REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR-GENERAL FOR 2005 ON THE ACCOUNTS OF PARASTATAL BODIES FOR THE FIRST SESSION OF THE TENTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON 10TH NOVEMBER 2006

Consisting of:

Mr C L Milupi, MP (Chairperson); Mrs E M Banda, MP; Mr E M Hachipuka, MP; Mr V Mwale, MP; Mr L M Mwenya, MP; Mr B Y Mwila, MP; Mr M Ndalamei, MP; Mr P Sichamba, MP and Mr D M Syakalima, MP.

The composition of your Committee changed following the appointment of Mr M Ndalamei, MP as Deputy Minister on Tuesday, 16 October 2007.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee have the honour to present their Report on the Report of the Auditor-General for 2005 on the Accounts of Parastatal Bodies.

Functions of the Committee

2. The functions of your Committee are to examine the accounts showing the appropriation of sums approved 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 that are conferred on them under Article 117(5) of the Constitution Chapter 1 of the Laws of Zambia.

Meetings of the Committee

3. Your Committee held thirteen meetings.

Procedure adopted by the Committee

4. Your Committee requested for detailed memoranda from controlling officers of ministries where the audited institutions administratively fell under. During the oral presentations, controlling officers appeared in the company of Board and Management teams of the respective institutions.

With assistance from the Auditor-General and the Accountant-General, your Committee carried out in-depth consideration of the oral and written submissions. This Report contains the observations and recommendations of your Committee and include, in some cases, proposed remedial measures to correct the irregularities highlighted in the Auditor-General's Report.

CONSIDERATION OF SUBMISSIONS

A. NATIONAL FOOD AND NUTRITION COMMISSION (UNDER MINISTRY OF HEALTH)

Background, Management, Staff Establishment and Sources of Funds – Paragraphs 4 – 7

5. The Auditor-General reported that The National Food and Nutrition Commission (NFNC) was established by the *National Food and Nutrition Commission Act* No. 41 *of 1967*, as amended by Act No. 23 of 1975.

The functions of the Commission are to;

a) reduce mortality due directly or indirectly to malnutrition in children and focus public attention on the nutritional needs of children and youth;

b) create community interest in better nutrition to arouse public awareness of the serious impact of malnutrition and to instil public confidence in the solutions to the problems;

c) initiate studies relating to food and nutrition, especially those relating to children and youth, and make recommendations on solutions to those problems; and

d) stimulate public relation activities in relation to the National Food and Nutrition Programme and in particular, to focus public attention on the nutritional needs of children and youth.

Management

The Commission was managed by a Board of Directors comprising five members appointed by the Minister of Health. The tenure of office for Board members was two years. The Executive Director was appointed by the Board.

The Executive Director was supported by a management team comprising the Deputy Executive Director, Chief Nutritionists for Public Health and Community Nutrition, Training and Collaboration, Research and Planning, and Nutrition Education and Communication. The operations of the Commission were centralised in Lusaka. The Commission did not have regional offices, though it offered technical assistance to various nutritional groups across the Country.

Staff Establishment

As at March 2006, the authorised establishment of the Commission was fifty-nine. However, positions actually filled were forty-four, leaving fifteen positions vacant.

It was also observed that the position of Executive Director had been vacant since 2001. This situation had impacted negatively on the direction and operations of the Commission.

Sources of Funds

According to the provisions of the Act, the funds of the Commission consist of:

e) moneys that may be appropriated by Parliament; and

f) moneys or assets which may vest in or accrue to the Commission from other sources.

During the eleven financial years under review, the Commission received amounts totalling K4, 838,657,284 as Government grants as shown below:

	GRZ GRANT Received K
2004	827,893,491
2003	860,059,538
2002	699,861,486
2001	488,626,664
2000	323,501,997
1999	234,731,172
1998	275,484,618
1997	227,967,437
1996	476,977,516
1995	209,861,056
1994	213,692,309
Total	**4,838,657,284**

Controlling Officer's Submission

The Controlling Officer in response agreed that the Commission had been operating without a substantive Executive Director. The delay in appointing a substantive Director was partly due to the court proceedings involving the former Director that dragged on from 1998 to 2003 when the case was finally settled through mediation.

He further submitted that members of the Commission and management had proposed the restructuring of the NFNC. The Ministry of Health had endorsed the proposal and was awaiting final approval from Cabinet Office. At present, salaries at NFNC are poor and this has resulted in the institution failing to recruit and retain qualified staff, including the position of Executive Director. To this effect in 2007, he had written to Cabinet Office seeking authority to raise the salaries for NFNC staff to align them, at least with those of other government institutions, while awaiting the restructuring approval. Upon getting the approval, the Commission would proceed to recruit a substantive Executive Director. It was anticipated that restructuring would commence in 2008 and would begin with the recruitment of the Executive Director, Heads of Units and other key positions. This approach would allow for the Executive Director and top management to accelerate the full restructuring by 2009 and strengthen resource mobilisation.

The Permanent Secretary informed your Committee that the total number of employees for the restructured NFNC was forty-four (44) and the position of Deputy Executive Director was one of the positions earmarked for abolishing.

When asked why the Commission had not employed an Executive Director since 2003 when the case was concluded in the Industrial Relations Court, the Controlling Officer replied that their lawyers advised them not to proceed with the recruitment of another Executive Director until issues surrounding the case of the former Executive Director were completely resolved.

On whether the Permanent Secretary of the Ministry of Health was a member of the NFNC Board of Directors, he submitted that the Permanent Secretary was not a member of the Board.

Observations and Recommendations

Your Committee observe that going by the current operations of the National Food and Nutrition Commission, its relevance is questionable. They, therefore, urge the Secretary to the Treasury to follow up the restructuring proposal with Cabinet Office as a matter of urgency.

Your Committee further advise the Secretary to the Treasury to consider the following issues in the restructuring proposal to justify the continued existence of the Commission:

i) the Permanent Secretary of the Ministry of Health should be an ex-officio member of the Board of Directors; and

ii) the functions of the Commission should be expanded to possibly include:

- an expanded scope of the population it focuses its attention on. All age groups should be targeted, particularly, with the advent of the HIV/AIDS pandemic as nutrition plays a big role particularly to those on ARV therapy; and
- certifying all foods and drinks that are locally manufactured and those that are imported, as safe for human consumption.

They urge the Controlling Officer to report progress on the recruitment of the Executive Director, restructuring and revision of salaries of staff of the NFNC.

AUDIT QUERY **PARAGRAPH 8**

Failure to Produce Financial Statements

6. It was reported that according to the *National Food and Nutrition Commission Act*, it was a requirement that:

a) the Commission would cause to be kept proper books of accounts, which would be audited annually by auditors approved by the Minister responsible for Finance;

b) the financial year of the Commission would be the calendar year;

c) the Commission would, as soon as may be possible, and in any case not later than six months after the end of each financial year, prepare a report for the past financial year; and

d) the report so prepared in (c) would together with a certified copy of the accounts of the Commission as audited and the annual report of the auditor, be submitted to the National Assembly.

Contrary to the above, the Commission did not prepare financial statements for the eleven financial years ended 31st December 2004. As a result, it was not possible to review the financial position and express an opinion.

Controlling Officer's Submission

The Controlling Officer submitted that the financial statements for the period under review were not ready for audit. As a result, it was not possible to review the financial position, financial performance, changes in net assets/equity and the cash flow statement.

He informed your Committee that the financial statements had since been submitted to the Auditor-General for verification and clearance.

When asked why the Ministry of Health allowed the Commission to continue operating without preparing financial statements, the Controlling Officer replied that the Ministry of Health equally found the state of affairs unacceptable. He further submitted that there had been some technicalities in producing the statement such as the absence of opening balances on some items.

Observations and Recommendations

Your Committee observe that various Controlling Officers of the Ministry of Health did not adequately discharge their duties in that they continued disbursing funds to an institution that was not accounting for them.

They, therefore, request the Secretary to the Treasury to ensure that this state of affairs does not recur at the Commission.

They further request the Controlling Officer to report progress on the financial statements that were submitted to the Auditor-General.

AUDIT QUERY **PARAGRAPH 9**

Unresolved Legal Case

7. The Commission owned flat No 1, F/411A in Kalundu, Lusaka, which was occupied by the former Executive Director. In April 1998, the Executive Director was dismissed and he sued for wrongful dismissal. In July 2003, the Industrial Relations Court through a mediation settlement decided that the former Executive Director be paid K120, 000,000 in damages and compensation; and the issue of the purchase of the flat be decided by the Board based on the 66th Board Meeting held in November, 1996, where the Board had offered the Executive Director the flat as a deduction from his benefits.

In this regard, the Commission paid a total amount of K70, 000,000 between November, 2003 and January, 2005, leaving a balance of K50, 000,000. Subsequently, the Ministry released the balance of K50, 000,000 as final settlement in May, 2005. However, the former Executive Director returned the K50, 000,000 cheque to the Commission on grounds that the flat was part of the mediation settlement.

As at December 2006, the matter had not been resolved.

Controlling Officer's Submission

The Controlling Officer submitted that the former Executive Director was dismissed from employment by the Board of Directors for providing false information. The Executive Director sued the Commission for unlawful dismissal and on 29th July, 2003, the Industrial Relations Court awarded him K120, 000,000 in damages and compensation. Between 29th November, 2003 and 24th January, 2005, the Commission paid a sum of K70, 000,000 leaving a balance of K50, 000,000. However, the Commission did not have enough money to settle the balance and in this regard, the Board of Directors decided to offer the former Executive Director the Commission's property which was Flat No. F/411A in Kalundu. The Board of Directors acted in this way after bailiffs seized the Commission's assets on three consecutive occasions between 2004 and 2005. However, the Board of Directors rescinded its earlier decision. To assist resolve the case, the Ministry of Health provided the shortfall of K50, 000,000 to clear the amount owing to the former Executive Director, through his lawyers, who later returned the cheque stating that the house was part of the mediation settlement.

The Permanent Secretary had noted the Auditor-General's concerns and to this effect instructed the Commission's Chairperson to consult their lawyers and explore ways of how to conclude the matter. The Commission had since written to the former Executive Director, through his lawyers, instructing him to pay economic rentals valued at K1, 600,000 per month from the time he returned the cheque. He did not respond to their instructions and the Commission's lawyers were still pursuing the case.

Observations and Recommendations

Your Committee note the submission and request the Controlling Officer to report progress on the outcome of the case.

B. ZAMBIA NATIONAL TOURIST BOARD (UNDER MINISTRY OF TOURISM, ENVIRONMENT AND NATURAL RESOURCES)

Background **Paragraphs 10 – 12**

8. The Zambia National Tourist Board (ZNTB) was established by the *Tourism Act* of 1979 Chapter 155 of the Laws of Zambia.

The Board was established for the purpose of developing and promoting tourism, to provide for the licensing of tourist enterprises and to provide for matters connected with or incidental to the foregoing.

The ZNTB was governed by a Board of Directors, who were part-time, comprising the Chairperson and not less than ten other members appointed by the Minister of Tourism, Environment and Natural Resources. The Board was responsible for the formulation of policies, general administration of the business affairs of the Board and all powers vested in the Board by the provisions of the Act that governed it.

The Board members of the ZNTB held office for a term of not more than three years and members were eligible for reappointment upon expiry of their term of office.

The Managing Director was responsible for the day to day operations of the Board and was assisted by the Finance and Administration Manager, Marketing Manager and other support staff.

According to the provisions of the *Tourism Act*, the Board of Directors appointed the Managing Director and for a renewable three-year term of office. The rest of staff were appointed on a permanent and pensionable basis.

The approved staff establishment of ZNTB as at October, 2006, was twenty-seven out of which twenty-six posts were filled while one was vacant.

According to the *Tourism Act*, the sources of funds for the Board include, among others:

g) moneys appropriated by Parliament;
h) moneys and assets as may accrue to the Board in the course of its business;
i) funds by levying fees; and
j) grants or donations and by raising loans.

AUDIT QUERY **PARAGRAPH 13**

Review of Operations

9. An examination of financial, accounting and other relevant records for the financial years ended 31st December 2003 to 2005 revealed the following:

Financial Performance

a) *Income and Expenditure Account for the years ended 31st December 2003, 2004 and 2005.*

	2003 K'000	2004 K'000	2005 K'000
GRZ Grant	2,079,035	4,341,290	6,969,875
Other income	1,756,384	1,901,191	2,844,175
	3,835,419	6,242,481	9,814,050
Expenditure	4,507,626	5,850,783	8,984,291
Surplus /(Deficit)	**(672,207)**	**391,698**	**829,759**

From the analysis above, it was evident that the main source of income for the Board was the grant from the Government which increased from K2, 079,035,000 in 2003 to K6, 969,875,000 in 2005.

b) *Liquidity*

	2003 K'000	2004 K'000	2005 K'000
Current Assets	216,000	449,012	1,907,973
Current Liabilities	1,188,150	1,029,464	1,785,909
Working Capital	**(972,150)**	**(580,452)**	**122,064**

The liquidity position of the Board over the three years, from 2003 to 2005, shows an improvement from an unfavourable K972, 150,000 in 2003 to a favourable K122, 064,000 in 2005. The favourable liquidity position of the Board could be attributed to the increase in funding from the Government to cover the "Visit Zambia" campaign in 2005.

Controlling Officer's Submission

The Controlling Officer agreed with the observations.

AUDIT QUERY **PARAGRAPH 14**

Failure to Constitute a Board

10. The *Tourism Act* stated that the Minister shall appoint a Board consisting of a Chairman and not less that ten other members who shall hold office for a period of three years. On the expiration of the period for which a member was appointed, he or she would continue to hold office until replaced, but in no case shall such further period exceed three months.

It was, however, observed that the Zambia National Tourist Board operated without a Board for a period of three years from May, 2001 to May 2004.

Controlling Officer's Submission

It was regretted that the Ministry failed to constitute a Board for Zambia National Tourist Board from 2001 to 2004. The failure to do so was, mainly, due to frequent changes in Ministers during the period under review. The Ministry had four Ministers during the period. The implication of these frequent changes of Ministers was that every time the process to constitute the Board was advanced and the initiating Minister was transferred, the process would start afresh. Constitution of boards was a lengthy exercise that involved identification of suitable candidates, security vetting of candidates and taking to Cabinet for decision making. This process had to be owned by the Minister from start to finish hence the disruption in the process every time there was a change of the Minister.

Observations and Recommendations

Your Committee note the submission and urge the Controlling Officer, within his limits, not to delay the process before the Minister is changed.

AUDIT QUERY **PARAGRAPH 15**

Irregular Appointment of the Managing Director

11. According to the *Tourism Act*, the Board shall appoint the Managing Director subject to the approval of the Minister.

Contrary to the provisions of the Act, the Permanent Secretary in the Ministry of Tourism, Environment and Natural Resources appointed the Managing Director on 28th April, 2003. This was done in the absence of the Board. In addition, no records were availed to show that the selection procedure was done through a competitive process.

Though the Managing Director was appointed on 28th April, 2003, the Board only obtained approval from the Minister on the finalisation of the contract on 6th April, 2005.

Controlling Officer's Submission

He regretted that the appointment of the Managing Director was done by the Permanent Secretary and not by the Board. The reason for this was that the Board was not in place at the time of appointment.

The records on the appointment process were availed to the auditors. The recruitment of the Managing Director was out-sourced through Deloitte and Touché and the position was advertised in the press.

The Controlling Officer provided your Committee with copies of the Recruitment Report from Messrs Deloitte and Touché. The Report outlined the recruitment process, list of short listed candidates and the analysis in terms of responsiveness to the requirements of the job as indicated in the advertisement.

The Deloitte and Touché interviewing panel later made recommendations on the suitable candidate on which basis the Ministry appointed the incumbent.

The management firm was engaged to primarily bring about transparency in the recruitment process.

Observations and Recommendations

Your Committee note the submission and resolve that the matter should close.

AUDIT QUERY **PARAGRAPH 16**

Irregular Remuneration for the Managing Director

12. In April, 2003, the Permanent Secretary appointed the Managing Director and pegged the remuneration package at K47, 240,000 per month. In a letter dated 27th February, 2005, the Minister requested that the remuneration package given in the letter of appointment by the Permanent Secretary, for the Managing Director was too high and needed to be harmonised with other grant-aided institutions under the Ministry.

A comparison of remuneration packages of Chief Executive Officers in other institutions under the Ministry of Tourism, Environment and Natural Sciences revealed that the Managing Director had a higher remuneration when compared to the others as shown below:

Institution Package	Renumeration (K)
Zambia National Tourist Board	47,240,000
Zambia Wildlife Authority	22,306,900
National Heritage Conservation Commission	15,149,192
Museums Board	12,250,177

The fixing of remuneration by the Permanent Secretary was irregular as it was contrary to the *Tourism Act*.

As of January, 2007, the remuneration packages for the Chief Executives Officers in institutions under the Ministry had not been harmonised.

Controlling Officer's Submission

In response, the Controlling Officer agreed that the Managing Director's remuneration was high compared to Chief Executive Officers in other statutory bodies under the Ministry. However, it was not correct that at the time of appointment of the Managing Director in 2003, the remuneration package was fixed at K47, 240,000 per month. The correct position was that the only item in the remuneration package that was stated at the time, was the basic salary that was pegged at K18, 000,000 gross per month and gratuity at 25 percent. He provided a copy of the letter of appointment to your Committee.

All the other items that constituted the remuneration package such as accommodation, personal-to-holder vehicle, fuel, mobile phone, entertainment allowance, land phone, water, electricity, education allowance and performance bonus, were to be agreed upon later. Accordingly, these were negotiated with the Zambia National Tourist Board of Directors that agreed to some levels and later reviewed to the current level.

Therefore, the Managing Director's gross package as approved by the Board and ratified by the Minister in March, 2005 amounted to K47, 240,000.

The Controlling Officer further stated that he had assured the auditors that the Conditions of Service for the Managing Director would be harmonised upon the expiry of the current contract on 31st December, 2007.

During his appearance before your Committee, he informed them that the *Tourism Act* was in the process of being reviewed.

When asked whether the ZNTB was getting value for the money it was paying the Managing Director, the Controlling Officer submitted that indications were positive, for example, during her tenure, the number of tourist arrivals and receipts had improved as given below:

Year	Arrivals	Receipts (US$)
2005	650,000	173 million
2006	690,000	177 million

Observations and Recommendations

Your Committee note the submission and observe that two Bills; Tourism and Hospitality, and Zambia Tourism Board were tabled before Parliament. They, however, urge the Controlling Officer to report progress on the harmonisation of remuneration packages for Chief Executive Officers in institutions under the Ministry of Tourism, Environment and Natural Resources.

AUDIT QUERY **PARAGRAPH 17**

Irregular Receipt of House Rental

13. It was observed that the Board was receiving rental income from a house situated on Plot number 7843 in Woodlands belonging to their former landlord in amounts totalling, K1,800,000 in 2004 and K7,200,000 in 2005.

A review of records and inquiries made with management revealed that the house was rented by ZNTB in the 1980s. Some time in 2002, when the Board decided to terminate the rental agreement it failed to trace the owner. In October, 2004, the Board decided to rent out the house.

A test check on the records indicated that the income received was recognised in the accounts of the Board and no distinction was made that these were third party funds.

Controlling Officer's Submission

The Zambia National Tourist Board had failed to trace the landlord much earlier than 2002. On 1st September, 1997, an advertisement was placed in the Times of Zambia calling for the information on the whereabouts of the landlord. No credible information or claim was received. For this reason, the Zambia High Commission in Zimbabwe was requested to advertise this matter in that country.

The rentals received on this property were being credited to a creditor's account (and not income) until such a time that a certificate of title would be obtained. Both the 2005 and 2006 audited accounts reflected this treatment. This treatment was consistent with standard accounting practice.

When asked whether the Tourist Board had a claim over the house, the Controlling Officer submitted that considering the amount of money they have spent on maintaining the house, they felt they have a claim on the house. They had reached an agreement with National Housing Authority to hand over title.

Observations and Recommendations

Your Committee observe that if the case is mishandled, it can result in unnecessary litigation. They, therefore, recommend that the Controlling Officer should bring the matter before the Attorney-General's Chambers for advice on the way forward.

The Controlling Officer should report progress on the matter.

C. ZAMBIA WILDLIFE AUTHORITY (UNDER THE MINISTRY OF TOURISM, ENVIRONMENT AND NATURAL RESOURCES)

Background **Paragraphs 18 – 19**

14. The Zambia Wildlife Authority (ZAWA) was established under the *Zambia Wildlife Act No 12. of 1998*. Its functions included among others to:

a) provide for the establishment, control and management of National Parks and for the conservation and enhancement of wildlife eco systems;

b) provide for the establishment, control and management of Game Management Areas;

c) involve local communities in the management of Game Management Areas;

d) provide for the regulation of game ranching; and

e) provide for the licensing of hunting and control of the processing, sale, import and export of wild animals and trophies.

According to the provisions of the Act, ZAWA was managed by a Board of Directors consisting of eighteen Board members appointed by the Minister drawn from the private and public sectors for a three-year tenure and members were eligible for a further period.

The Board appointed the Director General, subject to the approval of the Minister. The Director General was responsible for the administration of the Authority and was assisted by five directors in charge of Finance and Corporate Services, Research, Planning and Information, Commercial Services and Game Management Areas, Conservation and Management and Board Secretary. The Director General, Directors and the Secretary were appointed by the Board for a renewable three year period.

AUDIT QUERY **PARAGRAPH 20**

Sources of Funds

15. According to the *ZAWA Act*, the funds of the Authority consisted of moneys as may:

a) be appropriated by Parliament;

b) vest in or accrue to the Authority;

c) be paid to the Authority by way of fees, levies, grants or donations;

d) be accepted by way of grants or donations from any source in Zambia and subject to the approval of the Minister from any source outside Zambia;

e) subject to the approval of the Minister, raise by way of loans or otherwise, such moneys as it may require for the discharge of its functions and;

f) in accordance with the regulations made under this Act charge and collect fees for services provided by the Authority.

Provisions of K4, 014,617,507 were made in 2004 and 2005 respectively in the Estimates of Revenue and Expenditure as grants to the Authority. However, the Treasury released K7,470,000,000 and K4,572,000,000 in 2004 and 2005 respectively resulting in over funding of K3,455,382,493 and K557,382,493, respectively.

During the same period, ZAWA budgeted and collected revenue through fees, levies and sales in addition to Government grants as tabulated below:

Description	**2003**	**2004**	**2005**
	K'Million	**K'Million**	**K'Million**
Budgeted Income	23,668	28,234	30,497
Actual Income Realised	16,827	24,882	28,402
Variance	(6,841)	(3,352)	(2,095)

As can be noted from the table above, the Authority collected revenue below the budgeted amounts during the periods under review.

It was also observed that contrary to the provisions of the *Zambia Wildlife Authority Act* which stipulate, among other things, that the Authority may accept moneys by way of grants or donations from any source in Zambia and subject to the approval of the Minister from any source outside Zambia, ZAWA received a

donation of K207 million in 2005 from People and Parks, an Organisation based outside Zambia, without the approval of the Minister.

Controlling Officer's Submission

In response, the Controlling Officer submitted as given below:

i) ***Over-funding of K3, 455,382,493 and K557, 382,493 in 2004 and 2005 respectively***

The over-funding was attributed to the K3, 950,329,898.00 Poverty Reduction Programme (PRP) funds for tourist access roads in Mosi-o-Tunya National Park, Lower Zambezi and South Luangwa National Parks that ZAWA received in 2004 from the Ministry of Tourism, Environment and Natural Resources. Of these funds, K3, 455,382,493 was utilised in 2004, and reflected as revenue within the same year. The balance of K557, 382,493.00 was utilised in 2005 and, accordingly, accounted for as revenue for 2005.

A copy of payment voucher for the same funds, which were part of the funds received from Ministry of Finance and National Planning by Ministry Tourism, Environment and Natural Resources in 2003 was provided. Although the voucher was dated 30th December, 2003, ZAWA only receipted the funds in January 2004.

ii) Collection of Revenue below the Budgeted Amount from 2003 to 2005

The under-collection of revenue by K6, 841 million in 2003 and by K3, 352 million in 2004 was mainly attributed to the after-effects of the Presidential ban on safari hunting as announced in the Presidential address on the eve of the opening of Parliament in 2001 and the ministerial instruction in 2002 to administratively allocate the hunting blocks. The injunctions by safari operators that followed this decision affected the industry up to 2004 as no hunting took place when the case was taken to court.

Since the Authority was expectant that the industry would recover quickly in each of the years under review, the budget for revenue was fixed at 60 percent utilisation of hunting quotas. However, it took time for the hunters, who had migrated to neighbouring countries, to return to Zambia hence the under-collection of revenue in 2003 and 2004.

In 2005, there was a recovery in hunting quota utilisation and it was expected that revenue collection from hunting, lease and park entry fees for international clients would improve. However, the heavy exchange loss due to the appreciation of the Kwacha against foreign currencies was the main contributor to the negative variance of K2, 095 million registered in 2005.

iii) Donation of K207 million in 2005 from People and Parks

It was regretted that there was an omission with regard to ZAWA's seemingly failure to obtain approval for the K207 million donations from an organisation called "People and Parks" based in South Africa. Although there were indications that the former Director-General had obtained authority from the Minister, no letter to this effect was traced.

The money received in the sum of K207 million from "People and Parks" was applied as follows:

a) renovation of the Board Room and Director General's Office which cost K62 million;
b) purchase of furniture and equipment for the Director-General's Office and Board Room worth K62 million;
c) Library rehabilitation totalling K22 million; and
d) completion of an office block housing the Procurement Department at the cost of K61 million.

Observations and Recommendations

i) Over-funding in 2004 and 2005

Your Committee resolve that the matter should close.

ii) Collections below Target 2003 - 2005

Your Committee note the submission and urge the Controlling Officer to closely monitor the financial performance of ZAWA. Causes of under collections should be addressed as soon as they are identified.

iii) Donation of K207 million

Your Committee note the submission but express worry that the moneys were applied at Head Office and not on operations.

Your Committee, therefore, urge the Controlling Officer to ensure that ZAWA applies donated funds on operations in order to sustain the goodwill of donors. They further urge the Controlling Officer to establish whether the donation carried any conditions which subsequent ZAWA administrations may have to deal with.

AUDIT QUERY **PARAGRAPH 21**

Review of Operations (Financial Performance and Position)

16. A review of the audited accounts and other relevant documents for financial years ended 31st December, 2003 to 2005 carried out in August, 2006 revealed the following:

Financial Performance

a) Profit and Loss Account for the years ended 31st December, 2003, 2004 and 2005

	2003 K'Million	2004 K'Million	2005 K'Million
Income	31,582	35,933	44,124
Expenses:			
Community share of income	20,878	3,345	4,315
Establishment Expenses	8,181	25,296	24,385
Administrative Expenses	1,949	16,008	13,451
Operating Expenses	2,311	4,539	4,584
Total Expenditure	**33,319**	**49,188**	**46,735**
Excess of expenditure over income	**(1,737)**	**(13,255)**	**(2,611)**

As can be seen above, while income rose by 39.7 percent from K31, 582 million in 2003 to K44, 124 million in 2005, the Authority continued to incur excess expenditure over income during the same period.

b) Balance Sheet

	2003 K'Million	2004 K'Million	2005 K'Million
NON CURRENT ASSETS			
Property, plant and equipment	10,306	12,526	12,938
CURRENT ASSETS			
Inventories	918	1,224	2,142
Receivables and prepayments	4,962	3,261	4,182
Cash and cash equivalent	12,115	20,419	11,510
	17,995	24,904	17,834
CURRENT LIABILITIES			
Payables and accrued expenses	20,694	27,020	30,511
Bank overdraft	-	17	10
	20,694	27,037	30,521
Net current liabilities	(2,699)	(2,133)	(12,687)
TOTAL ASSETS	**7,607**	**10,393**	**251**
Capital employed			
Capital grants	10,154	8,894	10,243
Revaluation surplus	3,506	3,506	3,506
Accumulated funds-deficit	(7,534)	(20,669)	(27,033)
Deferred income	44	13,498	8,371
NET ASSETS	**6,170**	**5,135**	**(4,913)**
Non current liabilities			
Retirement benefit obligation	1,437	5,164	5,164
SHAREHOLDERS FUNDS	**7,607**	**10,299**	**251**

As can be seen above, the Authority had net current liabilities of K2,699 million, K2,133 million and K12,687 million for the years 2003, 2004 and 2005 respectively. This entailed that the Authority was not going to be able to pay its liabilities when they fell due. The liquidity position worsened in 2005.

Controlling Officer's Submission

The Controlling Officer submitted that during the period under review, the excess expenditure was due mainly to the inclusion in the expenditure accounts of cost items that do not involve an actual outflow of cash from the Authority. The costs included were:

i) depreciation of fixed assets;
ii) provisions for gratuity; and
iii) leave pay and retirement benefits.

ZAWA followed the accruals accounting system, a principle that required that all costs that were incurred in a particular year were charged to income and expenditure of that same year even if the actual cash outflows would be in future periods.

Notwithstanding this type of accounting, the ZAWA management had been working on reducing the establishment costs, which constituted the major component. In 2006, two positions at director level and one of senior manager were abolished.

To improve the liquidity position, the Authority had advertised fourteen sites in the National Parks for the construction of lodges and hotels. This was expected to improve the revenue generation in future when concession agreements were entered into.

The Permanent Secretary admitted that the Authority was not generating enough working capital to fully meet all its operational obligations including emoluments due to lack of capitalisation in the sector by the Government. This also resulted in the failure by the Authority to meet its statutory obligations to NAPSA and ZRA. In this regard, the Authority had submitted a Business Plan to the Government, requesting for recapitalisation of the Institution.

The Controlling Officer, during the oral presentation, further submitted that wildlife had the potential of generating revenue for the Treasury. When ZAWA was created, there was no seed capital that was injected to jump start operations. As a result, the Authority did not have enough funds to adequately protect wildlife, as it lacked anti poaching equipment and required personnel. This was further worsened by poor road network.

Despite the above, there was an improvement in the revenue that ZAWA was collecting. With revenue officers in place, improved supervision of Community Resource Boards and training of unit leaders, more revenue could be generated.

When asked the level of capitalisation ZAWA desired to improve its operations, the Controlling Officer submitted that K180 billion was required in the next six years.

Observations and Recommendations

Your Committee observe that it may take a while before the benefits of having ZAWA in place are felt. They further observe that the immediate major challenge is recapitalisation. They, therefore, advise the Controlling Officer to assist the ZAWA Board and Management in sourcing funds for recapitalisation, particularly that the ZAWA Director-General has already submitted the Business Plan to Ministry of Finance and National Planning, which document the Secretary to the Treasury has acknowledged.

As efforts to improve the financial performance and position of the Authority are being made, your Committee further advise the Controlling Officer to ensure that the fundamental reasons for creating ZAWA are observed, that is, wildlife protection and conservation. This should not be compromised for mere monetary gain.

AUDIT QUERY **PARAGRAPH 22**

Registration of Property to be transferred by Government

17. According to Part I, Section 19 (1) and (2) of the *Zambia Wildlife Act*, any property, rights, liabilities and obligations of the Government through the Department of National Parks and Wildlife Service were deemed transferred to the Authority in respect of which transfer a written law provided for registration and that the Authority shall make an application in writing to the appropriate authority for registration and transfer.

It was, however, observed that the Authority did not hold title to its buildings despite enjoying economic benefits from the buildings. It was also observed that the Authority had not taken stock of its properties since its establishment in 1998.

Controlling Officer's Submission

The Controlling Officer submitted that the exercise of obtaining certificates of title to buildings, undertaking revaluations and verifying fixed assets should have been done at the transformation of the National Parks and Wildlife Services into ZAWA.

