its development agreements.

Committee's Observations and Recommendations

Your Committee does not accept the reason which the Controlling Officer has given as it is of the view that the period should have been specific and agreed upon by both parties instead of leaving it open ended. Your Committee also observes that the MoUs entered into with the two developers are merely intentions and do not create any legal relations between the parties upon which a party could sue or be sued. The Controlling Officer is urged to ensure that contracts are entered into with future developers to avoid this irregularity. Your Committee resolves to await a progress report on the matter.

LOCAL AUTHORITIES SUPERANNUATION FUND (LASF)

AUDIT QUERY PARAGRAPH 10

Background

11. The Local Authorities Superannuation Fund (LASF) was created in 1954, to provide pensions to members on retirement, ill health and death. LASF is governed by the *Local Authorities Superannuation Fund Act of 1996*. LASF is a defined benefit scheme covering seventy-two local authorities, ZESCO Limited and the National Housing Authority. The scheme also covers the water utility companies. LASF implements policies relating to Pension Schemes as well as to the control and administration of the operations of the Fund.

Review of Operations for the Financial Years ended 31st December, 2010 to 2013

a) **Information Systems Audit - Lack of IT Continuity Plan and Disaster Recovery Plan (DRP)**

The Controlling Officer submitted to your Committee that LASF had an ICT policy in place. However, LASF had not implemented the IT Continuity Plan and a DRP in full at the time of audit. He, however, submitted that LASF had constituted an ICT Steering Committee that had been mandated to steer the full implementation of the IT Continuity and Disaster Recovery Plan. Furthermore, LASF had allocated sufficient financial resources for this purpose in the 2015 budget.

Committee's Observations and Recommendations

Your Committee notes the submission and recommends that the Auditor-General should take note of the matter in future audits.

b) **Failure to Appoint a Board**

The Controlling Officer submitted to your Committee that the Board had not yet been appointed due to lengthy clearance procedures by the security wings and the need for approval from Cabinet. The Controlling Officer submitted that LASF would, in future, commence the process of appointing the Board early to avoid the Institution operating without a Board.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to ensure that a Board is in place. Your Committee observes with concern that three years is too a long a period for an organisation to operate without a Board and that the current state of affairs is unacceptable. Your Committee strongly urges the Controlling Officer to ensure that the Board is put in place without any undue delay. Your Committee awaits a progress report on the matter.

c) **Performance of the Fund**
Statement of Changes in Net Assets (*Extracts*)

i. *Net Assets*

The Controlling Officer submitted to your Committee that the decline of the net assets over the years was as a result of the declining active membership which had resulted into contribution income being insufficient to cover the accrued benefits and pensions. The cause of this state of affairs was the Government policy to close the scheme to new members with effect from 1st February, 2000.

The Controlling Officer had engaged the Ministry of Labour and Social Security to consider opening LASF to new members by issuing a Statutory Instrument that would exempt the Fund from the *National Pension Scheme Act*. He had also engaged the Ministry of Finance to capitalise the Fund through the national budget by financing the actuarial deficit. In the long term, the improvement of the Fund's net assets was being covered under the broad pension reforms which were being undertaken by Government.

Committee's Observations and Recommendations

Your Committee observes with concern that LASF clings only to one option of new membership to revamp its asset position which has been frozen for over fourteen years now. Your Committee urges the Controlling Officer to be innovative and explore other investment opportunities to improve the financial standing of the Fund. Your Committee further urges the Controlling Officer to ensure that the Fund is recapitalised to save it from total collapse. Your Committee awaits a progress report on the matter.

ii. *Administrative Expenses as Percentage of Income*

The Controlling Officer submitted that due to the decline of active members as a result of the scheme being closed to new members, there had been no growth in the total income of the Fund while the administrative expenses incidental to the running of the scheme had remained constant. These expenses were fixed costs and statutory in nature which were unavoidable. The Fund had suspended various activities in an effort to contain costs. However, the solution was to improve the Fund's annual income in form of contributions income and investment income. The Controlling Officer had engaged the Ministry of Finance with a view to capitalise the Fund. The Ministry of Labour and Social Security had also been engaged with a view of opening the scheme to new members so that the total income could be enhanced in the long term.

Committee's Observations and Recommendations

Your Committee again observes with concern that LASF clings only to one option of new membership to revamp its asset position which has been frozen for over fourteen years now. Your Committee urges the Controlling Officer to be innovative and explore other investment opportunities to improve the current status. The Controlling Officer is urged to ensure that there is recapitalisation to save the Fund from the current situation. Your Committee awaits a progress report on the matter.

d) **Statement of Financial Position of the Fund**

i. *Liabilities of the Fund*

The Controlling Officer submitted that the increase in the liabilities related to the design of the benefits structure of the Scheme and the declining financial capacity to pay liabilities. The Controlling Officer had liaised with the Ministry of Labour and Social

Security on the issue of opening the scheme to new members and the Ministry of Finance on the issue of capitalising the Fund through financing the actuarial deficit and benefits to retirees.

The Controlling Officer promised to make parametric changes to the design of the Scheme after seeking actuarial recommendations on the benefits structure.

Committee's Observations and Recommendations

The Controlling Officer is urged to ensure that there is recapitalisation to save the Fund from the current situation. Your Committee awaits a progress report on the matter.

ii. *Liquidity of the Fund* **-** *Working Capital*

The Controlling Officer submitted that the decline of working capital over the years was as a result of the declining active membership which had resulted into contribution income being insufficient to cover the accrued benefits and pensions. The cause of this state of affairs was the Government policy to close the scheme to new members effective 1st February, 2000.

The Controlling Officer submitted that the Ministry of Local Government and Housing had engaged the Ministry of Labour and Social Security to consider opening LASF to new members by issuing a Statutory Instrument that would exempt the Fund from the *National Pension Scheme Act*. The Ministry had also engaged the Ministry of Finance to capitalise the Fund through the national budget by financing the actuarial deficit.

The Ministry had, further, engaged the Ministry of Finance to capitalise the Fund and the Ministry of Labour and Social Security to open the scheme to new members so that the total income could enhanced in the long term.

Committee's Observations and Recommendations

The Controlling Officer is urged to ensure that there is recapitalisation to save the Fund from the current situation. Your Committee awaits a progress report on the matter.

iii. *Total Debt to Assets Ratio*

The Controlling Officer submitted that the increase in the debt ratio over the years was as a result of the declining active membership which had resulted into contribution income being insufficient to cover the accrued benefits and pensions. The Fund assets had not been increasing because the Fund did not have surplus pension contributions for investment growth. The cause of this state of affairs was as a result of Government policy to close the scheme to new members effective 1st February, 2000.

The Controlling Officer had engaged the Ministry of Finance to capitalise the Fund through the national budget by financing the actuarial deficit and also pay all the pension liabilities due to retirees. In the long term, the total debt to assets ratio could be reduced once the broad pension reforms which were being undertaken by Government were concluded. Further, once the funds to capitalise the scheme were released by the Ministry of Finance, all the pension liabilities would be paid.

Committee's Observations and Recommendations

Your Committee observes with concern that LASF will continue to experience increased debt if the Fund continues to stick to one option of new membership to improve its asset ratio. Your Committee urges the Controlling Officer to be innovative and explore other investment opportunities to improve the current status. The Controlling Officer is urged to ensure that there is recapitalisation to save the Fund from the current prevailing situation. Your Committee awaits a progress report on the matter.

iv. *Lack of Actuarial Valuation*

The Controlling Officer submitted that in accordance with the *Local Authorities Superannuation Fund Act*, the actuarial valuation was supposed to be undertaken every five years. In this regard, since the last actuarial valuation covered the period 1st January, 2002, to 31st December, 2007 , the next valuation covering the period 1st January, 2008, to 31st December, 2012, could only be conducted in 2013, onwards. The tender process to select an Actuary was commenced in 2013 and Aon Actuaries and Consultants of South Africa had been engaged to conduct the actuarial valuation.

The actuarial valuation process commenced in 2014 and substantial work had been done. The Actuarial Report covering the five year period to 31st December, 2012, would be issued by the Actuaries by 30th June, 2015. The Controlling Officer was of the view that the focus on the actuarial valuation should be on the non-financing of the actuarial deficit by Government through the Ministry of Finance and its implications.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by LASF management to ensure that Actuarial Valuation is done consistently owing to the fact that it is only through it that management would determine the financial viability of the Fund. Your Committee urges the Controlling Officer to ensure that LASF management is seriously cautioned to take the matter seriously and ensure that the Actuarial Valuation is done consistently in the years to come. Your Committee awaits a progress report on the matter.

v. *Declining Membership*

The Controlling Officer submitted that the Ministry of Local Government and Housing had engaged the Ministry of Labour and Social Security to consider opening LASF to new members by issuing a Statutory Instrument that would exempt the Fund from the *National Pension Scheme Act*. The Ministry had also engaged the Ministry of Finance to capitalise the Fund through the national budget by financing the actuarial deficit.

Committee's Observations and Recommendations

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

vi. *Non-renewal of Annual Tenancy Agreements*

The Controlling Officer submitted that in 2011 and 2012, the Fund had challenges in the management of tenancy agreements because the Legal Counsel was on study leave and the Assistant Legal Counsel resigned without notice. Therefore, the tenancy agreements which expired during this period were not renewed immediately. The tenancy agreements for 2013 and 2014, had now been renewed and the lease agreements were available for inspection. Going forward, LASF had been executing lease agreements with tenants and renewed annually.

Committee's Observations and Recommendations

Your Committee is not convinced by the Controlling Officer concerning failure by management to review the Tenancy Agreements. Your Committee does not believe there is need for a lawyer to be involved in such a review unless there are some alterations to the Agreements. The Controlling Officer is sternly cautioned by your Committee to desist from defending management's failure to caution the officers involved for this failure. The matter is recommended for closure subject to audit verification.

vii. *Uncollected Pension Contributions*

The Controlling Officer submitted that most of the member employers, especially the councils, had not complied with this provision in the remittance of the members' contributions, mainly due to their poor financial position. Although NHA had reduced its debt by K825,000 through a debt swap in which LASF acquired a property in Ibex Hill, Lusaka, they had struggled to be consistent in the remittance of contributions. In general, the position relating to outstanding pension contributions especially by the Councils had not improved as their financial performance still remained a challenge. LASF had employed a number of strategies in an effort to collect the unremitted pension contributions. The strategies included:

- Land – Debt swaps;
- proposed Debt Equity Swap;
- Government funding of local authorities salaries;
- proposals for deduction at source; and
- the Government assisting Councils to pay their debts.

The Controlling Officer was still impressing upon management to ensure that the pension contributions for the councils be recovered at source from the grants payable and he had since made a proposal to the Ministry of Finance to advise and consider doing so. In the meantime, the Fund would continue to pursue the contribution arrears and propose various options such as debt swap.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that LASF employs all available options to ensure that receivables are collected without any further delay. Your Committee also impresses upon the Controlling Officer to endeavor to fulfill his promise of deducting funds at source to reduce the amounts owed by councils and other entities under his jurisdiction. Your Committee awaits a progress report on the matter.

viii. *Failure to Mortgage Property Acquired with LASF Funds*

The Controlling Officer submitted that the house had not been mortgaged because National Housing Authority had not yet completed the processing of the title deed. All houses constructed by NHA were on one block title deed and individual titles deeds were only processed for buyers when they paid for the house in full. The Controlling Officer had engaged National Housing Authority to urgently process and release the title deeds so that the Fund could mortgage the house. LASF was in the process of amending the House Loan Policy and Procedures document to allow LASF finance house loans for properties on title deeds.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by LASF management to follow up and resolve the issue of title deeds. Your Committee is of a view that there is laxity by management, especially that it involves a senior officer. Your Committee, therefore, urges the Controlling Officer to ensure that the house is mortgaged without any further delay. Your Committee resolves to await a progress report on the matter.

ix. *Unreconciled Contributions Owing to the Fund*

The Controlling Officer submitted that LASF had not yet reconciled the contributions receivable at the time of the audit, resulting in the reported difference of K5,982,115. Reconciliations were part of the year end procedures and copies of the reconciled statements were part of the audit schedules confirmed to external auditors. LASF had since reconciled all the employer accounts for pension contributions.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that officers are seriously cautioned for this lapse. The matter is recommended for closure subject to audit verification.

LUAPULA WATER AND SEWERAGE COMPANY (LpWSC)
AUDIT QUERY PARAGRAPH 11

Background

12. The Luapula Water and Sewerage Company (LpWSC) was incorporated on 31st December, 2008, as a private company limited by shares under the *Companies Act, CAP 388* of the Laws of Zambia, in pursuance of section 9 part III of the *Water Supply and Sanitation Act No. 28* of 1997, with an authorised share capital of K 5,000 divided into 4,998 shares of K1 each.

The commercial water utility was owned by seven (7) local authorities in Luapula Province with a 14% shareholding each as shown below.

Council	# of Shares	% of Share Capital
Mansa Municipal Council	714	14%
Kawambwa District Counci	714	14%
Mwense District Council	714	14%
Nchelenge District Council	714	14%
Samfya District Council	714	14%
Chiengi District Council	714	14%
Milenge District Council	714	14%
TOTAL	**4,998**	**99%**

As can be seen above, there were two shares representing 1% shareholding which were not allocated to any shareholder.

The principal function of the Company was to provide improved supply of clean drinking water and adequate sanitation services in all urban and peri-urban centres of Luapula Province.

Review of Operations

A review of operations for the financial years ended 31st March, 2010 to 31st December, 2014, carried out in August, 2014, revealed the matters as set out below.

a) **Weaknesses in Management Information Systems**

The review was carried out using the Information Systems Audit and Control Association's Control Objectives for Information and related Technology (CoBIT) framework which was an internationally accepted and applicable framework. It revealed that the Company had not adopted any IT framework to manage the operations and administration of the Information and Communication Technology (ICT) environment.

In particular, the following were observed:

i. the Company did not have an IT department and was, therefore, outsourcing IT Personnel to resolve routine ICT incidents such as installation of antivirus, configuration of printers, and trunking of cables. This resulted in failure to segregate duties on the systems;

ii. the Company had not developed appropriate ICT policies regarding the use of ICT equipment, information security, change management, password administration and back up of critical data;

iii. the Company's information systems were not interfaced, resulting in disparities in the data in the billing and accounting system and, therefore, casting aspersions on the reliability and accuracy of the data;

iv. the integrity and accuracy of data in the systems was questionable as the systems lacked embedded system checks regarding the sequencing, syntax error and gap detection.

The Controlling Officer submitted to your Committee that LpWSC did not have an IT department because not all positions in the Company could be filled within a short time due to inadequate funds and this affected items (ii) to (iv). Therefore, it was decided that recruitment of staff starts with core positions then later move on to other positions on the structure which included the IT Department.

The LpWSC had extensively addressed IT requirements in its Strategic Plan for 2014 to 2018 and had since conducted interviews where a suitable candidate to manage the IT department was identified and was yet to commence work in April, 2015. In future, the company would ensure that the performance of the IT department was continuously supervised with particular emphasis on the issues raised in the Auditor General's report, particularly in i, ii, iii and iv.

Committee's Observations and Recommendations

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

b) **Lack of Statutory Instrument to Transfer Assets and Liabilities**

The Controlling Officer submitted that there was no Statutory Instrument passed to formally hand over the assets to LpWSC. As a result, the assets had not yet been valued. Funds had been allocated under the 2015 budget for the valuation of all former Council assets after which an SI would be issued.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Statutory Instrument to transfer assets is promulgated without any further delay. Additionally, the Controlling Officer is requested to ensure that all former council assets are valued. Your Committee awaits a progress report on the matter.

c) **Non-remittance of Taxes and Statutory Contributions - ZRA - K976,016, NAPSA - K43,203**

The Controlling Officer submitted to your Committee that LpWSC did not remit statutory obligations, because of financial constraints arising from its small revenue base. The Company had since paid the amounts owing to NAPSA and it was up to date with NAPSA remittances. Furthermore, LpWSC had engaged ZRA in order to agree on payment modalities for the outstanding statutory obligations. Henceforth, LpWSC would continue to settle the current obligations while at the same time to dismantling the arrears owed to all statutory bodies.

Committee's Observations and Recommendations

Your Committee notes the efforts made by the Company to dismantle part of its statutory obligations but urges the Controlling Officer to ensure that all available options are employed to ensure that the balance is remitted without any further delay. Your Committee awaits a progress report on the matter.

d) **Lack of Risk Management Policy**

The Controlling Officer submitted that LpWSC was not able to avail its Risk Management Policy at the time of audit because it was still being formulated. The Controlling Officer further submitted that the Company now had a risk management policy in place after it was approved by the Board of Directors on 10th February, 2015.

Committee's Observations and Recommendations

The matter is recommended for closure subject to audit verification.

e) **Irregular Award and Variation of a Contract for Supply and Delivery of Water Meters and Accessories**

The Controlling Officer submitted that at the time of audit, LpWSC had no technical staff to take the auditors to the sites. LpWSC installed all the 3,600 meters as well as the 15 bulk meters. The installation sheets, certificate of completion as well as the location sites were now in place and were available for audit verification. The Company would ensure that future audits were managed well to avoid lapses of this nature.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against officers who failed to take the Auditors to the sites. Further, your Committee requests the Controlling Officer to ensure that future audits are taken seriously to avoid recurrence. Your Committee awaits a progress awaits a progress report on the matter.

f) **Collapsed GRP Type Water Tanks in Mansa and Kashikishi**

The Controlling Officer submitted to your Committee that the contractor did not follow the right specifications of work when constructing the tanks and LpWSC did not have qualified engineers to supervise the project due to high staff turnover at both director and technical levels.

He added that the contractor undertook to reconstruct the tanks soon after their collapse. The letter undertaking to reconstruct the tanks was issued on 14th July, 2014, four weeks from the collapse of the first tank. From August, 2014 to January, 2015, the contractor was stopped from reconstructing the tanks because he was under investigation by the National Council for

Construction. The letter of authorisation to commence works was provided to the contractor on 5th January, 2015, although it was written on 14th December, 2014. Work would commence once the consultant was engaged to supervise the works. Furthermore, LpWSC recruited a director of engineering on 5th January, 2015 and a Technical Manager on 3rd November, 2014. LpWSC would henceforth ensure that there was inclusion of a consultant on all major projects to ensure non recurrence of the above.

Committee's Observations and Recommendations

Your Committee finds the reason that the Company did not have qualified engineers unacceptable as the supervising ministry has engineers at all provincial levels who could have been engaged to supervise the works. Your Committee further expresses concern at the failure by the Company management to evaluate the contractors before engaging them to carry out serious works. Your Committee is of a view that there could have been connivance between the contractor and management. Therefore, the Controlling Officer is urged to report the matter to law enforcement agencies for further probe. Your Committee awaits a progress report on the matter.

g) **Comparative Performance against Water and Sanitation Sector Benchmarks**

i. *High Non-Revenue Water (NRW)*

The Controlling Officer submitted to your Committee that the high non-revenue water was due to lack of capital investment in the company since inception and before that. There had been no major investment for the past thirty years, hence infrastructure had degenerated. The high NRW in the period under review was due to aging infrastructure which urgently required major capital injection to replace.

LpWSC currently had 100 percent metred and also implementation of the new billing system to cut down on the billing inefficiency and also formed a leak detection team to try and arrest physical losses.

The Controlling Officer further submitted that under the BADEA loan funded project in Kawambwa, all the old pipes would be replaced as a start to the pipe network replacement. LpWSC would ensure that all future projects being designed had a component for replacement of old pipes.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that management at LpWSC puts up a mechanism to contain the leakages on the water network to reduce on revenue losses and also that the process of upgrading the infrastructure is done expeditiously. Your Committee resolves to await a progress report.

ii. *Operational and Maintenance Cost Coverage by Collection*

The Controlling Officer submitted to your Committee that LpWSC had challenges to meet its operational and maintenance costs through collections because of its small customer base which was also financially constrained. LpWSC was trying to grow the revenue base through increased supply hours and also increasing capacity at the intakes through various projects while devising various measures to cut down on unnecessary operational costs. The Company was trying to ensure that it participated in capital investment proposals to acquire funds that would keep the operational and maintenance costs to reasonable levels.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that measures are expeditiously put in place to ensure that the Company grows its revenue base. Your Committee recommends that the matter be noted in future audits.

iii. *Failure to attain Metering Ratio Benchmark*

The Controlling Officer submitted to your Committee that LpWSC did not have enough funds to increase its metering ratio to meet the benchmark. He, however, reported that LpWSC had now increased its metering ratio to 100 percent and LpWSC would continue financing meter coverage to ensure that all new connections were accompanied by meter installations.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure and requests auditors to note the matter in future audits.

iv. *Sanitation Coverage*

The Controlling Officer submitted that LpWSC had very few sewer properties due to lack of investment in this part of the Company's operations. He also reported that it had plans to support CUs under solid waste management in the 2015 budget.

Committee's Observations and Recommendations

Your Committee expresses concern at the state of affairs prevailing at LpWSC concerning sanitation coverage and urges the Controlling Officer to ensure that the situation is improved expeditiously. Your Committee awaits a progress report on the matter.

v. *Water Supply Coverage*

The Controlling Officer submitted that LpWSC has had no major capital investments since its inception. He added that under the BADEA loan project, major investments amounting to US$10 million had now started in Mansa and Kawambwa. LpWSC was mobilising funds to cover investments in other towns.

Committee's Observations and Recommendations

Your Committee expresses concern at the state of affairs prevailing at LpWSC concerning water supply coverage and urges the Controlling Officer to ensure that the situation is improved expeditiously. Your Committee awaits a progress report on the matter.

vi. *Hours of Supply*

The Controlling Officer submitted that poor power quality supply from ZESCO greatly affected the number of hours for water supply to the properties. LpWSC had been engaging ZESCO on the possibility of being put on a power line that had less load shedding in order to increase hours of water supply. LpWSC had resolved to reduce its non-revenue water (NRW) from the current 70% to 40%.

Committee's Observations and Recommendations

Your Committee notes the efforts made by the company, but urges the Controlling Officer to find a lasting solution concerning the problem of hours of water supply which when improved upon would increase the revenue base of the Company. Your Committee awaits a progress report on the matter.

LUSAKA WATER AND SEWERAGE COMPANY (LWSC)
AUDIT QUERY PARAGRAPH 12

Background

13. The Lusaka Water and Sewerage Company (LWSC) was incorporated in 1988, with an authorised, issued and fully paid share capital of 3,000,000 ordinary shares of K1 each. The shareholders of the company were Lusaka City Council, Kafue District Council, Chongwe District Council, Luangwa District and Chirundu District Council. The principal function of the Company was to provide water and sewerage service in the City of Lusaka and surrounding satellite towns namely Chongwe, Kafue, Luangwa and Chirundu.

The Company operated in accordance with the provisions of the *National Water Supply and Sanitation Act No. 28 of 1997* and the *Companies Act Chapter 388* of the Laws of Zambia.

Review of Operations

A review of operations of the company for the financial years ended 31st December, 2011, to 2013, carried out from January to March, 2014, revealed the matters as set out below.

a) **Management Information Systems**

i. *Failure to adopt ICT Standards and Frameworks*
The Controlling Officer submitted that LWSC did not have these ICT standards and framework in its ICT policy. LWSC had, however, amended its ICT Policy to include ICT standards and framework.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification.

ii. *Lack of ICT Strategic Committee*
The Controlling Officer submitted that LWSC did not have an independent ICT Strategic Committee because it was part of the Finance and Human Resources Committee. LWSC had reviewed the reporting structure of the IT department and had been moved from the Finance and Human Resources Committee to the Works Development and IT Committee.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification.

iii. *Lack of Risk Management framework*
The Controlling Officer submitted that at the time of the audit, LWSC did not have a Risk Management framework in place, but had now included Enterprise Risk Management (ERM) in its five year strategic plan for the period 2014 to 2018 and this was approved in 2013.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification.

iv. *Lack of Audit Trail*

The Controlling Officer submitted that the audit log was not installed at the time of the audit because it was scheduled to be implemented at a later stage. The audit logger had now been implemented, operational and it was able to provide audit trail.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification.

v. *Lack of Business Continuity Plan (BCP)/Disaster Recovery Plan (DRP)*

The Controlling Officer submitted that at the time of audit, LWSC did not have Disaster recovery and IT business continuity plan in place. However, LWSC had an in-house backup strategy that involved the backing up of all critical company databases and systems and keeping them at two off-sites i.e. Lumumba and Chelston branch offices.

LWSC had since set up the disaster recovery site and renovation of an office for the Disaster Recovery Site was complete. Further, the Company was in the process of procuring a complete Disaster Recovery System (NETAPP). LWSC had adopted a phased approach to the business continuity plan implementation effective 2014 to 2016.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification.

vi. *Lack of Change Management and Data Migration Procedures*

The Controlling Officer submitted that at the time of audit, LWSC did not have a consolidated or comprehensive strategy for change management in place. The necessary procedures had since been developed and chapter 5 section 5.12 in the ICT Policy provides for change management. The Policy was available for verification.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification.

b) **Financial Performance - Statement of Comprehensive Income for the Years Ended 31st December, 2011 to 2013**

The Controlling Officer submitted that the increase in staff costs were attributable to harmonisation of staff salaries and conditions of service for officers inherited from Kafue, Chongwe, Luangwa and Chirundu Districts to those of LWSC. Furthermore, LWSC employs staff with different skills and competencies that were also attractive to external competitors and, therefore, the increase was as a result of the Company's effort to attract and retain a complement of qualified and competent staff.

Notwithstanding this, LWSC decided to impose a wage freeze for non-unionised employees in 2013 and effected a marginal increase for unionised staff to cushion inflationary pressure. Efforts to contain staff costs were an on-going exercise as could be evidenced from the wage freeze for management staff from January, 2013 to May, 2014 and no salary increment for all staff in 2015. Other measures included reduction of staffing levels for certain jobs – with the automation of systems such as prepaid meters, SCADA and telemetry systems and close monitoring of overtime costs. LWSC would continue to monitor the levels of staff costs in line with the revenues being generated.

Committee's Observations and Recommendations

Your Committee expresses concern at the sustainability of the Company owing to the fact that administrative expenses rose to 43% against a turnover growth of 17%. Your Committee urges the Controlling Officer to impress upon management to use all available options in ensuring that there is a reduction in administrative costs and also that the performance of the Company is improved. Further, your Committee urges the Controlling Officer to liaise with the Secretary to the Treasury in finding a lasting solution on the poor liquidity levels by way of recapitalisation. Your Committee awaits a progress report on the matter.

b) **Staff Costs**

i. *Irregular Payment of Allowance (Standby Allowance)*
The Controlling Officer submitted to your Committee that LWSC continued paying standby allowance to affected employees because the provision was inadvertently omitted from the conditions of service for management staff. The omission of the standby allowance clause in the conditions of service occurred during the consolidation of basic salaries and other regular allowances. The allowance was applicable to selected management staff mainly under operational departments such as Engineering and Information Technology.

LWSC conditions of service for management staff had been amended to reinstate the clause. These were approved by the Board on 3rd September, 2014 and were available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the decision arrived at by the Board to increase staff costs despite the low liquidity levels in the organisation. Your Committee questions the prudence of this decision and urges the Controlling Officer to ensure that staff costs are minimised considering the financial status of the organisation. Your Committee urges the auditors to note the matter in future audits.

ii. *Payment of Long Service Bonuses to Senior Management staff on Contract*
The Controlling Officer submitted that payment of long service bonus was in line with the conditions of service. Long service bonus had been in existence since 2000 and it had always applied to both employees on fixed term contracts as well as those on permanent and pensionable employment contracts. The matter was presented to the joint meeting of the Company's Audit and Finance and Human Resource Committees on 24th March, 2015, for guidance. The meeting recommended that the provision for the payment of Long Service Bonus be retained in the conditions of service but this condition should not apply to new employees. LWSC would ensure that conditions of service were comprehensively dealt with at the time of preparation.

The Controlling Officer submitted that the MLGH abolished the Long Service Bonus with effect from 1st April, 2015. He also added that this policy was originally meant to attract skilled staff to stay on their jobs just like retention allowance.

Committee's Observations and Recommendations

Your Committee expresses concern at the decision arrived at by the Board to increase staff costs despite the low liquidity levels in this organisation and particularly finds the decision to pay Long service bonus to staff on contract illegal. In this regard, your Committee calls for investigations into the matter. Your Committee further urges the Controlling Officer to ensure that the Ministry's supervision of all parastatals vis-à-vis conditions of service is strengthened. Your Committee urges the auditors to note the matter in view in future audits.

c**)** **Non-Revenue Water (NRW)**

The Controlling Officer submitted that this matter had been prioritised by the Company. The NRW was dependent on several factors, key among which were the state of the infrastructure, complexity of the water network, and level of metering (both production and consumer meters). Presently, only 70% of the customer base was metered and 64.6 % production sites were metered. This, therefore, meant that the NRW figures were to a large extent estimates which could only have had a higher "confidence level" once 100% metering was attained for both production centres and consumer connections.

LWSC had prioritised reduction of NRW with a clear strategy to be implemented over the next five years. Specific actions were highlighted in the NRW Reduction Strategy (approved by the Board on 5th February, 2014) and were available for verification. LWSC had further included reduction of NRW as one of the target projects to be funded by the Millennium Challenge Corporation Grant.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report and urges the auditors to note the matter in view in future audits.

MOFED (Tanzania) Limited

AUDIT QUERY PARAGRAPH 13

Background

14. MOFED (Tanzania) Limited was a freight and forwarding service provider based 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 provided the same services to some of the privatised Zambian copper mines and other importers and exporters. MOFED (Tanzania) Limited is a wholly owned parastatal organisation of the Government of the Republic of Zambia, under the supervision of the Department of Maritime and Inland Waters in the Ministry of Transport, Works, Supply and Communications.

Review of Operations

A review of accounting and other records for MOFED Tanzania Limited for the period under review carried out in June, 2014, revealed the matters as set out below.

a) **Financial Position as at 31st March, 2011 to 2013**

i. *Working Capital*

The Controlling Officer submitted that an amount of US$979,225.61 representing 44% had been collected as at 28th February, 2015 from the balance of US$2,231,167.91 as at 31st March, 2014. Further, the total outstanding balance of the old trade receivables was US$1,251,942.30. The Controlling Officer further submitted that in an effort to avoid accumulating trade receivables, the Company currently put most of the clients on cash basis, while all credit customers had signed contracts with service level agreements embedded in them. Further, a credit policy was now in place.

Committee's Observations and Recommendations

Your Committee notes the measures that have been put in place to reduce trade receivables and urges the Controlling Officer to ensure that the matter is addressed so as not to affect the company's working capital negatively. Your Committee request the Auditor General to note the matter in future audits.

ii. *Accounts Payable*

The Controlling Officer submitted that the increase in the Company's total liability from TZS1,547,134,593 in 2011 to TZS2,069,944,295 in 2013 or 25% increase representing TZS522,809,699 was mainly on account of the tax payable which rose from TZS444,689,738 as at 31st March, 2011, to TZS1,017,755,667 as at 31st March, 2013, representing TZS573,065,929 or 56%.

Committee's Observations and Recommendations

Your Committee notes the submission and requests the Auditor General to note the matter in future audits.

b) **Financial Performance - Statement of Comprehensive Income for the Years Ended 31st March, 2011, 2012 and 2013 – Profitability**

The Controlling Officer submitted that there was a huge reduction in the revenue inflows from the Container Freight Station (CFS) (exports) after the withdrawal of the major clients in the base metal category who were the major contributors to revenue. The Controlling Officer explained that the Company lost these clients on account of service and security concerns. He noted, however, that MOFED had acquired new clients and some of the old clients who had left MOFED had since returned. Further, the Company was also making deliberate efforts to reduce the costs such as fuel consumption on machinery and control labour costs during the low seasons. As a result of this, profitability had improved by 95% from TZS108,187,536 (YOI 2012/2013) to TZS2,028,889,265 (YOI 2013/2014).

Committee's Observations and Recommendations

Your Committee resolves to close the matter, but requests the Auditor General to note the matter in future audits.

c) **Board-related Issues**

i. *Lack of Appointment Letters*

The Controlling Officer submitted that the appointment letters for the five Board members were now available.

Committee's Observations and Recommendations

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

ii. *Questionable Payments*

The Controlling Officer submitted that the authority was given by the Board of Directors to undertake the assignment to oversee the complete handover process from the Acting CEO to the newly appointed CEO.

The Chairperson of the Finance and Administration Committee of the Board was assigned by the Board to accompany the two new Executive Officers from Lusaka to Dar es Salaam and to oversee the handover process from the former acting Chief Executive Officer to the incumbent and to intervene on behalf of the Board of Directors with the Commissioner General of Tanzania Revenue Authority regarding tax arrears that had been brought to the attention of the Board.

The Controlling Officer further submitted that the two meetings cited where US$1,200 was paid, were part of the full programme of the Board of Director's presence in Dar es Salaam.

Committee's Observations and Recommendations

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

iii. *Failure to Avail Board Approval*

The Controlling Officer submitted that the payment of US$ 1,400 for two board members for five nights was for the special Board assignment to design an Organogram as per clause 7.2 of the 12th Board meeting. To this effect, the signed Board minutes were available for verification.

Committee's Observations and Recommendations

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

Payment of Sitting Allowances – K522,621,000 (US$95,022)

The Controlling Officer submitted that the expenses were related to:

- sitting allowances for the Board Committees on Finance and Administration and Audit and Risk on 27th and 28th December, 2012, respectively;
- sitting allowances and expenses for the Board members appointed on the Task Force on the Organisation Structure;
- bonus payments to Board of Directors; and
- board fees for the Board of Directors meeting of 14th December, 2012, the extra Ordinary Board meeting of 15th January, 2013.

Committee's Observations and Recommendations

Your Committee observes that the query arose as a result of the failure by the management of MOFED to avail supporting documents in respect of activities that were performed on its behalf. Your Committee observes that this renders the payment of allowances and associated payments questionable. Your Committee, therefore, urges the Controlling Officer to ensure that Management of MOFED Limited pays attention to the audit process. Your Committee resolves to close the matter subject to audit verification of the board approvals.

iii. *Questionable Payment of Allowances*

The Controlling Officer confirmed that the meeting took place where the dividend was meant to be handed over to the Ministry of Finance.

The Controlling Officer added that as per the Articles of Association, any Board of Directors called upon to perform any services for and on behalf of the Company needed to be compensated for their time and efforts.

Committee's Observations and Recommendations

Your Committee observes that there is no proof that a dividend was declared by the Company and, therefore, any expenditure in this regard is irregular and wasteful. Your Committee, therefore, recommends that the amount spent on this event be recovered and will accordingly await a progress report.

d) **Staff-related Matters**

i. *Irregular Sale of Household Goods*

The Controlling Officer submitted that the 10^{th} Board of Directors meeting of 4^{th} April 2012 ratified the furnishing of the house for the CEO. The relevant Board minutes were available for verification.

Committee's Observations and Recommendations

Your Committee finds it irregular for the Board to retrospectively purport to ratify the furnishing of the CEO's house. Your Committee directs that such a practice should not be repeated in future. However, your Committee resolves to close the matter subject to audit verification.

ii. *Failure to obtain Board approval for purchase of household goods*

The Controlling Officer submitted that the purchase cost of the furniture was TZS29,080,355.18. However, at the time of purchase, the Net Book Value was TZS 3,828,052.88 out of which the officer paid TZS1,610,000 (US$1,000). The depreciation was for a period of thirty-one months since the officer was retired in national interest.

Committee's Observations and Recommendations

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

iii. *Sale of Motor Vehicle to the Former CEO*

The Controlling Officer acknowledged that the sale price of the motor vehicle was not authorised by the Board and the matter would be tabled before the Board meeting for the second quarter of 2015, for a decision.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to immediately take disciplinary action against the officer responsible for this transaction. Your Committee will await a progress report on the matter.

e) **Questionable Payment-US$6,000**

The Controlling Officer submitted that management would contact the former acting CEO to assist with the supporting documentation regarding the payment in question.

Committee's Observations and Recommendations

Your Committee observes that the Controlling Officer has not given this issue the attention that it deserves as no action has been taken since it was highlighted by the Auditors. Your Committee, therefore, urges the Controlling Officer to ensure that the funds are recovered without any further delay. Your Committee awaits a progress report on the matter.

f) **Inadequately Supported Payments-K41,297,477 (US$7,288,615.76 and TZS330,024,575.88)**

The Controlling Officer submitted that within the outstanding amount of US$7,288,615.76, a figure of 3,028,695 was erroneously captured as a US Dollar amount when it was in fact in Tanzanian Shilling. As a result of this, the figure reduced the US Dollar amount of 7,288,615.76 by USD6,057,390. Further, there was an amount of US$549,624.18 which was counted twice bringing the final US Dollar amount to US$681,601.58. The Controlling Officer added that of the US$681,601.58, an amount of US$598,142 now had supporting documentation leaving a balance of US$83,459.58 still being investigated.

As regards the amount in Tanzanian Shillings, the Controlling Officer submitted that the Auditor General's Report had omitted an amount of TZS3,028,695 and, therefore, the correct figure inadequately supported was TZS 333,053,270.88 and not TZS330,024,575.88 as per the report. He added that of the TZS333,053,270.88, an amount of TZS295,425,464.88 had supporting documents leaving a balance of TZS37,627,806 unsupported.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the management of the MOFED (Tanzania) Limited to ensure that payments are adequately supported as required by Financial Regulations. Your Committee urges the Controlling Officer to ensure that management takes disciplinary action against the officers responsible for this omission. Your Committee further urges the Controlling Officer to ensure that the payments that have remained unsupported are supported without further delay. Your Committee awaits a progress report on the matter.

g) **Unretired Imprest-K964,138 (US$105,197.31 and TZS105,150,663.40)**

The Controlling Officer submitted that figures amounting to US$42,044 were erroneously replicated in the audit report. This reduced the US Dollar amount from US$105,197.31 to US$ 63,153.31. Of the US$ 63,153.31, an amount of US$ 41,944.31 had since been retired, leaving a balance of US$21,209 yet to be retired.

The Controlling Officer further submitted that, out of the TZS105,150,663.40, queried, TZS104,030,663.40 had since been retired leaving a balance of TZS1,120,000 to be recovered from the respective officers.

Committee's Observations and Recommendations

Your Committee expresses concern at the weak internal controls in respect of the management of imprest and holds the management of the Company responsible for this state of affairs. Your

Committee cautions the management of the Company against this lapse. Your Committee awaits a progress report on the recovery of all outstanding imprest.

h) **Missing Receipt Books**

The Controlling Officer submitted that the eleven receipt books had been located, leaving one yet to be located. Management had since notified the public through a public press notice about the missing receipt book to forestall its illicit use.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor custody of accounting documents at the Company which, if not checked, could lead to loss of public funds. Your Committee, therefore, urges the Controlling Officer to ensure that measures are put in place to ensure safe custody of accounting documents such as receipt books. Your Committee resolves to close the matter subject to audit verification.

i) **Engagement of a Consultant without a Contract**

The Controlling Officer submitted that the amount of US$ 25,000 approved by the Board was exclusive of VAT of eighteen percent (18%) or US$ 4,500 which was claimable by the Company from the tax authority. The Controlling Officer, however, acknowledged that tender procedures were not followed as there was no record to support the expenditure. The procurement function was formalised in the year 2012. Currently the Company was strictly adhering to the *Zambia Public Procurement Authority Act* and the associated Procurement Regulations.

Committee's Observations and Recommendations

Your Committee notes that the management and Board erred as they did not follow tender procedures in contracting TAC Associates. Your Committee, therefore, urges the Controlling Officer to ensure that procurement guidelines are strictly adhered to by the Company in all future procurements. Further, disciplinary action should be taken against the officers who failed to adhere to tender procedures. Your Committee resolves to await a progress report on the matter.

j) **Non-functional Network-K108,350,000 (US$19,700)**

The Controlling Officer submitted that the management had tried with very little success to locate the relevant documentation relating to the system that was developed and deployed by Net Solutions Limited. The situation had been compounded by the fact that the server on which the software was deployed had been declared obsolete and was non-functional. The Controlling Officer noted that most, if not all, of the more salient functionalities that were relevant to the operations of the Company would be incorporated in the specifications for the new system that the Company was working on.