ZAWA had, however, already commenced this exercise. The Surveyor General's Office was engaged in 2006 to start surveying the ZAWA land in Chilanga with a view to obtaining title and later on extending the exercise to other ZAWA units. Unfortunately, this land surveying exercise was moving at a very slow pace. ZAWA paid the Surveyor General in April, 2006 with a view for the team to move on site in June, 2006. The surveyors were only able to move on site in March, 2007.

As at end of June, 2007, the ZAWA management had been in constant communication with the Surveyor General's Office to follow up the matter. As soon as the survey report was ready, the ZAWA Legal Counsel would write an application letter to the Ministry of Lands for issuance of the title deeds.

Observations and Recommendations

Your Committee note the submission and urge the Controlling Officer to update them on the matter.

AUDIT QUERY **PARAGRAPH 23**

Irregular Payment of Gratuity and Allowances

18. In December, 2001, the Authority appointed a Director General for an initial renewable period of three years. Accordingly, in December, 2004, the Authority renewed the contract of the Director General for a period of another three years beginning December, 2004.

However, in November, 2005, the Authority terminated the contract of the Director General after serving for a year.

According to the contract, the former Director General was entitled to, among others, a gratuity paid tax-free at 35 percent of basic annual salary payable on termination or expiration of contract. To be eligible for *pro rata* entitlement, the Director General should have served for at least two years of the contract. It was observed, however, that though the contract provided for non-payment of gratuity in the event that the contract was terminated before serving two years, the Authority paid his full gratuity and salary for the remaining two years that he had not served in amounts totalling K335, 488,842.50. In addition, the former Director-General was paid K215, 000,000 in allowances relating to the remaining period of the contract resulting in an irregular payment of K550, 488,842, which was recoverable.

In his response dated 12th November, 2006, the Director-General stated that this was a matter for the Board and the Ministry to address as they were the ones who knew what happened.

Controlling Officer's Submission

The Controlling Officer submitted that the events surrounding the payment of gratuity and allowances to the former Director-General were such that he was first paid gratuity, thereafter, he demanded payment of allowances as well.

It was on the demand for allowances, that legal opinion was sought by the Chairperson of the Board from the Legal Counsel after which the matter was tabled at the Board Meeting held on 21st April, 2006, for

approval. Therefore, based on the Board approval, management paid out allowances amounting to K215, 000,000 to the former Director-General.

The Director-General, ZAWA, had been directed to recover the money paid to the former Director General irregularly. In turn, ZAWA management had written to the former Director-General to refund the Authority the money that was paid to him irregularly.

Observations and Recommendations

Your Committee observe that the Board did not act in a prudent manner in the way they paid out the gratuity and other allowances to the former Director-General considering the weak financial position of the Authority. The Board only sought legal opinion when they were confronted with the problem of the claim for allowances. No legal opinion was sought in the first place.

They further note that the Attorney-General has advised that the action of paying the former Director-General dues as if his contract had run its full term was clearly wrong in law and in principle.

Your Committee, therefore, recommend that:

i) the Controlling Officer should advise the ZAWA Board that decisions on matters such as the one under consideration should only be made after exhaustive consultations. In their view, a second opinion should have been sought before paying the gratuity and the allowances; and

ii) the Controlling Officer should report progress on the recovery of the irregular payments.

AUDIT QUERY **PARAGRAPH 24**

Unretired Imprest

19. It was reported that contrary to Financial Regulations, it was observed that imprest in amounts totalling K368, 346,544.08 was outstanding for more than ninety days as at 31st December, 2005.

In his response dated 12th November, 2006, the Director-General stated that recoveries were instituted where amounts were outstanding for a long time and that efforts would continue to ensure that the situation was brought to an acceptable level.

Controlling Officer's Submission

The Controlling Officer submitted that as at December, 2006, a total of K330, 232,278.76 had been paid back, leaving a balance of K38, 104,265.32 unretired. A total of K19, 291,750.00 of the K38, 104,265.32 had been retired leaving a balance of K17, 054,915.32, which was at various stages of recovery through the payroll system.

When asked why imprest was not retired as per requirement of the Financial Regulations, the Controlling Officer submitted that there had been administrative lapses at the time.

Observations and Recommendations

Your Committee urge the Controlling Officer to advise the ZAWA Board and Management to ensure that supervising officers are cautioned for allowing unretired imprest to accumulate. Deductions from the salary should not be viewed as the only recourse. The Controlling Officer should submit the retirement details to the Auditor-General for verification.

AUDIT QUERY **PARAGRAPH 25**

Non Recovery of Salary Advances

20. Contrary to ZAWA regulations, which stipulate that salary advances must be recovered in three months, amounts totalling K175, 065,703 relating to salary advances to 261 members of staff were outstanding for more than two years without effecting recoveries.

In his response dated 12th November, 2006, the Director-General stated that as regards non recovery of salary advances, officers who retired were being paid their benefits by the Ministry, not by ZAWA. Consequently, the recovery of salary advances could not be done.

Controlling Officer's Submission

The Controlling Officer, in response, corrected the impression attributed to the Director General's response in which it was said that officers who retired were being paid their benefits from the Ministry, therefore making it difficult to recover advances. The Ministry only paid benefits to staff for the period they worked under the National Parks and Wildlife Service prior to the establishment of ZAWA in 2000. Therefore, ZAWA paid benefits to staff that retired and was, therefore, in a position to recover advances owed to it by such officers.

As at December, 2006, a total of 177 members of staff had fully paid back their advances amounting to K98, 425,937.00. The remaining eighty-four members of staff with advances totalling K76, 639,766.72 were at different stages of paying back. A total of K55, 055,730.15 of the K76, 639,766.72 had been retired / recovered leaving a balance of K21, 384,036.57, which was at various stages of recovery through the payroll system and would be cleared by December, 2007.

Observations and Recommendations

Your Committee note the submission and advise the Controlling Officer to submit the advances recovery details to the Auditor-General for verification.

They further urge the Controlling Officer to advise the Board and Management not to allow a situation where advances are un-recovered for longer periods. Past experience in the public sector shows that this brings about complications when an officer is dismissed, retires, resigns or dies.

AUDIT QUERY **PARAGRAPH 26**

Trade Debtors

21. It was observed that ZAWA did not have an effective mechanism of monitoring its debtors. In this regard, amounts totalling K1, 300,233,627, owed by nineteen operators, who had since abandoned their projects and left the country or were wrongly classified, could not be collected. Consequently, ZAWA management applied to the Board to write off the debts.

Controlling Officer's Submission

The Controlling Officer submitted that in order to address the situation, ZAWA, in 2006 employed commercial officers whose duties included ensuring effective revenue collection. These had been deployed in each of the four regions of ZAWA operations. Management was generally happy with the revenue collection system put in place. In 2006, a total of US$1,296,762.81 was invoiced to 128 operators and a total of US$1,043,890.26 was collected. In the first half of 2007, a total of US$1,089,275 was invoiced to 110 operators and a total of US$838,756 was collected.

Observations and Recommendations

Your Committee observe that ZAWA is not exerting its full authority on operators. The failure to collect K1, 300,233,627, which was eventually written-off, is of great concern. The 2006 collections show that the success rate was 80.5 percent that year. The 2007 preliminary figures, this stands at 77 percent. This, your Committee observe, is an improvement.

They, however, advise the Controlling Officer to ensure that ZAWA is not "too soft" with foreign tourism operators. The existence of pre-paid tour packages means that the operators have moneys accumulating in other countries and can easily abandon their operations here in Zambia. It is important to raise the collections to at least 90 percent of the invoiced value.

AUDIT QUERY **PARAGRAPH 27**

South Luangwa Area Management Unit (SLAMU)

22. In January 1999, the Government entered into an agreement with the Kingdom of Norway regarding cooperation for promotion of the economic and social development of Zambia to extend continued assistance to South Luangwa Area Management Unit (SLAMU).

According to the Agreement, the Government would make all reasonable efforts to facilitate the successful implementation of the project by granting the project status as pilot within ZAWA throughout the project period and thereby:

a) grant the project permission to retain all revenues from tourism and safari hunting in the South Luangwa National Park and the Luangwa Game Management Area;

b) allow the community based natural resources management (CBNRM) approach to be continued; and

c) delegate sufficient decision making authority to the project to facilitate its operation.

Contrary to the provisions of the Agreement with the Kingdom of Norway, the matters set out below were observed:

i) In July 2004 ZAWA entered into an agreement with L and L properties for culling of 600 hippos over a period of three years in the South Luangwa Area Management Unit. Under this agreement, ZAWA received amounts totalling K498, 033,775 in 2005. As at December 2006, only K82, 391,000 had been remitted to SLAMU leaving a balance of K415, 612,775 still owing.

ii) It was also observed that both SLAMU and ZAWA Head Office had been invoicing Chichele Lodge based in the South Luangwa National Park. In this regard, the Lodge made payments directly to Head Office instead of SLAMU, as a result, records at SLAMU indicated that Chichele Lodge owed them a sum of K523,403,066 (US $67,202) whereas the statement obtained from the Lodge showed that the Lodge was owing US$19,764 as at August 2006.

iii) It was further observed that the offices at SLAMU which were built under the project, had no title deed, and as such it had proved difficult to insure the buildings, whose roof was grass thatched and prone to high risk of fire.

Controlling Officer's Submission

In response, the Controlling Officer submitted as detailed below:

i) ***Outstanding Amount for Hippo Culling by L and L Property***

The amount of K498, 038,775 reported by the auditors as received by the ZAWA was not correct. According to ZAWA records, the actual amount received in Dollars amounted to US$129,950. At the time of conversion, this translated to K454, 825,000 at the exchange rate of K3, 500 to a US Dollar. ZAWA's obligation to the community was to the extent of remitting 50 percent of K454, 825,000, which was K227, 412,500.

ii) ***Invoicing of Chichele Lodge based in South Luangwa National Park***

The mix up in the invoicing was deeply regretted. ZAWA remitted back to SLAMU US$88,891.33 in November, 2006, being the total of the US$67,202.40 that was paid to Headquarters and US$21,688.93 which arose after reconciliation.

Since then SLAMU, had taken over the responsibility of invoicing Chichele and was collecting payments.

iii) ***Title Deeds of Office Building at the South Luangwa Area Management Unit (SLAMU)***

ZAWA had been pursuing the issue of title deeds for the offices in question since 2004. The Mambwe District Council, being the planning authority in this case, authorised the processing of title deeds in February, 2005. The matter had reached an advanced stage. Accordingly, ZAWA was expected to be issued with title deeds by the Commissioner of Lands in due course as all the necessary documents had been submitted to the Ministry of Lands.

Observations and Recommendations

Your Committee observe that there was poor cooperation from ZAWA as these responses could have been provided during the audit process. They, therefore, urge the Controlling Officers to advise the Board and Management of ZAWA to accord the audit process its due regard.

Your Committee further observe that, whilst the figures for the Hippo culling exercise may not have been accurately reported, the action that ZAWA took was against the spirit in which the project was developed. They, therefore, recommend that ZAWA should uphold the agreement to sustain donor confidence.

They further recommend that documents relating to the payments to the South Luangwa Area Management Unit for the Hippo culling exercise, and remittances of collections for Chichele Lodge should be submitted to the Auditor-General for verification.

The Controlling Officer should report progress on the acquisition of title deeds for the South Luangwa Area Management Unit property.

AUDIT QUERY **PARAGRAPH 28**

Irregular Procurement of Uniforms for Drug Enforcement Commission

23. A review of records relating to the procurement of uniforms indicated that ZAWA had procured uniforms for DEC using the Support to Economic Expansion and Diversification (SEED) project funds in amounts totalling K46, 614,610.

A scrutiny of the SEED agreement did not provide for such arrangement. There was no evidence of an agreement between DEC and ZAWA. As at October, 2006, there were 130 t-shirts, 130 combat jackets, 130 long sleeves polo neck skippers for DEC as uniforms in stores.

Controlling Officer's Submission

The Controlling Officer in his submission regretted that ZAWA procured uniforms for DEC using the Support for Economic Expansion and Diversification (SEED) project funds totalling K46, 614,610.00. He further submitted that ZAWA had bought 130 t-shirts, 130 combat jackets, 130 long sleeves polo neck skippers. Of these, 109 t-shirts, 86 combat jackets, 130 long sleeves polo neck skippers had since been issued to ZAWA staff. The balance in stock had already been assigned awaiting collection.

At his appearance before your Committee, the Controlling Officer submitted that DEC had paid ZAWA the required amount for the uniforms.

Observations and Recommendations

Your Committee note the submission and urge the Controlling Officer to advise the ZAWA Board and Management to avoid such practices. They further advise that documents confirming the payment from DEC should be submitted to the Auditor-General for verification.

AUDIT QUERY **PARAGRAPH 29**

Irregular Issue of Title Deeds in Mosi-O-Tunya National Park

24. It was reported that according to the provisions of the Act, ZAWA allocated sites in National Parks and Wildlife /Bird sanctuaries to successful bidders. The successful bidders were awarded a Tourism Concession Agreement (TCA). The TCA was a commercial agreement that regulates the conduct of the operators. It conferred the rights and obligations of the concessionaire and grantor (ZAWA). An Environmental Impact Assessment (EIA) was prepared and approved by Environmental Council of Zambia (ECZ) before the operator would proceed with the development of operations.

However, it was observed that two operators, namely, Waterfront Lodge and Maramba River Lodge had been issued with title deeds in the Mosi-O-Tunya National Park. The title deeds for Waterfront had since been cancelled and a Tourism Concession Agreement was signed on 8th February 2005 for a period of twenty five (25) years. As at August 2006, the title deed for Maramba River Lodge had not been cancelled and the Authority was not receiving any money from the Lodge, as there was no agreement though the Lodge operated in the National Park.

Furthermore, there was no evidence of an Environmental Impact Assessment having been done for the above-mentioned lodges by the ECZ.

Controlling Officer's Submission

The Controlling Officer in response submitted as set out here below.

i) Maramba River Lodge

Maramba River Lodge was one of the private properties in Mosi-O-Tunya National Park that had been in existence before the Park was gazetted. At the time of establishing the Park, Government did not revoke the title of Maramba River Lodge.

However, the operator of Maramba Lodge had been engaged into negotiations to enter into a long term Tourism Concession Agreement (TCA) and surrender the title. The TCA had already been drafted and negotiations had reached an advanced stage. ZAWA had submitted the draft Tourism Concession Agreement to the owners of Maramba River Lodge to peruse through. ZAWA was

pursuing owners for the feed back on the draft so that the Agreement could be signed as soon as possible.

ii) Waterfront Lodge

Unlike Maramba Lodge, Waterfront Lodge got title deeds more recently. However, this was done without the knowledge of ZAWA and it was for this reason that the title was cancelled and a Tourism Concession Agreement entered into.

Observations and Recommendations

Your Committee note the submission and urge the Controlling Officer to report progress on the conclusion of the negotiations on the Tourism Concession Agreement with Maramba River Lodge and on the position of the Environmental Council of Zambia.

They resolve that the matter on the Waterfront Lodge should close.

AUDIT QUERY **PARAGRAPH 30**

Outstanding Statutory Obligations

25. In accordance with the *Income Tax Act*, every employer was required to remit PAYE to the Zambia Revenue Authority (ZRA). During the period under review, it was observed that ZAWA had not been remitting PAYE. As at 30th June, 2006, the outstanding PAYE stood at K19, 656,327,267.

It was also observed that the Authority had not remitted pension contributions to NAPSA for its employees in amounts totalling K3, 544,973,232 as at August, 2006.

The issue was brought to the attention of the Board at its 4th meeting held on Friday, 16th May, 2003 by the Finance Committee, though no action had been taken as at October, 2006.

In his response dated 23rd November, 2006, the Director-General stated that efforts were being made to address the matter.

Controlling Officer's Submission

The Controlling Officer submitted that at the time of the audit, ZAWA had accumulated an amount close to K23, 201,300,499.00 in outstanding statutory obligations. As a way forward, ZAWA had presented a business plan to the Government requesting for investment in the wildlife sector if ZAWA was to be self-sustaining. The Plan included writing-off the outstanding contributions in order to enable ZAWA improve its balance sheet. The matter had been drawn to the attention of the Ministry of Finance and National Planning.

On the K23.2 billion outstanding statutory obligations to NAPSA and ZRA, the Authority had been making frantic efforts to clear the statutory obligations arrears and also to ensure that arrears did not grow despite its limited financial resources. The following payments were made towards the NAPSA contributions (K419 million in 2002, K140 million in 2003, K682 million in 2004, K1, 693 million in 2005, K1, 167 million in 2006 and K310 million in 2007). The Zambia Wildlife Authority had been instructed to start redeeming the PAYE arrears.

During the oral submission, the Controlling Officer informed the Committee that an additional K100 million was paid to NAPSA in 2007.

Observations and Recommendations

Your Committee observe that, whilst ZAWA can propose to write-off outstanding taxes or be considered for a tax waiver, this is not the case with NAPSA obligations. These have to be settled. Going by the figures provided, ZAWA is making steady progress in reducing the NAPSA outstanding obligations.

They, therefore, advise the Controlling Officer to push and spearhead the negotiations with the Ministry of Finance and National Planning to implement the Business Plan and address the outstanding statutory obligations.

They will await an update on the matter.

AUDIT QUERIES **PARAGRAPHS 31 - 32**

Share of Community Resource / Failure by CRBs to Prepare Annual Reports and Audited Accounts

26. It was reported that the communities in Game Management Areas (GMA) had formed Community Resource Boards (CRBs) which comprised a registered board for the purpose of administering the CRBs. The main sources of income for the CRBs were revenues from concessions, bird and animal fees.

As a way of equitably distributing the wildlife resources, ZAWA and the CRBs recommended allocating the utilisation of the resources as follows;

	%
ZAWA	50
Chief	5
CRB	45

The funds to the CRBs were distributed as follows:

	%
Wildlife Conservation	45
Community Projects	35
Administration	20

Board members of the CRBs are volunteers elected among the community.

Failure by CRBs to Prepare Annual Reports and Audited Accounts

According to the provisions of Part III section 5 subsections (a), (b) and (c) of the *ZAWA Act,* a Community Resource Board (CRB), was required not later than ninety days after the end of the financial year, to submit to the Authority, through the Director General:

- an audited balance sheet;
- an audited statement of income and expenditure ;and
- a report concerning its activities during that financial year.

Contrary to the provisions of the Act, sixty-two CRBs did not submit audited accounts and did not prepare the annual reports.

A review of records and other relevant documents pertaining to the operations of Community Resource Boards revealed the following:

a) ***Chiawa Game Management Area***

The Government issued a gazette number 332 in 1998 directing all operators in the Chiawa GMA to be paying land user fees. The fees were to be paid at the beginning of the year. However, as at December, 2005, total amounts of K450,999,935 and US$128,857 (K440,175,512) were outstanding as unpaid land user fees for over 120 days. As at June, 2006, the fees had not been paid and ZAWA had not invoiced the operators for the year 2006.

b) ***Chiawa Community Resource Board***

Records obtained from ZAWA indicated that Chiawa CRB received an amount of K71, 470,328 during 2005. However, a review of the bank statements of the CRB indicated that an amount of K200, 648,714 had been received from ZAWA. No explanation was given for the variance of the sum of K129, 178,386.

It was also observed that:

i) there were no expenditure details in respect of the period from January, 2003 to June, 2005 for which the Board Secretary and the Finance Chairperson gave no satisfactory explanation;

ii) ZAWA guidelines provided that the panel of signatories should comprise two from the community and another one from ZAWA. However, it was observed that the panel of signatories did not include officers from ZAWA; and

iii) contrary to the agreed guidelines, nine (9) members of the CRB paid themselves loans ranging between K1,200,000 and K10,000,000 in amounts totalling K38,200,000 between July and December, 2005. Though the loan agreements provided that the loans would be recovered by June, 2006 none of the money had been recovered as at August, 2006.

c) ***Jumbe Community Resource Board***

During the period under review, Jumbe CRB received a sum of K35,993,350 and the funds were to be apportioned as follows:

	Recommended (K)	**Actual (K)**
Chiefs' Share	-	16,000,000
Wildlife Conservation	16,197,007	7,593,850
Community projects	12,597,672	7,214,500
Administration	7,198,670	5,185,000

It was observed that contrary to the guidelines, the Chief was paid K16,000,000 from the CRB funds.

In 2003, ZAWA signed a Hunting Concession Agreement with the Mangomba Hunting Safari Company which provided for, among others, the drilling of boreholes, provision of grinding mills and the employing of five village scouts for the Jumbe CRB.

The agreement did not specify the safari operator's obligations in terms of quantities and values.

Contrary to the concession, the safari company did not sink the boreholes for the community, but instead only provided two grinding mills which were situated at the Chief's palace, and the

community was not benefiting from the grinding mills as they were not accessible to the rest of the community for which they were intended.

d) ***Chitungulu Community Resource Board***

A review of the ZAWA field report dated 2nd December, 2004, revealed that one of the Board members was given a sum of K18,000,000, paid on cheque number 000136, to purchase a grinding mill for the community which was not procured. As at August, 2006, the K18, 000,000 had not been refunded and the matter had not been reported to the Police.

It was observed that the CRB issued another cheque number 22045 in amounts totalling K13, 530,125 for the purchase of the grinding mill.

e) ***Mwanya Community Resource Board***

During the period under review, the CRB received an amount of K560, 888,489 as community share.

It was observed that:

i) Board members of the CRB diverted funds and paid themselves advances of K300, 000 each totalling K3, 000,000. The terms of the advance were that it would be recovered by December, 2005. However, as at August, 2006 the deductions had not been effected, though the members continued to be paid sitting allowances; and

ii) the Hunting Concession Agreement in the area provided, among others, the drilling of boreholes, provision of grinding mills, employing five village scouts, employing community co-ordinator, training local people to be profession hunters. Contrary to the concession agreement, the community bought a second hand light truck at a cost of K48, 000,000 from the safari hunter. The terms of payment were such that the community would drill boreholes and add an amount of K24, 000,000 paid on cheque number 00050. The basis of determining the cost of the boreholes and the valuation of the cost of the vehicle could not be ascertained. The Safari hunter had not fulfilled the other obligations he made in the Agreement.

Controlling Officer's Submission

The Controlling Officer submitted that *the Zambia Wildlife Act* required CRBs to submit audited financial statements through the ZAWA Director-General. The CRBs were required to engage the services of an independent auditor to carry out an audit of their activities. However, there had been lapses. ZAWA had continued to encourage CRBs to comply with the law with regard to their operations. Given that the communities, through CRBs, were the custodians of wildlife, ZAWA would not like to clamp down on them as this would endanger wildlife. As a result, ZAWA always sent reminders to CRBs to operate within the law.

Only when a CRB showed unwillingness to cooperate had ZAWA taken the stern action of withholding funding.

It was regretted that public funds given to CRBs were not properly accounted for. It had also been observed that ZAWA was not closely monitoring the use of funds neither did it impose appropriate sanctions on erring CRBs, even when the evidence was overwhelming.

In order to forestall any further abuse of public resources by CRBs, ZAWA had been given clear instructions to ensure that financial dealings of CRBs were transparent and in accordance with Financial Regulations.

ZAWA would now be required to submit to the Ministry quarterly financial returns on funds given to CRBs. In this way, the Ministry would be able to closely monitor the utilisation of the funds and sternly deal with erring CRBs. The Zambia Wildlife Authority was sending its officers to assist CRBs produce financial reports.

On the other specific queries, he submitted as detailed below.

a) Chiawa Game Management Area

The reason for the state of affairs was that there was a conflict between ZAWA and the operators on the land use.

The conflict arose as a result of ZAWA's decision to allow hunting activities in the eastern part of the GMA where the lodges are located. The operators had protested against the action by not paying the land user fees. After discussions between ZAWA and the concerned parties, the matter was being considered and a Memorandum of Understanding would soon be concluded.

ZAWA stopped invoicing the operators once it became clear that they were not going to pay until the matter was resolved. The operators were now agreeable to pay all outstanding fees from previous periods once the Memorandum of Understanding was signed. The Memorandum of Understanding had already been drafted and discussed. It was hoped that it would be signed by August, 2007.

b) Chiawa Community Resource Board

ZAWA had disbursed the whole K200, 648,714 to Chiawa CRB during 2005. Of this amount, K71, 470,328 was disbursed as Chiawa CRB's share of animal fees in 2005 hunting season. ZAWA paid K131, 355,599.31 in the same year as the 50 percent share of land user fees for the periods 2003 – 2004 to Chiawa CRB.

The misunderstanding may have arisen because auditors asked about details of the hunting revenue shares that had been disbursed to the CRB and not the land user fees. The amount that was reflected on the bank statement of the Chiawa CRB was K129, 178,386.00. This was net of K131, 355,599.31 after bank charges of K2, 177,213.31 were deducted.

With regard to issues on expenditure details for the period 2003 to 2005, ZAWA's presence on the panel of signatories for the CRBs and unrecovered loans paid to CRB members, there was no doubt that these were pointers to the fact that ZAWA was not closely monitoring the financial dealings of CRBs. ZAWA was under instruction to ensure that public funds given to CRBs were fully accounted for.

c) Jumbe Community Resource Board

He regretted the irregular payment of K16, 000,000 of the CRB funds to Chief Jumbe. The issue of the K16, 000,000 payment was pursued by ZAWA management and the Provincial Administration in Eastern Province. Both the Chief and the Chairman of Jumbe CRB had explained that the money was not part of the Chief's share of the hunting revenues but rather a payment for repair of the community vehicle that was under the responsibility of the Chief.

The Director-General of ZAWA had since written to the Chief requesting him to pay back this amount to the CRB as this was a serious matter. The CRB Chairman was written to and warned.

The same documents clarified the matter of Mangomba Safari's pledges. ZAWA's finding on this matter was that the community changed priorities from boreholes to grinding mills. This was confirmed by the CRB Chairman. It had further been clarified that the two hammer mills had not

yet been installed and were kept under the custody of the Chief contrary to the reports that the community had no access to them.

d) Chitungulu Community Resource Board

It was regretted that one of the Board members of the CRB obtained a total sum of K18, 000,000 and never bought the grinding mill for the community. The observations were a confirmation that ZAWA was not closely monitoring the financial dealings of CRBs as already admitted. ZAWA had written to the Regional Manager, Eastern Region to urgently report the matter to Lundazi Police.

e) Mwanya Community Resource Board

The observations in the Report raised questions on the financial dealings of CRBs. Whilst admitting the concerns, these matters were being dealt with as ZAWA had been given instructions to ensure that public funds given to CRBs were accounted for in full.

f) General Comments on the CRB Operations

Given the general financial mismanagement in most CRBs, ZAWA had decided to put in place a programme which would entail that senior ZAWA officers operating in the respective Game Management Areas shall be signatories to all CRB bank accounts. This would assist in monitoring the utilisation of the community funds by CRBs and prompt reporting on the utilisation of these funds.

In addition, ZAWA would withhold funds for any CRB that failed to submit financial returns and activity reports.

Observations and Recommendations

Your Committee observe that the importance of communities through the CRBs in the protection and conservation of wildlife, is unquestionable. However, they need to be trained on how to account of public funds and there should be corresponding progress in the agreed key result areas. They, however, note that there is need to be firm in dealing with CRBs where financial discipline is concerned.

a) Chiawa Game Management Area

Your Committee are concerned with the manner in which ZAWA deals with operators. The operators appear to be more powerful than the regulator, to the extent that ZAWA had to stop invoicing operators because they were unhappy with a decision it had made.

As the Memorandum of Understanding is being finalised, your Committee recommended that the Controlling Officer should ensure that ZAWA does not compromise on the collection of outstanding fees both before and during the period of the stand off.

The Controlling Officer should report progress on the matter.

b) Chiawa Community Resource Board

Your Committee urge the Controlling Officer to advise the Board and Management of ZAWA to ensure that matters on expenditure details, signatories and recovery of loans are resolved.

They further advise that documents on the K129, 178,386 from land user fees, should be submitted to the Auditor-General for verification.

c) ***Jumbe Community Resource Board***

Your Committee, in noting the submission, urge the Controlling Officer to advise ZAWA to emphasise to traditional leaders that the patronship of CRBs was placed on the traditional establishments as an institution. Direct involvement of chiefs in the running of CRBs may result in avoidable queries.

They recommend that the sum of K16, 000,000 should be recovered from future dues for the Chiefdom. The Controlling Officer should report progress on fulfilling of concession obligations by Mangomba Hunting Safari Company.

d) ***Chitungulu Community Reserve Board***

Your Committee urge the Controlling Officer to update them on the police investigations.

e) ***Mwanya Community Reserve Board***

Your Committee advise the Controlling Officer to report progress on the recovery of advances and fulfilment of the concession obligations by the safari hunter.

f) ***General Comments on CRB Operations***

Your Committee note the observations by the Controlling Officer. They, however, wish to state the following:

i) ZAWA is not financially in a position to adequately police wildlife sanctuaries on its own, therefore, the concept of CRBs is filling-in the gap;
ii) ZAWA should be encouraged to periodically re-evaluate the CRB initiative in order to determine whether the objectives of ZAWA are being realised despite the poor financial managements of CRBs; and
iii) the Ministry of Tourism, Environment and Natural Resources should assist ZAWA meet its financial needs in order to operate effectively.

D. INTERNATIONAL RED LOCUST CONTROL ORGANISATION FOR CENTRAL AND SOUTHERN AFRICA (MINISTRY OF AGRICULTURE AND COOPERATIVES)

Background **Paragraphs 33 – 35**

27. The International Red Locust Control Organisation for Central and Southern Africa (IRLCO CSA) was established by an Agreement dated 16th September, 1970. This Agreement was revised on 28th November, 1990 by Member States comprising the Republics of Botswana, Kenya, Malawi, Mozambique, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe and other States which acceded to the agreement for the purpose of undertaking on an international basis the permanent control of red locust, other locusts and certain other pests in Central and Southern Africa. The regulatory framework for the organisation is Section 4 of the Diplomatic Immunities and Privileges (International Red Locust Control Organisation for Central and Southern Africa) Chapter 20 of the Laws of Zambia

The other functions of the Organisation are to.

a) promote and undertake the most effective control of significant populations and swarms of locusts in the recognised outbreak areas in the Region;

b) co-ordinate and reinforce a Member State's actions in controlling locusts if there was an escape from any outbreak area or invasion;

c) initiate and conduct necessary research relating to the functions of the Organisation; and

d) initiate and implement training programmes for personnel of the Organisation.

Management

The organs of the Organisation consisted of the Governing Council, Executive Committee, and Director. The Governing Council comprised one Minister from each of the Member States. The Council controlled and determined the operations of the Organisation, approval of rules of procedure, financial regulations and other internal administrative regulations. The Council was also charged with the responsibility of adopting the Report of the Director on the work of the Organisation, approving the audited accounts and approving the programme of work and the budget of the ensuing financial year.

The Executive Committee was the second organ of the Organisation. It comprised Permanent Secretaries for Agriculture from Member States. The Committee examined the various reports, including the audited accounts and made recommendations to the Governing Council for adoption and approval.

The Governing Council appointed the Director who was the principal executive officer responsible for the day to day operations of the Organisation.

Sources of Funds

According to the provisions of the Article X of the revised Agreement dated 28th November, 1990 establishing the IRLCO CSA, the Organisation derived its income from contributions made by Member States, in cash, towards the budget approved by the Governing Council for each financial year in accordance with the scale of contributions as specified in the schedule of the Agreement.

AUDIT QUERY **PARAGRAPH 37**

Contributions from Member States

28. Contrary to the provisions of Article X of the Agreement and matters raised in previous audit reports, it was observed that Member States failed to meet their obligation of paying contributions and clear outstanding arrears to the Organisation.

In the management letter dated 14th July, 2005 paragraph 5 (a) on the accounts of 2004, mention was made of the failure by Member States to pay their contributions and clear arrears to the Organisation.