Committee's Observations and Recommendations

Your Committee expresses concern that a project which cost the Company a colossal sum of K108,350,000 (US$19,700) is non-functional rendering the expenditure wasteful. Your Committee is of the view that management has not done enough to address the matter and urges the Controlling Officer to ensure that the matter is resolved. Your Committee resolves to await a progress report on the matter.

k) **Wasteful Expenditure-K26,100 (US$4,745.53)**

The Controlling Officer submitted that management had since taken up measures to ensure that MOFED only moved cargo according to its capacity to avoid part shipments. Further, the Company was investing in trucking capacity to mitigate the transportation challenges in delivery of cargo to the port.

Committee's Observations and Recommendations

Your Committee expresses concern that this wasteful expenditure is purely due to the Company's inefficiency and urges the Controlling Officer to ensure disciplinary action is taken against the erring officers. Your Committee resolves to close the matter subject to verification.

l) **Failure to Insure Reach Stacker**

The Controlling Officer submitted that the Company had since insured the Liebher Reach Stacker.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that insurance of assets is prioritised at all times. Your Committee, however, resolves to close the matter subject to audit verification.

m) **Excess Expenditure on the Procurement of Motor Vehicles**

The Controlling Officer submitted that the excess amounts spent of US$4,862 and US$2,050 were ratified by the Board at the 15th meeting of the Board of Directors.

Committee's Observations and Recommendations

Your Committee sternly warns the Board to avoid ratifying management's actions as this may lead to management taking advantage of the situation. Rather, management should be told in no uncertain terms that its actions ought to have prior approval from the Board. Your Committee resolves to close the matter subject to audit verification.

n) **Wasteful Expenditure - Additional Storage Charges for Fertilizer-K586,100,295**

The Controlling Officer submitted that MOFED incurred storage costs of K1,387,462,450 (US$ 252,265.90) as the fertilizer was stored in the storage facilities of Tanzania Ports Authority for a period of four (4) months. The Tanzania Ports Authority only provided free storage for a period of two weeks. The Controlling Officer explained that initially the Ministry of Agriculture and Livestock through Nitrogen Chemicals of Zambia Limited (NCZ) intended to transport the full shipment of 50,000 Metric Tonnes through the Tanzania Zambia Railway Authority (TAZARA) by rail.

MOFED had earlier suggested using a multimodal transport model which was declined by the Ministry of Agriculture and Livestock. Consequently, the removal of the shipment from the port was constrained by lack of capacity by the transporter (TAZARA). This led to the need for warehousing arrangements, hence the storage costs. The Controlling Officer added that the excess payment made by the Company had since been billed to Nitrogen Chemicals of Zambia Limited, who had indicated that they were waiting for funds from the Ministry of Finance.

Committee's Observations and Recommendations

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

o) **Under Utilisation of Clearing Licence**

The Controlling Officer submitted that the Clearing and Forwarding Unit was already in place and a competent officer had since been appointed. He noted that the Unit was still in its developmental phase and a lot of marketing efforts were being undertaken.

Committee's Observations and Recommendations

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

MUKUBA HOTEL
AUDIT QUERY PARAGRAPH 14

Background

15. In 1976, the Board of Directors of the Zambia Industrial and Commercial Show Society Limited (trading as Zambia International Trade Fair) decided to build a Hotel adjacent to the Trade Fair grounds. In this regard, Mukuba Hotel Limited was established under the *Companies Act, Chapter 388* of the Laws of Zambia and incorporated on 17th April, 1978, as Mukuba Hotel Limited and it was officially opened on 1st July, 1988.

Review of Operations

An examination of financial and other records for the period 1st April, 2009 to 31st December, 2013, carried out in May, 2014, revealed weaknesses to which the Controlling officer responded as set out below.

a) **Failure to prepare Annual Reports**

The Controlling Officer submitted that the failure to produce annual reports was as a result of the delays in finalising the audited financial statements that were required in finalising the respective annual reports. To correct the anomaly, the Board terminated the contracts of the General Manager and Chief Accountant, who were held responsible for the failure to produce audited financial statements. The new management had been tasked to finalise the annual reports for the financial years ending 31st March, 2011, 2012 and 2013.

Committee's Observations and Recommendations

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

b) **Failure to prepare Audited Financial Statements**

The Controlling Officer submitted that the failure to prepare audited financial statements was deemed by the Board to be as a result of negligence on the part of the management at the Hotel. As a consequence, the Board terminated the contracts of the General Manager and the Chief Accountant. Further, a new management was put in place and tasked to ensure that audited financial statements were prepared and finalised. The financial statement for the financial year 31stMarch, 2013, and 31stDecember, 2013, have been prepared and are awaiting external audit.

Committee's Observations and Recommendations

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

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

The Controlling Officer submitted that the increase in staff costs was as a result of salary increments for both management and unionised staff. Further, part of the challenge was the incorrect treatment of transactions particularly those related to the payroll, resulting in overstated figures. This was as a result of the limited skills to operate the accounting software used at the hotel.

In order to address these challenges, management was taking steps to reduce variable operational costs. These included putting in place strict internal control measures and reducing administration costs in order to reduce the overall costs of the Hotel. The Hotel was also implementing an aggressive marketing strategy, including introducing new products and services in order to broaden the revenue base. Further, in order address accounting related challenges, the management had recruited new accounting and finance staff. The Board was exploring options to recapitalise the Hotel in order to upgrade and raise its standard and attract more business.

Committee's Observations and Recommendations

Your Committee expresses concern that Mukuba Hotel has continued to record losses despite the hospitality industry offering good opportunities. Your Committee urges the Controlling Officer to work closely with the management and Board of the Hotel to improve the performance of the Hotel. Your Committee resolves to await a progress report on the matter.

d) **Statement of Financial Position**

i. *Liquidity*

The Controlling Officer submitted that the liquidity challenges recorded were mainly as a result of limited skills in the accounting unit and the management had difficulties in identifying unknown direct debits to the Hotel's bank account. This led to difficulties in reconciling the accounts. As a result, it was difficult to collect outstanding debts and, therefore, to make payment to creditors. Further, the statutory liabilities of the Hotel continued to increase mainly due to penalties as a result of its inability to pay.

The Controlling Officer further submitted that in order to correct the situation, management was working on reconciling debtors' accounts and ensuring that all amounts were recovered. He noted that so far, 85% of the work had been done. Further, the Hotel was working with the Bank to identify unknown Direct Debit and Credit Clearing Service (DDACCS) to the Hotel's bank account. Some of these dated as far back as 2010. So far, 50% of unknown DDACCS at a value of K915,000 had been identified. Management, through the Board, had also recruited qualified personnel to work on its accounts in order to ensure better liquidity. In this regard, the Controlling Officer added that a new billing system had been installed which would facilitate accurate and prompt processing of customer statements.

Committee's Observations and Recommendations

Your Committee is not convinced that management has put in place adequate measures to turn around the situation at the Hotel. Your Committee urges the Controlling Officer to work closely instruct the Board to ensure that concrete measures are taken to reverse the situation. Your Committee awaits a progress report on the matter.

ii. *Poor Debt Management*

The Controlling Officer submitted that the anomaly was mainly because the Credit Policy had not been correctly implemented by management. In order to correct the situation, the new management had been directed by the Board to adhere strictly to the Credit Policy of the Hotel while specific management Staff had been assigned to ensure the debt recovery process was implemented.

As regards the bad debts, the Controlling Officer clarified that the total amount indicated in the Auditor General's report as having been written off as bad debts was actually a mere provision and had not yet been written off.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that management of the Hotel failed to administer its own credit policy. Your Committee urges the Controlling Officer to work closely with the Board and to ensure that the new management effectively implements the credit policy. Your Committee resolves to await a progress report on the matter.

e) **Non and late Remittance of Statutory Contributions-K4,106,783**

The Controlling Officer submitted that payments to NAPSA were being made except that payments in some months were not backed by the returns, leading to penalties being charged on the account. With regard to Income Tax and VAT, the Controlling Officer submitted that the Hotel was unable to settle its outstanding obligations and penalties due to its loss making position.

The Controlling Officer further submitted that in order to address the situation, the Management had entered into an agreement with NAPSA to pay a minimum of K15,000 per month over a period of twenty-four months, effective 31st August, 2014. Further, long outstanding returns had since been submitted to NAPSA. Management was also negotiating a payment plan with the Zambia Revenue Authority for all outstanding statutory liabilities on Income Tax, VAT and PAYE.

Committee's Observations and Recommendations

Your Committee notes the measures being taken by the management of the Hotel to resolve the matter and resolves to await a progress report on the matter.

f) **Lack of Title Deeds to Land and Buildings**

The Controlling Officer submitted that according to records held by management, no title deed was obtained for Mukuba Hotel land as the land on which the Hotel sat was a subdivision of land belonging to the Zambia International Trade Fair. An application had since been submitted to the Ministry of Lands after the Zambia International Trade Fair issued the consent.

Committee's Observations and Recommendations

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

g) **Failure to Recover Loans/ Advances from Separated Employees-K37,547.33**

The Controlling Officer submitted that the anomaly arose due to poor record keeping as the books of accounts indicated outstanding balances even where the amounts had been settled in the previous financial years. The Controlling Officer also clarified that the Hotel did not give loans to employees and the loans in question were obtained from National Savings and Credit Bank (NATSAVE) and Mukuba Hotel only acted as an agent by making recoveries on behalf of NATSAVE.

To address the observation of the Auditor-General, the books had since been reconciled to reflect the true situation pertaining to staff advances and recoveries.

Committee's Observations and Recommendations

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

h) **Failure to Maintain Stores Records for Ordered and Received Items**

i. *Inadequately Supported Payment Vouchers-K404,482.82*
The Controlling Officer submitted that the anomaly was due to poor record keeping and lack of follow-up on receipts after payments were made. The Board had approved the employment of a qualified procurement officer and management was in the process of finalising the recruitment process. Further, a new filing and record keeping system had been introduced to ensure that all records were kept in order and easily accessible.

Committee's Observations and Recommendations

Your Committee expresses concern that the management has not done much to find the missing supporting documents and urges the Controlling Officer to ensure that these are found without any further delay. Your Committee awaits a progress report on the matter.

j) **Unretired Imprest-K48,502.96**

The Controlling Officer submitted most of the outstanding imprest was subsistence allowance because the Hotel did not have an adequate system of retiring subsistence allowance. In order to address the matter, management had put in place a system of retiring both advances and subsistence allowance.

Committee's Observations and Recommendations

Your Committee expresses concern that the imprest in question has remained unretired for such a long time and urges the Controlling Officer to ensure that the matter is addressed without any further delay and punitive action be undertaken against erring officers. Your Committee awaits a progress report on the matter.

NATIONAL HOUSING AUTHORITY (NHA)
AUDIT QUERY PARAGRAPH 15

Background

16. The National Housing Authority (NHA) was established in 1971, under Chapter 195 of the Laws of Zambia. Its objective was to provide, secure and promote the provision of housing throughout the Country.

Accounting and Other Irregularities

A review of accounting and other records maintained at the National Housing Authority for the period from 1st January, 2011, to 31st December, 2013, revealed the matters as set out below.

a) **Failure to Submit Annual Report to the Minister**

The Controlling Officer submitted that the query arose because of delay in finalisation of 2011, 2012 and 2013 Financial Statements. The current status was that the audited financial statements for the year 2011, were ready and available for verification while financial statements for 2012 and 2013, were still in draft form. He undertook before your Committee that NHA would now be preparing financial statements on time.

Committee's Observations and Recommendations

Your Committee strongly recommends that disciplinary action be taken against the officers who failed to produce financial statements timely. Additionally, management should ensure that financial statements and annual reports are submitted to the Minister and subsequently tabled in Parliament without any further delay. Your Committee will await a progress report on the matter.

b) **Non Remittance of Statutory Contributions - K25,081,653**

The Controlling Officer submitted to your Committee that NHA did not remit its statutory obligations due to the financial challenges that the Institution was facing. NHA entered into a debt swap arrangement with LASF to clear K825,000 in 2011. Payments had been made to NAPSA and LASF during the period under review.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to continue impressing upon the Authority to remit statutory obligations timely to avoid being charged penalties. Your Committee also reiterates the need for NHA to enter into a flexible payment plan without delay with ZRA. Your Committee awaits a progress report on the matter.

c) **Failure to Produce Title Deeds**

The Controlling Officer submitted to your Committee that at the time ZIMCO Properties, Indeco Estates and PHI were merged into NHA, most properties did not have title deeds. Management had, however, applied for duplicate title deeds for Chipata, Kasama, Mansa and Mongu properties. Furthermore, a fresh application had been made for the title deed for the Solwezi property. Title deeds for plot 4560 Findeco House was being pursued with the Liquidators of ZIMCO Limited. Title deeds for Plot 4797 Kulima Tower and Plot 1613 Sheki Sheki Road were now available for audit verification. NHA was tracing all title deeds for commercial buildings that were not in its custody.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that title deeds for all properties belonging to NHA are obtained without any further delay. Your Committee awaits a progress report on the matter.

d) **Maintenance Policy**

The Controlling Officer submitted to your Committee that there was no maintenance policy in place for properties after the merger of ZIMCO Properties and Indeco Estate in 2005, into NHA. NHA had prepared a draft Maintenance Policy. Works concerning the roof had been carried out in February, 2014, at Mongu and other remedial works and costings for Mansa, Kasama, Mongu and Chipata had been provided for in the Annual Work Plan for 2015.

He also added that, funds permitting, NHA would ensure that maintenance works were carried out as provided for in the Annual Work Plan/Budget.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that a maintenance policy is put in place to ensure that properties are well maintained contrary to the current scenario where buildings belonging to NHA are dilapidated. Your Committee awaits a progress report.

e) **Failure to Implement Board Resolution to increase Rentals**

The Controlling Officer submitted that non-implementation of the Board resolution was as a result of valuation of the properties not being completed. Management had partially increased rentals for ground and mezzanine floors in commercial buildings and Sheki Sheki offices only while awaiting completion of the valuation. However, all rentals had now been increased.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that Board resolutions are implemented without delay. Your Committee awaits a progress report on the matter.

f) **Failure to collect Income from Rentals and Sale of Property - K92,633,226**

The Controlling Officer submitted to your Committee that NHA had challenges to collect the rentals from Chipata Findeco House which included major tenants such as ZSIC and ZNBS. They, however, collected the outstanding rentals amounting to K132,971 from the Kafue Estates tenants. Regarding the K55,000 outstanding on the sale of plots, NHA had written to the thirteen purchasers who had not yet paid in full to immediately do so.

Furthermore, NHA collected K57,495.10 from the Chipata Findeco House so far from the K92,445.25 which was outstanding. NHA was pursuing the tenants to collect the remaining K35,010.15. NHA had since written demand letters to purchasers of plots with outstanding balances.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer and urges the NHA management through the Controlling Officer to aggressively pursue the collection of debts in order to alleviate liquidity problems being faced by the Authority. Your Committee awaits a progress report on the matter.

g) **Construction of Constituency Offices**

i. *Unacquitted Wages - K448,855*

The Controlling Officer submitted to your Committee that the acquittal sheets signed by the group leaders were not availed at the time of audit as they had been misplaced. The acquittal sheets signed by the group leaders from various sites who were engaged by NHA had since been traced and were available for audit verification. In future, NHA would ensure that acquittal sheets were signed by the group leaders and were properly filed and retained.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that erring officers are disciplined. Your Committee awaits a progress report on the matter.

ii. *Unretired Imprest*

The Controlling Officer submitted to your Committee that at the time of audit, the respective retirements were filed on separate constituency (subject) files and the copies were not returned on the accounts payment files. NHA had since retrieved the retirement schedules and they were available for audit verification. The Controlling Officer assured your Committee that NHA would ensure that in future, imprest schedules were filed properly.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that erring officers were disciplined. Your Committee awaits a progress report on the matter.

iii. *Irregular use of Imprest to Procure Building Materials*

The Controlling Officer submitted to your Committee that the query arose because NHA drew cash to pay part of the project expenses that could not be procured through the normal tender or procurement procedures like building and river sand, burnt bricks as well as project stage payments like site labour costs, hire of compactor, water for construction, etc. The Controlling Officer also stated that the bulk of the materials for the same projects such as roofing sheets, door frames, plumbing and electrical items, among others, were procured through the normal tender procedures. The other components of the imprest drawn were allowances and fuel. Further, the Controlling Officer submitted that stores records that were available were Goods Received Notes (GRN) for the materials procured and delivered to the various project sites and were recorded by the building supervisors.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that erring officers are disciplined. Your Committee awaits a progress report on the matter.

Background

17. Nkana Water and Sewerage Company (NWSC) was incorporated as a private company limited by shares on 9th September, 1998, with a mandate to provide water and sewerage services to customers in Kitwe, Kalulushi and Chambeshi. The Company commenced its operations in July, 2000.

Review of Operations

A review of the operations for the period 1st April, 2010, to 31st December, 2013, revealed the matters as set out below.

	31st Dec 2013 (Draft) K'000	31st Dec 2012 K'000	31st Mar 2012 K'000	31st Mar 2011 K'000
Turover	90,287	62,457	67,262	58,683
Cost of Sales	(30,429)	(19,947)	(22,700)	(28,510)
Gross Profit	**59,858**	**42,510**	**44,562**	**30,173**
Other Income	6,870	5,886	6,192	4,828
	66,728	**48,396**	**50,754**	**35,001**
Interest Payable	(3,030)	(2,315)	(3,082)	(3,055)
Administration Expenses	(81,984)	(77,348)	(85,722)	(55,726)
Loss Before Taxation	**(18,286)**	**(31,267)**	**(38,050)**	**(23,780)**
Income Tax Expense	-	(58)	(48)	(67)
Loss for the year	**(18,286)**	**(31,325)**	**(38,098)**	**(23,847)**
Total comprehensive loss for the year	**(18,286)**	**(31,325)**	**(38,098)**	**(23,847)**

As can be seen from the Statements of Comprehensive Income for the period under review, the Company had consistently incurred losses in all the financial years that is from 2011 to 2013. The accumulated losses stood at K187,821,000 as at 31st December, 2013, as shown in the Statement of Financial Position. Additionally, administrative expenses as a percentage of turnover were consistently above 90%.

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

The Controlling Officer submitted that the main contributing factors to the losses were low revenues attributable to low tariffs as well as unbilled customers due to inadequate or no service provision arising from inadequate and dilapidated infrastructure. This was particularly the case in the southern areas of Ndeke, Wusakile and Chamboli where the Company was losing revenue of K4m annually as 5724 properties remained unbilled.

Other administrative costs such as loan interest on long term loans, provisions for penalties on unpaid PAYE obligations, depreciation and bad debts provisions also contributed to the reported losses. It was worth noting though that the Company had consistently reported profits before accounting for these provisions and finance charges. The Controlling Officer submitted that the following interventions had been put in place to further reduce/arrest the losses and make the Company profitable and financially viable.

1. **Measures to Increase Revenues**

1.1 *Application of Correct Tariff*

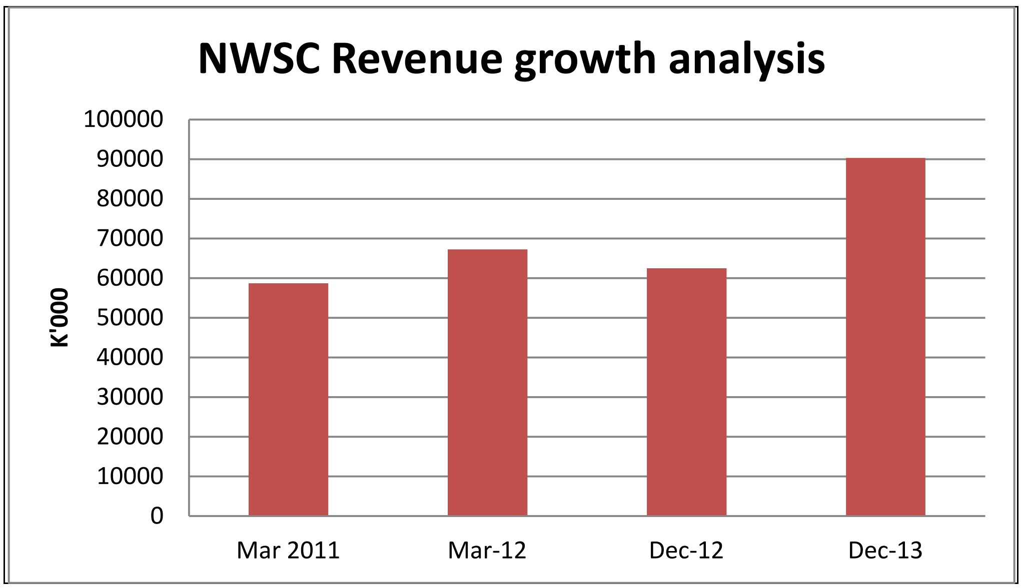
A number of residential properties had been converted for commercial use without the company's knowledge, thus resulting in lost revenues. An exercise conducted to identify such properties had resulted in incremental revenues of K49,616 per month or K595,392 per annum by charging the appropriate tariffs. This on-site check of residential properties would be an ongoing exercise.

1.2 Continuous database clean-up exercise to ensure that all customers enjoying the services were captured and billed. This exercise had enabled the Company to capture over 1000 customers since 2013, resulting in an increase of K710,556 billing per year.

1.3 Strategies to enhance revenue collection from domestic consumers and Government institutions had been intensified and collection efficiency had since improved from 69% in 2013 to 84% for the year 2014.

1.4 *Application of Cost Reflective Tariff*
The previous tariffs had only been adequate to cover the operations and maintenance costs and not the full costs of the Company. However, the National Water and Sanitation Council (NWASCO) was now allowed application of tariffs that provided full cost coverage. The Company engaged a consultant in 2013, to undertake a tariff study with a view to determining the Company's cost and effective tariff structures which had now formed a basis for tariff applications. This measure would allow the Company to gradually charge a more cost reflective tariff to its customers.

The graph below shows that Company revenues grew by more than 54% over the period under review.



1. **Measures to Reduce/Contain Costs**

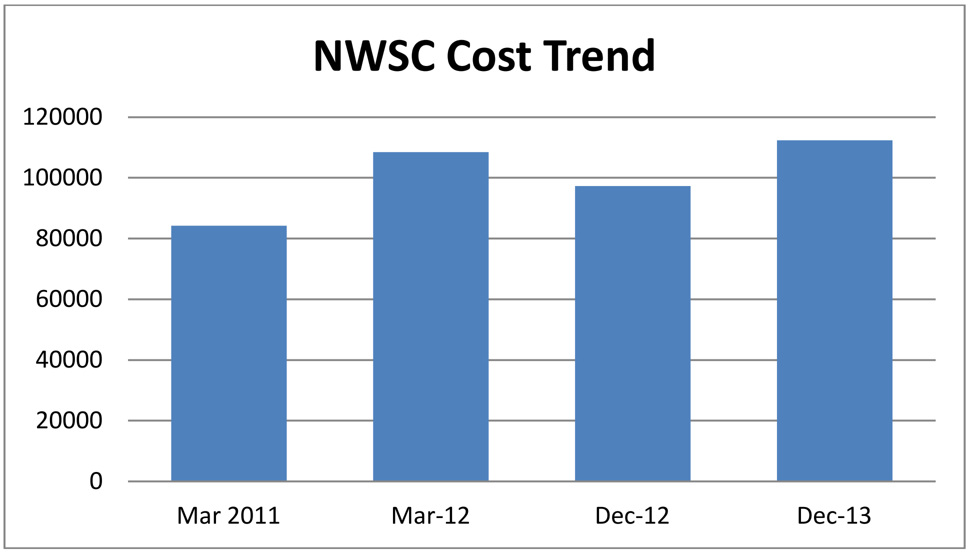
1.1 *Cost Control Through Cash Budget*
The Company had in recent years employed the concept of cash budget where expenditure was matched with realised revenue to avoid escalation of liabilities to unmanageable levels.

1.2 For PAYE, the Company was committed to liquidating the old debt in order to reduce the rate of accumulation of provisions for penalties. Remittance of the full amounts had been a challenge over the years, but agreements had been put in place with ZRA to systematically service arrears and eventually start to service both the current obligations and the arrears. Once the arrears were paid off, the Company would appeal to ZRA to have the accumulated penalty and interest provisions written off.

1.3 The Company had submitted a proposal to the Ministry of Finance for possible renegotiation of the old loans obtained by the Kitwe City Council (KCC) and AHC-MMS into equity or a grant. These loans would give rise to interest provisions that would decrease the Company's cost coverage ratio.

1.4 Depreciation was policy based and was the amortisation of the capital investment into the business. The down side of this was that not all investments in the past years had led to turnover growth as expected since a substantial amount went into rehabilitating the old and dilapidated infrastructure and not necessarily to increase capacity for growth. The unmatched costs had to be compensated by reducing other costs, which was detrimental to the operations of the company.

It was expected that the above cost control measures would result in increased revenue and reduced costs.



2. **Infrastructure Expansion and Rehabilitation Program**

One of the major challenges the Company was facing was inadequate and dilapidated infrastructure. The Company embarked on a massive infrastructure development programme in 2008, funded by the AfDB under the NUWSSP, at a cost of $63m, to address the service deficit in the operational area of Kitwe, Kalulushi and Chambishi.

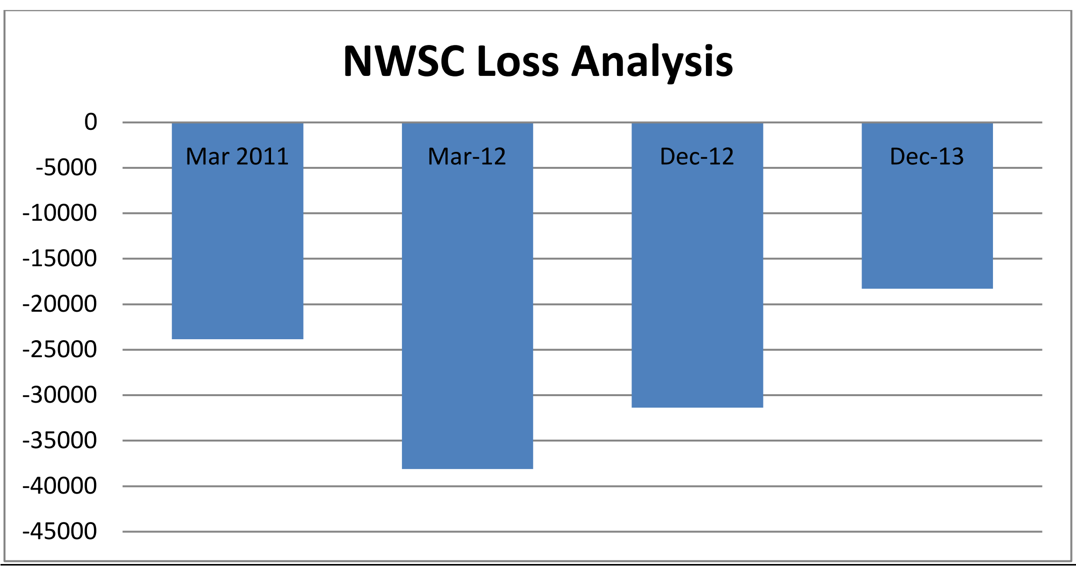
2.1 The Kalulushi Water Supply and Sanitation works were completed in 2013 and resulted in an increase of water supply hours from twelve to the current eighteen per day. The works included resuscitation of the abstraction plant at Mwambashi, rehabilitation of the 7th Shaft water works, rehabilitation of the distribution centre, partial replacement of network pipes and installation of metres. Two sewerage pump stations and the sewerage ponds were rehabilitated in order to improve the sewerage services as well.

2.2 Supply hours in Chambishi improved from 10 to 12 after the completion of the Chambishi Water Supply and Sanitation works in 2013; which included rehabilitation of the water works, rehabilitation of the distribution centre, partial replacement of network pipes and installation of metres. Improvements in the sewerage service delivery system were made possible by way of partial replacement of collapsed sewers and rehabilitation of the sewerage ponds.

2.3 The Kitwe Water Supply and Sanitation works were due for completion in March, 2015, to utilise the savings of US$2.69m to install 11,140 metres, carry out rehabilitation works at the Bulangililo Clarifiers and replacement of pipes and electrical cables from the Nkana East raw water plant to the Nkana East water works. The main works, which were completed in 2014, included replacement of aged pumps, erection of four overhead tanks, partial replacement of pipes and installation of metres. Additionally, the Nkana East water works production capacity was increased by 30,000 m3 per day from the initial 65,000 m3 per day. These works had resulted in an improvement of water supply from an average of four hours to six hours to eight hours to twelve hours in Wusakili, Chamboli, Ndeke, Mindolo and Chachacha. The installation of pumps at Bulangililo had resulted in increased reliability of the abstraction plant. The average time between failure had reduced from pumps breaking down every two days to zero breakdown since 2013, when the new pumps were installed. Toilets had been constructed in Buchi, Kamitondo and Mindolo BB to enhance sewer revenues, under the Kitwe Sanitation Works of the NWSSP.

It was, however, worth noting that despite these achievements owing to the $63m capital injection, there was an investment backlog of up to $200m, contained in the National Policy Paper, to replace the existing aged infrastructure, which had not been tackled. Once done, this would help expand the production and supply capacity of the water supply and sanitation infrastructure, to cater for the ever growing population as estimated by the recent Census Report.

As could be seen from the figure below, the annual losses had been declining over the years as a result of the above and other measures being implemented. With more investment, there was no doubt that the Company would move out of this loss making position in the next few years.



Committee's Observations and Recommendations

Your Committee notes the submission and urges the auditors to note the matter in future audits.

b) **Financial Performance – Statement of Financial Position**

i. *Asset Turnover Ratio*

The Controlling Officer submitted that the asset turnover ratio had declined over the audit period because the growth in the asset base was largely as a result of the works under the NWSSP as well as the asset revaluation that was undertaken by NWSC in 2011/2012. Most of the projects under the NWSSP were still work in progress and therefore, not yet able to generate revenues in that period. Similarly, the revaluation of the assets could not result in any additional revenues as there was no added capacity to the plant and machinery as the exercise was undertaken purely to comply with accounting standards. Of the K498 million noted increase in the asset base, K203million was attributable to the works in progress under the NWSSP while K242 million was asset revaluation.

With more investments in the next few years, it was expected that service delivery would improve, which would lead to increase in sales and, with a good tariff, the company should be able to achieve full cost recovery and be financially viable.

Committee's Observations and Recommendations

Your Committee expresses concern at the continued decline of the Asset Turnover Ratios over the past three years. Your Committee is of the view that NWASCO should help in regulating the water tariffs to help the Company to improve its financial viability and overall sales. Your Committee urges the Controlling Officer to pursue the recapitalisation exercise in order to improve the situation of the Company. Your Committee awaits a progress report on the matter.

ii. *Liquidity*

The Controlling Officer submitted that the largest component of the current liabilities was the old loans and accrued interest obtained by Kitwe City Council from ADB and AHC-MMS from the World Bank which had become due and had not been repaid pending Government decision on the matter.

In addition, the provision for penalties on unremitted PAYE over the years had also contributed to the negative working capital. The above liabilities were being managed as explained in (i) above and the company was confident that the need to pay off these obligations would not materialise. If the loans and interest as well as PAYE penalties were excluded, the company's working ratio was positive and sufficient by industry/sector standards as illustrated below:

Liquidity Ratio Exc Old Loans and PAYE penalties

	31-Dec-13	31-Dec-12	31-Mar-12	31-Mar-11
Current Assets	109,749.00	100,439.00	63,721.00	32,286.00
Current Liabities	211,716.00	171,494.00	150,649.00	116,657.00
Less				
Old loans principal and interest Due	(63,798.80)	(55,392.27)	(51,994.10)	(43,684.30)
Provision for PAYE Penalties	(46,476.52)	(48,486.36)	(37,900.95)	(24,795.88)
	101,440.68	67,615.37	60,753.94	48,176.82
Current Ratio Exc Old Loans and PAYE penalties	**1.08**	**1.49**	**1.05**	**0.67**

Committee's Observations and Recommendations

Your Committee expresses concern at the poor performance of the Company especially with regard to the negative working capital. Your Committee feels that this situation is unacceptable and recommends that NWASCO should help in regulating the water tariffs so that the Company can improve its financial viability. The Controlling Officer is urged to ensure that there is an immediate recapitalisation exercise to improve the current situation. Your Committee awaits a progress report on the matter.

iii. *Non-servicing of Debt – Multilateral Loans*

The Controlling Officer submitted that when Nkana Water and Sewerage Company Limited (NWSC) took over AHC Mining Municipal Services Limited, it also took over its liabilities. Among these was a loan from International Development Association (IDA) which as of 1st October, 2007 was ZMW10,899,239.82. The loan was payable to the Government of the Republic of Zambia which ultimately got the loan from the IDA.

The Company also took over a subsidiary loan which the Government got from the African Development Bank (ADB) amounting to UA17,780,000 from Kitwe City Council (KCC). At the time of the audit, the Company had not serviced these loans due to cash constraints.

NWSC submitted a proposal to Government to convert the old loans obtained by KCC and AHC-MMS into equity or a grant. NWSC had no financial capacity to repay these loans as it could not generate sufficient income to meet its day to day operations and at the same time expand its infrastructure to meet the increasing demand from the consumers. Further and as noted by the Auditor General, these loans were part of the amounts that were written off upon attainment of the Highly Indebted Poor Countries (HIPC) completion point in the Ministry of Finance books. Indeed the presence of these loans in the NWSC books rendered the Company's performance negative.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to pursue the recapitalisation exercise of the Company in order to improve the current alarming situation. Your Committee further urges the Government to find a lasting solution to the issue of loans which were part of the amounts that were written off upon attainment of the Highly Indebted Poor Countries (HIPC) completion point expeditiously. Your Committee awaits a progress report on the matter.

c) **Non-remittance of PAYE**

The Controlling Officer submitted that NWSC did not remit the full monthly statutory deductions of Pay-As-You-Earn (PAYE) taxes to the Zambia Revenue Authority (ZRA) due to financial constraints.

He also stated that, notwithstanding the existing financial constraints, NWSC was committed to dismantling this debt and was actively servicing the debt. Furthermore, NWSC had an understanding with the Zambia Revenue Authority to service arrears and this was adhered to in the period under review. For the year 2013, K1.1 million was paid towards arrears and in the year 2014, a total of K1.239 million was remitted to ZRA.

He further assured your Committee that a new payment plan to address the further accumulation of debt would be submitted and discussed with ZRA for 2015.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company remits its statutory obligations on time and that all outstanding amounts are paid off without any further delay. Your Committee awaits a progress report on the matter.

d) **Lack of Title Deeds**

The Controlling Officer submitted that NWSC had been unable to obtain title deeds for all its properties from the Kitwe City Council and Kalulushi Municipal Council over the years despite many follow ups with the concerned Councils. Furthermore, changes in personnel at the Councils greatly affected the rate at which the matter was handled.

He also added that NWSC managed to obtain title deeds for some of its properties and these were available for audit verification. Furthermore, NWSC had since set aside an amount of K260,000 to contract a surveyor to peg out the properties so as to facilitate the process of numbering and eventual processing of title deeds. Bids were received from three surveyors in late 2014 and the whole process was expected to be concluded within 2015. NWSC had resolved to ensure that title deeds were obtained upon acquisition of land.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all property belonging to NWSC is secured with title deeds without any further delay to avoid land encroachments and land disputes with illegal settlers. Your Committee awaits a progress report on the matter.

e) **High Non Revenue Water (NRW)**

The Controlling Officer submitted that NWSC recorded high NRW mainly due to old and dilapidated infrastructure as well as the low metering ratio both at production and customer levels. NWSC had taken the following measures to reduce high levels of non revenue water.

- **Reduction of Physical Losses**
  The following water distribution pipes had been replaced in Kitwe (126,421m), Kalulushi (53,664m) and Chambishi (9,666.6m) under the NWSSP; and

- **Reduction of Commercial Losses**
  Under the NWSSP, the following works had taken place in Kitwe, Kalulushi and Chambishi. Customer metres had been replaced as follows in Kitwe (16,642), Kalulushi (2,850) and Chambishi (1,410) to ensure water wastage was minimised. Production metres had been installed at water treatment plants to accurately measure the volumes leaving the production plants. Water flow metres had been installed at all rehabilitated distribution centres to measure incoming and outgoing water. Further, 9,000 water metres were under procurement to be installed by May, 2015, to bring the metreing ratio to 80% and a further 15,000 metres had been budgeted for in 2015, to bring the ratio to 100%.

  For the future, NWSC had established a Water Audit Section to ensure the water losses were managed in a systematic manner and to work towards achieving the sector benchmark. Furthermore, the company was implementing a pilot project in Chimwemwe township for the reduction of NRW as a Best Practice with a view to replicating in all townships. This project called Copperbelt Water Operator Partnership (CWOP) was being done in partnership with Mulonga WSC, Kafubu WSC with the support of Vitens Evides of the Netherlands and the WSUP of the UK and with co-funding by the EU. The project had adopted the caretaker approach and the area had been demarcated into seven zones where caretakers had been assigned to resolve issues. Key managers from each department were in the non revenue water taskforce team to identify and resolve issues to do with non revenue water.

Committee's Observations and Recommendations

Your Committee notes the efforts being made towards reduction of non revenue water, but urges the Controlling Officer to ensure that the strategies adopted are implemented. Your Committee awaits a progress report on the matter.

f) **Kalulushi Water Treatment Plant**

The Controlling Officer submitted that NWSC did not obtain prior approval from ZEMA to commence works for the Kalulushi Water Treatment plant under the AfDB financed NWSSP because the project works in Kalulushi involved rehabilitation of existing facilities which were previously used by the Zambia Consolidated Copper Mines (ZCCM). The rehabilitation entailed working on old existing dilapidated infrastructure which did not include any new works which would have required an Environmental Impact Assessment as required by ZEMA.

The environmental project brief was done and approved by ZEMA before completion of the project. Furthermore, adequate measures were provided to mitigate all envisaged negative environmental and socio-economic impacts which were adhered to during the construction phase. NWSC would now ensure that the provisions of the *Environmental Management Act* were complied with in good time for future projects.

In clarifying the matter, the Auditors stated that the works included some new works which even necessitated management to obtain an Environmental Impact Assessment approval in retrospect.

Committee's Observations and Recommendations

Your Committee strongly cautions the Controlling Officer against misleading it and is of the view that an environmental project brief would not in any way substitute an Environmental Impact Assessment as required by ZEMA. He is cautioned to admit his mistakes rather than defending them as this would only perpetuate the mistakes. Your Committee further requests the Controlling Officer to sternly warn management of NWSC against similar practices in future. Your Committee recommends the matter to be closed subject to audit verification.

i. *Shutting Down of Operations of a Completed Plant due to Pollution*

The Controlling Officer submitted that the pollution of Mwambashi dam continued beyond the limits of NWSC, prompting ZEMA to investigate the issue. The source of contamination was found to be Konkola Copper Mines Plc (KCM). NWSC resumed operations of the plant in February, 2014, after relocating the abstraction point from the confluence of Mwambashi and Chati streams on the dam to Chati stream. This involved laying of a 300m raw water pipeline and installation of a submersible pump which KCM financed. In July, 2014, the sulphate levels again rose beyond acceptable limits affecting the new abstraction point and this caused a further extension of the pipeline by another 200m to move the abstraction point towards the source of Chati stream. The plant had since been operating consistently. Furthermore, a study to engage a consultant to consider the possibility of isolating Chati stream from Mwambashi river was under procurement.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by ZEMA to prosecute KCM for the pollution. Your Committee urges the Controlling Officer to pursue the prosecution of KCM without any further delay. Your Committee resolves to await a progress report.

ii. *Partial Implementation of Stakeholders' Resolutions*

The Controlling Officer submitted that not all resolutions made on 1st October, 2013, through the stakeholders meeting, which included the PLGO, ZEMA, NWSC and KCM, were adhered to on the part of KCM such as paying NWSC due to the increased cost of pumping good quality water from Kitwe to Kalulushi, KCM beginning to employ cleaner methods of operating their plant in Chingola and also drawing up a roadmap to show commitment for complying with ZEMA standards. NWSC had continued to pursue the recovery of the debt from KCM. Furthermore, NWSC had constituted a team to explore alternative sources of water for Kalulushi.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by ZEMA to prosecute for failure to comply with laid down environmental standards. In this regard, your Committee call for the prosecution of KCM by ZEMA. Your Committee, further, urges the Controlling Officer to pursue KCM for payment of the amount agreed upon. The Controlling Officer is urged to move in expeditiously to have the issues resolved without any further delay. A progress report will be awaited by your Committee.

f) **Construction of Infrastructure on Private Land- Water Intake Facility**

The Controlling Officer submitted that the project to resuscitate the water intake facility at Kafue river in Chambishi had been completed, but the land on which the intake was built, including the old pump house which was owned by Kalulushi Municipal Council, had been claimed by an individual and the matter was still disputed. He also stated that before the transformer house and operator's house for Chambeshi intake were constructed, both Kalulushi Municipal Council (KMC) and Chambeshi Metals were approached for guidance and a letter was formally written to KMC on 26th August, 2011. KMC guided that the transformer and operator's houses could be constructed and there was no mention by KMC of the land being owned by a private individual.
The matter was reported to Kalulushi Municipal Council and several meetings were held to try to resolve the matter amicably. However, the demands by the owner of the land could not be met by NWSC and the matter was still disputed.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by NWSC management to resolve the issue amicably with the owner of the land. Your Committee urges the Controlling Officer to intervene in order to resolve the issue. Your Committee will await a progress report on the matter.