A review of the situation in 2006 revealed that the status had remained the same. In this regard, it was observed that out of the total contributions of US$8,492,339 due in 2005, only US$793,428 representing 9.3 percent were received from Member States leaving a balance of US$7,698,911 out of which US$1,838,017 was owed by Uganda which had since pulled out of the Organisation.

The table below illustrated how much each Member State owed the IRLCO CSA:

Country	**Total Contributions Due for the year(US$)**	**Actual Receipts (US $)**	**Contributions Outstanding (US $)**
Kenya	1,001,354	171,233	830,121
Malawi	1,160,370	8,970	1,151,400
Mozambique	253,982	253,982	-

Tanzania	1,645,071	128,011	1,517,060
Uganda	1,838,017	-	1,838,017
Zambia	411,120	231,232	179,888
Zimbabwe	2,182,425	-	2,182,425
Total	**8,492,339**	**793,428**	**7,698,911**

It was further observed that among the employees of the IRLC were a Zimbabwean (Aircraft Engineer) and a Malawian (Chief Scientist) who were in employment at the Institution despite their countries not remitting their contributions.

Since the Organisation solely depended on contributions from member countries, lack of adequate income had adversely affected the Organisation's ability to carry out its mandate and settle its financial obligations when they fall due. In this regard, staff gratuity in amounts totalling US$233,160 had not been paid to eleven officers as at December, 2005 despite the officers having served their contract periods.

Controlling Officer's Submission

As at end of June, 2007, three (3) Member States, Kenya, Mozambique and Zambia had contributed a total of US$976,085, of which $272,030 was paid by Zambia.

Henceforth, the net movement on the balance of arrears brought forward from the financial year ended 2006 represented a reduction of US$284,290 on the total arrears. However, the reduction in arrears could have been higher had Malawi, Tanzania and Zimbabwe paid their annual contributions and perhaps also made an effort to commence dismantling their arrears respectively.

The position as at end of June, 2007 was as given below.

	Country	**Contribution in arrears as at 01/01/2007**	**Add Contribution for 2007**	**Total contribution due for 2007**	**Less Receipt in 2007**	**Contributions Outstanding as at 25/06/07**
1	Kenya	520,346	130,328	650,674	534,318	116,356
2	Malawi	1,266,391	126,991	1,393,382	-	1,393,382
3	Mozambique	42,746	126,991	169,737	169,737	-
4	Tanzania	1,318,102	160,355	1,478,457	-	1,478,457
5	Uganda	1,838,017	-	1,838,017	-	1,838,017
6	Zambia Normal Special Total	 - 210,642 210,642	 166,716 40,000 206,716	417,358	272,030	142,328
7	Zimbabwe	2,312,753	130,328	2,443,081	-	2,443,081
	Total	**7,508,997**	**881,709**	**8,390,706**	**976,085**	**7,414,621**

Zambia and Kenya made commitments to pay their outstanding balances in September, 2007. Despite pulling out of the Organisation, Uganda had the moral duty to clear her outstanding contributions. The Ugandan case was at the same time special in that locust outbreaks in Uganda were perennial. There was,

therefore, a need for the country to rejoin the Organisation. In the Region, there were eight recognised outbreak areas: four in Tanzania, two in Zambia, one in Mozambique and one in Malawi.

Staff Employment

Over-time, the employment policy of the Organisation had been to employ personnel from Member States in accordance with the Agreement under Article 9.

Invariably, the above Article stated that employment of personnel should be cast as wide as possible in all member countries and was not restricted to member countries that were current with their contributions.

Staff Gratuity

Out of the eleven cases of unpaid gratuity, seven officers, who upon completion of their contracts had since been paid, US$233,160. Four officers were yet to be paid their gratuity claims totalling US$91,200. These would be paid as soon as the Organisation's cash flow position improved.

Observations and Recommendations

Your Committee note the submission and urge that the Controlling Officer to submit an update on the contributions.

E. CENTRAL BOARD OF HEALTH (UNDER THE MINISTRY OF HEALTH)

AUDIT QUERY **PARAGRAPH 39**

Unvouched Expenditure

29. The Auditor-General reported that a scrutiny of records relating to purchases of goods and services and relevant supporting records revealed the following:

a) ***Failure to Follow Procurement Guidelines***

Payments made in respect of accommodation facilities for seminars and workshops in amounts totalling K3, 736,484,550 were made without obtaining three competitive quotations contrary to procurement guidelines.

b) ***Unacquitted Allowances***

Payments for allowances in respect of workshops and seminars totalling K618, 687,455 were not supported by acquittal sheets and were not made available for audit contrary to Financial Regulations.

c) ***Missing Payment Vouchers***

Contrary to Financial Regulations, 78 payment vouchers in amounts totalling K3, 108,000,968 were missing, making it impossible to verify the authenticity of the transactions.

d) ***Unretired Imprest***

Imprest issued during the period under review involving 119 transactions in amounts totalling K5, 106,158,544 was not retired as at July 2006. It was also observed that the Board did not maintain imprest registers.

Controlling Officer's Submission

The Controlling Officer informed your Committee that queries relating to the CBoH were a challenge in the sense that the Board had its own accounting system which in a number of respects was different from the system used in the mainstream Government.

He proceeded to submit as follows:

a) Failure to follow Procurement Guidelines

In line with existing tender procedures and taking into account the appropriate threshold, procurements requiring processing through the Ministerial Tender Committee were dealt with accordingly.

The relevant tender committee papers indicating the circumstances and justifications (such as where single sourcing was used) for selecting each supplier were attached to each payment. The bids submitted were evaluated and a suitable firm was selected. Some providers were unable to provide services due to lack of capacity as they were fully booked at the time the services were required. This was, however, fully explained and justified in the tender committee documents.

i) Payments to Health Institutions

Amounts totalling K2, 824,695,500 out of the queried amount of K3, 736,457,549.70 were made to health institutions such as Medical Council of Zambia, UTH and Chainama. These payments were considered to be disbursements to cover health programmes as agreed with funding agencies and incorporated in work plans via the Action Plan for 2005, which was jointly approved by stakeholders. They were not treated as procurements of goods or services and therefore did not require tendering.

ii) Payment for Goods and Services

These payments related to the procurement of goods and services from the relevant commercial entities.

The sum of K911, 762,049.70 was in respect of single sourcing and less than three quotations. The Ministry would in future ensure that at least three quotations were obtained and evaluated.

When asked what had led to tender procedures not to be observed particularly that staff under the CBoH was qualified, the Controlling Officer submitted that the procurement specialists were recruited from the private sector and were not well vested with Government procedures.

b) Unacquitted Allowances

Your Committee was informed that the Controlling Officer had taken note of the Auditor-General's comments and observations and undertook to continue working to clear the queries.

He further stated that the Accounts Department had been instructed to start recovering any outstanding amounts. The Ministry was strengthening the payment and clearance of allowances system to ensure that such issues were minimised or eliminated altogether.

c) Missing Payment Vouchers

In view of the Auditor-General's comments and observations, the Ministry had undertaken to minimise or eliminate these issues through strengthening the control systems.

The Ministry had taken measures to strengthen filing and record keeping. He believed that in future, these issues would be minimised or eliminated.

d) Unretired Imprest

The CBoH used to maintain a computerised imprest register, which provided for recording of each individual imprest holder's relevant transaction details.

The Register further provided for segregation of transactions from month to month and year to year. The system, therefore, had capacity to carry on reporting any unretired balances as well as any new imprest payments.

However, the operation of the system in terms of management, custody and security for documents and data entry needed to be strengthened so that the Auditor-General's concerns were addressed.

With respect to the retirement of the outstanding K5, 100,158,544, the Controlling Officer submitted that the amount consisted of the components set out below.

i) Grants to Health Institutions (K2,832,635,000)

These payments were grants to health institutions and were made in accordance with the jointly approved annual action plan and annual budget. These payments were not treated as imprest.

ii) Imprest paid to Staff (K2, 267,523,544)

The retirement documents were available for verification in respect of K691, 777,733 and on the outstanding balance. Accounts Department had been instructed to initiate recoveries from the emoluments of those whose retirements had not been submitted. In addition, they had undertaken to improve the imprest retirement documentation and grants systems. They would from time to time seek advice from the Auditor-General.

Observations and Recommendations

Your Committee made the observations and recommendations as set out below.

a) Failure to follow Procurement Guidelines

Your Committee observe that explanation should have been given during the time of audit. They, therefore, urge the Controlling Officer to ensure that his office fully cooperates with auditors.

Considering that staff of the CBoH have been incorporated in the Ministry of Health, they further urge the Controlling Officer not to allow procurement officers to create further problems in the procurement system at the Ministry of Health.

The Controlling Officer should submit all documents supporting his submission to the Auditor-General for verification.

b) Unacquitted Allowances

Your Committee request the Controlling Officer to submit the schedule of acquitted allowances amounting to K189, 112,000 to the Auditor-General for verification. He is further urged to immediately institute recoveries from salaries of all officers who are still in service.

c) Missing Payment Vouchers

Your Committee advise the Controlling Officer to submit the traced payment vouchers to the Auditor-General for verification. The Controlling Officer should report progress on the vouchers that are still missing.

d) Unretired Imprest

Your Committee observe that the attitude of public service workers is cardinal in the success of any system. Based on the submission, the CBoH had a good system in place of monitoring below the line items such as imprest. Your Committee strongly believe that the system failed because of the mindset of staff.

They, therefore, urge the Secretary to the Treasury and the Controlling Officer to seriously take note of this potential threat to any system. It is important that any officer in a supervising position who allows unretired imprest to build up should be disciplined.

The Controlling Officer is requested to submit details of grants disbursement and imprest retirement details to the Auditor-General for verification. He should also report progress on the outstanding balance of K1, 575,745,811.

AUDIT QUERY **PARAGRAPH 40**

Non Recovery of Salary Advances

30. According to the provisions of the then CBoH Conditions of Service for staff, employees paid salary advance were to pay back the advance in four instalments beginning with the month after the advance was given and that no further advance should be granted before the earlier one was fully recovered.

Contrary to the conditions, salary advances involving fifty-two transactions amounting to K178, 907,350 were not recovered as at August, 2006.

Controlling Officer's Submission

The Controlling Officer in response submitted that under extreme extenuating circumstances, such as a bereavement in an employee's family, employees were allowed additional salary advances, however, such advances were rare.

A review of their records relating to the salary advances involving fifty-two transactions totalling K178, 907,350 indicated that the salary advances were fully recovered.

Observations and Recommendations

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

AUDIT QUERY **PARAGRAPH 41**

Non Recovery of a Loan under the Retention Scheme

31. A loan amounting to K27, 720,000, which was given in February, 2005, was not being recovered as at August, 2006, and no satisfactory explanation was given for the non recovery.

Controlling Officer's Submission

The Controlling Officer submitted that their records indicated that the loan in question in the sum of K27, 720,000.00 was being recovered and the balance as at August, 2006 was K10, 780,000.

Observations and Recommendations

Your Committee observe that this query is purely as a result of lack of cooperation.

They strongly advise the Controlling Officer to be more responsive to preliminary issues that audit teams raise.

They request him to submit the recovery details to the Auditor-General for verification.

AUDIT QUERY **PARAGRAPH 42**

Failure to Surrender a Motor Vehicle

32. Contrary to his Conditions of Service, the former Director General took a motor vehicle when the Board was dissolved in March, 2006. The vehicle had not been surrendered as at August, 2006 and no effort was made by management to retrieve it.

Controlling Officer's Submission

The Controlling Officer submitted that the motor vehicle in question was a personal to holder vehicle for the Director-General. In line with his employment contract conditions and precedent set by other senior offices that had previously left employment, the former Director-General had submitted a request to purchase his personal to holder vehicle.

The request was, however, not approved and the former Director-General had appealed. The appeal had since been submitted to the Secretary to the Cabinet for consideration.

Observations and Recommendations

Your Committee observe that since the vehicle in question is still with the former Director-General, there will be very little value to gain out of it if depreciation is taken into account. They are further of the opinion that the Board of Directors was partly to blame as they had set a precedence of selling off personal to holder vehicles.

Your Committee, therefore, recommend that the Controlling Officer should immediately advise Boards of Directors of all institutions under the Ministry of Health on how to deal with personal to holder vehicles. They would await an update on the matter.

AUDIT QUERY **PARAGRAPH 43**

Failure to Maintain a Fixed Asset Register

33. An examination of records pertaining to fixed assets and physical inspection carried out in August 2006, revealed the following:

a) though a fixed assets register was kept, it was inadequately maintained in that it did not show dates of acquisition for all assets recorded; as a result it was not possible to distinguish the assets acquired in 2005 and from prior years;

b) eleven motor vehicles surrendered to Ministry of Health by the Board during the year under review had no official correspondence of transfer and were not entered in the asset register of the Ministry of Health as the Ministry kept none;

c) assets had no identification marks (not coded or etched), except for motor vehicles which had registration numbers, making it impossible to ascertain whether any assets were stolen or damaged; and

d) 1500 bicycles, and helmets meant for rural health centres, purchased during the year under review in amounts totalling K336, 832,500 and K30, 385,930, respectively were not entered in the Asset Register contrary to Stores Regulations and could not be traced.

Controlling Officer's Submission

a) Fixed Asset Register Data not Adequately Maintained

It was true that data entry into the fixed asset register can and should be improved so that all relevant fields are duly completed. This process had already began and relevant additional data, for instance, date of acquisition were now being entered. A team of officers appointed by the Secretary to the Cabinet from the Ministries of Finance and National Planning, Works and Supply and Health were spearheading the task.

b) Eleven Motor Vehicles surrendered to Ministry of Health

The Ministry of Health had assisted the CBoH with vehicles. Their understanding was that the vehicles were Ministry of Health vehicles.

The vehicles did revert to the Ministry after the CBoH had handed them over.

In future, the Ministry of Health would endeavour to ensure that handover of assets were better documented.

c) Etching of Identification Marks onto Assets

The current policy was that all assets should be marked or etched with a unique sequential identification alpha/numerical tag.

The identification of the firm which would carry out the etching was always processed by following the relevant procurement guidelines at the Head Office and at each Province or District depending on where the asset was held.

This caused delays in getting all assets etched. Recently, the Government team, which carried out such tasks, had been moving to all centres embossing new government identity tags on all the relevant assets. Assets that had been marked were available for verification. Some assets would bear both the GRZ/MoH number and the old CBoH number, where this had been done. Any new item would also have to undergo the same process.

d) Bicycles and Helmets

Bicycles

The 1500 bicycles were procured under Home Based Care, which was an activity under the Public Health and Research Directorate. Home Based Care (HBC) was normally undertaken by the Districts at Community level. The bicycles were procured for the HBC at community level in each district. In the old system, these assets would appear under the District Assets Register rather than at Head Office. The system was now being changed to place all assets in a central register. Each site would also maintain a local register.

The Head Office did, however, facilitate the procurement of these bicycles on behalf of districts in order to take advantage of economies of scale. A letter was issued to all Provincial Health Directors and District Health Directors explaining the distribution of all bicycles. The relevant documents were available for verification.

In view of the Auditor-General's comments, the Ministry would undertake to strengthen stores and distribution records so that such issues do not recur.

Helmets

The helmets were procured on behalf of the districts together with motorcycles. At the time of conducting the audit, some of the motorcycles together with the helmets were issued to districts and the remaining ones were clearly indicated on the Stores Bin Card. These assets would be entered in the District Assets Register in respective districts after distribution. The stores records relating to the helmets were available for verification.

Observations and Recommendations

Your Committee made the observations and recommendations set out below.

a) *Fixed Asset Register*

Your Committee advise the Controlling Officer to ensure that the Fixed Asset Register is adequately maintained. He is requested to report progress on the exercise that the Team appointed by the Secretary to the Cabinet is carrying out.

b) *Motor Vehicles Surrendered to the Ministry of Health*

Your Committee note that the vehicles are not in the Fixed Assets Register at Ministry of Health and the CBoH. They, therefore, urge the Controlling Officer to normalise the situation without any further delay.

c) *Etching of Identification Marks*

Your Committee note the submission.

d) *Bicycles and Helmets*

Your Committee observe that the Stores Regulations are not new and expect that every item acquired by the Government has to be entered into the Fixed Assets Register. They, therefore, strongly urge the Controlling Officer to see to it that all items are entered in the Fixed Assets Register and such a case does not recur.

AUDIT QUERY **PARAGRAPH 44**

Failure to Maintain Fixed Receipts and Disposal Details

34. Contrary to Stores Regulations, fuel in amounts totalling K210 million procured during the period under review had no receipt and disposal details.

Controlling Officer's Submission

The Controlling Officer submitted that the Central Board of Health had a prepayment arrangement with Lloyds Service Station whereby K10 million was being deposited for the drawing of fuel by CBoH Vehicles. This amount was paid to the filling station each time it was exhausted. The recouping of the fuel cost was supported by receipts and coupons with the statement from the Service Station and it was pre-audited before payment was effected.

The reconciliations of fuel statement and payments had been done and were available for verification. The Ministry suffered no loss as a result of non-reconciliation. The Ministry, however, undertook to strengthen the system and records relating to the processing of fuel issues and reconciliations.

Observations and Recommendations

Your Committee note the submission and advise that the receipt and disposal details should be submitted to the Auditor-General for verification.

Your Committee request the Controlling Officer to submit to Parliament the winding up Report on the CBoH when it is finalised.

F. ZAMBIA POSTAL SERVICES CORPORATION (UNDER THE MINISTRY OF COMMUNICATIONS AND TRANSPORT)

Background **Paragraphs 45 – 47**

35. The Auditor-General reported that the Zambia Postal Services Corporation (ZAMPOST) was established by the *Postal Services Act* following the dissolution of the Posts and Telecommunications Corporation Limited (PTC) and became operational on 1 July, 1994. PTC was a wholly owned subsidiary of Zambia Industrial and Mining Corporation Limited (ZIMCO). Following the establishment of ZAMPOST on 1 July 1994, the Government assumed 100 percent equity holding in the Corporation.

The principal functions of the Corporation were to conduct postal and telegram services for the Republic.

Management

The Act stipulated that the Corporation shall consist of a Board of Directors comprising eight members; being the Postmaster General and nominees from the Federation of Employers of Zambia, Zambia Congress of Trade Unions, Zambia Chamber of Commerce and Industry, Law Association of Zambia, Zambia Institute of Chartered Accountants, Ministry of Justice and one person nominated by an organisation that would represent interests of consumers. The members of the Board are appointed by the Minister of Communication and Transport.

According to the Act, members of the Corporation hold office for a term of not more than three years and members were eligible for reappointment upon expiry of their term of office.

The Postmaster General was responsible for the day to day operations and he was assisted by the Corporation Secretary, Director Operations and Commercial Services, Director Human Resources, Director Finance and Chief Internal Auditor. The Board of Directors appoints the Postmaster General and his Directors on a renewable three-year term of office. The rest of staff was appointed on a permanent and pensionable basis.

Sources of Funds

According to the provisions of the Act, the sources of funds for the Corporation include, among others, such sums of money as may:

f) be payable to the Corporation from time to time from moneys appropriated by Parliament;

g) be levied by the Corporation by way of postal charges, transaction commissions and any other levies imposed; and

h) accrue to or vest in the Corporation from time to time, whether in the course of the exercise of its functions or otherwise.

It was observed that since its establishment in July, 1994, no money had been appropriated by Parliament.

AUDIT QUERY **PARAGRAPH 49**

Financial Performance

36. The financial performance of ZAMPOST for the four years under review was as follows:

a) Profit and Loss Account For The Years Ended 31st March 2002, 2003, 2004 and 2005 (Extract)

	2,002	2,003	2,004	2,005
	K'000	**K'000**	**K'000**	**K'000**
Turnover	**20,900,342**	**33,794,797**	**30,277,978**	**35,712,959**
Operating Costs	10,701,760	12,139,483	14,871,249	15,527,257
Staff Costs	18,549,507	30,068,661	30,208,207	40,933,645
Deferred Expenditure	589,543	-	-	-
Loss Before Interest and Tax	(8,940,468)	(8,413,347)	(14,801,478)	(20,747,943)
Exchange gains	807,089	1,144,899	1,158,566	1,551,482
Taxation	-	-	-	-
Loss for the Year	**(8,133,379)**	**(7,268,448)**	**(13,642,912)**	**(19,196,461)**

i) As can be seen, although turnover increased from K20,900,342,000 in 2002 to K35,712,959,000 in 2005, losses increased from K8,133,379,000 in 2002 to K19,196,461,000 in 2005. It was further observed that staff costs, which had doubled over the same period, were more than the turnover in 2005. In this regard, the corporation was likely to fail to meet the cost of its monthly personal emoluments.

ii) The Corporation had a deferred expenditure of K589, 543,000 written-off for which no explanation could be given.

b) Balance Sheet as at 31st March 2002, 2003, 2004 and 2005 (extract)

	2002	2003	2004	2005
	K'000	**K'000**	**K'000**	**K'000**
Capital Employed				
Share Capital	2,821	2,821	2,821	2,821
Capital Grants	12,695	-	376,083	262,660
Revaluation Reserve	5,835,954	5,835,954	5,835,954	5,835,954
Accumulated Losses	(38,181,518)	(45,449,966)	(59,092,878)	(78,289,339)
Deferred Liability: Staff retirement Benefits	19,620,595	29,825,863	34,659,618	44,263,566
Long term Loans	-	-	-	-
Total capital Employed	**(12,709,453)**	**(9,785,328)**	**(18,218,402)**	**(27,924,338)**
Current Assets				
Stocks	215,150	267,091	269,838	423,675
Debtors	11,681,151	13,527,276	14,541,540	18,575,766

Amounts Due from Related Company	145,026	172,439	1,509,949	919,694
Cash and Bank Balances	2,148,501	2,579,954	3,244,188	3,843,043
Total Current Assets	**14,189,828**	**16,546,760**	**19,565,515**	**23,762,177**
Current Liabilities				
Creditors	32,535,858	33,336,226	44,003,383	57,148,738
Bank Overdraft	50,477	67,699	221,374	1,143,904
Total Current Liabilities	**32,586,335**	**33,403,925**	**44,224,757**	**58,292,642**

i) Liquidity

The liquidity of the Corporation continued to worsen over the years from 2002 to 2005 as it had insufficient current assets to cover current liabilities as they fell due. It was observed that creditors increased from K32, 535,858,000 in 2002 to K57, 148,738,000 in 2005. Included in the creditors balance of K57,148,738,000, are K21,295,474,108 (ZRA-PAYE), K12,628,065,000 (Trade Creditors), K9,110,224,396 (employees' retirement benefits), K4,490,236,229 (Foreign Administration) and K4,305,902,150 (NAPSA).

In his response dated 24th May, 2006, the Postmaster General (PMG) stated that the current situation was caused by continuous losses and absence of annual government grants. The PMG also stated that 80 percent of the postal network was loss making and that government grants were meant to cater for losses incurred in rural areas where the service was purely social.

ii) Movement in General Reserves

The Corporation had accumulated losses of K38,181,518, K45,449,966,000, K59,092,878,000, K78,289,339,000 for the years ended 31st December, 2002, 2003, 2004 and 2005 respectively.

In addition, it was observed, that no additional capital had been injected and there had been no budgetary support from the Government since its establishment thereby depleting the reserves.

Controlling Officer's Submission

The Controlling Officer in response submitted that the accumulated losses in the period 2002 to 2005 were mainly due to bloated staff levels that the Corporation inherited from Posts and Telecommunications Corporation Limited at the time of separation coupled with loss of the traditional mail business due to advancement of information and communication technology.

The situation was further compounded by lack of financial support from the Government at the time of separation, which assistance would have helped the Corporation to start from a firm financial base.

When asked what efforts the Corporation had made to seek the Government's intervention in their problems, the Controlling Officer responding through the Managing Director submitted that the Corporation had been preparing budgets and submitting losses to the Government for their attention and action. Furthermore, upon assuming office, he had embarked on preparing a strategic plan for the institution. The plan was still in draft form and was yet to be approved by the Ministry of Communications and Transport. He further stated that some of the strategies they intended to employ to turn the Corporation round were:

- to review tariffs;
- invest in transport and boost their courier service;
- improve connectivity (internet);

- shed-off excess staff. Considering that the Government had not assisted with grants to finalise retrenchments, they would rely on natural wastage; and
- negotiate business sharing arrangements with other courier companies such as DHL.

Observations and Recommendations

Your Committee note that ZAMPOST is facing serious operational problems. While acknowledging lack of financial support to the Company after dissolution of the Posts and Telecommunications Company, they observe that the Company has also suffered from lack of innovation. The Company has failed to reposition itself in the highly technologically advanced business environment that is obtaining. If this state of affairs continues, the Corporation may not be able to improve its financial performance and position.

Your Committee, therefore, advise the Secretary to the Treasury and the Controlling Officer to ensure, as a matter of urgency, that the Strategic Plan for the Corporation is approved so that management can implement their plans to save the Company. They further advise that the Secretary to the Treasury to immediately explore ways of how the Government can assist ZAMPOST sustain loss making post offices as well as reduce excess staff.

AUDIT QUERY **PARAGRAPH 50**

Non-Payment of Statutory Contributions and Payment Deductions

37. The Corporation owed K39,426,280,470 in respect of statutory obligations to ZRA, ZSIC pension contribution, local authorities, Mukuba Pension and Workers Compensation Funds as at March, 2006. The Corporation risked paying penalties and interest.

Controlling Officer's Submission

The Controlling Officer submitted that the Corporation had been mandated by the Government to provide universal postal services whether or not provision of the services was financially desired by the Corporation. 80 percent of the post offices, especially those in rural areas were loss making due to loss of business volumes attributed to the general decline in national economic activities. Therefore, the little profits made from the 20 percent of the post offices went to subsidise the loss making post offices thereby leaving the Corporation with almost nothing to remit to ZRA and the Pension authorities.

Observations and Recommendations

Considering the state of affairs at ZAMPOST, your Committee urge the Secretary to the Treasury to immediately intervene in the matter. The outstanding statutory obligations have negative effects on the operations of the collecting institutions themselves.

AUDIT QUERY **PARAGRAPH 51**

38. **Other Irregularities**

a) Board of Directors

Contrary to the Act, the Minister of Communication and Transport did not appoint members of the Board of Directors during the period September, 2001 to July, 2006. In this regard, ZAMPOST operated without the Board during the period. Lack of a board of directors negatively affected the operations of the entity, supervision of staff and approval of major decisions.

b) Irregular Renewal of Contracts

A review of contracts of engagement for senior management revealed that the Postmaster General's contract of employment was signed by his junior, the Corporation Secretary, instead of

the Minister and that he renewed the contracts of the rest of the senior officers without the Minister's approval. It was also observed that the contracts had no commencement and expiry dates and the date of signing was not indicated.

As of January, 2006, the contracts of employment for the Corporation Secretary and Director of Operations and Commercial Services had expired and had not been renewed but the affected officers were still in employment and each continued to draw a salary of K4,076,354 per month.

The Corporation Secretary and the Directors of Operations and Commercial Services were performing duties of the Corporation illegally and all salaries paid to them were irregular.

c) Gratuity

According to the Conditions of Service, which were approved by the Board of Directors in September, 2000, the Postmaster General and Directors were entitled to a gratuity of between 22 to 45 percent of their basic salary depending on the grade.

Contrary to the approved Conditions of Service in the contracts, ZAMPOST management, in consultation with the Deputy Permanent Secretary and Assistant Deputy Permanent Secretary at the Ministry, increased gratuity up to 100 percent based on Public Service Management Division Circular B15 of 2001 that was issued by Cabinet Office but did not apply to the Corporation. The Circular was intended for Civil Servants not employees of parastatal bodies, whose terms and conditions are agreed by the staff with their respective boards of directors.

In this regard, a total amount of K566,072,428 was irregularly paid to five members of staff including the Postmaster General between April, 2004 and March, 2006. The increment in the gratuity was not referred to the Minister of Communications and Transport for approval.

Controlling Officer's Submission

In response, the Controlling Officer submitted as follows:

a) Board of Directors

Under the *Postal Services Act*, the appointment of the Board of Directors was the responsibility of the Minister. In the absence of the Board, the Controlling Officer assumes the responsibility of the Board. The Ministry delayed the appointment of the Board mainly due to the poor financial position of the company. ZAMPOST was not able to manage the payment of sitting allowances and fees for Board members.

He further clarified that during the period under review, the Deputy Permanent Secretary had been tasked to oversee the operations of the Corporation. This was no longer the case.

b) Irregular Renewal of Contracts

The practice of the Board Chairman renewing the contract of the Chief Executive was a carryover from the Posts and Telecommunications days. However, the appointment should have been done after clearance by the Minister.

During his appearance before your Committee, the Controlling Officer submitted that the contract for the Postmaster General was approved by the Board Chairperson but the contract was signed by the Company Secretary.

On renewal of contract for the senior officers, this had to be sanctioned by the Postmaster General with the approval of the Board.

The contracts of the Corporation Secretary and Director of Operations and Commercial Services expired on 22nd January, 2003. Upon expiry, both the Corporation Secretary and Director of Operations and commercial services applied for renewal, which was granted by the Postmaster General on 24th January, 2003.

The same process was repeated when the contracts expired in 2006. The current contracts were renewed on 23rd January, 2006.

c) Gratuity

The Controlling Officer initially submitted that there was no irregularity in the increase in the gratuity of the contract up to 100 percent. ZAMPOST was a statutory body wholly owned by the Government and as such it was found appropriate to apply civil service conditions in the absence of any other conditions. This was done with the blessing of the Acting Board Chairperson. However, upon your Committee explaining that there was a tendency by parastatals and other quasi-government institutions to selectively apply government conditions of service were they could have pecuniary advantage, he agreed that the adjustments were irregular.

Observations and Recommendations

Your Committee make the observations and recommendations set out hereunder.

(a – b) Board of Directors / Renewal of Contracts

Your Committee observe that queries in (a) and (b) are as a result of not having a board of directors in place. While acknowledging the fact that the Board is ultimately appointed by the Minister, the Permanent Secretary's Office plays a significant role in identifying potential members. They, therefore, recommend that the Controlling Officer should, within his limits, ensure that ZAMPOST has the full complement of the Board of Directors considering the poor financial performance and position of the Company and the fact that the Strategic Plan has to be implemented as one way of turning the Company round.

c) Gratuity

Your Committee urge the Controlling Officer to correct the anomaly by recovering the excess gratuity. ZAMPOST Conditions of Service as approved by the Board of Directors should be followed when calculating benefits due to staff.

G. NATIONAL AIRPORTS CORPORATION LIMITED (UNDER THE MINISTRY OF COMMUNICATIONS AND TRANSPORT)

Background **Paragraphs 52 – 55**

39. The National Airports Corporation Limited (NACL) was established on 11th September, 1989 under the *Aviation (Amendment) Act No. 16 of 1989*. It became a limited company registered under the *Companies Act* and commenced operations in September, 1989 as a subsidiary of the then Zambia Industrial and Mining Corporation (ZIMCO). In accordance with Part II of the *Civil Aviation Act*, NACL took over the operations of the Lusaka, Livingstone, Ndola and Mfuwe International Airports. All property, rights, liabilities and obligations of the Government were transferred to and vested in the Corporation. The Corporation also took over the functions of providing air traffic control services, aircraft services, security and terminal facilities for passengers and cargo, maintaining navigational and telecommunication equipment at designated airports.

Management

NACL was managed by a Board of Directors in accordance with the *Civil Aviation (Amendment) Act No. 16 of 1989, Statutory Instrument No. 116 of 1989,* and the *Companies Act*.

The Board Chairman and the members were appointed by the Minister of Communications and Transport, who represented the shareholders, the Government of the Republic of Zambia.

The Managing Director, who was the Chief Executive Officer, was responsible for the day to day operations of the Company. She was assisted by four directors, who were in charge of Finance, Human Resource and Administration, Airport Services and Air Navigation Services, and a Corporation Secretary. The Managing Director, Directors and Corporation Secretary were appointed on a renewable three year term contract while the rest of the staff were appointed on a permanent and pensionable basis.

The four airports administered by the NACL were managed by Airport managers.

Sources of Funds

The Corporation earned its income from aviation and non-aviation sources. The aviation sources included over flight, landing and navigational fees while the non-aviation sources included rental charges, government grants, ground handling fees, concessions, parking fees, passenger service charges, advertising and other miscellaneous incomes. As at 31st March, 2005, NACL had the following sources of funds:

i	**Grants:**	
		K'000
	Grants brought forward	9,427,320
	Belgium Government	4,345,902
	JICA	2,152,425
	European Union	2,565,803
		18,491,450
ii	**Loans:**	
	Barclays Bank -LSG Loan	7,674,791
	Barclays bank-Proparco loan	6,545,000
	Belgian Government-State to state	30,804,000
	IATA Loan	2,014,146
	KBC Bank NV	37,317,729
		84,355,666
	Amounts payable within one year	**7,095,077**
	Amounts payable after one year	**77,260,590**

The grants and loans were utilised for the improvement of Airport facilities and infrastructure.

Share Capital

The Corporation was wholly owned by the Government, which held two billion ordinary shares of K1.00 each.

Controlling Officer's Submission

The Controlling Officer made the following comments on the background information.

The Corporation provided air navigation services throughout the Zambian air space, not just at designated airports.

The Report correctly listed the Corporation's sources of funds. However, the examples cited did not give examples of sources of funds for that year. What was listed were balances amortised and also balances of loans obtained in previous years and not in the year ended 31st March, 2005.

Management was aware that the Corporation was under capitalised at K2 billion. In view of this, the Corporation had made a request to the Ministry of Finance and National Planning to increase the Corporation's capital by converting the Euro 5.1 million loan received from the Belgian Government into equity, following the write-off of the loan. This would enhance the Corporation's ability to raise finance from financial institutions and reflect its asset base.

Observations and Recommendations

Your Committee note the submission and advise the Controlling Officer to report progress on the request to the Government to convert into equity the Euro 5.1 million Belgian loan that was written-off.

AUDIT QUERY **PARAGRAPH 56**

Review of Operations

40. A review of operations of the Corporation for the financial years ended 31st March, 2002 to 2005 revealed the following:

Financial Performance

a) Profitability

Profit and Loss Account for the years ended 31st March, 2002, 2003, 2004 and 2005 (extract)

	2,002 K'000	2,003 K'000	2,004 K'000	2,005 K'000
Turnover	40,984,487	49,633,641	51,350,830	56,414,869
Capital Grants	253,770	253,770	729,142	958,281
Other income-Sundry	542,927	2,522,980	2,751,110	3,048,223
Exchange Gains	4,806,856	9,261,186	1,065,483	1,245,067
Total	46,588,040	61,671,577	55,896,565	61,666,440
Operating & Admin Costs	41,727,023	58,923,760	58,059,718	53,385,540
Profit/(Loss) Before Interest and Tax	4,861,017	2,747,817	(2,163,153)	8,280,900
Director's fees and expenses	27,335	38,382	63,924	92,554
Interest on Loans	1,033,601	2,765,402	5,374,313	4,166,006
Servicing fees-KBC Loans	65,916	842,831	-	-
Taxation	1,084,293	(203,805)	(1,513,071)	219
Profit/(Loss) for the year	**2,649,872**	**(694,993)**	**(6,088,319)**	**4,022,121**

As can be seen from the Profit and Loss Account extract, operating and administration costs were higher than turnover in the years 2002 to 2004 resulting in the Company recording losses from operating activities. It can be further noted that while turnover only increased by 40 percent from 2002 to 2005, Directors' fees and expenses on the other hand had increased by 240 percent over the same period.

In addition, no dividends were declared to the Government and no corporation tax was paid during the period under review.

b) Liquidity

Balance Sheet as at 31st March, 2002, 2003, 2004 and 2005 (Extract)

	2002 K'000	2003 K'000	2004 K'000	2005 K'000
Capital Employed				
Shareholders' funds	6,672,124	4,541,011	714,381	4,736,502
Capital Grants	9,173,550	15,418,107	14,688,965	16,296,487
Long term Loans	24,775,156	73,132,625	81,056,134	77,260,590
Other Long term amounts payable	8,153,851	16,669,711	3,352,124	346,946
Total capital Employed	**48,774,681**	**109,761,454**	**99,811,604**	**98,640,525**
Current Assets				
Inventory	822,354	628,441	713,747	757,028
Trade and other Receivables	14,804,570	15,614,222	12,352,700	10,857,277
Bank and cash balances	6,492,162	12,535,592	10,235,646	9,968,144
Tax recoverable	0	22,087	73,021	73,021
Total Current Assets	**22,119,086**	**28,800,342**	**23,375,114**	**21,655,470**
Current Liabilities				
Bank Overdraft	619,991	265,091	145,438	64,804
Trade and other payables	8,883,103	10,975,691	14,961,679	14,474,022
Current portion of loans	2,881,585	5,883,373	7,736,208	7,095,077
Tax Payable	208,152	-	-	219
Finance leases	-	370,021	69,384	606,237
Dividend payable	41,572	41,572	-	-
Total Current Liabilities	**12,634,403**	**17,535,748**	**22,912,709**	**22,240,359**
Working Capital	**9,484,683**	**11,264,594**	**462,405**	**-584,889**

An analysis of the liquidity for the period under review revealed that NACL would not be able to pay its debts as they fell due as the working capital had decreased from K9,484,683,000 in 2002 to negative K584,889,000 in 2005 representing a drop in current ratio from 1.75 in 2002 to 0.97 in 2005. It was also observed that trade creditors and other payables increased from K8, 883,103,000 in 2002 to K14, 474,022,000 in 2005.

In her response, the Managing Director stated that the ratios were expected to improve due to the strengthening of the Kwacha as interest provisions would be reduced and leave provision significantly reduced as staff would be encouraged to proceed on leave. In addition, included in current liabilities was a K2.6 billion over-provision of VAT and duty on foreign company deliverables. This amount would be credited to profit as exchange gain and this would improve the working capital ratios.

c) Gearing

The gearing ratio was usually calculated to help understand the extent to which a company was financed by external sources, the financial risk and its capacity to borrow further. It was generally accepted that gearing level should not exceed 50 percent. In situations, where the gearing levels were above 50 percent the cost of capital becomes high in terms of interest.

It was observed that the external financing (gearing) of NACL increased from 67.5 percent in 2002 to 78.7 percent in 2005 thereby increasing the cost of borrowing. In this regard, the finance costs (interest) increased from K1,099,517,000 in 2002 to K4,166,006,000 in 2005.

In her response, the Managing Director stated that while the generally accepted ratios give an indication of the company's position, different industries had different averages. The aviation industry, specifically airports, had a high gearing due to the fact that the assets financed tend to be ten to fifteen year operating assets.

Controlling Officer's Submission

In response, the Controlling Officer submitted as follows:

a) Profitability

The Corporation's measure of success was not solely measured by its level of operating profit before tax. The Corporation's legal existence placed a lot of responsibility on it. This could not only be measured by profit. Profitability, however, would ensure that the Corporation grows and prospers.

The Corporation's responsibilities as provided for by the *Civil Aviation Act* included the following:

a) to provide air traffic control service throughout the Republic;
b) to provide aircraft services at designated airports;
c) to provide fire and rescue services at designated airports and if directed by the Minister provide fire and rescue services at other airports;
d) to provide and maintain navigational and telecommunications aids throughout the Republic;
e) to provide terminal facilities for passengers and cargo at designated airports;
f) to plan, develop, construct and maintain runaways, taxiways, aprons, terminal and ancillary buildings;
g) to arrange for postal, money exchange, insurance and telephone facilities for the use of passengers and other persons at designated airports;
h) to regulate and control the movements of vehicles and the entry and exit of passengers at designated airports; and
i) to do all acts and things as may be necessary or incidental for the performance of its functions under the Act.

Based on the above, it can be seen that the Corporation sometimes had to provide services in circumstances which may not be profitable. Security and safety in most circumstances became paramount to profit.

The analysis given in the Auditor-General's report was not fully factually accurate as non-operating expenses had not been excluded in total operating costs.

	2002	**2003**	**2004**	**2005**
	K'000	K'000	K'000	K'000
Depreciation	3,864	7,402	8,070	8,211
Finance charges	1,407	3,204	5,763	4,594
Tax paid	209	200	68	

The Corporation's profitability had been significantly affected by the increase in depreciation charges and finance charges resulting from the acquisition of equipment funded by grants and commercial loans. The equipment was for safety and emergency purposes and ground handling operations, which formed part of the Corporation's core functions.

The Corporation operated with a three-person interim Board from 2001 until January, 2005 when the substantive Board was appointed; consequently Board expenses were low in the earlier years.

The Corporation's shareholders at all AGMs had not recommended payment of dividends due to the Corporation's need to reinvest resources in infrastructure and equipment.

The Corporation paid taxation at low levels because of its heavy investment programme, which resulted in low taxable profits due to high capital allowances.

The contribution to Zambia Revenue Authority, however, was mainly in form of PAYE (K600 million per month) and VAT (K400 million per year).

When asked to elaborate further on reinvesting of resources, the Controlling Officer submitted that the Corporation had, for example, to meet its counterpart funding obligations in the improvement of air navigation communication equipment. It further wholly financed the extension of the remote controlled air- to-ground radio frequency range.

b) Liquidity

In addition to the stated response in the Auditor-General's Report, included in trade and other payables were accruals amounting to K3 billion relating to payroll creditors. These amounts though treated as current liabilities were not necessarily payable but could be reduced by taking leave, and in fact, this had been implemented.

c) Gearing

Included in long-term loans as at 31 March, 2005 was K31 billion State-to-State Loan from the Belgian Government, which had subsequently been written-off and the Corporation had requested the Zambian Government to convert this loan into equity. The finalisation of this item would significantly change the current gearing ratio. He further submitted that if grants where taken into account, the gearing ratio would be around 30 percent.

Observations and Recommendations

Your Committee note the submission and express concern on monitoring of operations of parastatals. National Airports Corporation operated with a three person interim Board for about four years from 2001.

They, therefore, recommend that the Secretary to the Treasury as shareholder on behalf of the Government should institute measures to improve monitoring of parastatal and quasi-government institutions. In this regard, consideration should be made to establish a dedicated department which will oversee the operations of such institutions and ensure that they not only contribute to revenue but also the attainment of national development goals.

AUDIT QUERY **PARAGRAPH 57**

Revision of Director's Salaries

41. According to the terms of service, the Directors of NACL were entitled to, among others, salaries and allowances. All the Directors of NACL were Zambian nationals. A scrutiny of the contracts for the Managing Director, Directors and Corporation Secretary revealed that their salaries and allowances were

pegged in United States Dollars during the period under review contrary to the Government directive or policy on the use of foreign currency by local experts.

In the year 2005, the local currency (Kwacha) appreciated against the major foreign currencies such as the US Dollar. The Kwacha appreciated from K4,900 per US Dollar in April 2005 to K4,640 per US Dollar in July, 2005. In August, 2005, the Directors made a request to the Board to have their salaries revised because of the exchange rate that had reduced as a result of the appreciation of the Kwacha. The Board authorised that the salaries of the Managing Director, four Directors and Corporation Secretary be converted to Kwacha at the fixed rate of K4, 900 per US Dollar, while the exchange rate used by the Corporation was K4, 420 per dollar in August, 2005. In addition, the Board authorised that the Directors be paid salary arrears from April, 2005 so as to recoup during the months when the Kwacha had appreciated. In this regard, the Corporation paid a total sum of K15, 734,000 to the Managing Director and five Directors in respect of arrears in August, 2005.

The decision to change the salary denomination from US Dollar to Kwacha and backdating it to April 2005 was done contrary to government policy.

In her response dated 14th August 2006, the Managing Director stated among other things, that the Board of Directors approved the Business Plan and Budget for the year to 31 March 2006.

Controlling Officer's Submission

The Controlling Officer submitted that the Directors' salaries were pegged in US Dollars but paid in Kwacha, therefore, the issue of foreign exchange utilisation did not arise. The demand to change the basis of these salaries came from the Board and the Ministry of Communication and Transport. The company policy was to backdate all salaries and other conditions agreed in any year to 1st of April, this was done for all employees upon conclusion of salary reviews. This was not the first time salary arrears were being paid.

Observations and Recommendations

Your Committee observe that the backdating of the exchange rate to 1st April, 2005 potentially had a bigger financial implication than thought. It strictly would have meant the Corporation having under valued and over valued some of the products and services both procured and offered. The selective application of a different exchange rate on salaries and allowances was done for monetary gain and this was bad practice.

They advise the Controlling Officer and the Board to put a stop to such practices.

AUDIT QUERY **PARAGRAPH 58**

Irregular Payment of Christmas Bonus

42. Contrary to the terms and conditions of service, amounts totalling K249,699,257, K347,037,082 and K432,532,519 were paid to members of staff as Christmas bonus in December, 2003, 2004 and 2005 respectively.

Controlling Officer's Submission

The Controlling Officer submitted that Company policy was to pay Christmas bonus after it had been approved by the Board. Apart from profit, other success factors were taken into consideration in determining a bonus payout due to the nature of business and the Corporation's role in national development, which included provision of non-profitable services such as safety and security.

The Corporation's key success criteria were varied and were not restricted to operating profit. The payment was not solely dependent on whether a profit was achieved or not.

Some of the Corporation's success criteria were:

Strategic Objectives	Strategic Statements
Quality airport services	Seen as the provider of high quality airport services that satisfies the expectations of customers.
Quality air navigation services	Seen as the provider of safe efficient, reliable and expeditious air navigation services that satisfies the expectations of users.
Provision of infrastructure	Recognised as the provider of appropriate infrastructure that supports quality service delivery.
Commercial viability	Committed to achieve sound financial returns that promote a commercially viable entity.
Social and economic development	Recognised as a positive contributor to social and national economic development

Observations and Recommendations

Your Committee observe that the Company is unnecessarily perpetuating an irregularity considering that payment of Christmas bonus has been adopted as a practice. The Board and Management should explicitly provide for bonuses in the Conditions of Service for staff and specify under what conditions it will be paid. The Controlling Officer is advised to ensure that the bonuses are regularised.

AUDIT QUERY **PARAGRAPH 59**

Outstanding Pension Remittances

43. NACL had a pension scheme for its employees with ZSIC. According to the scheme, each member was to contribute 10 percent of his/her basic salary per month and the employer 20 percent.

As at March, 2006, NACL had not remitted amounts totalling K4, 281,298,986 in respect of employees and employer contributions for the period July 2001 to April, 2004 to ZSIC.

Controlling Officer's Submission

The Controlling Officer submitted that the pension remittances were continuously being paid to Zambia State Insurance Corporation Limited, at agreed levels. The liability would be eliminated in the next twenty-four months. The Corporation was paying K120 million per month.

Observations and Recommendations

Your Committee note the submission. They advise the Controlling Officer to submit copies of the Agreement and documents showing the payments to the Auditor-General for verification.

AUDIT QUERY **PARAGRAPH 60**

Ownership of International Airports

44. According to sections 25 and 29 of the *Aviation Act*, the formation and title of the airports passed to the Corporation at establishment.

It was, however, observed that the Corporation did not hold title to any of the four airports, namely, Lusaka, Livingstone, Ndola and Mfuwe, despite enjoying economic benefits from the airports. It was also observed that the airports had not been valued since the establishment of the Corporation in 1989.

In her response dated 4th August, 2006, the Managing Director stated that the issue of title deeds for the four airports was being resolved by the Ministry of Communications and Transport through the Director of Civil Aviation. She also stated that management was still assessing the cost/benefit of undertaking a full valuation of the airports.

Controlling Officer's Submission

The Controlling Officer submitted that the issue of title deeds for the four airports was being resolved by the Ministry of Communications and Transport through the Director of Civil Aviation's Office. The Corporation was directed to surrender title deeds for the airports by the Government through a letter dated 3rd February, 1999, from Ministry of Lands.

Management was assessing the cost/benefit of undertaking a full valuation of the airports. It was anticipated that the cost of the exercise would be quite significant.

When asked whether the four airports constituted part of the non-current assets disclosed in the balance sheet, the Controlling Officer submitted that this was so.

Observations and Recommendations

Your Committee observe that undertaking a revaluation exercise of the assets can have a positive effect on their financial statements. They, therefore, urge the Controlling Officer to render necessary assistance to the Corporation to enable it undertake the exercise. The Controlling Officer should report progress on the matter.

After considering the reasons advanced by the Ministry of Lands on the title deeds, your Committee resolve that the status quo be maintained, until such a time that circumstance will demand that the Corporation assumes custody of the deeds.

AUDIT QUERY **PARAGRAPH 61**

Failure to Follow Tender Procedures

45. Contrary to the provisions of tender regulations, the following were observed as set out hereunder.

a) Rehabilitation Works - Ndola International Airport

In June, 2003, the Director - Airport Services submitted a project brief with an estimated cost of K110,000,000 in respect of renovation works of the briefing office at Ndola International Airport. It was, however, observed that in June, 2004, NACL engaged Thor Development Limited to undertake the works at a contract sum of K199, 279,448 and the renovation works were estimated to be undertaken within three months commencing in June, 2004. It was, however, not clear why NACL paid K199, 279,448 which was K89, 279,448 more than the cost.

It was further observed that the local contractor was single sourced contrary to the provisions of the tender regulations and guidelines.

b) Installation of Power Security Fence at Ndola International Airport

In September, 2003, Zambia National Tender Board (ZNTB) granted authority to NACL to award the contract for the construction of a power fence to a company at a tender sum of K1, 002,275,000 inclusive of VAT.

It was, however, observed that the Corporation revised the scope of the works on two occasions which resulted in an additional cost of K444, 503,542 representing an increase of 45 percent. No tender authority was obtained for the additional cost.

It was further observed that another company was engaged on the same project for the embankment of the swampy area, where the fence was to be installed and they were paid K119, 732,500 by the Corporation. The contractor was awarded the contract without following tender procedures.

Although the works undertaken by the two contractors were estimated at a total amount of K1, 568,511,042, it was observed that the contractors were paid amounts totalling K1, 662,047,947 between October, 2003 and October, 2004 resulting in an overpayment of K93, 536,906. As of March, 2006, only K23, 500,000 had been recovered leaving a balance of K70,036,906 due from one of the contractors which had since gone into liquidation.

Controlling Officer's Submission

The Controlling Officer submitted as set out below.

a) Rehabilitation of Works – Ndola International Airport

The Corporation appointed an Architect as consultant, at a total cost of K9, 500,000 to undertake the design, tender documentation, adjudication and supervision of the above stated works.

The four contractors submitted their bids.

In this regard, it was considered that the contractor was not single sourced, but procured through a selective tender process.

Selective tender was opted for because the estimated cost of the project at a value below ZMK200 million was within the allowable threshold. Further, the award of contract to Thor Development was ratified by the NACL Tender Committee.

b) Installation of Power Security Fence at Ndola International Airport

The original layout of the security fence was designed to be within the minimum allowable distances to the Airport infrastructure only. However, it was observed during the pre-bid site visit that the level of encroachment into the Airport boundary was increasing at a high rate, especially towards Makenzie Compound and Ndeke Township areas on the north and west respectively. It was felt that if the boundary was not secure, the Airport land would be lost due to encroachment.

It was in view of the above that surveyors were engaged to establish the true Airport boundary length to avoid further encroachment. The contract, therefore, varied.

Further, the security fence was constructed based on the original fencing layout with an enclave (u-shape) leading to the Airport's main entrance as per original Airport perimeter fence configuration designed for security reasons to separate the airside from the landside.

Two quotations were obtained for the undertaking of extra earth works identified to be in the way of the fence after the survey.

A contractor was recommended for award of contract mainly on the basis that they were already a nominated sub-contractor to the main contractor on site, undertaking earthworks under the original scope of works and therefore considered to be already familiar with the existing site conditions.

The overpayment occurred as a result of the supervising engineer mistakenly advising the Finance Department that the advance had been completely recovered at the time of releasing the 10 percent retention when in fact it had not.

The contractor was immediately informed of the overpayment, which he, acknowledged and committed to repay in four instalments. Unfortunately, the company was liquidated after paying only one instalment.

The Corporation was still pursuing the matter through the liquidators and was also in dialogue with appropriate government organs to assist in effecting the recovery.

During his oral submission, the Controlling Officer informed your Committee that the supervising engineer was surcharged and had left employment.

Observations and Recommendations

Your Committee make the observations and recommendations as set out hereunder.

a) Rehabilitation Works – Ndola International Airport

Your Committee urge the Controlling Officer to submit the bid and contract documents to the Auditor-General for verification.

b) Installation of Power Security Fence – Ndola International Airport

Your Committee advise the Controlling Officer to resubmit the variation authority in the main contract and the bid documents for the extra earth works to the Auditor-General for verification.

The Controlling Officer should further report progress on the recovery of the K70, 036,906 that was over paid to the contractor.

H. ZAMBIA TELECOMMUNICATION CORPORATION LIMITED (UNDER THE MINISTRY OF COMMUNICATIONS AND TRANSPORT)

Background **Paragraphs 62 – 64**

46. The Zambia Telecommunications Corporation Limited (ZAMTEL) was established under the *Companies Act* following the dissolution of the Posts and Telecommunications Corporation Limited (PTC) and became operational on 1 July, 1994. Following the incorporation of ZAMTEL, the Government assumed 100 percent equity holding in the Corporation. The shareholding comprised K6, 000,000,000 made up of 300,000,000 ordinary shares of K20 each.

The principal activity of the Corporation was to provide telecommunication services to the Country.

The Corporation had a Board of Directors consisting of the Chairperson and not more than eight other persons appointed by the Minister of Communication and Transport. The Board appointed the Managing Director, the two General Managers and the Directors on a renewable three-year term of office. The rest of staff were appointed on a permanent and pensionable basis.

The day-to-day operations of the Corporation were the responsibility of the Managing Director, who was assisted by the two General Managers and the nine Directors including the Chief Internal Auditor.

However, neither the *Telecommunications Act* nor the Articles of Association spelt out the management of the Corporation.

The sources of funds for the Corporation included, among others, such sums of money as may be raised through subscriber calls, line rentals, foreign administration income, phone installations and leased services.

Controlling Officer's Submission

The Controlling Officer in response submitted that unlike statutory bodies that had enabling legislation, which went in detail on the management framework of such bodies, ZAMTEL was a limited liability Company governed by the *Companies Act*. The Company was, therefore, expected to be managed in line with the provisions of the *Companies Act* and as guided by its Board of Directors.

Observations and Recommendations

Your Committee note the submission.

AUDIT QUERY **PARAGRAPH 65**

Review of Operations

47. A review of audited accounts and other relevant documents for financial years ended 31st March, 2003 to 2005 carried out in June and July, 2006, revealed the following:

Performance

a) Profitability

Profit and Loss Account for the years ended 31st March 2003, 2004 and 2005

	K'Million	K'Million	K'Million	K'Million
Income:				
Turnover	290,270	339,232	324,592	341,685
Other Income	958	1,264	2,671	9,806
	291,228	**340,496**	**327,263**	**351,491**
Operating Expenses:				
Staff costs	109,275	147,031	183,571	173,911
Other expenses	98,238	90,667	70,526	103,220
Depreciation	20,246	24,466	30,480	37,112
	227,759	**262,164**	**284,577**	**314,243**
Operating Profit	**63,469**	**78,332**	**42,686**	**37,248**
Net exchange losses	13,289	12,102	511	558
Interest payable	4,965	7,093	12,568	12,462
Other finance charges	2,962	3,352	4,873	4,421
	21,216	**22,547**	**17,952**	**17,441**
Profit Before Taxation and Exceptional Items	**42,253**	**55,785**	**24,734**	**19,807**
Exception items	5,663	3,232	-	-
Profit Before Taxation	**36,590**	**52,553**	**24,734**	**19,807**

Taxation	30,721	26,717	10,055	5,403
Profit For Year	**5,869**	**25,836**	**14,679**	**14,404**

The operating profit decreased from K63,469 billion in 2002 to K37,248 billion in 2005 representing a decrease of 41.3 percent. It was also observed that between 2002 and 2005, the turnover increased by 18 percent while expenditure increased by 38 percent over the same period.

b) Liquidity

Balance Sheet as at 31st March 2003, 2004 and 2005

	2002	2003	2004	2005
	K'Million	K'Million	K'Million	K'Million
NON CURRENT ASSETS				
Tangible fixed assets	202,138	292,342	334,486	322,143
Investment	7,455	8,950	9,290	-
Long term receivables	103,905	157,451	2,009	2,009
Deferred taxation	3,603	1,488	-	-
	317,101	**460,231**	**345,785**	**324,152**
CURRENT ASSETS				
Stores	9,908	5,327	6,135	6,167
Debtors	60,831	43,850	249,354	174,583
Bank and cash balance	12,543	27,597	4,145	11,930
Taxation	-	-	17,676	30,183
	83,282	**76,774**	**277,310**	**222,863**
CURRENT LIABILITIES				
Other creditors and accruals	89,104	98,955	162,209	136,784
Trade creditors	45,879	50,883	34,698	39,334
Taxation payable	22,301	2,038		
Dividend payable	2,000	2,000	4,000	4,000
Bank overdrafts	8,333	9,445	14,059	76
	167,617	**163,321**	**214,966**	**180,194**
NET CURRENT ASSETS	**(84,335)**	**(86,547)**	**62,344**	**42,669**
TOTAL ASSETS	**232,766**	**373,684**	**408,129**	**366,821**
LIABILITIES DUE AFTER MORE THAN ONE YEAR				
Loans	77,279	179,553	189,694	123,311
Deferred Liability	28,581	42,847	52,614	58,997
Deferred taxation	20,513	18,738	22,491	27,175
Capital grants	6,301	5,123	3,957	3,561
	132,674	**246,261**	**268,756**	**213,044**
NET ASSETS	**100,092**	**127,423**	**139,373**	**153,777**
CAPITAL AND RESERVES				
Share capital	473	2,545	2,545	2,545
Convertible loan stock	2,072	-		
Capital reserves	39,898	38,093	33,503	18,604
Revenue reserves	57,649	84,785	103,325	132,628
Dividend reserve	-	2,000		
SHAREHOLDERS FUNDS	**100,092**	**127,423**	**139,373**	**153,777**

The working capital (Net Current Assets) improved from a position where current liabilities exceeded current assets by K84,335 billion in 2002 to a position were current assets exceed

current liabilities by K62,344 billion in 2004. The working capital reduced by K19,675 billion between 2004 and 2005.

Although the working capital had improved, the funds were held up in debtors. In addition, the debtors' collection period had deteriorated from thirty-four days in 2003 to 176 days in 2005 contrary to the credit policy of the Company which provided for the collection of debt in thirty days. It was observed in this regard that the Company relied heavily on overdraft facilities with local commercial banks to meet its short-term obligations such as VAT to ZRA.

As at December 2005, subscribers owed ZAMTEL K243,976 billion out of which amounts totalling K97,535 billion were owed by the Government.

Controlling Officer's Submission

In response, the Controlling Officer submitted as set out below.

The period for the audit covered the time when a number of significant events took place in the economy. ZAMTEL depended heavily on ZCCM and other companies on the Copperbelt for its fixed telephone service. The delayed privatisation of ZCCM had adverse effects on all companies on the Copperbelt including ZAMTEL as it lost some of its corporate and residential customers; and even; those customers that remained, their capacity to pay bills was adversely affected. Prior to the liberalisation of the telecommunications sector, the Government, as sole shareholder, did not recapitalise ZAMTEL to prepare it for liberalisation like was the case with similar companies in Southern and East Africa. Efforts to reposition the Company were made by management when they attempted to purchase 41 percent shares in ZAMCELL (now CELTEL) in 1997. However, this was not approved by the Zambia Privatisation Agency (ZPA) on the understanding that the Company was trenched for privatisation. This would have made it easy for ZAMTEL to source the much needed funds for investment. A similar initiative was taken by Telkom South Africa when it purchased shares in Vodacom, which was now one of the largest mobile service providers in South Africa. Following the liberalisation of the telecommunications sector, other service providers entered the market and increased competition and changed demand patterns and consumer behaviour as shown below:

	2002	**2003**	**2004**	**2005**
Population	10,883,000	11,051,000	11,261,000	11,311,000
ZAMTEL Fixed	85,662	88,634	90,154	90,400
ZAMTEL Mobile	3,546	45,123	60,000	56,436
CELTEL	93,423	139,754	252,277	680,000
MTN	42,123	56,123	67,123	172,122
Mobile Total	139,092	241,000	379,400	908,558
Total	224,754	329,634	469,554	998,958
Teledensity	**2.07**	**2.98**	**4.17**	**8.83**

Source: ZAMTEL

Mobile phones, like in other parts of the World, were being preferred to fixed phones. This saw the demand for mobile phones exceeding that of fixed phones as early as 2002.

The infrastructure for the provision of the fixed phone service was not only old, but also obsolete in most parts of the country. This made it difficult to compete with the modern technology of the mobile phone services and this reduced the call penetration rate.

These events had adverse effects on the revenues of ZAMTEL as these only increased marginally. During the same period, the Company was experiencing difficult industrial relation problems. These were strikes

by unionised workers in 2003 and in March and September of 2004 as workers demanded for improved Conditions of Service. In the process of bringing the industrial unrest under control, staff costs increased significantly.

These two factors, namely the marginal increase in revenues coupled with a significant increase in staff costs resulted in the reduction in operating profit.

In order to address the challenges mentioned above, management had taken a number of measures as contained in their five year Strategic Plan. These include the following:

a) investing in the mobile phone service. The Company had invested US$68.4 million dollars in the GSM Cellular mobile phone system. Due to increasing demand, the Company would be investing an additional US$38 million;

b) investing in the organisation of analogue exchanges in Eastern, Southern and some parts of the Copperbelt Provinces. The Company had invested US$15.4 million. An additional US$13.3 million would be invested in Northern, Luapula, North-Western and Western Provinces to digitalise the rural telephone systems; and

c) investing in the Fibre Optic Project. The Company was investing US$55 million in the Fibre Optic Project.

These measures were meant to grow revenue, counter competition, and expand service provision to all the seventy-two districts of Zambia as well as enhancing service provision. These measures would in turn bring about economies of scale with the resultant drop in operational costs and improved profitability.

Liquidity

The deterioration in the debtors' collection period emanated from the change in client behaviour following the introduction of mobile phones. Since clients could easily switch to mobile phones when they were disconnected for non-payment of bills, disconnections as a tool for debt collection were no longer effective.

In order to manage this challenge, management introduced the prepaid service on the landlines in five provinces and was yet to introduce the service in the other provinces. In addition debt collection was stepped up through visitations. These efforts were on going.

Observations and Recommendations

Your Committee note the submission and urge the Controlling Officer to ensure that the Ministry of Communications and Transport does not unnecessarily hamper Board and Management plans to improve the financial position of the Company. While acknowledging the fact that a parastatal has to follow certain strategic directives by the Government as shareholder, it should be given sufficient latitude to embark on projects that will benefit the Company considering that telecommunications is a high technology sector and needs continuous reinvestment to remain competitive.

They urge the Controlling Officer to encourage the Board and Management of ZAMTEL to roll-out the prepaid service to all provinces to avoid customer indebtedness. The Company should aim at phasing out the post paid system.

AUDIT QUERY **PARAGRAPH 66**

49. **Other Irregularities**

a) Irregular Appointment of General Managers

In 2005, the Board created two posts of General Manager following the Board approval of the Strategic Plan. The Managing Director and General Manager– Public Switched Telephone Network (PSTN)/Internet were appointed on 28th December, 2005 and the General Manager - Mobile was appointed on 14th March, 2006.