PATENTS AND COMPANIES REGISTRATION AGENCY (PACRA)
AUDIT QUERY PARAGRAPH 17

Background

18. The Patents and Companies Registration Agency (PACRA) was a self-financing body corporate established under the *Patents and Companies Registration Agency Act No. 15 of 2010*. The principal functions of PACRA were to operate a legal system for registration and protection of commercial and industrial property and to serve as a repository of business and industrial property related information.

Review of Operations

An examination of information technology systems, accounting and other records maintained at PACRA Headquarters and selected provincial offices for the financial years ended 31st December, 2011, to 2013, carried out in September, 2014, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) **No Formally Documented Standards and Procedures for ICT in the Organisation**

The Controlling Officer submitted that PACRA had embarked on a rigorous modernisation process since 2006, which entailed automating the business registration; industrial property registration; and internal accounting systems. The focus over the last few years had been on developing and improving the above ICT systems. The Agency had begun the process of formulating an ICT Policy documents to govern the operations of the ICT functions. In this regard, at the time of audit, the draft ICT Policy was availed to the Auditors. The ICT Policy had since been approved by the Operations and Administration Committee.

Committee's Observations and Recommendations

Your Committee notes the strides made by the Institution, but resolves not to close the matter until the ICT policy is adopted by the Board of PACRA. Your Committee awaits a progress report on the matter.

b) **Lack of ICT Strategic Committee**

The Controlling Officer submitted that matters relating to oversight and governance of ICT were dealt with by the Operations and Administration Committee. In order to provide guidance on ICT related matters, the Committee had a representative from the ICT sector who was also a full-time member of the Board.

Committee's Observations and Recommendations

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

c) **Lack of ICT Policy**

The Controlling Officer submitted that the Agency operated using manual systems until 2006, when it started to automate its business processes. Following the automation of its processes, it became apparent that the Agency needed a set of policies and procedures to manage the Agency's ICT environment. However, at the time of the audit, the Agency had just completed drafting the ICT Policy and approved ICT procedures which were documented under the PACRA procedures manual. The Agency's ICT Policy had since been approved by the Operations and Administration Committee of the Board.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the policy is approved by the Board of PACRA. Your Committee awaits a progress report on the matter.

d) **Failure to Obtain Title Deed for Plot**

The Controlling Officer submitted that at the date of purchase of the said property, the Agency was not a legal entity and hence it could not own property in its own name. However, in 2010, PACRA was established as a legal entity and the process of change of ownership commenced. Sub A was granted a title deed while sub B was still in process as a result of the delay caused by the Zambia Revenue Authority to renew the Tax Clearance Certificate obtained on 17th April, 2000.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the issuance of title for Sub B.

e) **Failure to Renew Board Members' Contracts**

The Controlling Officer submitted that appointment to the PACRA Board was by way of a letter of appointment from the Minister of Commerce, Trade and Industry. Therefore, there were no contracts signed between the appointing authority and the members. For example, some of the Board members who were appointed in May, 2011, for a term of three years were reappointed in April, 2014, for a further term of three years.

Committee's Observations and Recommendations

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

f) **Failure to Pay Tax on Board Allowances**

The Controlling Officer submitted that in arriving at the allowances payable to the board members, the Agency was grossing-up the sitting allowances. The prescribed allowances payable to board members were K3,000 for the Board Chairperson and K2,500 for other members. Clarification was sought from the Minister who advised that the amounts were net of tax. It was against this background that no recoveries had been made from the board members.

Committee's Observations and Recommendations

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

g) **Unsupported Waiver of Fees – K14,471,437**

The Controlling Officer submitted that the *Companies Act, Chapter 388* of the Laws of Zambia granted the Registrar of Companies powers to waive fees in certain circumstances. In this regard, the Registrar in consultation with management did in certain instances grant waivers. The Controlling Officer explained that a meeting to approve the waiver was held on 15th November, 2011. The Controlling Officer further explained that in the event that the Agency did not consider waiving part of the fees, the Company had other options of raising capital such as debt financing, in which case PACRA would not have received any fees.

Committee's Observations and Recommendations

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

h) **Failure to Maintain Annual Returns Debtors' Register**

The Controlling Officer submitted that the process of deregistering companies was long and costly because it required the Agency to send notices and pay for the Gazette notices for each business. Secondly, in some instances it would be unjust to deregister businesses that failed to file annual returns due to the fact that their location was far from the nearest PACRA office.

The Controlling Officer further submitted that not all registrations were done with a view of the going concern. Some were opportunist registrations which occurred as a result of the social and economic events in the nation. For example, some companies were registered to access empowerment loans and if the loan was not granted, the applicants would abandon the registration for certificates. Such companies would not have any business transactions, but would still be appearing on the PACRA database. Therefore, recognition of such annual returns as debts would grossly distort the Agency's financial position.

The Controlling Officer also submitted that the Agency had embarked on a decentralisation programme and had entered into strategic partnerships with local authorities and the Zambia Postal Postal Services Corporation to ensure that its services were accessible even in the remotest parts of the country. Further, the Agency had made proposals for reforming the law relating to deregistration processes so that they could be effective, abridged and less costly to the Agency.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that Annual Returns and Debtors' Registers are maintained. Your Committee recommends that this matter be noted in future audits.

i) **Non-recovery of Staff Debts – K49,828**

The Controlling Officer submitted that contrary to the Auditor General's observations, the affected employees were never paid their terminal benefits. When the three officers' tenure of employment came to an end, the Agency withheld their terminal benefits with a view of recovering outstanding loan amounts. However, the terminal benefits withheld were not sufficient to recover the total amounts outstanding from the affected employees. Efforts were made to recover the balances in outstanding amounts from the employees for some years, but to no avail. However, one of the employees had been traced and had entered into a payment arrangement under which he was making monthly payments to liquidate the debt.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to await a progress report on the recovery of the debts.

j) **Late and Non-payment of NAPSA Contributions – K140,658**

The Controlling Officer submitted that the bulk of the arrears were in the years 2005 to 2006, which arose as a result of the payroll system applying the incorrect NAPSA contributions ceiling resulting in underpayments and subsequent charge of penalties. The Controlling Officer noted that the Agency had since cleared the outstanding arrears.

Committee's Observations and Recommendations

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

k) **Failure to Insure Assets - K28,701,264**

The Controlling Officer submitted that all other assets of the Agency were insured except the ones which needed to be revalued first before they could be insured. Additionally, during the same period, an asset verification exercise was being undertaken. Both the revaluation and asset verification exercises were completed in September, 2014. In this regard, the Agency had now insured all the assets.

Committee's Observations and Recommendations

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

PUBLIC SERVICE PENSION FUND BOARD (PSPFB)
AUDIT QUERY PARAGRAPH 18

Background

19. The Public Service Pension Fund Board (PSPFB) was established by the *Public Service Pension Act No. 35 of 1996, Chapter 260* of the Laws of Zambia. The PSPFB was a defined benefit pension scheme, which provided retirement pensions to permanent and pensionable public service workers, including dependent survivor benefits. The Board also administered a home ownership scheme. In February, 2000, the Pension Scheme was closed to new entrants except for the Defence Forces and Security Services employees.

Review of Operations

A review of PSPFB Management Information Systems, Financial Statements and other records for the period 2011 to 2013, maintained at PSPFB and an inspection of selected stations carried out in July, 2014 revealed the matters as set out below.

i. *Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)*
The Controlling Officer acknowledged that at the time of audit, PSPF did not have the Business Continuity Plan (BCP) and Disaster Recovery Pan (DRP). In order to address the matter, management had developed a draft Business Continuity Management Policy and framework which would be presented to the Board for consideration and approval in the second Quarter of 2015. The Controlling Officer noted, however, that PSPF already had a physical infrastructure and operational disaster recovery site which was connected to the headquarters via a real-time optical fibre link.

Committee's Observations and Recommendations

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

ii. *Lack of Change Management Procedures*

The Controlling Officer acknowledged that at the time of audit, PSPF did not have documented Change Management Procedures for handling and administering the changes to the IT system, but this had since been put in place.

Committee's Observations and Recommendations

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

iii. *Failure to claim Withholding Tax (WHT) from ZRA-K192,420,000*

The Controlling Officer submitted that between 2003 and 2005, PSPF received dividend payments net of Withholding Tax (15%) for the stocks in Chilanga Cement Plc, Zambia Sugar Plc and National Breweries Plc despite having submitted tax exemption certificates issued by ZRA to the transfer agents. The deductions were supposedly remitted to ZRA as per rules. During the period, a total of K364, 366.04 was deducted from the gross dividends. The Controlling Officer, however, submitted that in June, 2010, the Board managed to get a refund of K171,946.04 (47% of the total tax) from ZRA which was deducted by one of the transfer agents from the dividends from National Breweries Plc. The Zambia Revenue Authority only agreed to issue the refund after submission of the original tax receipt from the transfer agent. Following this refund, the balance of K192,420 indicated in the audit report was yet to be found.

The Controlling Officer further submitted that since 2005, the Board had been trying to recover the outstanding amount of K192,420, but to no avail. This had mainly been due to the failure by the transfer agents to provide ZRA with stamped certificates of deduction of Withholding Tax or an original receipt confirming the payment of withheld taxes. The Controlling Officer also submitted that even the intervention of the Ministry of Finance in May, 2012, through a letter to ZRA, had proved futile.

As regards the way forward, the Controlling Officer submitted that on 17th June, 2014, management of PSPFB threatened legal action against the former transfer agents in relation to Zambia Sugar Plc who in turn referred the matter to the new transfer agents for Zambia Sugar Plc. Management had since provided the full background to the new transfer agents and a response was awaited. In the case of Lafarge Cement, the amount of tax withheld was K6,045. The transfer agent was yet to respond to the letter dated 27th November, 2014. Considering the long time it had taken the transfer agent to avail the documents, the Fund was taking the matter to Court.

Committee's Observations and Recommendations

Your Committee expresses concern that the matter has taken too long to resolve and urges the Controlling Officer to take all necessary steps in order to have all the Withholding Tax refunded. Your Committee awaits a progress report on the matter.

iv. *Insolvent Pension Fund*

The Controlling Officer submitted that the Fund was facing this challenge because of the disparity between cash inflows and cash outflows from the Fund. The contributions received into the Fund were low compared to the benefits that were paid using the formula prescribed in the Act. The Controlling Officer added that as a final salary pension scheme, the benefits were highly impacted by any increase in salaries or wages. The unprecedented increment of salaries for public servants in 2013 by the Government had an immediate impact on the pension benefits payable. The lump sum benefits doubled in most cases due to the high salary increases. In addition, two thirds of these benefits were commuted and paid to the members immediately they retired, leaving one third for monthly pension. This proportion of benefit payments resulted in huge cash out flows which could not be sustained by the scheme. Further, the Controlling Officer attributed the insolvency of the Fund to the contribution rates which had remained static at 14.5% over the last thirty years despite recommendations to increase the rates by the Actuary. He noted that as a result of this, there was a deficit of 26.2% which should be contributed by the employer to meet the future benefits.

The Controlling Officer explained that another reason was that the scheme had been partially closed to new entrants for about fifteen years since February, 2000, since the introduction of the National Pension Scheme Authority (NAPSA). The Controlling Officer noted that only a few entrants were coming in from the defence wings, which unfortunately could not match those existing on the scheme.

As regards the way forward, the Controlling Officer proposed the measures set out below.

- The Government should continue funding the budget line gap created in 2010 to cushion the Fund.
- The Government should continue to assist the Fund in collection of pension contributions from employees and employers, including from the defence forces.
- The Board should continue to improve the investment portfolio by investing in diversified investment instruments.
- As a long term measure, the Government should undertake comprehensive pension reforms in the sector to address the plight of pensioners, retirees and beneficiaries.

Committee's Observations and Recommendations

Your Committee observes that the Fund has become insolvent mainly because of the policy decision that was made by the Government in 2000. Your Committee agrees with the Controlling Officer that only major reforms in the pension system would provide a long term solution to the sector. Your Committee, therefore, urges the Controlling Officer to expedite the reforms in order to prevent the looming crisis in the pension system in the country. Your Committee resolves to await a progress report on the matter.

v. *Increasing Dependency Ratio*

The Controlling Officer submitted that the scheme had been partially closed to new entrants from 1st February, 2000, following the introduction of the National Pension Scheme Authority (NAPSA). This had resulted in fewer entrants joining the scheme from the defence wings, which had been unable to match those exiting the scheme through retirement or death. It was envisaged that once reforms were implemented, the scheme would be re-opened to new entrants and this would address the dependency ratio in the long term.

Committee's Observations and Recommendations

Your Committee urges the Government to expedite the reforms in order to prevent a looming crisis in the pension system in the country. Your Committee resolves to await a progress report on the matter.

vi. *Statement of Changes in Net Assets available for Benefits*

The Controlling Officer submitted that the fixed income securities and equity market performed poorly in the year 2012, resulting in a reduction on the return on investments by 31 percent. The overall movement in the share prices for the companies in which the Fund held equity was negative compared to the previous year ended 31st December, 2011. Bisonite Zambia Limited was a highly indebted company as it owed major suppliers and statutory obligations to a tune of K47 million with the plant valuation as at 8th September, 2012 being K32.2 million, hence the Board's decision to provide for a full impairment in the financial statements for 2011 and 2012.

The Controlling Officer further submitted that in order to mitigate the losses suffered in one form of investment, the Board had diversified its portfolio. Regarding PG Bisonite, the Board was working on practical measures of mitigating the risk exposure in the Company so as to minimise the loss on its investment. Currently, the Board was in talks with the Industrial Development Corporation (IDC) for possible takeover of Bisonite Zambia Limited as its business fell in the forest industry which IDC intended to revitalise.

Committee's Observations and Recommendations

Your Committee observes that the Fund would continue to experience decreases in returns on investments as long as it continues depending on the companies it has invested in like Bisonite Zambia, which are highly indebted. Your Committee urges the Controlling Officer to ensure that management of PSPF makes sound investment decisions. Your Committee requests that auditors note the matter in future audits.

vii. *Investment in excess of 20% of Net Assets*

The Controlling Officer submitted that at the time of the audit, the equity investment and fixed income securities were 25% and 24% of the net assets, respectively, resulting in the ratio being above the provision of the Act which prescribes a maximum of 20% of net assets for each class of assets. The Controlling Officer observed that the Fund's liabilities were long-term and hence the investment strategy was to match the investments with liabilities. However, because the scheme was in its mature stage and was set up with a deficit and more retirees were exiting the scheme, there had been a tilt to invest in liquid assets to be able to meet monthly pension obligations.

The Controlling Officer submitted that as a way forward, the Board had embarked on growing its investment portfolio and among the major activities to be undertaken was the expansion of the real estate portfolio. This was aimed at not only to help in the rebalancing of the existing investment portfolio which was skewed to equity and fixed income securities but also to contribute to the reduction of the actuarial deficit.

Committee's Observations and Recommendations

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

viii. *Debtor Balances-Rental*

The Controlling Officer submitted that the Board had outstanding rental balances involving seven former tenants for the years ranging from 2004 to 2006 to the tune of K176,291. The Controlling Officer submitted that of this amount, K106,000 was owed by CASAT Technologies Ltd which wound up after the death of the owner. The matter involving K28,000 in relation to another client was in court while another client was still being pursued for rentals amounting to K8,100. No rent was allowed to be in arrears of more than a month and the capacity of section had been enhanced by the recruitment of a qualified staff in property management.

Committee's Observations and Recommendations

Your Committee expresses concern that this matter had taken too long to resolve and urges the management not to relent but to continue to pursue the payment of the rentals. Your Committee awaits a progress report on the matter.

ix. *Outstanding Pension Contributions-K265 million*

The Controlling Officer submitted that the outstanding pension contributions arose as a result of the failure by the Ministry of Finance to remit the employers' pension contributions on behalf of the defence wings. The Controlling Officer further explained that as at 31st December, 2014, a total amount of K265 million was outstanding inclusive of interest payable in accordance with the Act. Of this amount, K116 million for the year ended 31st December, 2013, was verified and confirmed by the Controller of Internal Audits and the Ministry of Finance had committed to settle the amount in 2014. The Ministry of Finance managed to remit K19 million for the year 2014, out of the total due amounting to K105 million exclusive of interest.

Committee's Observations and Recommendations

Your Committee observes that failure by the Government to remit the employer's contributions to the Fund is impacting negatively on its operations and urges the Controlling Officer to emphasise to the Ministry of Finance on the need to be current with the remittances of the defence wings. Your Committee resolves to await a progress report on the matter.

x. *Outstanding Pension Benefits*

The Controlling Officer submitted that there were many factors that led to the outstanding benefits. First was the reduction in the number of contributing members of the Fund, which had resulted in the reduction in the contribution income over a period of fifteen years from the year 2000. Secondly, was the higher benefits payouts which were commutated at two thirds of final salary at the time of retirement. Thirdly, the unprecedented salary increment awarded to public servants in 2013, which resulted in a huge increase in pension benefits compared to the increment in the contributions. Fourthly, the static contributions rates currently at 14.5% for both employer and employee was also a factor.

As a way forward, the Fund had engaged Government to source for K2.3 billion to pay outstanding pension benefits. The Controlling Officer explained that in the long term, the Government had embarked on pension reforms aimed at creating a sustainable and affordable pension system that would address the challenges and the plight of pensioners, retirees and beneficiaries. The reforms would target an estimated Income Replacement Ratio of 60% which would help alleviate old age destitution. The pension laws would be revised with a view of providing a single regulatory framework for the pension sector. Among other variables to be adjusted were contribution rates, commutation ratio for lump-sums and the benefit formulae. With the reforms, the goal of paying retirees their lump sum benefits on the day of retirement would be realised.

Committee's Observations and Recommendations

Your Committee is in agreement with the Controlling Officer that only long term measures involving major reforms to the pension system in the country will help to address the numerous challenges that the sector is facing. Your Committee urges the Controlling Officer to expedite the process of undertaking the reforms. Your Committee resolves to await a progress report on the matter.

ZAMBIA NATIONAL BUILDING SOCIETY
AUDIT QUERY PARAGRAPH 19

Background

20. 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 was wholly owned by the Government of Zambia. The ZNBS was 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 the Zambia Industrial and Mining Corporation (ZIMCO) Limited. After the liquidation of ZIMCO Limited on 31st March, 1995, the entity was taken over by the Government through the Ministry of Finance.

Review of Operations

A review of operations for the financial years ended 31st March, 2011 to 2014 revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) **Financial Performance - Statement of Comprehensive Income for the Financial Year ended 31st March, 2011 to 31st March, 2014**

i. *Interest Income and Expenses*
The Controlling Officer acknowledged that interest income reduced between 31st March, 2013 and 31st March, 2014, by 15% from ZMW53,300,000 in 2013 to ZMW45,074,000 in 2014. The Controlling Officer explained that the lower interest income in the 2013/14 financial year was because of the reduction of interest rates in 2013, on mortgages from 19.5% to 12% in 2013 and the increase in tenor of mortgages from seven years to 10 years in 2013. The Controlling Officer further submitted that the reason the Society took this decision was to remain competitive in the market because its customers were refinancing mortgages obtained from the Society opting for cheaper and longer tenor home loans that were being offered by commercial banks. The Board approved this strategy by management knowing the implications on income and profitability.