However, it was observed that there were no details of how the two General Managers were interviewed and employed. In addition, there were no detailed duties/responsibilities outlined for the day-to-day functions of the two General Managers. It was also observed that the two General Managers had no subordinates who reported to them.

b) Sale of ZAMTEL Houses

In November, 1998, Cabinet issued a circular stating that all non core residential properties of privatised and existing parastatal companies be ceded to the NHA/PHI for the purposes of raising funds to build more housing units across the country. In line with the Circular, ZAMTEL, in May, 2000 entered into an agreement with the NHA/PHI for the purpose of management of the sale and the financing of ZAMTEL non core residential properties in line with the objectives of NHA/PHI.

According to the Agreement, ZAMTEL was obliged to, among others:

i) deduct from the employees salaries in monthly instalments for a maximum period of thirty-six months and remit the proceeds to NHA/PHI; and

ii) open two NHA/PHI accounts with Barclays and Indo Zambia Banks.

A review of records and inquiries made with management indicated that a total of K7.31 billion was collected from the sale of houses between 2001 and June, 2006, however, ZAMTEL only remitted a sum of K1.133 billion to NHA leaving a balance of K6.177 billion. The Bank statements covering the period from January, 2001 to September, 2006 made available indicated that only a sum of K5,640,146,804 (Barclays-K1,017,558,334.44 and Indo Zambia - K4,622,588,470.28) had been deposited into the NHA/PHI Account.

However, due to scanty records it was not possible to verify the K7.31 billion raised from the sale of houses and the number of employees who benefited from the sale of company houses.

It was also observed that contrary to Cabinet Decision and Agreement, ZAMTEL transferred K2.5 billion from the NHA/PHI Account to its Staff House Loan Account between May, 2005 and September, 2005 as opposed to remitting to NHA/PHI to build more houses across the country.

It was further observed that ZAMTEL management was paying housing allowance at the rate of 35 percent of gross salary across the board inclusive of officers who got house loans and purchased houses contrary to the Government Policy which stipulated that officers who had benefited from the sale of pool houses and those that had obtained house loans were not eligible to payment of housing allowance.

c) Interconnection Agreement

Interconnection was the linking of one phone network system to another so that a call from one network to another was delivered. The interconnection agreements provided the basis on which traffic originating from one company system but terminating into a system owned by another

company was to be billed. At an agreed period, the parties to the agreement exchanged reports that indicated how much traffic was carried on behalf of the other. The figures were netted off and the party owing paid the difference to the other party.

A review of records revealed the issues set out hereunder.

i) The Interconnection Agreement between ZAMTEL and MTN Limited (TELECEL) was signed in October, 1996, and later revised in May, 1999. A similar agreement was signed with ZAMCELL Limited (CELTEL) on 27th October, 1998 for a period of fifteen years.

ii) MTN without the consent of ZAMTEL changed the concept of charging as enshrined in the Agreement. This led to arbitration between the two parties.

iii) The arbitration panel ruled in favour of ZAMTEL and ordered MTN to pay K2.2 billion for the period August, 1999 to December, 2000 to ZAMTEL. The amount of K2.2 billion was based on the reports generated by MTN. ZAMTEL could not produce its own report to compare with the MTN figure as per practice. Therefore, the correctness of K2.2 billion as amount owed to ZAMTEL could not be ascertained or confirmed.

iv) After the arbitration, MTN indicated that they would settle the K2.2 billion in three months. In this regard, MTN paid K500 million towards the K2.2 billion debt settlements in December, 2002. However, as at September, 2006, the balance of K1.7 billion had not been settled.

v) ZAMTEL had Interconnection agreements with foreign administrators and the other service providers such as MTN and CELTEL, which used the ZAMTEL international switch for their international calls. ZAMTEL paid for the international traffic that was carried by foreign administrators, implying that ZAMTEL Limited catered for the bills of MTN and CELTEL. The ideal situation was that upon netting off, ZAMTEL was supposed to recover from CELTEL and MTN.

However, it was observed that ZAMTEL has had disputes with CELTEL and MTN over the interconnection agreements. Since 2000, ZAMTEL was carrying and paying for international traffic on behalf of MTN and CELTEL to foreign administrators without receiving its dues from the two companies. In this regard, the two local service providers owed ZAMTEL amounts totalling US$ 19,310,095.24 (CELTEL Zambia Limited - US$11,639,490.81 and MTN Zambia Limited - US$7,670,568.43) based on the signed contracts.

In his response, the Managing Director stated that, the stumbling block on the recovery of money owed by MTN (Z) Ltd and CELTEL Limited was the imposition of settlement rates of US$0.05 by the Communications Authority of Zambia. ZAMTEL management further stated that the law did not back the imposed rates by the Authority and were contrary to the signed Interconnection Agreements.

d) Questionable Payment

Between May and October, 2002, ZAMTEL remitted a sum of US$35,000 (K113,260,000) in two equal instalments to Global Business World, a foreign company for a half paged advertisement in *Fortune Magazine*.

Enquires made with management revealed that there was no evidence to show that the advert was published in the Magazine and no contract was entered into.

In his response, dated 23rd November, 2006, the Managing Director stated that ZAMTEL had made efforts to trace the company that was paid for the advertisement but this had proved futile. He stated that all the contact numbers on the file were not working. The Managing Director further

said that authority to pay was granted by the Director Commercial Services who was no longer with the Company.

e) Wasteful Expenditure

On 20th May, 2003, ZAMTEL entered into an agreement with Manda Hill Centre Limited to rent shop number 27A at Manda Hill at a cost $3,656 per month.

Although the Agreement was signed in May, 2003, the Corporation commenced operations sixteen months after signing the Agreement. ZAMTEL paid rentals in amounts totalling US$66,531 (K317, 153,277) for the shop during the sixteen months it was not operating from the shop.

In his response dated 23rd November 2006, the Managing Director stated that Commercial Department could not start using the shop at Manda Hill soon after it was acquired because the building was still required to be renovated.

It was also observed that despite the Bank of Zambia directive that transactions be denominated in Kwacha only, ZAMTEL had been paying rentals in United States Dollars.

f) Irregular Use and Damage of Motor Vehicle

On 27th July 2004, a motor vehicle, Nissan Maxima registration number AAV 7960, allocated to the Managing Director's office, was involved in a road traffic accident and was completely damaged. At the time of the accident the vehicle was being driven by the Managing Director's wife who was not an employee of the Corporation. A review of the contract of employment for the former Managing Director indicated that there was no provision, which allowed the Managing Director's wife to drive the company vehicle.

In this regard, ZAMTEL made a settlement claim on its insurance policy of K131, 125,000 from Professional Insurance Corporation. In line with the policy, ZAMTEL was required to pay K13, 125,000 (10 percent of the total claim) as excess claim. This amount, though paid by ZAMTEL was recoverable from the Managing Director. However, as of September 2006 the money had not been recovered.

Controlling Officer's Submission

a) Irregular Appointment of General Managers

The decision to create the two new senior management positions of General Manager (PSTN and Internet) and General Manager (Mobile Services) was made by the Board at their 35th (Special) Board Meeting held on 2nd September, 2005. The Board at the same meeting also decided that the appointment of the two General Managers would be independent of the recruitment of the Managing Director. The appointment of the Managing Director and the two General Managers were made by the 40th (Special) Board Meeting which was held on 27th December, 2005. The appointment of the two General Mangers was receiving attention and legal opinion on the matter was being sought from the office of the Attorney-General.

ZAMTEL was waiting to be advised by the Permanent Secretary on the outcome of the consultations with the Office of the Attorney-General.

During his appearance before your Committee, the Controlling Officer submitted that the two General Managers were presently deployed elsewhere within ZAMTEL.

b) Sale of ZAMTEL Houses

Records on the sale of ZAMTEL houses to staff were available. These records included a comprehensive list of the houses that were available for sale, a list of staff that benefited from the sale of the houses, copies of offer letters to the staff and a record of payment for the house for each beneficiary employee. ZAMTEL produced schedules of those who bought houses.

The initial expected sale proceeds from the sale of houses were K7.31 billion for 676 housing units. 5 percent of the amount was to be paid up-front as commitment fee whereas 95 percent was to be recovered through payroll deductions over a thirty-six to sixty months period. A total of K1.133 billion was remitted to NHA/PHI, leaving a balance of K6.177 billion. The difference between K6.177 billion and K5.640 billion represented a balance of K537 million. Of this amount (K537 million), K74.5 million was yet to be recovered from employees while K462.5 million was recovered but not yet transferred to the PHI Bank Account.

From the time the functions of the Presidential Housing Initiative (PHI) were transferred to National Housing Authority (NHA), ZAMTEL stopped remitting funds to NHA. The reason for this was that it was not clear whether funds were supposed to be remitted to National Housing Authority (NHA) or not and National Housing Authority (NHA) had indicated that they were not keen to accept proceeds from the sale of ZAMTEL houses.

Based on the above, ZAMTEL transferred K2.5 billion to an existing Revolving Staff Loans Account for purposes of assisting staff that did not benefit from the sale of houses under the PHI, instead of just keeping the funds in a bank account. The balances of the funds were still with ZAMTEL.

ZAMTEL had its own Housing Policy, which was different from the Government Housing Policy. The Conditions of Service for ZAMTEL employees regarding housing allowance stated that where an employee was not housed by the Company, he/she is paid housing allowance equivalent to 35 percent of the basic pay. An employee was entitled to the allowance as long as the Company did not accommodate them, regardless of whether or not they benefited from the sale of company houses or house loans.

When asked on the position of the incomplete houses in Lusaka in the Leopards Hill area, the Controlling Officer submitted that management was contemplating completing the houses and selling them to staff.

c) Interconnection Agreement

ZAMTEL could not produce monthly reports to compare with MTN on the K2.2 billion figure because this was a time when ZAMTEL was changing its billing system and the new billing system at the time had no module for inter administration billing. The problem had since be resolved as ZAMTEL was now able to produce inter administration system reports.

ZAMTEL entered into Agreements with CELTEL and MTN (formerly TELECEL). Based on these Agreements, ZAMTEL was being owed by both CELTEL and MTN, and as at 31st March, 2007, the outstanding amounts from the two operators stood at US$14,417,084.49 and US$8,531,450.43 respectively. There were disputes over these debts and this was why it had been difficult to collect. Efforts to collect had been made and both matters were now in court.

During his appearance before your Committee, the Controlling Officer submitted that the 5 cent interconnection fee that the Communications Authority had come up with was grossly misinterpreted. The Minister did not issue a statutory instrument to bring into effect the new rates. Unfortunately, MTN went ahead and applied them. ZAMTEL could not proceed to disconnect MTN because it had been granted a stay of execution.

ZAMTEL would take up the matters after the courts decided the cases.

d) Questionable Payment

There was a contract that was entered into between ZAMTEL and Global Business World for the publication of an advert in the *Fortune Magazine*. ZAMTEL did not receive a copy of the publication and this made it difficult to verify whether or not the advert was published. The Permanent Secretary presented to your Committee copies of the magazine were the advert appeared.

e) Wasteful Expenditure

At the time ZAMTEL needed a shop at Manda Hill, there was high demand for the shops. The Land Lord was letting shops that were not complete. They still required the completion of the floor, partitioning and fittings and the tendering process to select the contractor only commenced after the shop was acquired. The contractor advised that some of the materials required needed to be imported. Unfortunately due to some unforeseen circumstances, the process was delayed for thirteen months. The Commercial Department started using the shop as soon as all renovation works had been completed.

He further submitted that the conditions of the contract were that ZAMTEL was to acquire the space and finish it off to its own satisfaction.

Rentals were still charged in Dollars, and this was beyond the Company to change.

f) Irregular Use and Damage of Motor Vehicles

ZAMTEL had since recovered the 10 percent excess amount from the former Managing Director's dues. Measures had been put in place to avoid such cases.

Observations and Recommendations

Your Committee make the observations and recommendations set out below.

a) Irregular Appointment of General Managers

Your Committee note that the Board is awaiting guidance from the Attorney-General on the matter. They, therefore, will await an update from the Controlling Officer. However, they urge the Controlling Officer to advise the ZAMTEL Board to be very careful and thorough before making decisions such as the one on the recruitment of General Managers. ZAMTEL is a public company and happenings at the Company are of interest to Zambians.

b) Sale of Houses

Your Committee observe that management did not cooperate with auditors. Explanations given should have been provided to the auditors at the time of audit. They, therefore, urge the Controlling Officer to advise the Board and Management to avoid such practices.

They further urge the Controlling Officer to resubmit records on the sale of ZAMTEL houses and copies of bank statements of the Staff Loans Revolving Account showing balances during the audit period to the Auditor-General for verification. Since there is no clear direction on the matter, the funds should be placed in a special account until a decision is made.

The Controlling Officer should advise the ZAMTEL Board and Management that which ever decision is made on the incomplete houses, it should have minimal financial implications on the Company. Your Committee does not support ideas of mobilising funds to complete houses and sell them off to staff at unrealistically reduced prices.

c) Interconnection Agreement

Your Committee reiterate their earlier statement that ZAMTEL needs to reinvest considerably in its operations and constantly keep its systems upgraded.

They advise the Controlling Officer to be on guard against manoeuvres that may place ZAMTEL at a serious disadvantage with respect to the international gateway. Competitors are trying to have their own gateway and are likely to be aggressive to achieve that.

The Controlling Officer should report progress on the matters that are before the courts.

d) Questionable Payment

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

e) Wasteful Expenditure

Your Committee while appreciating the need to widen the company's presence in the City, they are of the view that the project may not have been properly appraised. To justify the continued occupation of the shop, they urge the Controlling Officer to request ZAMTEL to conduct a re-evaluation exercise of the project.

f) Irregular Use and Damage of Motor Vehicle

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

I. ZAMBIA CONSOLIDATED COPPER MINES INVESTMENTS HOLDINGS PLC (UNDER THE MINISTRY OF MINES AND MINERALS DEVELOPMENT)

Background **Paragraphs 67 - 69**

50. The Zambia Consolidated Copper Mines Investments Holdings (ZCCM-IH) Plc was established in accordance with the provisions of the *Companies Act*, CAP 388 following the successful privatisation of ZCCM Limited in March, 2000. The Government holds 87.6 percent of the shares with the remaining 12.4 percent held by private investors.

After the privatisation of ZCCM Limited, ZCCM – IH Plc retained interests in the following companies:

		Percentage:
i)	AHC Mining Municipal Services Ltd	100
ii)	Ndola Lime Company Limited	100
iii)	Konkola Copper Mines PLC	20.6
iv)	Cyprus Amax Kansanshi PLC	20
v)	Copperbelt Energy Corporation PLC	20
vi)	RAMCOZ Plc	15
vii)	NFC Africa Mining PLC	15
viii)	Chibuluma Mines PLC	15
ix)	Chambeshi Mines PLC	10
x)	Mopani Copper Mines PLC	10

The Company also had conditional future share election option to take-up 15 – 20 percent shareholding in Konnoco Zambia Limited (Konkolo North Mining Project).

The authorised share capital was K900,000,000 comprising 54,000,000 of 'A' ordinary shares of K10 each and 36,000,000 of 'B' ordinary shares of K10 each.

Controlling Officer's Submission

The Controlling Officer submitted that the Ministry of Finance and National Planning only had one member on the ZCCM-IH Board of Directors.

The position of General Manager had been filled and the position had since been re-designated Chief Executive Officer.

Observations and Recommendations

Your Committee note the submission.

AUDIT QUERY **PARAGRAPH 70**

Sources of Funds

51. The ZCCM-IH Plc derives its income from dividends from its subsidiaries and associated companies and also from cobalt/copper participation sales.

During the financial years ended 30th June, 2003, 2004 and 2005, the Company received dividends in amounts totalling K73,250 million (Copperbelt Energy Corporation Limited - K69,050 million and Ndola Lime Company Limited - K4,200 million).

Over the same period, the Company did not receive dividends from the following companies:

i) AHC Mining Municipal Services Ltd;
ii) Konkola Copper Mines Plc;
iii) Cyprus Amax Kansanshi Plc;
iv) RAMCOZ Plc;
v) NFC Africa Mining Plc;
vi) Chibuluma Mines Plc;
vii) Chambeshi Mines Plc; and
viii) Mopani Copper Mines Plc.

The Company cobalt/copper participation fees received during the three years period amounted to K161,888 million.

Controlling Officer's Submission

The listed companies did not pay dividends in 2003, 2004 and 2005 because they were either loss making or had cash flow constraints as set out below.

i) AHC Mining Municipal Services Limited had accumulated losses of K13.2 billion as at March, 2005;

ii) Konkola Copper Mines Plc was bought by Vedanta Resources as majority shareholders in 2004. In 2005, it had accumulated losses of US$186 million. However, since 2005 KCM had paid a dividend of $2.3 million to ZCCM-IH;

iii) Cyprus Amax Kansanshi Plc was essentially a mineral exploration company up to 2004. There was no production in 2003 and 2004. In 2005, production started and a profit of $95.1 million was made, but the Company could not pay dividend because it had outstanding loans amounting to US$182.2 million. It used part of the profit for current expansion projects.

iv) RAMCOZ never made a profit and went into liquidation. In 2004, the assets were sold to J & W AG and the Company was renamed Luanshya Copper Mines Plc. In 2004, Luanshya Copper Mines incurred a loss of US$5.9 million. In 2005, the company made a loss of US$1 million;

v) NFC Africa Mining Plc had accumulated losses of US$3.5 million as at 31st December, 2005;

vi) Chibuluma Mines Plc was making losses. As at 30th June, 2005, it had accumulated losses of US$36.9 million. In 2004, Chibuluma West Mine was closed, the mine had come to the end of its economic life. In the last two years, the Company had been developing a new mine, Chibuluma South Mine. The future of this mine looks profitable and the Company had committed itself to paying a dividend starting from the current financial year which would end on 30th June, 2008. It would pay US$750,000;

vii) Chambeshi Mines Plc had accumulated losses of US$146 million as at 31st December, 2005; and

viii) Mopani Copper Mines Plc made a profit of US$6.8 million in 2003, US$85.7 million in 2004 and US$28.1 million in 2005. Taking into account brought forward losses of $44.8 million, Mopani Copper Mines made a profit of US$75.9 million over the period 2003 to 2005. The profit was ploughed back into rehabilitation and expansion projects, but it was not enough. Due to the insufficiency of the funds, loans were obtained for capital projects.

ZCCM-IH was constantly reviewing the performance of all these companies to press for dividend payments.

ZCCM-IH was proving to be a useful tool to resolve some of the pressing problems in the post privatisation era of ZCCM Limited including others such as the assistance rendered to Maamba Collieries.

He clarified that ZCCM-IH did not have a common accounting policy that applied to all companies in which it had shares. Each company had its own accounting policy. This was because they had different shareholder agreements in each company.

Observations and Recommendations

Your Committee observe that if mining companies are not closely monitored, Zambia through ZCCM-IH is bound to lose out on the favourable copper prices. The reported losses which subsequently led to non declaration of dividends are worrying.

Mining companies are employing efficient methods of production through the use of state-of-the-art machinery which translates into lower production costs. In addition, they are concentrating on their core business of mining and do not provide social and municipal services. This coupled with the high copper prices means that the payback period of their investment is shorter, therefore, reported losses should be closely scrutinised.

They further note that the major shareholders are capable of creating satellite companies which can be providing ancillary services to the mining companies. Despite making losses, foreign shareholders may still be able to secure returns on their investments through transfer pricing.

They, therefore, strongly advise the Secretary to the Treasury to ensure that the Board is alert to management practices that may disadvantage Zambians in all companies where ZCCM-IH has shares. The expectations of Zambians from the mines are high and the Board needs to be conscious of this fact at all times. Declaration of dividends should not be left solely to the discretion of other investors as is being portrayed at Chibuluma Mines PLC.

AUDIT QUERY **PARAGRAPH 71**

Review of Operation

52. A review of operations for the financial years ended 30th June, 2003 to 2005, revealed the following:

Strategic Business Plan

The entity did not have a Strategic Business Plan defining its vision, objectives and business activities.

Financial Performance

a) Profitability

Profit and Loss Account for the years ended 30th June, 2003, 2004 and 2005

	2003 K'Million	2004 K'Million	2005 K'Million
Revenue	25,685	31,947	173,306
Operating Expenses			
Operating expenses/cost of Sales	(61,012)	(16,130)	(60,035)
Gross Profit (Loss)	**(35,327)**	**15,817**	**113,271**
Other operating income	6,343	7,908	17,591
Environmental expenses	(10,661)	(2,899)	(18,355)
Non-operating(expenses)/ Income	462,417	3,156	(8,178)
Operating before Financing Income / (Costs)	**422,772**	**23,982**	**104,329**
Net financing Income/ (costs)	(50,899)	992	32,734
Impairment losses	-	-	-
Profit / (Loss) before Taxation	371,873	24,974	137,063
Income tax	(5,558)	(713)	(3,174)
Profit / (Loss) for the Period	**366,315**	**24,261**	**133,889**

Operating costs over the period included expenses such as administrative costs and Directors' emoluments as shown below:

	2003 K'Million	2004 K'Million	2005 K'Million
Administrative Costs	37,627	7,259	47,448
Directors' Emoluments	123	119	238

As can be seen from the table above, administrative costs rose from K7.2 billion in 2004 to K47 billion in 2005 representing an increase of 571 percent. Further during the same period the directors emoluments doubled from K119 million to K238 million. Although the Company recorded a profit of K366, 315 million in 2003, this was attributed to non operating income of K462, 417 million in the same year. The non operating expense of K8, 178 million arose from the restructuring and sale of KCM to Vedanta.
Despite the Company making profits during the period under review, no dividends were paid to Government.

b) Liquidity

Balance Sheet as at 30th June 2003, 2004 and 2005 (Extract)

	2003 K'Million	2004 K'Million	2005 K'Million
Assets			
Property, Plant and equipment	1,956	3,689	5,513
Investments	449,409	449,409	367,714
Deferred tax asset	-	-	-
Other long term receivables	67,160	22,328	21,611
Total Non-Current Assets	**518,525**	**475,426**	**394,838**
Inventories	-	-	-
Accounts receivable and prepayments	57,002	127,854	220,916
Other investments	18,882	29,141	43,778
Cash and bank	49,472	14,312	32,723
Total Current Assets	**125,356**	**171,307**	**297,417**
Total Assets	**643,881**	**646,733**	**692,255**
Equity			
Issued capital	893	893	893
Retained earnings	(1,621,481)	(1,597,220)	(1,463,331)
Revaulation reserve	870	870	1,395
Subordinated loan	865,445	865,445	865,445
Total Deficit On Equity	**(754,273)**	**(730,012)**	**(595,598)**
Liabilities			
Long term loans	1,308,084	1,290,760	1,193,483
Finance lease	-	-	-
Other long term liabilities	-	-	-
Grants	-	2,518	2,518
Deferred tax liabilities	-	-	282
Total Non-Current Liabilities	**1,308,084**	**1,293,278**	**1,196,283**
Bank overdraft	-	-	-
Finance lease	-	-	-
Accounts payable	24,225	81,548	89,566
Accruals and provisions	61,804		
Taxation	4,041	1,919	2,004
Total Current Liabilities	**90,070**	**83,467**	**91,570**
Total Equity And Liabilities	**643,881**	**646,733**	**692,255**

c) ***Gearing***

The gearing ratios of the company during the period under review were as below:

		2003 K'Million	2004 K'Million	2005 K'Million
Debt		2,173,529	2,156,205	2,058,928
Equity		893	893	893
Debt + Equity		2,174,422	2,157,098	2,059,821
$\frac{\text{Debt}}{\text{Debt + Equity}}$	x 100%	99.96%	99.96%	99.96%

As can be seen above, the external financing (gearing) of the Company was high as it remained at 99.9 percent during the financial years ended 30th June 2003, 2004 and 2005. It was also observed that:

- ***Subordinated Loans***

  In February 1999, the Company and the Government entered into an agreement for certain of the Company's lenders to be paid by the Government, described as the 'Paris Club' loans, denominated in Kwacha. Previously the loans were denominated in Dollars, French Francs and Pounds Sterling. The Agreement with the Government provided for the subordination of the new loan to all other creditors of the Company. It was observed that the loan, which was interest free and carried no specific repayment term and was payable on demand. The loan had been outstanding since 1999.

- ***ZESCO Loan***

  The loan with ZESCO Limited carried interest at London Inter-Bank Offered Rate (LIBOR) plus 5 percent. The loan arose from the assumption by ZCCM-IH Plc (under an agreement dated 28 February, 2002 between ZCCM–IH Plc, ZESCO Limited and Copperbelt Energy Corporation Plc (CEC)) of debts due from RAMCOZ to CEC of US$19,291,994 of which US$13,141,701 was owed by CEC to ZESCO Limited as at 28th February, 2002. It was observed that the loan had no specific repayment term and iwa still outstanding.

- ***GRZ Loan***

  The GRZ loan represents amounts received from the Government to enable ZCCM-IH Plc discharge pre-privatisation liabilities. All such receipts from the Government were credited to the loan account pending a decision by the Government regarding the final disposal of these balances. No interest was accrued in respect of these balances. It was observed that it was repayable on demand and is still outstanding.

- ***ERIPTA Loan***

  The Economic Recovery and Investment Promotion Technical Assistance (ERIPTA) loan was taken over by the Government in 2001 and arises from the period prior to the disposal of ZCCM Limited mining assets. This loan was intended to assist the Government in carrying out its economic reform under its Privatisation and Industrial Reform and Economic Programmes. The loan has been removed from ZCCM-IH Plc books due to the absence of an agreement between GRZ, ZCCM-IH Plc and the financing partner regarding the takeover of the loan by GRZ. It was observed that no interest has been accrued since 2001 and was still outstanding.

c) ***Other Liabilities***

Loans totalling K1, 095,998,190,258 as outlined below, were not reflected in the financial statements.

	K
Public Service Reform & Export Promotion	240,563,793,315
Trade Creditors on Lending	842,091,427,030
Copperbelt Environmental Project (IDA)	13,342,969,913
Total	**1,095,998,190,258**

Controlling Officer's Submission

Strategic Business Plan

At the time of the audit, the preparation of the plan was underway. This exercise had since been completed and the plan was approved by the Board. The plan spelt out the vision, mission statement, objectives and goals for the period 2007 to 2010.

a) ***Profitability***

i) ***Administrative costs rose from K7.2 billion by 571 percent between 2004 and 2005***

The expenses comprised largely of the K35 billion paid in 2005 to Mukuba Pension Scheme as ZCCM-IH share in the Scheme's actuarial deficit. In the same year, K2.3 billion was paid for cadastral surveys of ZCCM Ltd house sales. Another K3.7 billion went into legal expense payments relating to ZCCM Ltd and its privatisation.

ii) ***Director's emoluments doubled from K119 million to K238 million:***

The figures went up because, in order to enhance corporate governance, two committees were formed and performed work during the period: (1) Audit Committee, (2) Remuneration Committee. There was an increase in activity, therefore, expenses correspondingly rose. Meetings of the Board were held on a quarterly basis.

During the period 2003 to 2005, Director's emoluments remained lower than those stipulated in the Articles of Association of the Company. The stipulated allowances were US$1,000 per sitting per Director and US$1,500 per sitting for the Chairperson. In addition, the Articles of Association provided for an annual "ordinary remuneration" of US$12,000 per Director and US$15,000 for the Chairperson.

Paragraph15 of the Articles of Association read:

"*The ordinary remuneration of the Directors shall be at the rate of US$12,000 per annum each with an additional remuneration at the rate of US$3,000 per annum for the Chairman provided that the Directors shall have the power to increase the fees payable in terms of this Article. Such remuneration shall accrue from day to day and will be payable in Kwacha equivalent. In addition, Directors' Sitting Allowance will be US$1,000 per sitting per Director whilst the Chairman will receive US$1,500 per sitting.*"

In practice, the Directors' emoluments were lower as follows:

Year	Emolument	Directors	Chairperson
2003	Sitting Allowance	K900,000	K1,000,000
	Quarterly Fee	K1,400,000	K1,500,000
2004 and 2005	Sitting Allowance	K1,500,000	K1,800,000
	Quarterly Fee	K1,800,000	K2,000,000

The payment of the above allowances was as a result of a Board Resolution.

iii) Payment of dividends to government

ZCCM-IH did not pay any dividend to the Government in the period 2003 to 2005 because of pressing payments which included:

i) payment of terminal benefits of former ZCCM Ltd workers who were retrenched by the new mine owners or resigned. K5.1 billion was paid in 2003, K17.7 billion in 2004 and K12 billion in 2005;
ii) refunds for contentious ZCCM house sales. K973 million was refunded in 2003, K692 million in 2004 and K1,523 in 2005; and
iii) payments for cadastral surveys relating to sale of houses and other properties of former ZCCM Ltd. K1.6 billion in 2004 and K2.3 billion in 2005.

b) High Gearing Ratios

The ratios remained at 99.9 percent during 2003, 2004 and 2005. ZCCM-IH was heavily indebted during the period as set out below.

- The "Paris Club Loans" were loans owed by ZCCM-IH to GRZ not to the Paris Club. The loans were used to help in keeping the former ZCCM Ltd afloat to pave the way for privatisation.
- The ZESCO loan was money owed by the former RAMCOZ to Copperbelt Energy Corporation (CEC). To facilitate finding a new strategic partner for Luanshya Copper Mines, ZCCM-IH accepted to take up this loan.

  During his appearance before your Committee, the Controlling Officer submitted that ZCCM-IH was pursuing the matter with the Receiver. There was also a possibility of converting the debt into preference shares which would be floated on the stock exchange. The Government had agreed in principle.
- The GRZ loan was incurred to enable ZCCM-IH discharge certain pre-privatisation liabilities that included creditors to the former ZCCM Ltd.
- The ERIPTA loan helped the Government to secure technical assistance to carryout the privatisation of ZCCM Ltd.

Given the fact that most of the loans assisted the Government to privatise ZCCM Ltd, the Government was discussing with ZCCM-IH on ways of dealing with the loans and improve the gearing ratio.

Other Liabilities
The breakdown of loan term loans reflected in the financial statements was as given below:

	ZK' Million
ZESCO Loan	85,192
ZESCO/RAMCOZ Debt	842,091
GRZ/World Bank Loans (Public Service Reforms Copperbelt	

Environment Project (IDA)	253,879
ERIPTA	12,321
	1,193,483

Observations and Recommendations

Your Committee make the following observations and recommendations.

i) Strategic Plan

Your Committee note the submission and resolve that the matter should close.

ii) Profitability

Your Committee note the submission and observe that despite the Company not declaring any dividends, it is being utilised to meet government's obligations in the post ZCCM privatisation period. They, therefore, request the Controlling Officer to ensure that the Company is not financially over burdened and its existence threatened.

iii) Gearing Ratio

Your Committee observe that the Government had over stretched itself in its quest to accommodate foreign investors. The Government took over substantial liabilities of the privatised mines some of which ZCCM-IH had assumed resulting in an unfavourable gearing ratio.

Considering that the ZCCM-IH Board of Directors includes persons, who also hold strategic positions in the Government, and also the fact that they are negotiations currently going on the debts, your Committee advise the Secretary to the Treasury to expedite the process of liquidating the loans.

They further recommend that the Controlling Officer should report progress on the movement of debts.

AUDIT QUERY **PARAGRAPH 72**

Loss on Shareholding Restructuring

53. The shareholding of ZCCM-IH Plc in various mining companies during the period under review reduced from 42 to 20.6 percent upon Vedanta Resources Plc acquiring 51 percent of the KCM shareholding in November, 2004 resulting in a loss of K8,200,121,708 (US$ 1.73 million) as detailed below:

	OLD KCM US$'million	ADJUSTMENT US$'million	NEW KCM US$'million
Net assets at the closing/ opening balance sheet	327	25 (Cash from VEDANTA for 51% Share in KCM)	352
ZCCM-IH share of net assets	42%		21%
ZCCM-IH value of net assets	137.34		72.51
Add ZCCM-IH value of compensation for dilution			16.80
Total consideration deemed received for dilution from 42% to 20.6% (72.51+16.8)			89.31
ZCCM-IH value of net assets before dilution			137.34
Therefore loss of value arising from dilution			(48.03)
Reportable Loss In ZCCM-IH books:		**$'M**	
(a)	Carrying Value (Before Dilution) In ZCCM-IH Plc's Books	91.04	
(b)	Total Consideration For The Dilution	89.31	
Reportable Loss			**1.73**

In his response, the CEO stated that a GRZ negotiating team and not ZCCM-IH Plc conducted the negotiations for the sale of shares in KCM to Vedanta Resources.