As regards the increase of interest expense for the 2013/14 financial year, the Controlling Officer submitted that this was as result of a deposit mobilisation campaign during the period 2013 to 2014, which resulted in an increase in customer deposits by K31,000,000 and the consequent increase in interest expense. Further, this could be attributed to loans to a value of K55,000,000 obtained from the Development Bank of Zambia and African Life Financial Services.

Committee's Observations and Recommendations

Your Committee expresses concern that interest income has steadily been declining while at the same time there has been a sharp increase in the interest expense which is not conducive as it affects the financial position of the Society. Your Committee, therefore, urges the management of the Society to come up with concrete measures to address this challenge matter. Your Committee resolves to await a progress report on the matter.

ii. *Operating Expenses*
The Controlling Officer submitted that staff costs had remained high mainly due to legacy issues from ZIMCO days called a *Long Service Gratuity*. The Controlling Officer

noted that this was paid at the time of exit at the rate of three times the basic salary by number of years served for management and for the union at basic pay by the number of years served plus basic salary times of twenty-four months. However, because of a claim at court by staff that they be paid on gross pay and not basic pay, the management decided to provide for the figures in the accounts at gross pay, which drastically inflated the figures. With the increases in salaries over the time, the Society had had to provide for this liability at a cost of K1 million per month during the financial year 2013/14. As at 31st March, 2014, K52 million had been provided for in this respect.

The Controlling Officer further submitted that the Society was making efforts to ensure that staff costs were fully covered by interest income alone. As at November, 2014, monthly staff cost was entirely covered by interest income as it was 104% of interest income. The Society hoped that by end of 2015, the staff costs would have reduced to at least 90% of interest income. The Controlling Officer also submitted that the Society had obtained the consent of the staff to do away with Long Service Gratuity as at 31 March, 2015. As for unionised staff, a collective agreement had been signed by the Joint Negotiating Council to this effect.

Committee's Observations and Recommendations

Your Committee notes the measures the Society is taking in order to reduce the staff costs and resolves to await a progress report on the matter.

iii. *Questionable Payment of Allowances to Board Members*

The Controlling Officer submitted that the minutes of the meetings could not be produced to show evidence that the payments to Board Members were for meetings which actually took place because the minutes had been handed over to the secretariat of the ZNBS Commission of Inquiry and the files on which soft copies were saved were corrupted. As a remedial measure, the Society now had a physical book in which the minutes of the board meetings were pasted and the files containing soft copies of minutes were stored on more than one computer.

Committee's Observations and Recommendations

Your Committee expresses concern that the Society has failed to avail minutes of board meetings which is unacceptable. Your Committee urges the Controlling Officer to ensure that the minutes of the meetings are availed to auditors, failure to which the payment of allowances to board members will be considered irregular and, therefore, recoverable. Your Committee awaits a progress report on the matter.

b) Financial Position - Statements of Financial Position as at 31st March, 2011, 2012, 2013 and 2014

i. *Return on Equity (ROE)*

The Controlling Officer submitted that the poor ROE in 2012 and 2014 were as a result of losses made by the Society in these years. The negative ROE of 40% in 2012 was attributed to the provision for Staff Long Term Gratuity of K34,384,043, which was previously not recognised in the books. The Controlling Officer further submitted that the negative ROE of 66% in the 2013/14 financial year was due to the loss of K18,246,000 recorded in the period under review. The loan impairment charge also increased by 190% to K4,971,000 in the year to ensure that the reported financial performance fully accounted for the loan loss provisions as stipulated. The reduction of interest income earned in a year also contributed to the loss position. ROE was projected to improve by the 2014/15 financial year end to 3.4% mainly due to the improved profitability of the Society from August, 2014.

Committee's Observations and Recommendations

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

ii. *Increases in Credit Risks against Declining Profits*
The Controlling Officer submitted that the Society's Strategic Plan focused on increasing the lending portfolio and thereby increase income. However, there was a time lag between growing the loan book and increasing profits. The Controlling Officer added that following the increase in the loan book during the 2013/14 financial year, the Society had projected to record a profit for the financial year ending 31 March, 2015 and, therefore, the increased credit risk would be matched with improved profitability.

Committee's Observations and Recommendations

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

c) Statement of Cash Flows

The Controlling Officer submitted that the negative cash flow from operating activities of K45,706,000 was mainly attributed to the investment in loans and advances which was primarily funded by financing activities of K55,000,000 from borrowings with the Development Bank of Zambia and African Life Financial Services Limited. The reason for the reduced interest income was the reduction in interest rates and the increase in loan tenors whilst the increase in interest expense was attributed to the borrowings of K55,000,000. The losses reported also contributed to the negative cashflows. The Controlling Officer stated that in order for the Society to have a positive cash flow from its operations, it had embarked on an extensive deposit mobilisation through the branch network and increased profitability.

Committee's Observations and Recommendations

Your Committee urges the Auditor-General to note the matter in future audits.

d) Weaknesses in Managing Loans and Advances

i. *Questionable approval practices for insider lending - No written Approval/ Minutes of Board meetings availed.*
The Controlling Officer submitted that all loans to the Managing Director and other Directors were approved by the Credit Committee, although not presented to the Board for approval. However, before being disbursed, they were ratified by the Board afterwards. The loans to the other staff were approved as per delegated authority and if the loan amounts were higher than the delegated authority bestowed on the Managing Director by the Board, the loan was escalated to the Board for approval.

The Controlling Officer explained that in order to fully address the matter, the Society had written to the Bank of Zambia seeking guidance on who an insider was and the response was being awaited. Further, the Society had increased the budgetary allocation for the 2015/16 financial year to carter for additional meetings of the Credit Committee for approval of loans for staff.

As regards, the approval granted by the Committee Chairperson alone, the Controlling

Officer submitted that this was done to reduce the cost of meetings given the frequency of loans needing approval. He noted that if applications were to wait for the full Credit Committee and Board approvals, ZNBS would be uncompetitive and unable to meet customer aspirations.

Committee's Observations and Recommendations

Your Committee observes that the provisions of the Statutory Instrument (SI) No. 97 of 1996, are clear and unambiguous regarding who an insider is and how applications for such persons must be treated. Your Committee does not accept the submission by the Controlling Officer that following laid down procedures would make the Society uncompetitive as this provision is in respect of staff loans. Your Committee, therefore, urges the Controlling Officer to strictly adhere to provisions of Statutory Instrument (SI) No. 97 of 1996, failure to which disciplinary action should be taken against management. Your Committee awaits a progress report on the response from Bank of Zambia.

ii. *Failure to take possession of Repossessed Mortgage Property (Stand No.14553 Makeni Lusaka)*

The Controlling Officer submitted that the Society commenced an action for possession of land from the squatters and a writ of possession would be executed by bailiffs. The Controlling Officer submitted, however, that the Society would have to demolish a large illegal settlement that had encroached on the land. He stated that as a result of this complication, the matter required to be handled sensitively. The Society had, in this regard, engaged state police and the Office of the Sheriff of Zambia for the demolition exercise expected to take place by the end of April, 2015.

Committee's Observations and Recommendations

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

ii. *Weaknesses in managing Banking Loans and Services - Lack of follow ups on defaulting customers*

The Controlling Officer submitted that written and telephonic follow-up had since been undertaken and of the thirty-five defaulting customers, twenty-one had since responded by way of re-instituting the stop orders or making cash repayments. A number of them were currently making regular monthly repayments.

Further, Branches had been reminded to record these activities and file them properly as it was mandatory that defaulting customers were written letters of reminder before they could be registered with the Credit Reference Bureau (CRB) or legal action taken against them.

Committee's Observations and Recommendations

Your Committee observes that the officers breached the provisions of the operations manual when they failed to make follow ups on defaulting customers as prescribed by the manual. Your Committee, therefore, urges the Controlling Officer to ensure that the Management takes disciplinary action against the erring officers responsible for the anomaly. Your Committee resolves to await a progress report on the matter.

- **Uncleared Suspense Account-K3,886,330**

  The Controlling Officer submitted that the Society had since created a centralised unit at head office responsible for clearing long outstanding suspense account items. The Unit had been proactive in engaging with various stakeholders to ensure that this was achieved. Of the K439,899 identified by the inspection team, K200,925 had been cleared. The balance of K238,974 was expected to be cleared by 30th April, 2015.

Committee's Observations and Recommendations

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

- **Weakness in Reconciling Bank Accounts**

  The Controlling Officer submitted that a significant number of outstanding items which were reported had been identified and cleared. A system was in place where monthly reconciliations were done and follow ups made on outstanding items. However, items that arose as a result of the banker's omission or commission were the ones that had been outstanding for a long time. The Controlling Officer explained that a number of them related to the challenges faced during inception of the cheque truncation system. With the Kabwe branch, there were three cheques which were not credited in amounts of K1,068.71, K6,133.17 and K430 whilst on the Kapiri branches, it was for two cheques in amounts of K800 and K200. These would be handed over to the Legal Department for further follow ups with Zanaco. The Mufulira branch had two cheque deposits in amounts of K7,645.49 and K1,000 which were lost by the bankers and the Legal Department had since taken up the matter. The K1,576,237.50 on Solwezi branch was being subjected to further internal processes of having it cleared.

Committee's Observations and Recommendations

Your Committee agrees with the Auditors that there exists a significant weakness in the reconciliation of bank accounts which is unacceptable. Your Committee urges the Controlling Officer to ensure that there is enhanced supervision of the accounting system by management. Your Committee awaits a progress report on the matter.

- **Deposits recognised in cashbook but not received in bank: K1,609,702**

  The Controlling Officer submitted that of the deposits amounting to K1,609,702 queried, an amount of K1,594,014 still remained outstanding.

Committee's Observations and Recommendations

Your Committee expresses concern that amounts totaling K1,609,702 recognised in the cashbooks of three branches were not reflected in the Bank statements which is unfortunate as it overstates the cashbooks. Your Committee, therefore, urges the Controlling Officer to address the matter without further delay and provide a progress report. Your Committee awaits a progress report on the matter.

- **Deposits recognised in bank but not recognised in cashbook: K1,121,068**

  The Controlling Officer submitted that out of an amount of K1,121,068, amounts totalling K98,549 were still outstanding.

Committee's Observations and Recommendations

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

- **Payments recognised by the Bank but not by the Society**

The Controlling Officer submitted that of the payments amounting to K153,554 queried, payments amounting to K142,469 were still outstanding. The Controlling Officer further explained that the Board had approved a proposal for ZNBS to join the Zambia Electronic Clearing House (ZECHL). Once ZNBS was admitted to the clearing house, these reconciliation difficulties would be resolved.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer and urges him to ensure that proper systems are put in place. Your Committee observes that the Society is experiencing serious challenges in reconciling payments and urges the Controlling Officer to ensure that management resolves the matter. Your Committee resolves to await a progress report on the matter.

iv. *Inadequately Supported Payments-K1,916,040*

The Controlling Officer submitted that this was due to poor record keeping. He noted that the records were fragmented in that the Stores Department kept the Goods Received Notes while the Finance Department kept the orders, invoices and receipts. Subsequently in 2013/14, the Finance Department made issuance of the Goods Received Notes a prerequisite to payment of suppliers where they were applicable. Further, the Society had a centralised stores system in that only local purchases were received by stores and in turn Goods Received Notes issued. Out of the six payments sampled, the four without GRNs related to purchases that were made by the northern region and hence Goods Received Notes were not issued. Further, the Society now required that all documents such as Orders, the Invoices and Goods Received Notes were made available before a payment was issued.

Committee's Observations and Recommendations

Your Committee expresses concern that the Society, which has qualified staff, fails to maintain supporting documents as required by Financial Regulations. Your Committee resolves not to close the matter until all the payments are adequately supported. Your Committee will, therefore, await a progress matter on this matter.

v. *Missing Payment Vouchers-K1,360,885*

The Controlling Officer submitted that of the payments amounting to K1,343,155.65 of the total amount of K1,360,884.65 related to payroll entries. He explained that with payroll entries, the system did not raise individual payment vouchers for each entry but the entries were summarised on the journals using the payroll reports. The Controlling Officer added that since most of these payments were huge, direct instructions were given to the bank to transfer the funds to respective recipients.

Committee's Observations and Recommendations

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

e) **Failure to remit NAPSA Contributions-K422,222**

The Controlling Officer submitted that the figure of K11,915,200.11 in respect of penalties was a historical figure that dated back to the year 2000. The total principal was settled in prior years and what was outstanding was the interest component. The Controlling Officer submitted that there was an agreement between the National Pension Scheme Authority (NAPSA) and the

Society to dismantle the outstanding balance in form of penalties by making monthly payments of K65,000.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that outstanding balances are paid and your Committee awaits a progress report on the matter.

ZAMBIA POSTAL SERVICES CORPORATION (ZAMPOST)
AUDIT QUERY PARAGRAPH 20

Background

21. The Zambia Postal Services Corporation (ZAMPOST) was established by the *Postal Services Act No. 24 of 1994* for the purpose of providing 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 which fell under the control of the Ministry of Transport, Works, Supply and Communication was wholly owned by Government.

Review of Operations

A review of operations of the Corporation for the period 31st March, 2013 to 31st March, 2014, carried out in September, 2014, revealed the following:

a) **Failure to Appoint a Representative from the Zambia Federation of Employers on the Board**

The Controlling Officer submitted that the matter had been brought to the attention of the Minister who had indicated that an appointment would be done as a matter of urgency.

Committee's Observations and Recommendations

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

b) **Failure to Prepare Annual Reports**

The Controlling Officer submitted that the new management had taken keen interest in facilitating the preparation of audited financial statements and so far the backlog of reports for the financial years 2007, 2008, 2009, 2010, 2011 and 2012, had been cleared. The reports had since been audited, signed and submitted to the Office of the Auditor-General. The Controlling Officer further submitted that the audited accounts for 2013 and 2014, were currently in draft form. Management's intention was to be current by end of this year 2015.

Committee's Observations and Recommendations

Your Committee notes the efforts by the management of Zampost and urges the Controlling Officer to ensure that the Corporation is current with the preparation of audited financial statement by the end of 2015, as assured. Your Committee resolves to await a progress report on the matter.

c) **Non-remittance of Statutory Contributions and Taxes-K139,369,606**

The Controlling Officer submitted that the reason for this query was that the Corporation had been loss-making since its inception in 1994. The Controlling Officer explained that the Corporation had survived through cash flows that were illegal as they were derived from defaulting on various tax payments to the Zambia Revenue Authority (ZRA), obligations to NAPSA and payments to retirees.

The Controlling Officer, however, submitted that from 2012 to 2014, management had cleared the backlog of payments for retirees for the years 2005 to 2011, including legal fees amounting to K3.1 million involving cases where retirees had sued the Corporation for non-payment of terminal benefits. In addition, the management had facilitated payment of K16.1 million to retirees who separated from the Corporation between January, 2012 and December, 2014.

The Controlling Officer explained that following the payment of monies owed to the retirees, the management planned to commence paying the backlog of its statutory obligations

Committee's Observations and Recommendations

Your Committee takes note of the efforts made by ZAMPOST management to start meeting the Corporation's statutory obligations, but notes that this needs to be done urgently in order for the Corporations to avoid penalties. Your Committee further urges the management of the Corporation to consider entering into time-to-pay agreements in order to reduce the burden. Your Committee resolves to await a progress report on the matter.

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

The Controlling Officer acknowledged that revenue generation increased by 18% during the period under review and explained that the first quarter of 2013 was profitable by K824,000 while the first quarter of 2014 was profitable by K715,000**.** The Controlling Officer reported that the subsequent quarters in both 2013 and 2014 were, however, unprofitable due to increases in salaries.

The Controlling Officer added that the salary increments given were dictated by the existing collective agreements and the employment contracts which required that salaries be increased annually even when there was no corresponding increase in revenue generation. To address the concern, management had engaged the Office of the Labour Commissioner and the Union in order to ensure that salary increments were only given when the Corporation recorded improvements in revenue generation.

Committee's Observations and Recommendations

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

e) **Statement of Financial Position**

The Controlling Officer submitted that the weak financial position of the Corporation which was a consequence of the sustained loss-making since inception twenty years ago. The Controlling Officer submitted that management had introduced new services such as banking, motor vehicle clearance and provision of financial services at its outlets in a bid to diversify its operations. He noted that these efforts were yielding positive results and the management hoped that the recorded increases in revenue and profit would positively affect the financial position of the

Corporation. On specific matters he submitted as set out below.

i. *Excess Liabilities over Assets*

The Controlling Officer submitted that sustained loss-making had resulted in failure to meet obligations, consequently exacerbating the excess of liabilities over assets. The Corporation was diversifying its services in order to ensure that its operations were profitable.

Committee's Observations and Recommendations

Your Committee resolves to close the matter and requests the Auditor-General to note the matter in future audits.

ii. *Liquidity Position*

The Controlling Officer submitted that the management was diversifying the Corporation's services in order to ensure that its operations were profitable.

Committee's Observations and Recommendations

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

iii. *Unsupported Provision for Bad Debts*

The Controlling Officer submitted that a credit policy encompassing the basis for the provision of bad debts had been passed to the Finance Committee for presentation to the Board for approval.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the credit policy is approved by the Board in order to provide guidance to management on debt management. Your Committee resolves to await a progress report on the matter.

f) **Irregular Payment - Branding of Post Office with MultiChoice**

The Controlling Officer submitted that Multi-Choice Zambia had committed to refund ZAMPOST for expenditures incurred on signage and negotiations to this effect had began.

The Controlling Officer further submitted that the exercise cost ZAMPOST an amount of K107,247 which resulted in increased revenues from K3,200 per month at inception in May, 2012, to K260,000 in December, 2014. The cost-benefit analysis revealed that from the one-off expenditure of K107,247 ZAMPOST's revenue (commission) per month and the signage cost had since been fully recovered. The total commission earned from the MultiChoice business as a result of rolling out to more post offices amounted to K3,327,244.

Committee's Observations and Recommendations

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

g) **Misappropriation of Funds - Livingstone Post Office-K187,000**

The Controlling Officer submitted that the Corporation had reported the matter to the Police and the employees concerned had been dismissed.

Committee's Observations and Recommendations

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

ZAMBIA TELECOMMUNICATIONS COMPANY LIMITED (ZAMTEL)
AUDIT QUERY PARAGRAPH 21

Background

22. ZAMTEL was created in 1994, after the Post and Telecommunications Corporation (PTC) of Zambia was split into Zambia Telecommunications Company Limited (ZAMTEL) and Zambia Postal Services Corporation (ZAMPOST). The Company was incorporated in July, 1994, under the *Companies Act Chapter 388* of the Laws of Zambia. Government of the Republic of Zambia was a sole shareholder and the Company conducted business on behalf of the Government.

In July, 2009, the Government decided to pursue a partial privatisation of ZAMTEL, making available up to seventy five percent (75%) of the Company's equity. The privatisation transaction was completed on 10th July, 2010, when Lap Green Networks purchased 75% of the equity in ZAMTEL for a consideration of US$257 million. However, Government compulsorily took over the seventy five percent (75%) of shares in Zamtel from Lap Green on 23rd January, 2012. Zamtel was currently now wholly owned by the Government.

Review of Operations

In July, 2014, a review of operations was carried out on the Management Information System (MIS) and accounts and other relevant records for the financial years ended 31st December, 2011 to 31st December, 2013. The review on MIS was conducted using Control Objectives for Information and related Technology (CoBIT), the International Organisation for Standardisation (ISO), International Electro-technical Commission (IEC) frameworks which were the internationally accepted and applicable frameworks. The reviews revealed the issues set out hereunder.

a) **Management Information System**

i. *Query - Lack of IT Strategic Plan*
The Controlling Officer acknowledged that Zamtel had no documented IT Strategic Plan. The Controlling Officer explained that an IT strategic plan aligned to Zamtel's strategic plan would be developed and submitted for approval by the Zamtel Board. At the time of the audit, Zamtel provided a soft copy of the ICT Policy to the audit team which was not accepted as the policy was not yet approved by Zamtel Board.