Controlling Officer's Submission

This matter related to Konkola Copper Mines Plc only. In order to let Vedanta Resources Plc purchase 51 percent shares in KCM, the shares had to come from the existing shareholders, namely ZCCM-IH, which had 42 percent and Zambia Copper Investments (ZCI) which had 58 percent. ZCI reduced its shareholding to 28.4 percent, ZCCM-IH reduced its portion to 20.6 percent. In this way, Vedanta purchased the 51 percent in KCM and became the majority shareholder.

The purchase of ZCCM-IH shares by Vedanta Resources Plc was negotiated by a Government negotiating team, whom, they believed, secured the best price possible at the time.

Observations and Recommendations

Your Committee note the response. They are of the view that Zambians should have been afforded the opportunity to purchase part of the KCM shares that were available after Anglo- American pulled out.

J. ZAMBIA STATE INSURANCE CORPORATION LIMITED (UNDER THE MINISTRY OF FINANCE AND NATIONAL PLANNING)

Background, Management and Sources of Income Paragraphs 73 – 75

54. The Auditor-General reported that the Zambia State Insurance Corporation Limited (ZSIC) was established under the *Companies Act* and is regulated by the *Insurance Act* and *Pension and Insurance Act*.

It was the duty of the Corporation to:

- provide, in accordance with sound insurance principles, adequate and proper insurance services and facilities of all classes throughout Zambia; and

- conduct its business without discrimination, except upon such grounds as were essential for the conduct of business on sound insurance principles.

The Corporation was wholly owned by the Government.

Management

According to the Articles of Association, the Board comprised seven members including the Chairperson who were appointed by the Minister responsible for Finance and National Planning.

The responsibility for implementing the strategic direction and for managing the day-to-day operations of ZSIC was delegated to the Chief Executive Officer, the Managing Director, who was also a Board member.

The Managing Director was assisted by the Corporation Secretary, four Directors in charge of Life and Pension, General Insurance, Finance and Investment and Corporate Affairs. All the above were appointed on a renewable three year term contract, while the rest of staff was employed on a permanent and pensionable basis.

Sources of Funds

The Corporation earned its income from pension fund management, life insurance and general insurance sources. The pension fund management sources included group pension, individual life, group life and pension property while the general insurance sources include fire, motor, marine, aviation, accident, engineering, agriculture, tourism and money insurances among others. Life insurance dealt with the insurance of lives of individuals.

AUDIT QUERY **PARAGRAPH 76**

Review of Operations

55. A review of audited accounts and other relevant documents for financial years ended 31st March, 2003 to 2005 carried in August, 2006 revealed the matters set out below.

Financial Performance

a) Profitability

Profit and Loss Account for the years ended 31st December, 2002, 2003, 2004 and 2005 (Extracts)

	2002 K'Million	2003 K'Million	2004 K'Million	2005 K'Million
(Deficit)/surplus from General Insurance Division revenue account	6,867	4,688	1,053	(5,097)
Other income	3,695	8,027	6,754	10,623
	10,562	**12,715**	**7,807**	**5,526**
Expenses not charged to divisional revenue accounts	3,582	4,109	2,994	4,472
Exceptional items			-	2,706
Profit/(Loss) before taxation	**6,980**	**8,606**	**4,813**	**(1,652)**
Taxation	-	(400)	(12,774)	(2,107)
Loss after taxation	6,980	8,206	(7,961)	(3,759)
Proposed Dividends	-	500	-	-
Retained profit/(loss)	**6,980**	**7,706**	**(7,961)**	**(3,759)**

As can be seen above, the revenue of the corporation decreased from K10, 562,000,000 in 2002 to K5, 526,000,000 in 2005. It was also observed that retained profits of K 6,980,000,000 in 2002 reduced to a loss of K3, 759,000,000 in 2005.

b) Liquidity

Balance Sheet as at 31st December 2002, 2003, 2004 and 2005

	2002 K'Million	2003 K'Million	2004 K'Million	2005 K'Million
Property, Plant and equipment and investments				
Investments, loans and Mortgages	16,165	56,445	57,590	66,684
Property, Plant and equipment	15,425	24,458	23,939	22,986
	31,590	**80,903**	**81,529**	**89,670**
Current Assets				
Debtors	65,859	84,207	118,822	128,666
Prepayments		-	-	851
Funds on deposit	5,908	3,523	3,697	3,347
Bank and Cash	7,073	4,295	4,637	6,186
	78,840	**92,025**	**127,156**	**139,050**
CURRENT LIABILITIES				
Creditors	59,001	51,568	91,927	103,928
Outstanding claims	4,241	3,354	3,615	14,316
Taxation			12,454	9,081
Bank overdrafts	1,767	3,145	3,627	11,788
	65,009	**58,067**	**111,623**	**139,113**
NET CURRENT ASSETS	**13,831**	**33,958**	**15,533**	**(63)**
LIABILITIES DUE AFTER MORE THAN ONE YEAR				
Deferred Liability	**199**	48	**-**	**-**
Insurance Funds				
General Insurance Division	18,283	20,360	23,625	25,533
Individual and group life Division	19,926	67,915	56,760	50,156
	38,209	**88,275**	**80,385**	**75,689**
NET ASSETS	**7,013**	**26,538**	**16,677**	**13,918**
CAPITAL AND RESERVES				
Share capital	1,000	1,000	1,000	1,000
Reserves	6,013	24,638	16,677	12,918
Dividends proposed	-	500		-
Shareholders' funds	**7,013**	**26,138**	**17,677**	**13,918**

As can be seen above, working capital decreased from a position where current assets exceeded current liabilities by K13, 831,000,000 in 2002 to a position where current liabilities exceeded current assets by K63, 000,000 in 2005. This position could expose the Corporation to risks of insolvency, litigations and liquidation.

c) Government Indebtedness

ZSIC provided various general insurance policies to the Government such as motor vehicle and properties insurance covers. As at December, 2005, the Government owed ZSIC a total sum of K27, 923,728,259.

d) Insurance Brokers/Agencies

According to the provisions of the *Pension and Insurance Act*, individuals or groups of persons applied to the Pension and Insurance Authority (PIA) to start operating as insurance brokers and agents. If they met the requirements, the Authority approved their applications and they were issued with a certificate to operate. The brokers and agents then presented their certificates, which were valid for one year and renewable, to the insurance companies for them to be allowed to conduct business with the potential clients of that insurance company.

ZSIC gave cover note books (insurance certificates) to brokers and agents to use for selling insurance policies. When the brokers and agents sold policies, clients either paid the full amount of premium or entered into a credit agreement and made a part payment of 50 percent. The remaining 50 percent was to be paid within sixty days. The premiums collected by the insurance brokers and agents were to be remitted to ZSIC within 30 days.

A scrutiny of records revealed that eighteen brokers and agents had breached the above condition, resulting in amounts totalling K2, 521,897,510 not being remitted to ZSIC for more than one year. Despite the brokers and agents not remitting the premiums, ZSIC continued dealing with them.

e) Outstanding Rentals

ZSIC had different types of properties which were on lease to residential and commercial tenants. The standard lease agreement provided for, among others, the following:

i) properties were on lease to tenants for a period of one year with an option to renew for a period of one year upon giving three months notice by the tenant to the landlord of such an intention;

ii) payment of security deposit equivalent to three months rent (refundable to the tenant if there were no material defects in the premises attributable to the tenant and the tenant had no arrears at the time of vacating the premises);

iii) payment of rent for three months in advance; and

iv) if rent became payable but remains unpaid for thirty days, the landlord should evict the tenant.

It was, however, observed that as at September, 2006, amounts totalling K1, 493,457,377 were owing to ZSIC for more than 15 months. In addition, amounts totalling K347, 446,067 were not collectable, as the tenants had either died or were not traceable.

f) Sale of House Sub-division No.163 of Farm No. 441A Lusitu Road, Roma, Lusaka

On 29th August, 2001, ZSIC engaged the Government Valuation Department to assess the current open market value of sub-division No.163 of Farm No. 441a Lusitu Road, Roma of Lusaka for the purpose of disposing off the asset.

According to the Government Valuation Report dated 29th August, 2001, the house was valued at K200, 000,000. On 28th January, 2002, ZSIC engaged a private consultant, to make an assessment and report on the current open market value of the subject property for possible purchase. According to the consultant's report dated 30th January, 2002, the open market value for the house was K135, 000,000.

It was, however, observed that ZSIC sold the property (House No 163 Plot 441 Lusitu Road, Roma, Lusaka) to the Legal Counsel at K100, 000,000 contrary to the valuation reports.

g) Actuarial Valuation Report

The *Insurance Act* required that the life insurer had its financial position investigated every three years by an approved actuary. The insurer had to maintain a margin of solvency as defined in the regulations. In terms of regulation 2(1), an insurer had a sufficient margin of solvency in respect of its life business if its liabilities under life policies do not exceed the sum in the life insurance funds or funds maintained by it.

According to the report on the actuarial valuation of the Zambia State Insurance Corporation Life Division undertaken by QED Actuaries & Consultants of December, 2004, the Life Division had a deficit of K26.2 billion as at 31st December, 2003 and was still in operation contrary to the provisions of the Act.

h) Pension Contributions

Pursuant to the provisions of the Pension *and Insurance Scheme Regulations Act No 28 of 1996*, the Zambia State Insurance Cooperation (ZISC) limited incorporated the Zambia State Insurance Pension Trust Fund under the *Land (Perpetual Succession) Act* for the purpose of managing the pension scheme of its employees.

It was observed, however, that ZISC owed the Pension Trust Fund in both employees and employers contributions in amounts totalling K8, 092,978,027 as at August 2006.

Controlling Officer's Submission

The Controlling Officer in response submitted as set out below.

(a) Profitability

They acknowledged that the revenue of the Corporation decreased from K10, 562,000,000 in 2002 to K5, 526,000,000 in 2005. This was attributed to:

(i) restructuring of the Corporation;
(ii) clearance of claims;
(iii) unusual claim loss patterns;
(iv) computerisation cost;
(v) unfair competition; and
(vi) divisional performance.

Remedial Measures Undertaken by Management

To improve the profitability, management had taken the following measures:

i) new product development;
ii) expenditure control;
iii) marketing;
iv) recruitment of trained personnel in customer services;

v) implemented a General Insurance Computer system;
vi) enhanced staff development;
vii) new sales staff recruitment; and
viii) graduates recruitment.

Current Status

Performance of the Corporation as at 30th September, 2006 had improved and the turnover as at 30th September, 2006 had exceeded the turnover for the whole of 2005.

The un-audited accounts as at 30th September, 2006 showed an increase in turnover, it was forecasted to reach K71 billion by the end of 2006.

When asked to expand on the 2006 figures, the Controlling Officer submitted that in 2006, the Division Revenue Account had a balance of minus K6.7 billion and other income amounted to K7.5 billion giving a net of K0.8 billion.

(b) Liquidity

(i) Investment in Government Bonds and Treasury Bills

Working capital appeared negative because K10 billion was invested in government bonds and treasury bills in 2005. This investment had a bearing on working capital figures as calculated. This they believed addressed the risk of insolvency as they could easily trade-in the investments for cash on the secondary market.

When asked how this investment was comparing with the interest that they were being charged for the overdraft facility, the Controlling Officer submitted that K11 billion worth of their investment in the Bank of Zambia had been pledged as security against the overdraft facility. The limit on the overdraft was K10 billion. Interest was charged on the actual overdrawn amount, and not on the limit, therefore, despite the interest being higher on the overdraft, this worked to be lower when compared to long term returns on their investments.

The Controlling Officer further clarified that the K10 billion invested in Government Bonds and Treasury Bills was included in the investment, loans and mortgages figure of K66.7 billion for 2005.

(ii) Impact of Revenue and Underwriting Costs

The liquidity position of the Corporation was also affected by some of the factors already mentioned in (a) above that had a negative impact on profitability.

(iii) Restructuring Exercise

Included under the exceptional items in expenditure was K2.7 billion that was spent on retiring of various staff as part of the continuing restructuring exercise which was aimed at creating a leaner, more efficient and less costly Corporation.

(iv) Liquidation Parastatals and Restructuring of ZCCM - Conglomerate

The Life Division lost clients during the restructuring of the economy characterised by closure of companies and the restructuring of the former ZCCM conglomerate.

(v) Operation of Stop Orders in Privatised Companies and Mining Corporations

Another factor that had an adverse impact on liquidity was refusal by some private sector as well as privatised companies such as mines to operate stop orders. The Corporation had since met and resolved the issues with most concerned firms.

(vi) Life Division

The insolvency of the Corporation was mainly attributed to the Life Division. Currently, the restructuring of operations was on going and a total amount of K2.7 billion was paid out in 2005 as retirement benefits. The Life products had also become obsolete as they could not fit into the current socio-economic and political environment causing sales to drastically reduce. This was worsened by the closure of most companies as the Government embarked on privatisation of parastatals.

(vii) Micro Finance Institutions

The mushrooming of micro finance institutions also resulted in the reduction in life insurance business.

Remedial Measures Undertaken by Management

(i) Funds on Deposit

The Corporation had an investment policy of investing any excess liquidity into funds on deposits comprising treasury bills and government bonds, which were classified under investments and not as current assets in the ZSIC financial statements.

These investments could easily be converted into liquid funds on the secondary market

(ii) Investment in Shares

The Corporation had also invested K7 billion in shares which could be sold to raise money on the stock exchange to cover up any deficit that may arise. The shares were not included when arriving at working capital. Additional interest earned would also improve liquidity.

(iii) Expenditure Controls

As mentioned above, measures had been put in place to ensure that expenditure was only authorised for items budgeted for. This was in addition to approved procurement and tender procedures.

(iv) Overdraft Facility

The Corporation had an overdraft facility to support the working capital.

(v) Restructuring Exercise

Management embarked on a restructuring exercise that would assist reduce management expenses whilst enhancing productivity and improving liquidity of the Corporation some immediately and after, in later years.

When asked whether the Corporation had a business plan in place to improve the financial performance and position of the Company, the Controlling Officer submitted that there was a plan in place which would run up to 2008 when life and non-life operations of the Company would be separated in line with the new legislation. A new plan would be put in place from 2008.

He further stated that their initial projections were that the restructuring and repositioning of the Company would have lasted up to 2007, and thereafter the financial performance of the Company was expected to improve. They were optimistic that the figures for 2007 and beyond would show an improvement.

(c) Government Indebtedness

The actual amount owing was yet to be verified by the Auditors. Therefore, a team of internal auditors had been working with ZSIC to ascertain the figures.

He further submitted that of the K27.9 billion, K20 billion was verified. He clarified that the K27.9 billion was the composite figure of outstanding dues to ZSIC for all government institutions prior to 2002 when the Ministry of Finance and National Planning assumed all debts of government institutions. Ministries were now responsible for their insurance obligations.

When asked if government institutions had stopped dealing with ZSIC opting to do so with private insurance firms, the Controlling Officer submitted that the insurance industry was liberalised, therefore, ZSIC had to be competitive and so far it had done well. The Company still retained a significant portion of government business.

d) Insurance Brokers/Agencies

The issue of erring and truant brokers was a problem affecting the whole insurance industry and was not confined to ZSIC alone. However, measures had been put in place to address this. The measures included:

- regular visitation of brokers and agents by credit control officers;
- improved internal control systems to ensure accountability of brokers for documents and funds;
- mounting of joint debt collection exercises with brokers and agents to pursue very difficult clients;
- where brokers failed to account for cover books and debit notes, new books were not issued;
- if premiums were not remitted within the stipulated period of 30 days, the policy was cancelled unless there was a payment agreement in place; and
- if there was no improvement on the broker's part, the Pensions and Insurance Authority (PIA) immediately suspended their licence and informed all insurance companies to stop dealing with the broker and to withdraw accountable documents from them.

It was their hope that with these measures, the indebtedness of insurance brokers and agencies would be reduced.

When asked what the current position was, the Controlling Officer submitted that so far, K1 billion had been recovered.

e) Outstanding Rentals

The Corporation had faced difficulties in pursuing defaulters due to lack of capacity in terms of staff in the Department responsible for debt collection. This was why management tendered and commissioned external debt collectors to pursue and recover what was owed. Management had done a cost / benefit analysis of engaging external debt collectors compared to recruitment of staff and the former was better.

With regard to current tenants, the Corporation had a deliberate policy of physical pursuit and the final goal was to reduce the amounts to the minimum level. The use of certified bailiffs was on going and results showed positive results. The use of bailiffs and their own physical visitations netted a gross rental sum of K1, 054,951,798 during the month of October, 2006 in the Southern Region.

f) Sale of House No. 163 of Farm 441/A Lusitu Road, Roma, Lusaka

The Permanent Secretary's office had written to Management of ZSIC to review the sale immediately and report back. It was further recommended that Management considers using the Government Policy paper on the guidelines relating to the Home Ownership Empowerment Scheme.

g) Actuarial Valuation

The Corporation had taken some measures to address the deficit *inter alias* by:

- restructuring of the Division;
- retrenchment of surplus staff to reduce operating costs;
- recruitment of a new Director to spearhead the recovery of the Division;
- recruitment and training of new sales representatives to increase coverage of the market and increase revenue;
- recruitment of key sales staff; and
- product repackaging and aggressive marketing.

h) Pension Contributions

The Corporation used to operate as a composite company carrying on activities through three Divisions namely General Insurance, Life and Pensions.

In 2003, Pension funds and assets were separated and the indebtedness between the Divisions including pension contributions was merged into one block sum to be settled systematically.

In fact, it was agreed with ZSIC Fund Trustees that the Corporation would pay K100 million per month whilst waiting for the Government Auditors to verify the debt.

Observations and Recommendations

Your Committee make the observations and recommendations set out below.

(a-c) Profitability, Liquidity and Government Indebtedness

Your Committee observe that financial indicators of the Zambia State Insurance Corporation as at 31st December, 2005 are not impressive. The provided figures for 2006 show that the situation in that year was not good either as the revenue further declined from K5.5 billion in 2005 to K0.8 billion in 2006.

They further observe that Government's indebtedness is one of the major problems ZSIC is facing liquidity problems. The verified outstanding debt stood at K20 billion compared to the K11 billion overdraft facility the Company had to arrange to improve its working capital position.

Your Committee therefore recommend the following.

i) considering that the Corporation has to split into two entities from 2008 in line with the law, the Controlling Officer is strongly advised to ensure that workable business plans in each of the two entities should be in place; and the plans for the Life Division should be more innovative and pragmatic as it is held as the major contributor to the financial problems of the composite company;

ii) to enable ZSIC compete favourably in the liberalised markets, the Government should endeavour to significantly reduce its indebtedness to ZSIC, particularly now when the company is to be split; the matter should be accorded very serious consideration; and

iii) the separated companies should be allowed to operate as fully fledged commercial entities to withstand competition.

d) Insurance Brokers / Agencies

Your Committee urge the Controlling Officer to report progress on the collection of the balance of K1.5 billion.

e) Outstanding Rentals

Your Committee urge the Controlling Officer to report progress on the outstanding rentals up to October 2006.

f) Sale of House (441A Lusitu Road, Roma)

Your Committee urge the Controlling Officer to report progress on the mater.

g) Actuarial Valuation Report

Considering that Life Division will have to operate as a separate entity, your Committee emphasise that there is need to ensure that it begins its operations on a firm foundation otherwise it may fail to attract business and honour its obligations. The Controlling Officer should ensure that the K26.2 billion deficit is taken care of.

h) Pension Contributions

Your Committee wish to express their concern on the failure by the Corporation to remit even employees' share. They urge the Controlling Officer to ensure that this matter is addressed to avoid future complications.

Details of the payments as per agreement with the ZSIC Pension Fund Trustees should be submitted to the Auditor-General for verification.

K. THE VILLAGE INDUSTRY SERVICE (UNDER THE MINISTRY OF COMMERCE, TRADE AND INDUSTRY)

AUDIT QUERIES **PARAGRAPHS 77 - 81**

Management, Sources of Funds, Operations and Properties

56. The Auditor-General reported that the Village Industry Service (VIS) was established in 1975 by a Presidential Decree. It was registered with the Registrar of Societies on 7th October, 1985, as a Non-Governmental Organisation. During the period 1975 to 1992, it received government grants, as a Non–Governmental Organisation, until 24th January, 1992 when funding was regularised through the Government Gazette Notice Number 46, and also listed as a Statutory Board under the Ministry of Commerce, Trade and Industry (MCTI).

The VIS was established primarily to take and promote labour intensive agro-based cottage and village enterprises, which would promote income generation at village level to curb the unemployment and urban drift. It encouraged industries based on simple machinery and equipment and ensured that the cost of creating jobs was as low as possible and also encouraged entrepreneurs to start industries that utilised local resources. The VIS was also charged with the responsibility of promoting research into kinds of products

which were best suited for production at a village level and institute training to the entrepreneurs by using the church, service clubs, and other organisations.

The VIS had branches in Kasama, Mansa, Mongu, Livingstone, Chipata and Solwezi.

In 1996, Cabinet considered and accepted recommendations on Public Service Restructuring of the MCTI, that government subventions to the VIS be phased out immediately and all civil service posts at VIS be abolished because the VIS had been in existence for twenty years and had capacity to stand on its own.

In accordance with Article 3 of the Constitution of the VIS, the Service was under the direct patronage of the Republican President. The President appointed a Council of Directors which comprised an Honorary Chairman and eight members.

The day to day operations of VIS were to be managed by a Chief Executive Officer (CEO) who was appointed by the Council. The CEO was assisted by five managers and a chief accountant who were also appointed by the Council.

According to the VIS Constitution, the Service was to receive its funding from anywhere without restriction. In this regard, VIS received annual grants from the Government and donors for its operations and projects. The grants were channelled through the Ministry of Commerce, Trade and Industry, which was the parent Ministry.

An examination of financial records revealed that during the period under review, VIS had received grants from the Ministry totalling K829, 880,500 and K284, 800,000 out of which a sum of K63, 000,000 was loans for procurement of 259 hammer mills and another K221,800,000 for various projects from the Investments and Debt Management Unit in the Ministry of Finance and National Planning. As at the time of audit in June, 2006, loan repayments could not be verified due to lack of records.

The VIS also had other revenues which were generated through rentals and donor support. It was not possible to ascertain how much was generated through rental and donor support since the accounting records were incomplete.

A review of operations of VIS covering the period from January, 1995 to December, 2005 carried out in June, 2006, revealed that there was a complete collapse in the governance structures. This led to a breakdown in systems of internal control, and accounting systems. In particular the matters set out below were observed.

a) Lack of an Effective Council of Directors and Administrative Structure

Contrary to the VIS Constitution, the Service operated without a Council of Directors during the period under review. During this same period, there was no evidence of any meetings held as there were no minutes maintained. A Council member who was appointed as Honorary Chairperson later assumed the role of CEO and had been running the Service without a Council and any administrative structure as the five managers and chief accountant were also not in place. The CEO was operating from her residence. The non-existence of the Council to provide strategic direction and oversee the operations of the VIS led to mismanagement of the Service as evidenced in this report.

b) Weaknesses in Internal Control Systems

A review of the internal control systems revealed weaknesses in that although sound financial management required the signing arrangement for cheques to be categorized under Panels “A” and “B”, it was observed that the Honorary Chairperson was the sole signatory to three of the VIS bank accounts maintained in Lusaka as at 31 December, 2005. The consequence of this weakness was that payments amounting to K895, 835,779 and US$20,046 were effected by the Honorary Chairperson as a sole signatory.

In this regard, it was not possible to obtain assurance that VIS assets were safeguarded from loss and the resources applied for business purposes in the furtherance of its corporate objectives.

c) Bank Accounts

For the years ended 31 December, 1999 to 2005, the VIS maintained thirteen bank accounts, of which four were in Lusaka and nine were in the provinces.

It was, however, not possible to ascertain the operations and balances in these accounts as access to them was denied due to the refusal by the CEO to write letters of introduction, which were required by the banks.

d) Failure to Maintain Records

Contrary to the VIS Constitution, the Service did not maintain financial and other records. In particular, the following were observed:

i) *Cash Books*

No cashbooks were availed for audit on all the accounts maintained during the period under review, as a result it was not possible to ascertain amounts received as income, interest earned, among others. In addition, expenditure incurred during the same period could not be verified.

ii) *Questionable Payments*

Payments in amounts totalling K517, 962,804 and US$4,559 were not supported by payment vouchers contrary to Financial Regulations.

It was further observed that the purpose for which payments to the Chairperson's family members amounting to K17, 639,446 and US$1,024 were made could not be verified as no payment vouchers were produced for audit contrary to Financial Regulations.

e) Irregular Procurements

In 1996 and 1997, the Honorary Chairperson, using government funds intended for industrial estates, bought embroidery materials from Ghana (yards of Batik Fabrics) valued at US$7,500 for personal use.

f) Failure to Prepare Financial Statements

Contrary to Article 8, Sections (1) and (3) of the VIS Constitution, which state that the responsible officer shall be responsible for properly maintaining and supervising the accounts and accounting systems of the Service, and that the Council shall appoint an independent auditor to audit such accounts, prior to the Annual General Meeting, VIS did not prepare financial statements to be laid before the Annual General Meeting (AGM).

However, only draft financial statements for 2005 were compiled by a private consultancy firm. Accordingly, an analysis of the financial performance of VIS could not be done as the statements were in draft form.

g) Outstanding Terminal Benefits of Retrenched Employees

A total amount of K215, 275,550 was due to twenty six retrenched employees in 2002. An enquiry made from the retrenched employees revealed that the Institution failed to pay the employees. In this regard, one of the employees, who was owed K56, 744,243, had sued the VIS

and won the case which resulted in the court ordering the Service to pay K390.9 million inclusive of interest. As at June, 2006, the terminal benefits had not been paid.

Properties

During the period under review, the Service owned properties which were valued by a private valuator at K3, 638,000,000 as shown below:

Details	K'million
Chinika Complex	750
Kasama Complex	800
Kasama House	250
Mansa Complex	700
Mansa House	200
Chipata Complex	150
Livingstone Complex	300
Equipment for Training	450
Movable assets	38
Total	**3,638**

In October, 2004, the Chairperson contracted a local consultant to manage the Service's properties.

It was observed, however, that the consultant was allowed to charge a higher commission for unquantified pre-contract debt collections, reimbursable expenses for repairs and maintenance of industrial sheds, and biannual valuation fees were charged to VIS without the costs being capped.

A review of records and an inspection of properties carried out in Lusaka, Chipata, Kasama, Mansa, Solwezi, Mongu and Livingstone, revealed the following:

a) Lusaka

Irregular Transfer of Title - Chinika Complex Plot No. 12051-5

Inquiries made at the Ministry of Lands, revealed that titles for properties on stand Nos. 12051, 12052, 12053, 12054 and 12055 in Lusaka were transferred to a private company called Chinika Complex Company Limited owned by the Chairperson and other directors of the VIS on 4 February, 1997.

The consultant revealed that the rental income from tenants for the period from 1st January, to 31st December, 2005 amounted to K111, 430,000. However, the income could not be verified as no receipts were produced for audit scrutiny. It was also observed that the complex was being used for other activities unrelated to the purpose for which it was constructed.

b) Chipata

i) *Complex - Plot No 412*

It was observed that the rental income received in 2004 and 2006 amounting to K20, 035,000 was not banked, contrary to Financial Regulations. Instead the money was used to defray expenses but no payment vouchers were prepared to support the payments. It was further observed that the property was not well maintained.

ii) *Inventory*

It was observed that a hammer mill for the Service, which was recorded in the Assets Register, was missing.

c) ***Kasama***

i) *Office Stock complex – Plot No. 339A*

As of June, 2006, the complex was rented out to various tenants, who were engaged in activities not related to the Service's objectives. Although the properties were rented out, the proceeds were being paid to the courts as a result of an injunction raised by the tenants to restrain the Chairperson from collecting and using the income pending the establishment of the true owner of the Service by the courts.

Enquiries made at the Ministry of Lands, indicated that title to the property had not passed from Bata Shoe Company, who were the previous owners. There was no documentary evidence showing that any effort was made to transfer the title to VIS since September, 1987.

ii) *Kasama House - Plot No. 641*

Enquiries at the Ministry of Lands revealed that the property was registered in the name of an individual since January, 1996. An inspection of the property revealed that it was occupied by a former employee of the Service, who had not vacated the property due to non-payment of his terminal benefits.

d) ***Mansa***

i) *Complex - Plot No. 448.*

The property was being rented out to different individuals, who were conducting business not related to the Service's objectives and the income from the rentals could not be verified.

ii) *Mansa House – Plot No. 207*

Enquiries made at the Ministry of Lands revealed that the property was registered as a Government Pool House. The occupant of the property was a manager of VIS in Mansa. No efforts had been made to change ownership to the Service as of June 2006.

iii) *Mansa Plot No. 237*

As of June, 2006, the house was not appearing on the schedule of properties for the Service. Enquiries made at the Ministry of Lands revealed that the Ministry offered the property to United Bus Company of Zambia Limited. There was no documentary evidence showing that any effort was made to transfer the title to VIS.

e) ***Solwezi - Former UBZ Complex - Plot No. 973, Zambezi Road***

The property was bought from the United Bus Company of Zambia by the Service and later sold to the Zambia National Service (ZNS) in 2001 at a selling price of K70, 000,000. Enquiries made at the Ministry of Lands, revealed that title to the property had not changed to VIS and though sold it was still registered in the name of United Bus Company of Zambia Limited as at 8th June, 2006. It was not possible to establish why ownership did not change to VIS and then to ZNS and how the K70 million was utilised.

f) Mongu - Plot No. 108

The property was previously owned by the United Bus Company of Zambia Limited before ownership changed to the Service in March, 2002 and, later on, sold. Disposable details were not made available for audit scrutiny. An inquiry at the Deeds Registry, Ministry of Lands, revealed that the property was registered under the names of a couple as at June, 2006.

g) Livingstone

Complex (Old Hospital)

Documents reviewed showed that a part payment of US$3,000 was received from Footsteps Ministries – Africa Outreaches for the purchase of the complex. It was, however, not confirmed whether the sale was concluded and how the US $3,000 was utilised. The plot number for the property was not made available and therefore, ownership could not be verified at the Deeds Registry at Ministry of Lands.

Motor Vehicles and Equipment

Records maintained at the Ministry of Commerce, Trade and Industry revealed that the Service owned eleven motor vehicles. Inquiries made at the Vehicle Registry, Ministry of Communications and Transport disclosed that out of the eleven motor vehicles, three motor vehicles a Nissan Sunny AAN 9545, Tata Bus ACC 7830 and an Isuzu AAK 7856 were not registered in the name of the Service but were registered in the names of three individuals. The whereabouts of the eight motor vehicles could not be ascertained.

Further the whereabouts of the following pieces of equipment were also not known:

- four computers with printers;
- two fax machines;
- one lawn mower; and
- one heavy duty industrial photocopying machine.

Hammer Mills Distributed on Hire Purchase Terms

In 1990 and 1991, government loaned the Service a total amount of K63million to acquire hammer mills for resale on hire purchase basis. Between 1991 and 1993, 256 hammer mills were bought from the loan and distributed throughout Zambia. However, there was no record kept to show who the recipients were and the repayment of the loans from both the recipient to the Service and from the Service to the Government.