Committee's Observations and Recommendations

Your Committee expresses concern that Zamtel has been operating without an IT strategic plan, which is unacceptable. Your Committee urges the Controlling Officer to ensure that an IT strategic plan is developed and implemented without any further delay. Your Committee awaits a progress report on the matter.

ii. *Lack of an IT Steering Committee*
The Controlling Officer acknowledged that Zamtel was operating without an IT Steering Committee to oversee the implementation and monitoring of the entity's IT projects and activities. The Controlling Officer further explained that the proposal for the constitution of an IT steering committee had been developed and would be considered by Zamtel management after an ICT Governance Consultant from South Africa had reviewed all IT

governance documentation and processes. The review commenced in March, 2015 and would end in the second quarter of 2015.

Committee's Observations and Recommendations

Your Committee observes that failure by Zamtel to constitute an IT steering committee is one of the reasons why the institution is beset with numerous ICT irregularities. Your Committee, therefore, strongly urges the Controlling Officer to take keen interest in the matter and ensure that the steering committee is put in place without any further delay. Your Committee awaits a progress report on the matter.

iii. *Lack of Information Security Policy*

The Controlling Officer acknowledged that Zamtel did not have an approved Information Security Policy. The anomaly was as a result of the fact that all strategic and policy documents, including the Information Security Policy, were supposed to be submitted for approval to the Board by the end of 2014, to ensure that the whole organisation was aligned to ICT Governance. These timelines had, however, been moved to the second quarter of 2015, to ensure the alignment of all Zamtel policies and procedures.

Committee's Observations and Recommendations

Your Committee expresses concern that this process has taken too long and urges the Controlling Officer to ensure that the matter is urgently resolved. Your Committee awaits a progress report on the matter.

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

The Controlling Officer acknowledged that Zamtel did not have a business continuity plan and discovery plan and related infrastructure necessary to support continuity of business operations. The Controlling Officer further submitted that a draft Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) had been developed and would be tabled before the Board in the second quarter of 2015.

Committee's Observations and Recommendations

Your Committee expresses concern that this process has taken too long to resolve and urges the Controlling Officer to ensure that corrective action is taken. Your Committee awaits a progress report on the matter.

b) **Statement of Comprehensive Income and Expenditure – Profitability**

The Controlling Officer submitted that the revenue dropped principally due to the liberalisation of the international gateway and reduction of interconnection of local rates by the regulator (ZICTA). This was in line with Government policy to allow competitors to have access to the international gateway. The Controlling Officer further submitted that interconnection revenue which accounted for 40% of total revenue in 2011, dropped by K200 million as a result. Further, distributor discount amounting to K20m was adjusted against revenue in 2012 due to the change in the reporting format of the financial statement in compliance with IFRS.

The Controlling Officer also submitted that the cost of sales increased by K12m due to the introduction of low cost handsets and 3 G modems as part of the acquisition strategy for 2012, which collectively accounted for over K9m of the total costs in question. The Controlling Officer further submitted that the loss of K224m was mainly due to the loss in interconnection revenue of K200m, the change in channel distribution model which attracted distributor discount of K20m against K6m in 2011. Secondly, the commissioning of new GSM sites in 2012 and the K36m exchange loss recorded in 2012, against the K22m gain in 2011, resulting from the depreciation of the Kwacha and the K4m increase in interest expenses due to the acquisition of additional equipment under vendor financing facilities all contributed to the loss. The Controlling Officer assured your Committee that Zamtel had put in place turnaround strategies that would make the business profitable. The cornerstone for the turnaround strategies was the recapitalisation of the business by way of a sovereign guarantee backed loan to Zamtel.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that Government has classified the amount as shareholder loan. Your Committee is of a view that the Government should clearly state its position as it is not clear how the matter has been treated in the books. Your Committee awaits a progress report on the matter.

c) **Statement of Financial Position**

i. *Liquidity*

The Controlling Officer submitted that the negative working capital of K183m was primarily due to a K150m provision included in the current liabilities for ex-Zamtel employees who were underpaid their terminal benefits at separation following the partial privatisation of Zamtel. Zamtel had since engaged the Government who had committed to settle the debt. The current portion of borrowing increased from K66m to K128m due to the acquisition of $33m worth of equipment. The vendor was currently in negotiations with their bankers on the terms of the financing arrangements. Once done, appropriate reclassifications would be undertaken.

Committee's Observations and Recommendations

Your Committee observes that the Company is facing liquidity problems and urges the Controlling Officer to ensure that the management puts in place a turnaround strategy to address the matter. Your Committee awaits a progress report on the matter.

ii. *Government Funding*

The Controlling Officer submitted that the amount in question was actually a loan to Zamtel and this was clarified by the Government and had since been reclassified as shareholder loan.

Committee's Observations and Recommendations

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

iii. *Trade and other Receivables*

The Controlling Officer submitted that the Government debt increased from zero to over K20m in 2012 and measures had been put in place to curtail escalation of debt by migrating most Government officers to prepaid service.

The Controlling Officer submitted further that distributor debtors increased from K2m to over K7m in 2012 due to the change in the channel distribution model to support the GSM business segment.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to liaise closely with the Treasury to ensure that the amounts totalling K29,299,546 in respect of unpaid telephone bills by various Government ministries are paid to Zamtel without further delay. The Controlling officer is also urged to ensure that a lasting solution is arrived at on how the repayment system can be strengthened. Your Committee resolves to await a progress report on the matter.

iv. *Under Statement of Inventories and Receivables*

The Controlling Officer submitted that the inventory amounted to K37b and included a K338m provision for obsolete stock passed in the period under review. The same applied to receivables where the amount included K124b provision for bad debts.

Committee's Observations and Recommendations

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

v. *Trade and Other Payables*

The Controlling Officer submitted that the delay in settling the annual licence fees payable to ZICTA was due to the delay in finalising the financial statements for 2012. ZICTA only issued an invoice once the financial statements were signed. As at July, 2014, K6m was paid towards liquidating the said debt. All short code and spectrum fees had since been paid in full.

Committee's Observations and Recommendations

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

d) **Lack of Title Deeds**

The Controlling Officer added that the exercise had been handed over to the Commissioner of Lands and that all properties listed under the ownership of Zamtel were receiving the full attention of that office. In pursuance of the completion of the project, Zamtel had from time to time met the Commissioner who had specifically designated a special office to complete the exercise.

Committee's Observations and Recommendations

Your Committee expresses its concern that properties in question have no title deeds which could result in them being lost as there is no proof of ownership especially during privatisation. Your Committee considers this a very serious omission and urges the Controlling Officer to assist Zamtel management to resolve the matter without any further delay. Your Committee resolves to await a progress report.

e) **Failure to Seek Attorney-General's Approval**

The Controlling Officer submitted that Zamtel initially was seeking the Attorney-General's approval for each and every contract. However, Zamtel, by letter from the Attorney-General dated 8th May, 2013, was granted authority to proceed to enter into agreements without further authority from the Attorney-General, in all operational transactions. It must be further noted that the Attorney-General, taking into consideration the provisions of Article 54(3) of the

Constitution, advised Zamtel to "weigh the significance of the contract and the consequence to Government policy and public resources" in deciding which agreements required the advice and authority of the Attorney General. The Attorney-General went further to state:

"……..While procurement contracts would generally require clearance, ordinary operation agreements may not. If in doubt, your company should consult the line Ministry or this office. For the avoidance of doubt, every day operational agreements other than procurement contracts may not require my office's clearance."

The contracts in question are in the ordinary course of Zamtel's business.

Committee's Observations and Recommendations

Your Committee strongly urges the Attorney–General to consider revisiting the blanket authority as it has been observed that it leaves room for abuse by the parastatals. Your Committee awaits a progress report on the matter.

f) **Poor maintenance of Buildings**

The Controlling Officer submitted that in 2010, when the Government sold the majority of the Zamtel shares to Lapgreen, most of the Zamtel buildings were abandoned as the new owners preferred centralised operations and administration. When the Government repossessed Zamtel in 2012, management put in place a plan to improve the state of these buildings and for those with commercial value, improve their lease value. The process included obtaining title deeds for all these properties by the Legal Department and carrying out a countrywide evaluation of the Zamtel properties as a basis for open market rent, open market value, reinstatement value and collateral, as deemed necessary.

However, due to lack of funds, management was unable to carry out the planned refurbishments, although some remedial maintenance works were still being carried out at various properties throughout the country.

Management had taken the initiative of renting out some properties and where agreeable, had tenants renovate such property to Zamtel's satisfaction and had such costs recovered from future rentals. A Zamtel property committee had also been formed to spearhead the above process.

i. *Unoccupied Provident House*

The Controlling Officer submitted that Provident House, stand No. 4488, was a Zamtel property which was under care and maintenance of Sherwood Greene Property Managers. The responsibility had been solely given to the property managers to maintain and lease the property to willing and reputable organisations at an agreed fee derived from rentals collected. The Controlling Officer noted that the occupancy had been low, mostly due to the elevators that were not working and the current state of the building which required total refurbishment to make the property better than was the case now. To this effect, management had engaged a firm of Chartered Quantity Surveyors who had since provided the estimated costs for refurbishment of Provident House. Once funds were available, a budget line would be provided to carter for the refurbishment.

Committee's Observations and Recommendations

Your Committee observes with concern that the cost of care and maintenance of Sherwood Greene Property Managers may rise with time as the Government is taking too long to refurbish the properties. Your Committee urges the Controlling Officer to ensure that the cost of care and maintenance does not escalate to unmanageable amounts. Your Committee resolves to await a progress report on the matter.

ii. *Neglected Engineering warehouse and general stores*
The Controlling Officer submitted that the property had been put under care and maintenance of the Zamtel Facilities Section while suitable tenants were being sought.

Committee's Observations and Recommendations

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

iii. *Abandoned Arusha Street Garage*
The Controlling Officer submitted that the Arusha Workshop on Stand No. D7 was earmarked for renovations once funds were available. It was expected that such properties would pay their own operational costs and become a revenue stream for Zamtel.

Committee's Observations and Recommendations

Your Committee urges the Auditor-General to note the matter in future audits.

iv. *Abandoned Kitwe Town Centre Plot*
The Controlling Officer submitted that the Town Centre Plot No. 4278 Oxford Avenue was being considered for construction as a Zamtel facility once funds were available. Plans to this effect had been submitted to Kitwe City Council for approval. The Council who had since advised that the area was earmarked for double storey buildings and Zamtel would resubmit plans in line with the guidance given. The water tank in question was not the property of Sunshine, but an old tank that used to supply water to Zamtel and Customs Office and was non-functional. A boundary fence was being built to fully secure the plot.

Committee's Observations and Recommendations

Your Committee finds the Controlling Officer's submission misleading and urges him to ensure that there is clarity on the ownership of the tank. Your Committee resolves to await a progress report on the matter.

v. *Neglected Parklands Workshop*
The Controlling Officer submitted that Parklands workshop situated on Plot No. 1431 Kitwe was a Zamtel property housing transmission equipment and a mobile network cell site. Drastic measures had been taken and considered in line with the profitable operation of the Zamtel property through the leasing out of the property to reputable tenants. So far, prospective tenants had applied to lease the property and management was currently considering these proposals. The property was under care and maintenance of the Zamtel facilities and maintenance section.

Committee's Observations and Recommendations

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

Background

23. The ZCCM Investment Holdings Plc (ZCCM-IH Plc) was established in accordance with the provisions of the *Companies Act, Chapter 388* following the successful privatisation of ZCCM Limited in March, 2000, with the purpose of holding shares on behalf of Government in various mining companies.

Review of Operations

A review of accounting and other records for the period 1st April, 2011 to 31st March, 2014, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) **Weakness in Corporate Governance**

- *Executive Chairperson*
  The Controlling Officer acknowledged that there were some weaknesses in the corporate governance of the Company in respect of the roles of the Chairperson of the Board and the Chief Executive Officer which were not distinct to ensure a clear separation of their roles. The Controlling Officer explained that the Executive Chairman was appointed by the majority shareholders. The meeting of the Company's Remuneration Committee held in March, 2015 recommended to the Board that the position of the Executive Chairperson be abolished in the ZCCM-IH structure in line with the Board Charter.

  Committee's Observations and Recommendations

  Your Committee observes with dismay that the current anomaly has been created by the majority shareholder who appointed the Executive Chairperson against the Board Charter of the Company. Your Committee, therefore, urges the Controlling Officer to ensure that the abolition of the position of Executive Chairperson is effected without delay. Your Committee resolves to await a progress report on the matter.

- *Underutilisation of the Internal Audit Function*
  The Controlling Officer acknowledged the underutilisation of the internal audit function, but submitted that an Internal Audit Charter to streamline the system of submitting the audit reports was approved in September, 2014 and as a result, ten out of thirteen audit reports had since been submitted and approved by the audit Committee. The remaining three reports had also been circulated to all the members.

  Committee's Observations and Recommendations

  Your Committee expresses concern that the management of the Company is not paying due attention to the internal audit function, which is unacceptable as it exposes the Company to avoidable risks. Your Committee urges the Controlling Officer to ensure that the matter is normalised. Your Committee resolved to await a progress report on the matter.

b) **Failure to Formalise the Role of the Executive Chairperson**

The Controlling Officer acknowledged that the roles of the Executive Chairperson were not formalised by the Board. This was because the position of Executive Chairman was appointed by the majority shareholder before the constitution of a quorate Board. The Controlling Officer further submitted that in June, 2013, the Board approved an organisational structure which included Executive Chairperson and the roles and responsibilities were also clearly defined. The Controlling Officer submitted that although the Articles of Association did not prescribe whether the Chairperson of the Board should be executive or non-executive, it was acknowledged that the appointment of an Executive Chairperson was in contravention of the Board Charter. The roles and responsibilities of the Executive Chairperson were outlined in the letter of his appointment dated 30 November, 2011.

Committee's Observations and Recommendations

Your Committee observes that the prevailing situation at the Company is not conducive as it is not only against good corporate governance but also in contravention of the Board Charter. Your Committee, therefore, urges the Controlling Officer to ensure that this and other related issues are addressed without any further delay. Your Committee awaits a progress report on the matter.

c) **Failure to approve Terms and Conditions of Service for Executive Chairperson**

The Controlling Officer acknowledged that the terms and conditions of the Executive Chairperson were not approved by the Board although this should have been the case. He explained that the Executive Chairperson was appointed by the majority shareholders and as such the terms and conditions of service were agreed between him and the appointing authority. In addition, at the time of the appointment of the Executive Chairperson, the Board was not quorate.

Committee's Observations and Recommendations

Your Committee notes the submission by the Controlling Officer, but observes that the terms and conditions of service of the Executive Chairperson should still have been tabled and considered by the Board to be regularised. Your Committee, therefore, urges the Controlling Officer to bring the matter to the attention of the Board so that the terms and conditions can be regularised. Your Committee awaits a progress report.

d) **Questionable Conditions of Service — Executive Chairperson**

- *Conflicting Conditions on Payment of Tax on gratuity*
  The Controlling Officer submitted that the Executive Chairperson was paid K625,725.83 in gratuity whilst K 920,000 was paid to his estate by the insurance company in respect of life assurance following his demise. The insurance company paid the sum insured to ZCCM-IH which it then remitted to the estate. Thus the amount of K2,545,726 stated above should be corrected accordingly.

  With regard to the gratuity payment, the Controlling Officer submitted that the contract was agreed between the majority shareholders and the Executive Chairperson. Management had, however, noted the discrepancy between the offer letter and the contract. Gratuity payments had to be based on the contract because it was the contract that created the legal basis for the payment of gratuity.

  Committee's Observations and Recommendations

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

- *The non-provision of a ceiling on holiday expenses*
  The Controlling Officer acknowledged that the contract did not provide for a ceiling regarding the amount to be spent during holidays. He noted, however, that with the proposed

abolition of the position of Executive Chairperson, this matter would not recur in future.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for ZCCM IH to have drawn such a defective contract and urges the Controlling Officer to ensure that the officers who drew up the contract are disciplined. Your Committee further urges the Controlling Officer to ensure that the matter is addressed without further delay. Your Committee awaits a progress report on the matter.

e) **Financial Performance of ZCCM-IH – Statement of Comprehensive Income**

i. Income - Failure to Enforce Settlement Agreement with Konkola Copper Mines (KCM)
The Controlling Officer acknowledged that ZCCM-IH and KCM entered into a Copper Price Participation Agreement and a Cobalt Price Participation Agreement on 31 March, 2000. The two agreements were together referred to as PPAs. The Controlling Officer explained that, KCM having failed to honour the amounts due under the PPAs, ZCCM-IH laid a claim against it, which claim resulted in negotiations for the settlement of the unpaid amounts. Following negotiations, a settlement was reached and a Settlement Agreement (SA) executed. The obligations in the PPA had been done away with and replaced by obligations in the SA by way of settlement of ZCCM-IH's aforementioned claim against KCM. Therefore, there were no obligations under the PPAs.

The Controlling Officer further submitted that through the Settlement Agreement, the value was increased as the income was predictable. The lack of predictability under the PPAs meant that the fluctuations in the copper/cobalt prices posed a risk of never having to get any income from the sale of the said commodities. He noted that the rationale for releasing the PPAs and entering into the SA was to bring certainty to the price participation income. The formulae for computing the price participation amounts as well as the conditions were such that they made the payment of PPAs uncertain. The computations under the SA were negotiated in such a way that ZCCM-IH did not lose out on any amounts but locked in a predictable value.

The Controlling Officer went on to inform your Committee that the payments due from KCM under the SA were provided for under Parts A and B. Part A installments totalled US$46,324,655 and were to be paid on or before 31 August, 2013. However, KCM had stated that its cash flows had been stressed due to the decline in copper prices on the international market and the decline in production and escalating costs pending the completion of the Konkola Deep Mining project. KCM had to date paid USS16,500,000 of the part A liability.

The Controlling Officer also submitted that in June, 2014, ZCCM-IH negotiated regular payments to which KCM pledged to be paying US$300,000 per month. However, ZCCM-IH rejected this because the liability would have taken over fifteen years to extinguish at such a repayment rate. The Controlling Officer added that negotiations were also held in the UK in February, 2015, whereby KCM was urged to start paying the amounts due. The Controlling Officer concluded by saying ZCCM-IH had resolved to take legal action against KCM to recover both outstanding part A and B obligations, and in this regard would engage lawyers in the UK, which was the governing jurisdiction for the contract.

Committee's Observations and Recommendations

Your Committee expresses concern and disappointment that the KCM has not been able to honour its obligations and urges the Controlling Officer to aggressively pursue the matter to its logical conclusion. Your Committee awaits a progress report on the matter.

ii. *Administration Expenses - Outsourcing of Legal Services on Conveyance*

The Controlling Officer submitted that the objective of the restructuring of the Legal Department was to separate legacy matters from current and future business so that in-house counsel could focus on current and future business while legacy matters could be handled by external legal counsel with the objective of downsizing the Legal Department and reducing legal costs. As a result of the restructuring the number of staff in the Legal Department reduced from twenty-six to three employees. The Controlling Officer added that the costs related to litigation fluctuated from time to time, depending on the number of hours spent on the work. At the time of making this decision, it was not anticipated that the costs of litigation would be high as the work relating to litigation was not predictable.

The Controlling Officer further submitted that following the increase in legal costs relating to conveyancing as a result of outsourcing, Management engaged one law firm with a view of limiting the said costs. The Controlling Officer explained that once the contract with the law firm expired in September, 2016, all legacy activities would be retained under the Legal Department of the Company.

Committee's Observations and Recommendations

Your Committee expresses concern that management did not undertake a cost benefit analysis before making the decision to downsize the Legal Department. Your Committee observes that it is imprudent for the Management to pay out K8,869,816 within a period of one year and eleven months which is far much more compared to the cost of running an in-house legal service on legacy obligations which is costing the Company an average of K907,156.92 per annum in salaries for all the twenty-six members of staff. Your Committee notes that on this single score, ZCCM-IH management and the Board has failed in their primary mandate to maximise shareholders' return. Your Committee, therefore, urges the Controlling Officer to ensure that this decision is reviewed so that shareholder interests can be better served. Further, there must be a revision of the contract to include an option to terminate. Your Committee further urges the Controlling Officer to report the matter to investigative wings for further probe. Your Committee, therefore, awaits a progress report on the matter.

iii. *Administration Expenses - Outsourcing of the Environmental and Technical Services*

The Controlling Officer submitted that the creation of Misenge Environmental and Technical Services Limited (METS) was consistent with ZCCM-IH's Strategic Focus Area number 6, Resolving Legacy Liabilities by extinguishing environmental liabilities. Consistent with this objective, in December, 2012, the Board resolved to restructure the Environmental Department by incorporating METS. The Controlling Officer also submitted that the objective of the restructuring was to allow ZCCM-IH to be more focused on investment activities while METS would adopt a broader environmental and analytical services provision model, servicing not only ZCCM-IH but other clients as well, so as to provide an opportunity to create more value for the shareholders.

The Controlling Officer also submitted that the Environmental Department under ZCCM IH previously cost K5.6 million annually. In making the decision to form METS, ZCCM-IH envisaged to spend K3,152,000 in 2013/14 and thus save a total of K2.5 million annually. During the financial year ended 31st March, 2014, METS spent a total of K6.4 million of which, K3.7 million was for services rendered to ZCCM-IH while the remaining K3.2 million was capital contribution.

The Controlling Officer concluded that the management was reviewing the operations of METS to ensure viability. The management planned to support Misenge to ensure that it was self sustaining over time, which would reduce the cost burden on ZCCM-IH.

Committee's Observations and Recommendations

Your Committee observes that this matter begs the question whether management and the Board undertook a cost benefit analysis before taking this decision. Your Committee observes that any decision that prevents the Company from maximising shareholder returns must be avoided. Your Committee urges the Controlling Officer to ensure that the decision is reviewed urgently to examine its viability. Your Committee awaits a progress report and urges auditors to keep the matter in view in future audits.

iv. *Lack of Environmental Specialists at ZCCM-IH*

The Controlling Officer acknowledged that there was no in-house expertise within ZCCM IH to undertake a review of environmental activities. The supervision of the works undertaken by METS was being done through the Technical Department which was further restructured to form Mawe Technical and Exploration company (Mawe).

Committee's Observations and Recommendations

Your Committee expresses concern that the Company does not have personnel specialised in environmental issues to deal adequately with stakeholders. Your Committee urges the Controlling Officer to work with the Company to find a solution to the matter. Your Committee resolves to await a progress report on the matter.

f) **Weaknesses in Loans Management**

i. Non-adherence to the Educational Loan Policy-K124,890

The Controlling Officer submitted that the practice on educational loans in the Company was that no deductions were effected unless the employee failed to complete the course. Where the employee completed the course successfully, the loan was written off. In this regard, he stated that the loans in question were either being recovered or had been written off.

With respect to the journal entries not being availed to the auditors, the Controlling Officer submitted that the approved supporting vouchers were misplaced and could not be located. Subsequent to the audit, educational loans were reconciled. The results for those employees who had written examinations and deductions were effected for employees who had failed examinations.

The Controlling Officer ended by submitting that ZCCM-IH had since revised its Education Loan Policy (December, 2014) such that deductions commenced immediately and in this regard deductions on all outstanding loans had been effected.

Committee's Observations and Recommendations

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

ii. *Irregular Writing Off of Education Loans-K41,765*

The Controlling Officer submitted that four of the affected employees all passed the relevant courses while the other employee did not pass the course and the entire amount had been recovered from the employee through the payroll. The Controlling Officer explained that the Board was not involved in the writing off of individual education loans as this was delegated to management through the Loan Policy provision in this respect.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification.

iii. Failure to provide Information on Recoveries of Outstanding Educational Loans

The Controlling Officer acknowledged that supporting documentation on outstanding loans was missing at the time of audit. However, a schedule indicating current status of the loans in question was currently available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern that documents in respect of the education loans were missing during the audit process and urges the Controlling Officer to ensure that the ZCCM IH Board takes disciplinary action against the officers responsible for the anomaly. Your Committee recommends the matter for closure subject to audit verification.

iv. *Failure to recover Outstanding Loans — Separated Staff-K50,616*

The Controlling Officer submitted that a loan amount of K50,616 to one employee was still outstanding at the time of audit. The affected employee was summarily dismissed on 9th December, 2013. The officer had more loans at the time of separation which could not be offset from his benefits and in May, 2014, ZCCM-IH wrote to him regarding the outstanding debt, but he had not responded. The Company would continue to pursue the matter with a view to recovering the outstanding loan.

Committee's Observations and Recommendations

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

g) Failure to complete Transfer of Title - Payment of Legal and Other Expenses

The Controlling Officer acknowledged that there had been delay in concluding the conveyance of title deeds to purchasers and donees. The delay had been caused by factors which were beyond the control of the company. These included the non-delivery of survey diagrams by the Surveyor-General, the huge cost of property transfer tax required to be paid on all third party transactions, death of purchasers, relocation of purchasers, court disputes relating to the houses and apathy on the part of the purchasers and donees. Efforts were being made to resolve some of these issues. Some of these efforts included liaison with the Ministry of Lands and publication of notices to purchasers from time to time.

Committee's Observations and Recommendations

Your Committee observes that unless the issue of title deeds for the sold properties is resolved, ZCCM IH would continue to incur huge costs in terms of legal and other expenses. Your Committee, therefore urges the Government to consider constituting an inter-ministerial committee to resolve the matter expeditiously. Your Committee awaits a progress report on the matter.

h) **Under-utilisation of Investments House/Wasteful Expenditure on Rental**

The Controlling Officer submitted that the Investments House had not been fully occupied following the relocation of staff in the Legal Department to Lusaka and the relocation of Mawe employees to Kalulushi in September, 2012. The building had been fully occupied until August, 2012 when some ZCCM-IH employees were transferred from Kitwe to Lusaka. In order to maximise the usage of Investments House, two advertisements were run in the past soliciting for tenants to occupy the offices, but this had not yielded positive results. The management had advertised for a property manager to be engaged whose terms of reference, amongst others, would be to find tenants.

The Controlling Officer further submitted that ZCCM-IH was an investments company and it was strategic to have the Company situated in Lusaka which was the commercial centre of Zambia. ZCCM-IH had planned to buy or build its own offices in the 2015/16 budget.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the building was being under-utilised and urges the Controlling Officer to ensure that the Company puts all its properties to good use. Your Committee resolves to await a progress report on the matter.

j) **Poor Performing Loans - Ndola Lime Company Limited**

The Controlling Officer acknowledged that the Government was concerned at the poor financial performance of Ndola Lime Company which had resulted in the Company defaulting on agreed loan repayments. The default clause was not enforced because the project had not been completed to achieve the intended results. The results had not yet been achieved on account of the fact that Ndola Lime was faced with a myriad of challenges that threatened the company namely, low product recoveries, uncompetitive prices, an old plant which was 40 years old, high maintenance and operating cost structure and uncompetitive conditions of service.

The Controlling Officer further submitted that the objective of the Ndola Lime recapitalisation project was to modernise the lime plant so as to reduce costs of production, increase capacity and efficiency and ensure compliance with environmental regulations. He acknowledged, however, that the project had taken longer than expected to complete due to delays in securing the funding from external financiers. The result of this delay was the escalation of costs and further delays in realising the revenues on the basis of which loan repayments would be supported. The company was further negatively impacted by the increase in prices which pushed the operating costs up resulting in uncompetitive prices. It was for this reason that a decision was made to install a coal handling plant to substitute HFO as the source of water.

The Controlling Officer further explained that it was envisaged that with these efforts, profits would be recouped and real returns in form of dividends realised in the near future. In this regard the shareholder loans were being restructured to match the revised cash flow projections.
The Controlling Officer also submitted that Ndola Lime had paid an amount of KI,600,000 in 2013 towards the loan. However, as explained above, escalating costs of HFO caused significant stress on the company's cash flows, as a result of which repayments could not be sustained. He clarified that Ndola Lime had paid US $974,950 not K974,950. Payment in US$ were abolished following the promulgation of Statutory Instrument No 33 from May, 2012 and the transaction reverted to kwacha payment.

Committee's Observations and Recommendations

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

k) **Non-Current assets**

i. *Assets not Appearing on Fixed Asset Register*
The Controlling Officer submitted that the assets in question were not appearing on the assets register because they on the parent title and needed to be resurveyed for issuance of individual title. In order to correct the situation, management was undertaking a tracing exercise which was intended to fully identify the real assets that belonged to ZCCM IH. Once these were established, the assets would be surveyed, valued and recognised on the assets register.

Committee's Observations and Recommendations

Your Committee observes that the management of ZCCM-IH has not been proactive in having all the properties properly recorded in the registers. Your Committee finds it unacceptable that the management has failed to record even such properties as office furniture which points to negligence on their part. Your Committee, therefore, urges the Controlling Officer to ensure that the management and the Board of ZCCM-IH addresses the matter without any further delay. Your Committee awaits a progress report on the matter.

ii. *Lack of Title Deeds to Land and Buildings*
The Controlling Officer acknowledged that the properties in question did not have title deeds in their respective names. However, the said properties were all on ZCCM Ltd title. The lack of title for the individual properties was historical as all the properties were on one parent title. The process of obtaining the individual titles deeds for the respective properties had commenced and the management was in the process of engaging surveyors to have the parent title.

The status on each of these properties is as follows:

1) Investments House — The certificate of title had been misplaced/lost. The Company would be making an application for issuance of a duplicate title.
2) Kalulushi Mining Centre - The property had been surveyed and the Company was awaiting delivery of the survey diagrams to enable it obtain the title.
3) Kalulushi Schools - The property would have to be surveyed in order for the Company to obtain a certificate of title specific to the property.
4) Nchanga Trust School - The property had been surveyed and the Company was awaiting delivery of the survey diagrams in order to obtain the certificate of title specific to the property.
5) Ndola Archives - The title had been misplaced/lost and the Company would be making an application for issuance of a duplicate Certificate of Title.
6) Former Archives Ndola - The property would have to be surveyed in order to obtain the certificate of title.
7) Kabwe METS Office - The property would have to be surveyed in order for the company to obtain the certificate of title.
8) Lufwanyama Farm — Owing to the fact that the land was above 1500 hectares, the law provides that the lease relating to the land is to be signed by the Republican President under his own hand. The relevant documents were submitted to the Ministry and had been forwarded for the President's signature. The Company was

awaiting the signed lease to enable pursue title.

Committee's Observations and Recommendations

Your Committee expresses concern at the manner the management of ZCCM-IH is handling the issue of title deeds relating to the Company's property. Your Committee particularly expresses concern that the process of obtaining title deeds is taking such a long time. Your Committee is also concerned that title deeds to some properties have gone missing and management has not taken action against officers who did not ensure safe custody of the documents. Your Committee, therefore, urges the Controlling Officer to ensure that the issue of obtaining titles for the properties is immediately attended to. As for the title deeds that have been lost, your Committee urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee awaits a progress report on the matter.

iii. *Non-performing Investments-Lufwanyama Farm*

The Controlling Officer submitted that the initial 2012-2016 ZCCM-IH Strategic Plan emphasised the need to diversify the portfolio from mining into other sectors of the economy. This included diversifying into the agriculture sector. The land in Lufwanyama was therefore acquired for this purpose.

In this regard, a Farm Manager was recruited in August 2011 and tasked to plan for the set up and development of the farm. However, in 2012, before any agricultural activities could be undertaken, the newly appointed Executive Chairman guided that the new Government's focus was that ZCCM-IH needed to diversify within the mining sector. The 2012-2016 ZCCM-IH Strategic Plan was thus revised and amended. The amended Strategic Plan did not include diversifying into agricultural and therefore all activities relating to the farm were discontinued other than the pursuit of title deeds.

The Farm Manager was redeployed and continued working for ZCCM-IH until he was taken on by Misenge Environmental and Technical Services Limited (Misenge), a 100% subsidiary of ZCCM-IH. With respect to securing title deeds, ZCCM-IH was awaiting the President's signing of the lease as required by the law.

The Controlling Officer concluded his submission by stating that the activities to realise value from Lufwanyama land would be commenced following the amendment to the 2016 Strategic Plan which now included agriculture as an area for diversification.

Committee's Observations and Recommendations

Your Committee expresses concern at the Company's lack of a clear policy on the nature of diversification to be undertaken. Your Committee finds it unacceptable that wasteful expenditure is incurred mainly due to inertia at the strategic level of the Company. Your Committee is of the view that management and the Board of ZCCM-IH have let the shareholders down on this matter and urges the Controlling Officer to ensure that the matter is addressed to avoid further wasteful expenditure. Your Committee awaits a progress report.

l) **Failure to Generate Cash Inflows from Operating and Investing Activities**

The Controlling Officer acknowledged that the Company's cash inflows generated from operating activities had been negative over the period under review. The Controlling Officer further explained that this was on account of Ndola Lime and other subsiding units, which were in their formative stages, whose operations had not yet been able to generate positive cash flows. The Controlling Officer further submitted that cashflows from operating activities had been negative on account of increases in trade and other receivables for ZCCM-IH on account of shareholder loans to Lubambe, Maamba Collieries, Ndola Lime and Kariba Minerals. These investments were necessary for the future sustainability of the group, but were yet to pay back.

The Controlling Officer added that income from mining activities was long term in nature and thus the Company had devised strategies for investments with short to medium term returns. These included diversifying into real estate, emerald mining, and glass manufacturing, amongst others.

Committee's Observations and Recommendations

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

m) **Subsidiary Companies**

i. *Misenge Environmental and Technical Services Limited*

- **Poor Maintenance of Tailing Dumps**
- **Failure to remove Mine Waste Materials - Kabwe**

The Controlling Officer submitted that Misenge Environmental and Technical Services (METS) tookover operations from the former Environmental Department of ZCCM-IH. It was created as part of ZCCM-IH with the objective of focusing its operations on investment activities. Further, the creation of METS was meant to separate core operational activities from activities that related to legacy obligations or liabilities. The separation of METS was part of a broad measure by ZCCM-IH, with the non-core Environmental and Technical departments of ZCCM-IH hived off into 100% subsidiaries.

While it was noted that the creation of the subsidiary was to clear the legacy environmental liabilities, it became apparent that the costs associated with this closure could not be sustained by ZCCM-IH in the short-term. As a result, ZCCM-IH had resorted to monitoring and maintaining the said liabilities with a view to closing them when funds were available.

The Controlling Officer further submitted that some of the services provided by METS, specifically the management of radiation waste and the Integrated Case Management (ICM) were noble social activities, but were of a perpetual nature and should ideally be handled by the Government as soon as possible. He explained that these were significant recurring cost items accounting for approximately 78% of recurring budgeted monthly services to ZCCM-IH. ZCCM-IH was a corporate entity that was subject to liquidity constraints from time to time, and may in effect not afford to continue providing such services in perpetuity.

The Controlling Officer further submitted that ZCCM-IH was considering options of monetising some of the aforementioned liabilities. In this regard, ZCCM-IH was in the process of seeking companies with proven technological capacity that could utilise the materials in the Tailings Dumps (TDs) and process these into useful economic products. The other option considered was that of selling the TDs to firms interested in reprocessing the minerals contained therein. Such initiatives would lead to ZCCM-IH potentially saving approximately ZMW

63.5 million on site-closure and post-closure monitoring, which represented approximately 43% of the total environmental liability. ZCCM-IH also intended to liaise with the Government to follow up the former owners of the mines to meet part of the environmental obligations.

Committee's Observations and Recommendations

Your Committee observes that ZCCM IH is far from finding a lasting solution in as far as the management of mine waste is concerned. Your Committee urges the Controlling Officer to ensure that adequate funds are secured for legacy environmental issues and also to work with the Company to resolve the matter. Your Committee resolves to await a progress report on the matter.

ii. *Mawe Exploration and Technical Services Limited - Failure to Sign Shareholder Loans*

The Controlling Officer submitted that ZCCM-IH Management was in the process of executing a shareholder loan agreement with Mawe to cater for the advanced funds both for the years ending 31st March, 2014. The Controlling Officer explained that a review of the records revealed that a total of K9,799,625 had been advanced to Mawe as at 31st March, 2014, broken down as follows:

- K6,060,773 in cash or bills paid on behalf of Mawe
- The balance of the related party transactions for the year amounted to K3,738,852 for the plan, equipment and intangible assets transfer.

This total of K9,799,625 would be in the shareholder loan agreement and would be subject to other developments regarding the status of Mawe as a subsidiary which was under review.

Committee's Observations and Recommendations

Your Committee observes that the management of ZCCM-IH has mishandled the advancements made to the subsidiary and there are no supporting documents indicating the terms of repayments. Your Committee urges the Controlling Officer to ensure that the ZCCM-IH changes the way it deals with funding to the subsidiary company by putting in place proper documentation to support the agreements. Your Committee resolves to await a progress report on the matter.

iii. *Maamba Collieries Limited – Questionable Valuation of Assets*

The Controlling Officer acknowledged the findings of the Auditors but explained that the sale of 65% ZCCM-IH shares in MCI, was a privatisation matter which was done by Zambia Development Agency (ZDA).

Committee's Observations and Recommendations

Your Committee finds the explanation unacceptable as the Company should have an input in the sale process. Your Committee resolves to close the matter.

iv. *Kariba Minerals Limited - Loss Making Investment*

The Controlling Officer acknowledged the poor financial state of KML at the time of investment by ZCCM-IH but explained that the decision to invest was made on the premise that ZCCM-IH would work with the other shareholder, Gemfields to turn around the company and save about 200 jobs that would have been lost had the company been wound up. The Controlling Officer conceded that the business turnaround was yet to be achieved and in the meantime ZCCM-IH was working together with the other shareholder, Gemfields, in trying to resolve the operational challenges that KML was facing. One proposal was agreeing to buy or sell shares so that one party could become the majority shareholder, and would be responsible for the management and financing of the company.

Committee's Observations and Recommendations

Your Committee observes that the investment in the Kariba Minerals Limited (KML) by ZCCM-IH would not be justifiable as long as the Company would remain non profitable. Your Committee, therefore, urges the Controlling Officer to consider taking options that would make the business profitable and contribute toward the maximisation of shareholder value. Your Committee resolves to await a progress report on the matter.

v. *Nkandabwe Coal Mines*

- **Non- Productive Mine-K16,543,201**
  The Controlling Officer submitted that Nkandabwe Coal Mine Limited (NCML) had remained under care and maintenance from the time ZCCM-IH acquired the licence because of the protracted negotiations with the former owners. He noted that ZCCM-IH could not commence mining operations before resolving the dispute over sale or lease of the assets that the Chinese left at the mine when the licence for Collum Coal Mining Industries Limited was revoked.

  ZCCM-IH was in talks with the owners of Collum Coal to buy the assets. Further, expenditure resulting from care and maintenance was essential to ensure that the mine did not flood and that spontaneous combustion was controlled. Without care and maintenance, it would be very expensive to revamp operations once the current disputes were resolved.

  Committee's Observations and Recommendations

  Your Committee notes the submission and urges the Government to urgently resolve matters pertaining to the future of the mine. Your Committee resolves to await a progress report on the matter.

- **Encroachments in the Mining Area**
  The Controlling Officer submitted that the human settlement had been reported to ZEMA to assess the environmental liability that would be added to all the other liabilities for the former owners. The resettlement action plan would only be addressed with the former owners' involvement.

  With respect to the heaps of coal found at the mine, the Controlling Officer submitted that these belonged to the former mine owners (Collum Coal) and, therefore, ZCCM-IH could not tamper with them without the risk of litigation.

  With regard to the underground fires, the Controlling Officer submitted that spontaneous combustion was the nature of coal and the interim management appointed by ZCCM-IH was expected to sit in temporary. The mitigation measures placed at the mine was meant to combat such occurrences by putting out the fire which was part of the care and maintenance activities.

  Committee's Observations and Recommendations

  Your Committee awaits a progress report on the matter.

CONCLUSION

24. Your Committee wishes to express its gratitude to you, Mr Speaker, and the Office of the Clerk for the support rendered to it when considering the Report of the Auditor-General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December, 2013. 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 Audits when considering submissions from the witnesses.

M G M Imenda, MP June, 2015
CHAIRPERSON **LUSAKA**

APPENDIX I

List of Officials

National Assembly
Mr S Kawimbe, Principal Clerk of Committees
Ms M K Sampa, Deputy Principal Clerk of Committees
Ms C Musonda, Acting Committee Clerk (FC)
Mr S Chiwota, Assistant Committee Clerk
Mr A Chilambwe, Assistant Committee Clerk
Ms C Mtonga, Stenographer
Mrs G M C Kakoma, Stenographer
Mr R Mumba, Committee Assistant
Mr M Chikome, Parliamentary Messenger