Equipment Sourced from the TEVET Development Programme

In 2003, the Government, in partnership with cooperating partners, provided financial assistance towards the Technical Education, Vocational and Entrepreneurship Training (TEVET) Development Programme for the improvement of training standards through rehabilitation of infrastructure, provision of furniture and training equipment and improved supply of training requisites.

In this regard, equipment valued at US$105,044 and Euro 6,546 was delivered to the Service.

A physical verification of the equipment carried out revealed the matters set out hereunder.

i) Missing Equipment and Furniture

Eighty-three items of equipment and furniture valued at US$58,295 and Euro 6, 199 were missing despite having been received by the Service.

ii) Irregular Usage of Equipment and Furniture

Though the Ministry of Science, Technology and Vocational Training supplied the equipment and furniture to enable the Village Industry Service to improve training standards, it was noted that the equipment, machines and furniture were used by a private entity for private gain.

It was noted that nine machines were being operated from a private company premises in Livingstone as follows:

Details	Quantity
Belt Sander	3
Wood Turning Lathe	3
Table Band saw machine	1
Table Morticer	1
Industrial Surface Planner and thickensser	1

No explanation was given as to why the machinery was operated from the private company's premises.

iii) Poor Storage

It was noted that some of the equipment was still heaped outside the Village Industry Services complex and was exposed to both rains and bad weather as they were not covered.

Controlling Officer's Submission

The Controlling Officer in his preamble stated that the case of the Village Industry Service (VIS) had given the Ministry of Commerce, Trade and Industry a lot of difficulties. That was the reason why he could not come to the meeting with any person representing the Village Industry Service.

He proceeded to submit that the Village Industry Service had been under the direct patronage of the Republican President. The President appointed an Honorary Chairperson.

In 2002, Village Industry Service was omitted in the estimates of expenditure, which brought about problem of payments of salaries and led to the subsequent retrenchment of workers, who were assured that the terminal benefits would be paid as soon as some assets were disposed of. However, the workers were not paid and drew the attention of the Ministry to the misapplication and misappropriation of funds by the Chairperson. Since Village Industry Service was not submitting returns to the Registrar of Societies, it was, therefore, difficult to determine the assets that existed at the time the complaint was submitted to the Ministry.

In response to the workers sentiments, the Ministry initiated an audit of the Village Industry Service to verify the status of the assets. The audit did not, however, proceed smoothly as the Auditor did not receive cooperation from the Chairperson. As a result, the audit failed to establish the true status of the assets of Village Industry Service.

Coupled with this, the Ministry also received a number of complaints regarding the ownership of Village Industry Service properties from the tenants of the Chinika Complex, one of the properties of the Village Industry Service. It was against this background that on 30th May, 2006, the Ministry requested the Office of the Auditor-General to carry out an audit of the assets of Village Industry Service countrywide. Based on the outcome of the audit, the matter would be referred to the relevant government investigative wings.

The Ministry further wrote to the Registrar of Societies to determine the status of the Village Industry Service. In his response, the Registrar of Societies indicated the Village Industry Service had defaulted in

submitting annual returns for several years and as a result, a notice of cancellation of registration had been issued to Village Industry Service dated 3rd November, 2004 and thus the Organisation's existence was deemed illegal.

Efforts to obtain a response from the Chairperson regarding the allegations failed.

Action Taken

Following the revelations in the Auditor-General's Report, the Ministry, in October, 2006 wrote to Ministry of Justice seeking legal advice concerning the Village Industry Service. The Ministry of Justice, in a Minute dated 18th May, 2007 advised that the matter should be reported to State investigative wings.

The Ministry of Commerce, Trade and Industry accordingly wrote to the Drug Enforcement Commission and the Anti-Corruption Commission on 5th June, 2007, to investigate the Village Industry Service.

Observations and Recommendations

Your Committee note the submission and appreciate the action taken by the Controlling Officer of reporting the matter to the Drug Enforcement Commission and Anti-Corruption Commission. They, however, observe the following:

i) the Government had not taken ownership of the operations of Village Industry Service; this was worsened by the Ministry of Commerce, Trade and Industry's failure to take action to safeguard public interests; and

ii) going by the revelations of the Auditor-General, it is safe to describe the Village Industry Service as a disaster.

Subject to the findings of the State investigative wings, your Committee strongly recommend that the Ministry of Commerce, Trade and Industry should:

i) take possession of all assets of the Village Industry Service as identified by the Auditor-General and chart a way forward;
ii) place a notice in the press confirming the cessation of operations and that anybody conducting business on behalf of the Village Industry Service was doing so illegally as the VIS has legally ceased to exist following deregistration; and
iii) make an assessment of all liabilities of the Village Industry Service for possible pay-off.

L. ENGINEERING SERVICES CORPORATION (UNDER THE MINISTRY OF WORKS AND SUPPLY)

Background **Paragraphs 82 – 83**

57. The Engineering Services Corporation of Zambia Limited (ESCO) was incorporated in May, 1989 as a fully owned subsidiary of ZIMCO. On 1st December, 1989, the Company took over operations and assets of the then Mechanical Services Department (MSD) under the Ministry of Works and Supply. At its incorporation, the Company took over the Head Office, nine provincial offices and forty district offices. The total value of assets, which included equipment and buildings, was fixed at K294, 720,000 and was transferred from the Government to ESCO. Consequently, ESCO issued shares worth K295, 000,000 in June, 1991 to reflect the investment by the Government.

Management

The Board of Directors consists of three members appointed by the Minister of Works and Supply. These members were appointed from the Ministry of Finance and National Planning, Ministry of Works and Supply and Zambia Privatization Agency (ZPA), with the Permanent Secretary of Ministry of Works and

Supply as the Chairman of the Board. The Board appointed a Managing Director, who was the Chief Executive of the Company and was responsible for the day to day administration of the Company.

AUDIT QUERY **PARAGRAPH 84**

Sources of Funds

58. The funds of the Company consist of, among others, moneys collected through pontoon charges, government grants and rent received from tenants occupying some ESCO buildings that had not yet been sold. During the financial years ended 31st March, 2002 to 2005, ESCO received a total income totalling K21, 227,563,916 as tabulated below:

F/Y ended 31 March	2002 K	2003 K	2004 K	2005 K (Draft accounts)	TOTAL K
Pontoon Income	2,746,075,000	4,143,696,000	4,090,516,000	4,194,423,000	15,174,710,000
Exchange Gain/(Loss)	20,625,000	-	-	-	20,625,000
Rent received	506,318,000	529,902,000	520,303,000	395,478,000	1,952,001,000
Interest received	9,605,000	8,938,000	3,727,000	4,603,000	26,873,000
Profit on disposal	-	-	2,083,115,000	273,596,000	2,356,711,000
Sundry Income	273,637,000	129,261,000	63,288,000	29,491,000	495,677,000
GRZ Grant	209,352,541	335,593,236	300,439,854	355,581,285	1,200,966,916
TOTAL INCOME	3,765,612,541	5,147,390,236	7,061,388,854	5,253,172,285	21,227,563,916

It was, however, observed that whereas a total authorised provision of K2,098,206,758 was made in the Estimates of Revenue and Expenditure, amounts totalling K1,200,966,916 were released leaving a balance of K897,239,842 as detailed below:

Year	Authorised Provision K	Releases K	Variance K
2002	276,000,000	209,352,541	66,647,459
2003	422,202,758	335,593,236	86,609,522
2004	500,000,000	300,439,854	199,560,146
2005	900,000,000	355,581,285	544,418,715
	2,098,202,758	**1,200,966,916**	**897,235,842**

It was also observed that the above shown releases of government grants were not reflected in the financial statements.

Controlling Officer's Submission

The Controlling Officer submitted that the financial statements did indeed reflect government grants in the amounts presented as pontoon expenses or costs. The grants were given as a subsidy to ESCO for the running of pontoons. These amounts had the effect of reducing the total costs incurred by ESCO in relation to pontoon expenses and the reduced amounts were what was disclosed and reflected in the financial

statements. They, had, however, advised the external auditors to include a note in the 2005 and 2006 financial statements to highlight the movement in the grants.

Taking advantage of the presence of the external auditors, your Committee enquired on why these were not reflected as income, the representative of the Auditors submitted that in their view, the subsidies did not fit in the normal line of income, therefore, the subsidy was applied to reduce costs.

Observations and Recommendations

Your Committee note the submission. Non disclosure of the received subsidies means that the financial statements do not faithfully represent the financial performance and position of the Company in the year under review. They, therefore, advise the Controlling Officer as Chairperson of the Board to ensure that the subsidies are disclosed particularly that ESCO is still a public company and Zambians have the right to know the support that central government is rendering to the Company.

AUDIT QUERY **PARAGRAPH 85**

Unaudited Financial Statements

59. As at October, 2006, the financial statements for the year ended 31st March, 2005 had not been audited while those for the year ended 31st March, 2006 had not been prepared.

Controlling Officer's Submission

The Controlling Officer submitted that the financial statements for the financial year 2005 had not been audited and the ones for 2006 were not prepared due to the following reasons:

i) ESCO Limited was being privatised by selling all units except the pontoons, which state of affairs affected the preparation of financial statements;
ii) all workers were declared redundant and skeleton staff was placed on three months contracts and this affected the preparations of financial statements;
iii) due to the uncertainty of ESCO's continuity, data collection from various regions proved difficult; and
iv) there was poor record keeping as staff were demotivated as a result of the decision to privatise ESCO Limited.

During his appearance before your Committee, the Controlling Officer submitted that the 2005 accounts had been audited and submitted to the Board. There were a number of issues that needed to be cleared in the 2006 accounts, therefore, there would be a further delay. Nevertheless, the external auditors were under instruction to speed up the finalisation of the financial statements.

Observations and Recommendations

Your Committee note the submission and advise the Controlling Officer to expedite the preparation and auditing of the 2006 accounts. Since the Company is in a transition state, there is a possibility that many more irregularities may have occurred and it will be difficult to address some of them in the absence of audited financial statements.

AUDIT QUERY **PARAGRAPH 86**

Review of Operations

60. In 2003, following the privatisation programme of most State owned enterprises , Cabinet approved the privatisation of ESCO. As a result, operations were downsized, and, consequently, Zambia Privatisation Agency sold off all ESCO properties, except for pontoons, whose control reverted to the Road Development Agency (RDA) and the Head Office. In this regard, only a small workforce of sixty-eight

staff was retained under ESCO for the purpose of managing and operating the pontoons pending transfer of operations to RDA. The Company operated seven pontoons at Kazungula, Chembe, Kalongola, Lukulu, Namwala, Chavuma and Zambezi.

An examination of accounting and other records and site inspections carried out in October, 2006 revealed the facts set out below.

Weaknesses in Accounting for Revenue

a) *Head Office*

i) Contrary to Financial Regulations, sixty-five receipt forms on which amounts totalling K60, 065,532 were recorded had their receipt numbers altered.

ii) Ten receipt books issued to the cashier at Head Office between April, 2003 and February, 2004, were not presented for audit. It was, therefore, not possible to ascertain how much money was collected on the receipts.

iii) Contrary to Financial Regulations, amounts totalling K117, 039,050 collected between January, 2003 and January, 2006 involving 115 transactions were delayed in banking for periods ranging from three to twenty-four days despite the proximity of banking facilities.

iv) The Foreign Currency Account held at Zambia National Commercial Bank (ZNCB) had not been reconciled for the period from April, 2004 to March, 2005.

b) *Mansa Office*

i) Contrary to Financial Regulations, forty unused receipt books were not recorded in the Register of Accountable Documents.

ii) Eight receipt books though recorded at Head Office records as having been sent to Mansa in 2004 were neither recorded in the Accountable Documents Register nor produced for audit scrutiny.

c) *Mongu Office*

i) Original copies of twenty-eight cancelled receipts could not be verified as they were neither attached to the receipts in the books nor produced for audit scrutiny contrary to Financial Regulations.

ii) There were ten receipt books that were not recorded in the Register of Accountable Documents contrary to Financial Regulations.

iii) Two receipt books with registration numbers 55351 – 55400 and 56401 – 56450 were not presented for audit contrary to Financial Regulations.

Controlling Officer's Submission

The Controlling Officer submitted that the main concern of the Board had been a smooth winding down of the Company. All assets of ESCO had been sold through the Zambia Privatisation Agency (ZPA), except the main Complex Building at ESCO Headquarters. All employees were declared redundant and paid their terminal benefits in full. Only a few members of staff were engaged on short term contracts to man the Pontoon Unit pending the final transfer of the unit to RDA. They hoped to conclude the winding down of ESCO by the beginning of 2008.

In order to ensure that there was proper financial accountability during the winding down process of ESCO, the Board of Directors resolved to invite the Ministry of Commerce, Trade and Industry and Zambia Privatisation Agency auditors to carry out independent audits of ESCO. The audits revealed serious financial irregularities in the manner in which the operations of ESCO were being conducted by management. It was against this background that the Board of Directors wrote to the Auditor-General inviting her to audit ESCO.

The Controlling Officer further submitted on the matters as set out hereunder.

a) Head Office

i) There were anomalies in the printing of receipt books from the printer. However, no public funds were lost. The use of the receipt books which had printing errors in numbers was stopped to avoid further suspicions.

ii) Some receipt books could not be traced as the Accountant responsible at ESCO had been declared redundant.

iii) They were delays in banking of revenue but no public funds were lost. Stringent measures had now been put in place to ensure that daily banking was done within reasonable time.

iv) The delays in reconciling the Forex Account were due to insufficient staff levels at the time when all workers were declared redundant. The Account had now been reconciled and was up to date.

b) Mansa Office

He acknowledged the non recording of forty unused receipt books in the Register of Accountable Documents. However, measures had been put in place to ensure that receipt books were recorded in the Register of Accountable Documents.

c) Mongu Office

The two receipt books with registration numbers 55351-55400 and 56401-56450 were not presented for audit verification due to poor record keeping.

Measures had been put in place to ensure proper record keeping.

Observations and Recommendations

Your Committee observe that the privatisation process of ESCO was not properly managed in that adequate measures were not put in place to ensure proper accountability in winding up the Company. Since the Company is earmarked to be wound up in 2008, there is a likelihood of a number of issues remaining outstanding including those that may be in court or referred to other state investigative wings. For purposes of follow up, your Committee advise the Controlling Officer to appoint a team of officers that will make follow ups on these matters and report progress.

They further urge the Controlling Officer to ensure that the reported irregularities are not transferred to the RDA, which will assume the responsibility of managing the pontoons.

AUDIT QUERY **PARAGRAPH 87**

Under Banking – Kalongola

61. A test check of pontoon collections for the period between December, 2004 and July, 2006, revealed that there was an under banking of K85, 646,500. The under banking was as a result of a fraudulent alteration of the duplicate and triplicate copies of receipts issued by a cashier in Mongu, which were used to prepare the cashbooks and bank deposits.

Controlling Officer's Submission

The Controlling Officer submitted that the matter had since been reported to the police and the cashier had been arrested and was appearing in court. During the oral submission, he informed your Committee that the officer was dismissed in 2006.

Observations and Recommendations

Your Committee note the submission and advise the Controlling Officer to ensure that when the Pontoon Unit is integrated into RDA, any officer that acts in a fraudulent way should immediately be reported to the Police. In addition, internal controls should be strengthened to lessen misappropriation of revenues at pontoons.

It is the hope of your Committee that the officer was not prematurely dismissed before the conclusion of the court cases.

AUDIT QUERY **PARAGRAPH 88**

Irregular Use of Company Funds

62. In August, 2005, the Managing Director was offered to buy a property at Plot F/609/A/115 in Chelstone, Lusaka, at a price of K350, 000,000. In this regard, the Managing Director, without Board authority, used company money amounting to K350, 000,000 to pay for the property.

In addition, between August, 2005 and October, 2005, the Managing Director again irregularly, using company funds spent a total amount of K40, 187,625 on renovations, and sinking of a borehole at the same property.

In March, 2006, after the transfer of title (in December 2005) the Managing Director apparently, in a bid to regularise the anomaly wrote a letter to the Board Chairman requesting for an advance of K350, 000,000. The letter was backdated to 19th July, 2005 but reached the Chairman on 2nd March, 2006.

However, the Board declined to approve the transaction and consequently, at its meeting held on 4th March, 2006, resolved and terminated the Managing Director's contract of employment, and placed a caveat on the purchased house and reported the matter to the Anti-Corruption Commission, who were still investigating the matter as at October, 2006.

Controlling Officer's Submission

The Controlling Officer submitted that the matter was reported to the Anti Corruption Commission and the case was in court.

When asked why the Board did not repossess the property in the first place, the Controlling Officer submitted that the former Managing Director hired lawyers to protect his interests.

On the recruitment of the former Managing Director, your Committee learnt that the former Managing Director was recruited using the normal procedures. To avoid a possible repeat the Ministry had seconded one of its officers to manage the Company during the transition.

Observations and Recommendations

Your Committee note that the matter is in court and urge the Controlling Officer to report progress on the matter.

AUDIT QUERY **PARAGRAPH 89**

Failure to Follow Tender Procedures - Rehabilitation of Lukulu Pontoon

63. In October, 2005, ESCO awarded two contracts worth K431, 719,440, for the rehabilitation of Lukulu pontoon to a local contractor without following tender procedures. An initial contract of K353, 604,500 was awarded on 4th October, 2005 and the subsequent one of K78, 114,940 was awarded on 10th October, 2005 for the construction of concrete slab driveways/ramps. The contracts ended in December, 2005. It was further observed that:

(i) A total amount of K447, 494,356 had been paid to the contractor instead of the contractual amount of K431, 719,440 resulting in an overpayment of K15, 774,916 for which no satisfactory explanation was given.

(ii) The payments to the contractor were not supported by a certified report of works or stage completion certificates, contrary to existing regulations and best practice.

(iii) According to the contract, 10 percent of K431, 719,440 was to be retained under warranty of ninety days upon completion of the works. It was observed, however, that the term was not enforced after works were completed in December 2005, and no valid explanation was given for non-retention of K43, 171,944.

(iv) A site visit made in August, 2006 revealed that the pontoon was not operational and enquiries revealed that the pontoon last operated in December, 2005.

Controlling Officer's Submission

In response, the Controlling Officer submitted as follows:

(i-ii) the matter was reported to the Anti-Corruption Commission and it was in court;

(iii) the K50 million retention was being held by ESCO pending clearance of the contractor by the Anti-Corruption Commission; and

(iv) the pontoon had not been operational due to silting on the western side of the Zambezi River. However, the pontoon was in good working condition.

Observations and Recommendations

Your Committee note the submission and resolve that the matter on the operation of the pontoon should close. They, however, urge the Controlling Officer to report progress on the court cases.

AUDIT QUERY **PARAGRAPH 90**

Failure to Follow Tender Procedures - Rehabilitation of Kalongola Pontoon

64. In December, 2005, an engineering firm was engaged to carry out repairs on the pontoon at a contract price of K289, 498,850. As at August 2006, the contractor had been paid amounts totalling K239, 498,850.

A site visit made in August 2006 revealed that the pontoon was not operational. Further enquiries revealed that the pontoon had not been operational since 2003 despite the rehabilitation works that were carried out in 2005 at a cost of K239, 498,850.

Controlling Officer's Submission

The Controlling Officer informed your Committee that the former Managing Director of ESCO Limited was reported to the Anti-Corruption Commission on the above matters and the case was in court.

Observations and Recommendations

Your Committee note the submission and will await an update on the matter.

AUDIT QUERY **PARAGRAPH 91**

Use of Pontoon on Credit

65. A scrutiny of accounting and other related records at Livingstone, Kazungula, Mansa and Chembe offices revealed that some commuters were using pontoon facilities on credit for which there was no evidence that authority was sought and granted by management or the Board. It was particularly observed that contrary to existing arrangements, six commuters were allowed to use the pontoon on credit, resulting in a debt of K15, 227,600 and US$105 which remained outstanding as at August 2006.

Controlling Officer's Submission

The Controlling Officer in response stated that it was government institutions that were allowed to use the pontoons on credit. Since some institutions were not settling outstanding bills, the services were now being provided on a cash basis. The Ministry of Works and Supply had to this effect issued an official statement on the discontinued practice of providing services on credit.

Observations and Recommendations

Your Committee urge the Controlling Officer to ensure that the RDA takes into account all weaknesses that were identified with ESCO and design an effective system of collecting and monitoring revenue at pontoons.

AUDIT QUERY **PARAGRAPH 92**

Inadequate Office Accommodation for Pontoon Staff

66. A physical verification of pontoon sites revealed that office accommodation for staff was inadequate in that either the offices were too small or non-existent. In some cases, toilet facilities were not available. It was particularly observed as set out below.

a) Kazungula

The office was very small and had no toilet facilities.

b) Namwala

A container was being used as an office. However, officers could hardly use it during the hot season as it did not have windows. There were no toilet facilities and a safe for security of the moneys collected before banking.

c) Lukulu

There was completely no office accommodation or structure at the site except for an old ESCO building at the District office where stores items were kept.

d) Kalongola

There was no office accommodation at the site and as a result the cashier was using some space on the pontoon as an office and a school desk as his office desk. However, there was no safe for the security of accountable documents. Money collected during the week was being kept in his house.

e) Collection of Garbage

Between June and December 2005, a total amount of K26, 140,000 was paid to an individual for the collection of garbage from the company premises. However, there was no documentation to indicate contractual details and the individual was selected without obtaining competitive quotations.

Controlling Officer's Submission

The Controlling Officer submitted as set out hereunder.

(Items a, b, c, d) The Company bought containers and had budgeted for construction of office blocks. Containers were being used for storage of pontoon stocks. The inadequate office accommodation at pontoon sites was recognised.

(Item e) The contractor was informally engaged by the former Managing Director. The practice had been discontinued.

Observations and Recommendations

(Items a, b, c, d) Your Committee observe that the problem of accommodation at pontoon sites will continue as there are no immediate plans to construct bridges. They, therefore, urge the Controlling Officer to urgently look into the matter. The possibility of putting up fabricated buildings should be considered.

(Item e) Your Committee resolve that the matter on collection of garbage should close.

AUDIT QUERY **PARAGRAPH 93**

Lease of Premises

67. Arising from downsizing of the ESCO operations in 2003, vacant rooms at Head Office and Kazungula were leased out to various organisations and individuals.

An examination of accounting and other related records and a physical verification of the rooms revealed a number of weaknesses as follows:

a) tenancy records were not kept properly in that some tenancy agreements had no indication of room numbers being occupied/or rented resulting in some tenants occupying more than one room but being charged for one room. In this regard, there were five tenants who were occupying more than one room but being charged the cost of a room for the period ranging from twelve months to seventy-five months for which a total of K36,000,000 in rentals was due;

b) rental payments made by tenants were not reconciled resulting in disputes on amounts paid and owing by clients. It was also not clear as to how the amounts chargeable per room were arrived at, in that they varied from one room to another despite some rooms being of similar size;

c) there was no debt collection policy, as a result the debt kept increasing from year to year and stood at K323,700,399 in January 2005. In an effort to recover the debt, management engaged a law firm and a private bailiff to assist in debt collection. Consequently, amounts totalling K229,266,941

were collected leaving a balance of K95,139,973 as at March 2006. It was, however, observed that due to lack of monitoring, tenants with outstanding rentals were still occupying rooms;

d) there were four rooms that were being occupied and used as sleeping quarters by police officers free of charge since January 2005 for which rentals amounting to K12,000,000 should have been paid, and no valid explanation was given for the non payment of rentals;

e) early in 2006, ESCO locked up two rooms of rental defaulters who had accumulated a total amount of K15,200,000 without confiscating any asset from them. However, although the rooms were locked in August 2006, the money had not been recovered. As at the time of audit, the rentals were still outstanding and the rooms were still locked; and

f) no tenancy agreement was produced for audit in respect of a room that was being rented at Kazungula by Major Insurance Brokers. Although the tenant had paid a total amount of K1, 800,000 to ESCO between February 2005 and June 2006, it was difficult to establish whether the tenant was up to date in payments due to the improper manner in which records were being maintained.

Controlling Officer's Submission

The Controlling Officer, in response, submitted as detailed below.

(Items a, b, c, and f) There was poor record keeping at the time and record management had since been improved after introduction of computer billing. In the year 2005, additional measures were put in place and record management improved.

(Item d) Police officers were allowed to occupy four rooms as they were providing security to ESCO premises and property.

(Item e) A court injunction placed by some tenants restrained ESCO from performing its duties as landlord making it difficult to collect rentals.

The Controlling Officer further submitted that management had been instructed to collect outstanding rentals by all legal means possible. They had locked all properties of defaulting tenants at the Lusaka ESCO Headquarters and would open when rentals were fully paid. All tenants had been removed from the ESCO Building Complex in order to facilitate the speedy conclusion of the sale.

Observations and Recommendations

Your Committee make the observations and recommendations set out below.

(Items a, b, c, e, and f) Your Committee note that ESCO is holding on to property of defaulting tenants within their premises. They, therefore, advise that the Controlling Officer to make arrangements to dispose of the properties as per requirements of the law. The Controlling Officer should report on the disposal of properties and recovery of rentals.

(Item d) Your Committee resolve that the matter should close.

AUDIT QUERY **PARAGRAPH 94**

Staff Debtors

68. There were weaknesses in the control of loans and advances in that records were not properly kept and Conditions of Service relating to them were flouted.

In this regard, it was observed that although amounts totalling K425,026,917 were paid to members of staff as loans and advances, only a sum of K265,874,867 had been recovered, leaving a balance of K159,152,050 outstanding as at March 2006. Included in this outstanding amount were balances in amounts totalling K131,115,433 that were static for periods ranging from six to thirty months contrary to the Conditions of Service.

Controlling Officer's Submission

The Controlling Officer submitted that all employees who owed the Company had been written to by ESCO lawyers, to recover the money and management had since stopped giving loans/advances.

Observations and Recommendations

Your Committee observe that action is being taken a little too late. Prudence demands that recoveries should have been done at the time separation packages and other benefits were being paid out. They, therefore, advise the Controlling Officer to weigh costs of pursuing the recoveries against the amount recoverable.

AUDIT QUERY **PARAGRAPH 95**

Irregular Award of Salary Increment

69. In June 2005, the Managing Director awarded salary increments of between 152 percent and 327 percent to management staff and between 127 percent and 149 percent to unionised staff effective from 1st June 2005 without the approval of the Board. The Board became aware of increment in August 2005, and, consequently, nullified them.

The three months irregularly awarded salary increments resulted into an overpayment of K256, 465,216. However, as a punitive measure during the 56th Board Meeting held on 13th September 2005, the Board resolved to have the salary overpayment deducted from the Managing Director's salary.

It was observed, however, that contrary to the Board's resolution, the overpayment had not been recovered from the Managing Director as at February 2006 and the contract of employment had been terminated.

Controlling Officer's Submission

The Controlling Officer submitted that the irregular award of salary increments was revoked by the Board at its 57th Board Meeting. The Board also resolved to recover the irregular payment from the Managing Director's salary.

Observations and Recommendations

Considering that the matters were in court, your Committee wish to advise that if the court rules in favour of ESCO, all moneys should be recovered from the former Managing Director.

AUDIT QUERY **PARAGRAPH 96**

Unapproved Payments of Christmas Bonus

70. In December 2004, the Managing Director without authority from the Board approved the payment of Christmas bonus in amounts totalling K44, 056,126 to employees at the rate of 100 percent of their basic salaries.

Controlling Officer's Submission

The Controlling Officer informed your Committee that the former Managing Director was censured for approving payment of Christmas bonus.

Observations and Recommendations

Your Committee observe that the Board was too lenient on the former Managing Director. They, therefore, advise the Controlling Officer not to allow such a situation to occur in other institutions under the Ministry such as the Roads Development Agency and the National Council for Construction.

AUDIT QUERY **PARAGRAPH 97**

Questionable Payment of Travel Allowance

71. In September 2005, the Managing Director was paid a total amount of Euro10, 000, equivalent to K49, 445,000; through a bank transfer as travel allowances to enable him attend a BID Convention in Geneva. The payment was questionable in that no travel authority was granted, and no retirement details such as used tickets, claim form or other documentation to confirm that the trip had been authorised and undertaken were provided for audit.

Controlling Officer's Submission

The Controlling Officer submitted that although travel authority was granted, there was no express authority for the former Managing Director to obtain such a huge allowance. The matter was in court for the recovery of the over payment.

Observations and Recommendations

Your Committee urge the Controlling Officer to report progress on the court case.

AUDIT QUERY **PARAGRAPH 98**

Non Payment of Tax from Gratuities

72. The Zambia Revenue Authority had not been paid a total amount of K213, 337,177 deducted from payments of gratuities amounting to K711, 123,922 in respect of employees as at August 2006.

Controlling Officer's Submission

The Controlling Officer submitted that ESCO had liquidated the outstanding debt of tax on gratuity from 2004 to date. The tax liability for the 2003 financial year would be paid by the Zambia Privatisation Agency.

Observations and Recommendations

Your Committee urge that the Controlling Officer to submit details of the payments to the Auditor-General for verification. The Controlling Officer should further report progress on the liquidation of the outstanding tax liability by the Zambia Development Agency.

AUDIT QUERIES **PARAGRAPHS 99 – 100**

Non Remittance of Pay-as-You-earn and NAPSA Deductions

73. A total of K 568,970,000 deducted from employees as Pay As You Earn for the period between April 2002 and March 2006 had only an amount of K10,451,951 remitted to Zambia Revenue Authority leaving a balance of K558,518,049 still outstanding as of August 2006.

Out of total deductions of K41,700,000 from employees as pension contributions for the period between April 2002 and March 2006, only an amount of K4,991,730 was remitted to NAPSA leaving a balance of K36,708,270 still outstanding as at August 2006.

Controlling Officer's Submission

The Controlling Officer submitted that upon privatisation of ESCO in 2003, all taxes which were outstanding were to be settled by Zambia Privatisation Agency being the institution which paid the terminal benefits and this was to be paid upon the sale of the Lusaka ESCO Complex.

Thereafter, all payments had since been centralised and paid by the Head Office. He submitted schedules showing payments for PAYE in the sum of K583, 861,292.83 and NAPSA in the sum of K162, 249,103.90.

Observations and Recommendations

Your Committee resolve that the matter should close subject to verification.

AUDIT QUERY **PARAGRAPH 101**

Understatement of Credit Figure

74. A scrutiny of accounting records revealed that a total amount of K13, 622,788 deducted from employees as their pension contributions for the months of August 2005 (K8,105,600) and November 2005 (K5,517,188) were not included on the list of creditors.

Controlling Officer's Submission

The Controlling Officer submitted that ESCO Management was verifying the figures with Zambia State Insurance Corporation.

Observations and Recommendations

Your Committee advise the Controlling Officer to impress upon ESCO Management to expedite the process of verification. They are of the opinion that verification of contributions for two months cannot take more than one year. In addition, ESCO is in the process of being wound up, therefore, it will be difficult to follow-up outstanding issues..

AUDIT QUERY **PARAGRAPH 102**

Irregular Purchase of Talk Time for Officers

75. A total amount of K37, 957,378 was spent between February 2003 and March 2006 on the purchase of talk-time for mobile phones for a number of officers of the company including a driver, contrary to the Conditions of Service and without the approval of the Board.

Controlling Officer's Submission

The Controlling Officer submitted that the practice was stopped.

Observations and Recommendations

Your Committee advise the Controlling Officer not to allow such *laissez faire* management practices to prevail in the institutions under the Ministry of Works and Supply.

AUDIT QUERY **PARAGRAPH 103**

Questionable Sponsorship of the Managing Director

76. In 2003, the Board Chairman approved an application by the Managing Director for company sponsorship to enable him pursue a Masters Degree in Business Administration (MBA) on a part time basis with a British University based in Lusaka. The duration of the course was two years starting September 2003 at a total cost of US$12,822.50, equivalent to K60, 119,091, which amount was paid to the University between January 2004 and August 2004 in two instalments.

It was, however, observed that at the time of approval of the sponsorship, the Managing Director was employed on short term contract of six months from 6th May, 2003 to 6th November, 2003 pending the privatisation of the Company. The rationale of approving a sponsorship to an officer on a short term contract and when the Company was under Privatisation was questionable.

Controlling Officer's submission

The Controlling Officer submitted that although the Board Chairman signed the forms for confirmation of his studies, there was no express authority for him to pay his fees using company funds. This was one of the items of the cases in court.

Observations and Recommendations

Your Committee wish to advise that should the courts rule in favour of ESCO, the amount should be recovered from the former Managing Director.

AUDIT QUERY **PARAGRAPH 104**

Acquisition and Maintenance of Computers

77. A scrutiny of records pertaining to acquisition and maintenance of computers revealed weaknesses in that:

i) Between July 2003 and February 2003, a total amount of K37, 185,310 was paid to Next Technology for maintenance of an accounting package. However, it was observed that the package was not being used as more breakdowns were experienced and were unable to be rectified by the contracted company, as such cashbooks were still being prepared manually. Therefore, the amount spent on the purchase of the accounting package was wasteful.

ii) There were no disposal details for computers and accessories costing K35, 998,000 purchased during the period from November 2004 to April 2005 contrary to Stores Regulations.

Controlling Officer's Submission

The Controlling Officer submitted that:

i) the irregularity was due to non existence of ICT experts in ESCO to advise on the procurement of the accounting package. However, the package was still being used; and

ii) due to non-availability of stores records on non-current assets, the ESCO management failed to establish how they were disposed off. However, efforts were still being made to establish the disposal of the assets.

Observations and Recommendations

Your Committee make the observations and recommendations set out hereunder.

i) Your Committee resolve that the matter on the accounting package should close subject to verification.

ii) Your Committee urge the Controlling Officer to report progress on the disposal details of stores worth K35, 998,000.

AUDIT QUERY **PARAGRAPH 105**

Maintenance of Building at Head Office

78. During the period between May 2005 and November 2005, a total amount of K25, 974,771 was paid to various suppliers of materials for maintenance of buildings at Head Office.

There were no records such as tender minutes, signed contract, and work certification produced to indicate the actual repairs undertaken. It was, therefore, not possible to establish whether the money was used for the intended purpose or not.

Controlling Officer's Submission

The Controlling Officer submitted that management had put in place necessary measures including those for procuring maintenance works.

The ESCO Board considered all these cases in terminating the services of the Managing Director and reporting him to the Anti-Corruption Commission.

Observations and Recommendations

Your Committee note the submission.

AUDIT QUERY **PARAGRAPH 106**

Repair of Motor Vehicles and Purchase of Spare Parts

79. During the period between October 2004 and December 2005, amounts totalling K10, 431,258 were spent on repairs of three motor vehicles, which were involved in road accidents. However, there were no accident reports to support the payments and the vehicles were not insured. As at August 2006, no loss report had been processed.

i) in 2003, amounts totalling K8, 297,000 were spent on repairing two motor vehicles which did not belong to the company; in the absence of documentation, it was not possible to ascertain why the company incurred such costs; and

ii) purchases of various motor vehicle spare parts made between April 2003 and March 2006 in amounts totalling K76, 458,574 had no receipt and disposal details.

Controlling Officer's Submission

The Controlling Officer submitted that the case had since been reported to the Anti-Corruption Commission.

Observations and Recommendations

Your Committee urge the Controlling Officer to report progress on the outcome of investigations.

AUDIT QUERY **PARAGRAPH 107**

80. **Stores**

a) Head Office

There were no receipt and disposal details for the purchases of stationery costing K20, 682,000 made between April 2003 and March 2006.

b) Livingstone and Kazungula Offices

i) There were no receipt and disposal details for the purchase of Scania truck parts costing K26, 696,350 made in November 2004.

ii) Pontoon spare parts for Kazungula purchased between March 2003 and July 2004 at a total cost of K259, 943,319 had no receipt and disposal details.

iii) A physical inspection of stores items at Kazungula and a discussion held with a pontoon supervisor disclosed that two hydraulic pontoon pumps of wrong type bought between June 2003 and April 2004 at a cost that could not be established, were not returned to the supplier and no valid reason were given for non return.

iv) A local company that was contracted to install electrical water probes for water detection in the vacuum cells of the pontoon in 2004 at a cost of K16, 199,040, failed to repair the water detectors despite being paid in full. It was observed, however, that management had made no effort to recover the money or institute liquidated damages since 2004 as at August 2006.

c) Namwala

Pontoon spare parts costing K5, 490,125 purchased in June 2005 had no receipt and disposal details.

d) Lukulu

Pontoon spare parts and fuel costing K35, 309,826 purchased between October 2005 and January 2006 had no receipt and disposal details.

e) Mongu

There were various spare parts purchased between April 2003 and March 2006 in amounts totalling K103, 551,461 and 630 litres of diesel costing K3, 699,120 sent to Kalongola by Mongu office, which had no receipt and disposal details contrary to Stores Regulations.

f) Mansa

Various spare parts purchased between September 2003, and October 2005 costing K38, 953,599 had no receipt and disposal details while 138,544 litres of diesel worth K757, 835,680 issued in Mansa Office between June 2002 and May 2006, though received in Chembe had no details in Mansa Office.

Controlling Officer's Submission

The Controlling Officer submitted as set out below.

a) Head Office

Since ESCO management had no information on non availability of receipt and disposal details for the purchase of stationery, efforts were being made to verify the same.

b) Livingstone and Kazungula Offices

In view of the time lag, management would verify and assess the usage of the hydraulic pontoon pumps elsewhere.

The electrical water probes were installed.

(c, d, e, f) Namwala, Lukulu, Mongu, Mansa

They were no stores management and control systems in place and ESCO management had now put the systems in place.

Observations and Recommendations

Your Committee note that the situation at ESCO is pathetic. They further observe that ESCO Board was partly to blame because it did not ensure that there was proper stewardship of the company.

They, therefore, strongly advise the Secretary to the Treasury to embark on a re-sensitisation programme for all Controlling Officers on the need to ensure that parastatals and other quasi-government institutions under their charge are properly managed.

They further urge the Controlling Officer to report progress on items that were in the process of being verified.

AUDIT QUERY **PARAGRAPH 108**

Unvouched Expenditure

81. The Auditor-General reported the following:

I) Missing Payment Vouchers

There were 111 payment vouchers in amounts totalling K665, 685,569 which were not presented for audit.

II) Missing Cancelled Cheques

There were nine cheques, which were shown as cancelled in the cash books that were not made available for audit.

III) Unsupported or Inadequately Supported Payment Vouchers

There were 233 payment vouchers in the sum of K523, 383,691 that were not supported by relevant documents such as invoices, receipts or delivery notes.

Controlling Officer's Submission

The Controlling Officer submitted that effort was being made with the Ministry of Commerce, Trade and Industry and Zambia Privatisation Agency who carried earlier audits to verify whether these records were in their custody.

Observations and Recommendations

Your Committee urge the Controlling Officer to report progress on the matter.

M. FOOD SECURITY PACK PROGRAMME (UNDER THE MINISTRY OF COMMUNITY DEVELOPMENT AND SOCIAL SERVICES)

Background **Paragraphs 109 - 111**

82. The Auditor-General reported that in November 2000, the Government introduced the targeted Food Security Pack (FSP) to empower vulnerable, but potentially viable farmers, who had lost their productive capacity due to recurrent adverse weather conditions and reduced access to inputs.

The overall objective of the programme was to contribute to poverty reduction through improved household food security.

The pack comprised diversified inputs including fertilizer, agricultural lime, seed and the transfer of appropriate technologies to increase and sustain food production and income generation. In this regard, the Government engaged the Programme Against Malnutrition (PAM) to execute the programme. The engagement was renewable periodically.

The programme targeted viable potential farmers, who were cultivating less than one hectare and the vulnerable in society such as female-headed households, orphanages, child-headed households, the disabled, households affected by natural calamities, households having terminally ill patients and unemployed youths.

Management

The Programme had a National Steering Committee and a Technical Committee for policy guidance and technical supervision respectively. At district level, there was a District Food Security Committee for monitoring and a lead non-governmental organisation (NGO) for implementation. The lead NGO implemented the programme through Area Food Security Committees formed at community level which comprised representatives of traditional authorities, community based organisations (CBOs), block or extension officers, lead farmers and other public workers working and living within the communities. The Area Food Security Committees were responsible for selecting the beneficiaries.

Sources of funds

The FSP Programme received government grants that were channelled through the Ministry of Community Development and Social Services (MCDSS). In addition, it generated other income internally such as interest.

During the period under review, total authorised provisions of K92.8 billion were made for which total funding of K135 billion was released resulting in an excess funding of K42.2 billion as detailed below:

	Approved Budget K Billion	Actual Funding K Billion	Variance K Billion
2000/01	32.00	32.00	-
2001/02	3.90	3.90	-
2002/03	3.40	26.00	22.60
2003/04	3.40	43.00	39.60
2004/05	29.00	9.00	(20.00)
2005/06	21.10	21.10	-
	92.80	**135.00**	**42.20**

An examination of records carried out in August 2006 at PAM, revealed that during the period September 2000 to August 2006, the FSP programme received amounts totalling K140,824,289,000 (K134,811,426,000 as government grants and K6,012,863,000 as internally generated income) as indicated in the table below:

Year	Grant received	Generated income	Total Amount
	K'000	K'000	K'000
2000-2001	24,458,232	40,768	24,499,000
2001-2002	10,343,022	3,693,978	14,037,000
2002-2003	25,599,833	1,135,167	26,735,000
2003-2004	36,329,897	258,103	36,588,000
2004-2005	25,262,165	430,835	25,693,000
2005-2006	12,818,277	454,012	13,272,289
Total	**134,811,426**	**6,012,863**	**140,824,289**

Controlling Officer's Submission

On the sources of funding, the Controlling Officer submitted that Government funds the Programme through grants, which were usually not adequate for the programme in view of the high number of vulnerable small scale farmers in the Country. As a result, the Government sourced additional funds over and above the approved budget though in some years this was inadequate due to high demand.

Observations and Recommendations

Your Committee note the submission.

AUDIT QUERY **PARAGRAPH 112**

Irregular Release of Funds

83. Although there was no contract between Government and PAM for the 2005/2006 farming season, amounts totalling K10, 367,848,903 were released to PAM.

Controlling Officer's Submission

The Controlling Officer submitted that the original contract between the Government and PAM came to an end in August 2005. Though negotiations for renewal of the contract had commenced before then, they were not concluded before the onset of the 2005/6 agricultural season. In view of the seasonal nature of the programme and in recognition of PAM's expertise, the Government decided to fund the FSP Programme while negotiations for contract renewal between PAM and the Government were going on in order to alleviate the suffering of the vulnerable farmers. He admitted that this was irregular.

Observations and Recommendations

Your Committee, while acknowledging the importance of the Programme, advise the Controlling Officer that it was public funds used, which for accountability purposes, have procedures for their release and use. The amount released was substantial and the Controlling Officer should have sought authority to release the funds in the absence of a signed contract. They, therefore, urge the Controlling Officer to take into account the above in future.

AUDIT QUERY **PARAGRAPH 113**

Irregularities in the Distribution of Inputs

84. A verification of inputs distributed to the provinces from Headquarters revealed that there were irregularities in the distribution of inputs in that some items were not received and there were shortfalls in deliveries among others, as detailed below:

a) Lundazi District – Thandizani

76 x 15kg bags of Rice and 1.65 metric tones of groundnuts purportedly sent to Lundazi in 2004/2005 and 2005/2006 seasons were not received as at October 2006.

b) Serenje District – Serenje Ecumenical Council

38 x 12.5Kg bags of Soya beans valued at K2, 232,500 sent to Serenje during the 2004/2005 farming season had not been received as at October 2006.

c) Mpongwe District - Baptist Mission

95 x 2kg bags of Sorghum valued at K1, 059,250 and 40 x 12.5kg bags of Soya beans valued at K2, 350,000 sent to the Mpongwe during the 2004/2005 farming season, had not been received as at October 2006.

d) Mbala District – New Apostolic Church

38 x 12.5kg bags of Soya beans valued at K2, 232,500 sent to Mbala during the 2004/2005 farming season, had not been received as at October 2006.

e) Kasama District – St John's Catholic Church

95 bags of 12.5kg Soya beans valued at K5, 581,250 sent to Kasama during the 2004/05 farming seasons, were not received by the district as at October 2006.

f) Chingola District - Kapisha Development Network

0.34 Metric tonnes of beans and 0.07 Metric tonnes of cow peas sent to Chingola during the 2005/2006 farming season, had not been received as at October 2006.

g) Lusaka District – Lusaka Shed

Whereas a stock card indicated that there were 1,505 x 12.5 kg bags of Soya beans a physical count carried out at Lusaka shed on 16th October 2006 revealed that there were 1,661 x 12.5 kg bags, resulting in a difference of 156 x 12.5 kg bags valued at K10,247,796 for which no proper explanation was given.

Controlling Officer's Submission

In response, the Controlling Officer submitted that the shortfalls or irregularities as observed by the auditors were in fact disparities between planned and actual distribution which arose from failure by some contracted suppliers to fully supply the contracted quantities resulting in some districts receiving less inputs than planned. PAM, however, penalised suppliers, who failed to fulfil contracts awarded to them by charging them 0.5 percent. The Controlling Officer further submitted as set out below.

a) ***Lundazi District:*** 76 x 15 kg bags of rice purportedly distributed in 2005/05 were actually not sent because rice was not bought in 2004/05.

b) ***Serenje District:*** 38 x 12.5 kg bags Soya beans purportedly sent in 2004/05 were actually not sent because PAM had planned to purchase 16.11 tonnes of Soya beans but only managed 6.23 tonnes resulting in non receipt of Soya beans.

c) ***Mpongwe District:*** did not receive 92 x 12.5 kg bags of Soya beans in 2004/05 for similar reasons as in (b).

d) ***Mbala District:*** did not receive 38 x 12.5 kg bags of Soya beans for similar reasons as in (b).

e) ***Kasama District:*** did not receive 95 x 12.5 kg of Soya beans in 2004/05 for similar reasons as in (b).

f) ***Chingola District:*** did not receive 0.34 tonnes of beans in 2005/06 because PAM had planned to purchase 58.6 tonnes of beans but only 50 tonnes was purchased resulting in non receipt of beans in some areas. 0.07 tonnes of Cowpeas were not sent to Chingola as a result of inadequate supply in the 2005/06 season. PAM had intended to purchase 23.26 tonnes but only 22.9 tonnes was purchased.

g) ***Lusaka District:*** the disparities between physical count and stock card records at the Lusaka shed was acknowledged as an error and measures had been put in place to ensure errors of such nature did not recur. These included regular physical inspections of the sheds.

In the case of Serenje District (113b) the inputs observed as having not been received were in fact received by the Provincial Coordinator, though late. As such these inputs were distributed off-season as a wetland cropping and not the rain fed programme.

Observations and Recommendations

Your Committee note the submission and urge the Controlling Officer to submit all distribution documents to the Auditor-General for verification. They further urge him to direct the executors of the FSP Programme to improve record keeping.

AUDIT QUERY **PARAGRAPH 114**

Poor Maintenance of Records

85. It was observed that there was poor maintenance of accounting and stores records at various stations in that cashbooks were either not maintained or updated, bank accounts were not reconciled, stores records were not updated, payments were made without raising payment vouchers and there were no receipt books, among others as shown below.

a) Chipata District Food Security Committee (DFSC)

During the period August 2003 and December 2005, amounts totalling K16 million were remitted to Chipata District Food Security Committee. It was observed that no financial records such as

cashbooks and payment vouchers were maintained, making it impossible to verify how the funds were utilised.

b) Chipata – Kalichelo Parish

There were no records such as cash books, payment vouchers, goods issued vouchers and stock cards. It was, therefore, not possible to ascertain whether all the inputs received were distributed to the intended beneficiaries.

It was also observed that the storage shed was not secure as it had big holes in the walls, thereby putting the inputs at risk of theft and adverse weather conditions.

c) Kabwe District Food Security Committee

Although the DFSC had a bank account into which all funds were to be deposited before disbursement, it was observed that contrary to this procedure, amounts totalling K6, 000,000 were disbursed before being deposited.

Further, it was not possible to ascertain how funds amounting to K5, 380,000 out of the K6, 000,000 were utilised as accounting records such as cashbooks, bank reconciliation statements and payment vouchers were not maintained.

d) Mpongwe District Food Security Committee

No bank reconciliations were done for the account maintained at the station contrary to Financial Regulations.

Controlling Officer's Submission

The Controlling Officer submitted that lack of capacity among some of the agents and officers implementing activities at district level had been recognised as the cause of poor maintenance of records. In addressing this situation, PAM continued to provide simplified accounting guidelines to strengthen capacities of officers in record keeping and basic accounts. Wherever possible, government accounting officers from Ministries of Community Development and Social Services, and Agriculture and Cooperatives were engaged to provide accounting services.

On the specific cases, he stated as set out below.

a) Chipata DFSC

He acknowledged that there were no financial records at the time of the audit because the incumbent officers were new and no handovers were made by the outgoing officers but efforts had been made to ensure smooth handovers for continuity.

b) Chipata – Lead NGO, Kalichelo Parish

The records were not available as they were with the outgoing NGO, however, these records were retrieved and were available for verification.

b) Kabwe District Food Security Committee

The records for Kabwe District were kept at the District Accountant's Office. The records could not be traced at the time of the audit by the incoming Accountant because his predecessor had died and no handovers had been done. However, the records were traced and submitted to PAM HQ and were available for verification.

d) Mpongwe DFSC

The DFSC had been given basic accounting guidelines to ensure all appropriate accounting records are in place including bank reconciliation statements.

Observations and Recommendations

Your Committee note the submission and observe that accountability of the FSP Programme may continue to be a challenge because of the long distribution chain. All entities in the chain are basically contracted. Whereas the capacity of PAM may be satisfactory, this may not be so with the various committees and lead NGOs.

Your Committee, therefore, urge the Controlling Officer to put more effort in building the capacity of agents and officers with respect to accounting procedures. They further request the Controlling Officer to periodically re-examine the distribution chain to ensure that inefficiencies of some agents do not threaten the Programme.

They advise the Controlling Officer to forward the documents for Chipata and Kabwe to the Auditor-General for verification.

AUDIT QUERY **PARAGRAPH 115**

Wrong Debits to FSP Bank Accounts

86. There were three payments amounting to K6, 649,636 which were wrongly charged to the FSP Kwacha Account instead of the FAO – Cassava Project Account in 2003 and had not been corrected as at October 2006.

Controlling Officer's Submission

The Controlling Officer submitted that the bank reconciliations were properly done and it was from these that wrong debits were detected. Bank reconciliations were available for verification. The three payments amounting to K6, 649,636 had since been reimbursed to PAM FSP Account.

Observations and Recommendations

Your Committee resolve that the matter should close subject to verification of the reimbursements.

AUDIT QUERY **PARAGRAPH 116**

Input Procurement and Distribution

87. It was reported on the following specific particulars as set out below.

a) Transporters Paid but not on the Approved Register

Amounts totalling K1, 258,326,647 were paid to transporters, who were not in the register of approved transporters.

It was further observed that there were no standard rates for the transporters.

b) Suppliers not Approved by the Tender Committee

An examination of payment vouchers for procurement of inputs for the period under review revealed that inputs worth K4, 812,445,500 were procured without being subjected to tender procedures.

Controlling Officer's Submission

The Controlling Officer submitted as set out hereunder.

a) All transporters engaged from Headquarters were registered. However, the majority of those that were contracted from districts were usually not registered as distance and capacity of the transporters involved constrained them to meet the requirements of registration. However the observation by the auditors was noted and PAM was putting in place mechanisms to facilitate the local registration of transporters in various districts.

b) Tender procedures, as outlined and required by the Zambia National Tender Board, were followed in the procurement of inputs. However, it was noted that single sourcing of fertiliser from NCZ was a directive from the Government which was a contravention of normal tender procedures. Understandably, the Government gave the directive in pursuit of wider national interest of reviving operations at NCZ. In other situations the programme shopped for inputs in the interest of ensuring that inputs reached the target beneficiaries in time as agriculture was time bound.

During the oral presentation, the Controlling Officer further submitted that procurement was a challenge in the sense that the Ministry was bound to follow government procedures, but PAM was not. PAM had its own procurement procedures but does approach Zambia National Tender Board for guidance if need be.

Observations and Recommendations

Your Committee note the submission and resolve that matters on procurement should close. However, they wish to advise the Controlling Officer to ensure that the contract that is entered into with PAM should specify what government expects in order to ensure that there is accountability in the use of the resources.

AUDIT QUERY **PARAGRAPH 117**

Misapplication of FSP Funds

88. Although PAM were paid K10,960,539,569, being ten percent of the total funding to the FSP Programme to cover administrative costs for the contract covering the period from 2001 to 2005, it was observed that amounts totalling K325,624,061 were paid from the FSP Account to PAM staff as allowances.

Controlling Officers Submission

The Controlling Officer submitted that payment of the allowances was not misapplication of funds as they were paid to the Executive Director, Deputy Director, Accountant, Finance and Administration Manager, Food Security and Entrepreneurship Manager, Senior Programmes Officer, who are part of the project as supervisors.

When asked why PAM had to charge the FSP for the allowances when they were already paid their 10 percent for administrative costs, the Controlling Officer admitted that this was an anomaly and the practice was stopped.

Observations and Recommendations

Your Committee note the submission and urge the Controlling Officer to ensure that PAM is more accountable. It is expected that PAM displays attributes of an institution of excellence considering that it has been contracted to execute a very important government programme.

Your Committee hold that the K325.6 million is recoverable, and urge the Controlling Officer to institute recoveries.

AUDIT QUERY **PARAGRAPH 118**

Unretired Imprest

89. Imprest in amounts totalling K57, 567,700 involving eleven transactions issued during the period from September 2003 to August 2004 had not been retired as at August 2006 contrary to Financial Regulations.

Controlling Officer's Submission

The Controlling Officer submitted that imprest that was referred to as not having been retired was actually funds advanced to EDRP Project as imprest on this project and not FSP. The transaction was such that the EDRP was required to refund the FSP and its officer retired to EDRP. The EDRP was a scale up of the FSP Programme funded by the World Bank. The funding to the Programme was delayed. However, when the programme received its funding, the funds borrowed were reimbursed.

Observations and Recommendations

Your Committee recommend that the matter should close subject to verification of the refund. They, however, urge the Controlling Officer to ensure that officers cooperate with auditors. Such issues could have been clarified at the time of audit.

AUDIT QUERY **PARAGRAPH 119**

Fixed Assets - Motor Vehicles

90. In August 2006, the Ministry collected two 4x4 motor vehicles, (Nissan Hard body registration number AAX 2522 and Toyota registration number AAX 3163) valued at K109, 581,500. This had a negative impact in the implementation of the programme as the mobility of officers was reduced. As at January 2007, the motor vehicles had not been returned.

Controlling Officer's Submission

The two vehicles collected by Ministry of Community Development and Social Services were only released to the Ministry to facilitate effective monitoring of the programme. The vehicles released cost was K119, 000,000 in 2001 and at the time of release, these vehicles had been fully depreciated leaving a nominal value of K1 per vehicle. The release of the vehicle had no negative impact in the implementation of the programme. The two vehicles taken were non-runners and were not in use for over one year and were too costly to repair. The vehicles were repaired by Ministry of Community Development and Social Services and were now used for enhanced FSP monitoring.

Observations and Recommendations

Your Committee note the submission and advise the Controlling Officer to ensure that the ownership of the vehicles is clear considering that Government funds were used to repair the vehicles.

AUDIT QUERY **PARAGRAPH 120**

Non Submission of Expenditure Returns

91. There were no expenditure returns in respect of advances amounting to K289,260,923 distributed to six provincial offices and various lead NGOs during the period from September 2001 to August 2006 contrary to Financial Regulations.

Controlling Officer's Submission

The Controlling Officer submitted that all the returns were received but some of them had not been posted to the ledgers at the time. These had since been posted and they were available for inspection.

Observations and Recommendations

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

N. ZAMBIA COMPETITION COMMSSION (UNDER THE MINISTRY OF COMMERCE, TRADE AND INDUSTRY)

Background **Paragraphs 121 – 123**

92. The Zambia Competition Commission (ZCC) was established by the *Competition and Fair Trading Act No. 18 of 1994, Chapter 417* of the Laws of Zambia. The functions of the Commission were to monitor, control and prohibit acts or behaviour which was likely to adversely affect competition and fair trading in Zambia.

The Act provided for a Commission comprising:

a) a representative from each of the Ministries responsible for Finance and Commerce and Industry;

b) a representative of the Zambia Bureau of Standards;

c) two representatives from the Zambia Association of Chambers of Commerce and Industry, each representing different sections of that body;

d) a representative of the Law Association of Zambia;

e) a representative from the Zambia Federation of Employers;

f) a representative of the Zambia Congress of Trade Unions;

g) two persons representing consumer interests and appointed by the Minister;

h) a representative of the Engineering Institution of Zambia;

i) a representative of the Accounting Profession; and

j) a representative of the Economics Association of Zambia.

The members held office for a period of three years from the date of appointment, and may upon the expiration of that term be reappointed for a like term.

The Commission appointed an Executive Director, who was responsible for the day to day administration of the Commission.

Sources of Funds

According to the Act, the sources of funds of the Commission consisted of government subventions, grants from donors and other income generated from operations.

During the period under review, the Commission received amounts totalling K6, 664,856,882 as tabulated below:

Source	2001	2002	2003	2004	2005	Total
	K	K	K	K	K	K
GRZ Grant	436,168,240	993,638,191	1,249,812,301	1,386,766,150	1,500,000,000	5,566,384,882
Grants From Donors:		50,000,000	199,909,000			249,909,000
Other Income	101,056,000	95,156,000	238,090,000	226,499,000	187,762,000	848,563,000
Total	**537,224,240**	**1,138,794,191**	**1,687,811,301**	**1,613,265,150**	**1,687,762,000**	**6,664,856,882**

AUDIT QUERY **PARAGRAPH 124**

Unbanked Receipts

93. Contrary to Financial Regulations, amounts totalling K32, 181,910 and US$2,108 collected as fees during the period from January 2001 to December 2005, were not banked as tabulated below:

Year	Amounts Received		Amount Banked		Amount Unbanked	
	K	US$	K	US$	K	US$
2001	64,755,950	3,242	46,887,250	1,674	16,162,700	1,568
2002	44,356,458	-	38,159,004	-	6,547,454	-
2003	86,786,388	-	80,623,628	-	6,162,760	-
2004	55,019,306	5,340	53,086,490	4,800	1,912,816	540
2005	237,188,674	-	235,792,249	-	1,396,180	-
Total	**488,106,776**	**8,582**	**454,548,621**	**6,474**	**32,181,910**	**2,108**

Controlling Officer's Submission

The Controlling Officer submitted that the Commission had discontinued the system of not banking its cash receipts and using the said cash for office operational expenses. Currently, the Commission prepares receipts for all moneys received (both cash and cheques) and banked the said funds immediately they were received.

Further, whenever possible, the Commission did not encourage its clients to make cash payments but preferred that payments were made by cheque.

The lapse was acknowledged and was brought to the attention of the Board and Management of the Commission.

Observations and Recommendations

Your Committee note the submission and advise the Controlling Officer to ensure that irregularities such as delayed banking are not repeated.

AUDIT QUERY **PARAGRAPH 125**

Irregular Payments of Educational Allowances

94. The Executive Director's conditions of service stipulated that the Commission would pay educational allowances for his children up to secondary school level. It was, however, observed that contrary to the Conditions of Service, the Commission paid fees totalling K26, 365,840 to various institutions of higher learning.

Controlling Officer's Submission

The Controlling Officer in his response submitted that the K26, 365,840 represented the accumulated salary advances for a period of ninety-six months, which were recovered fully from the Executive Director's

salary by 31st December 2005. This was before even the auditors commenced their audit exercise. This information was provided to the auditors.

Staff were always assisted with salary advances for them to meet the educational expenses and these were recovered fully from the affected staff. The award of education advances was not exclusively to the Executive Director, other staff also used the facility. Such advances were recovered within three months.

During the oral presentation, the Controlling Officer submitted that the allowances were irregular and that was the reason why they were treated as advances and recovered.

Your Committee noted that the Chief Executive Officer was signing and approving his own vouchers and requested the Controlling Officer whether this was an acceptable practice in their circumstances. The Controlling Officer submitted that the Administration and Finance Committee of the Board was tasked with the responsibility of approving such transactions and they were approved accordingly.

Observations and Recommendations

Your Committee note the submission and appreciate the action taken on the query. They, however, urge the Controlling Officer to advise the Board to caution the Chief Executive Officer against signing vouchers that are in his favour. This is a compromise on internal controls.

They further urge the Controlling Officer to submit details of the recoveries of the advances to the Auditor-General for verification.

AUDIT QUERY **PARAGRAPH 126**

Purchase of Cell Phones and Airtime

95. Contrary to the Conditions of Service and without the authority of the Commission:

a) two (2) cell phones at a total cost of K4,490,000 were procured for the Executive Director, and K34, 449,874 was incurred on airtime, for which there was no budget line; and

b) other Directors, who were not entitled to airtime, were also paid a total of K7,859,600.

Controlling Officer's Submission

The Controlling Officer submitted as detailed below.

i) Purchase of Cell Phones

The said cell phones were still assets of the Commission and were available for use by other members of staff. The auditors were availed the copy for the relevant Board Resolution authorising the purchase of the cell phones.

ii) Talk Time for the Executive Director

In order to control the expenses on the talk time for the Executive Director, the Commission had discontinued the post-paid system and were using the prepaid system. Currently, the Executive Director receives K300, 000 worth of talk time per month.

iii) Talk Time for Directors

The Commission gave its Directors K100, 000 worth of talk time to assist them in the performance of their duties. In both instances, however, due to the nature of the work of the Commission, the amount of talk time was still insufficient to address their needs.

Observations and Recommendations

Your Committee note the submission and resolve that the matters should close, subject to verification of the Board authority to purchase the cell phones and proof of entitlement to airtime for the Directors.

AUDIT QUERY **PARAGRAPH 127**

Fixed Asset Register

96. Although a Fixed Asset Register was in place, it was poorly maintained in that it did not contain adequate information such as asset numbers, value, and disposal details as shown below:

a) fixed assets costing K31,958,273 that had been bought by the Executive Director in the last two contracts were still reflected in the Register;

b) three motor vehicles valued at K 40,633,590, bought by three members of staff had not been removed from the Register; and

c) a stolen Laptop (Compaq Armada) worth K3,507,500 had not been deleted from the Register.

Controlling Officer's Submission

The Controlling Officer submitted that the Commission had now updated the Fixed Assets Register to reflect the correct details for the assets as requested by the Auditor-General. However, the Register was still in a Microsoft Excel spreadsheet format.

The said assets ceased to appear on the Commission's balance sheet as from 31st December, 2003, 2005 and 2006 respectively when the said assets were disposed of.

Further the Commission currently removed all disposed assets from the Fixed Asset Register to ensure that the details in the Register were correct. Further, following the receipt of sixteen big memory computers through the 9th European Union Development Fund, the Commission intended to upgrade its accounting system from the current Quick Books package to Pastel. The new package would have a fixed assets accounting module.

Observations and Recommendations

Your Committee resolve that the matters should close, subject to the Auditor-General confirming that the Fixed Asset Register is properly maintained.

AUDIT QUERY **PARAGRAPH 128**

Unremitted Taxes

97. Contrary to the *Income Tax Act*, deductions of Pay-As-You-Earn amounting to K221, 023,131 made during the period September 2001 to June 2003 and Withholding Tax on rent of K26, 917,500 accrued during the period from April 2000 to December 2004 had not been remitted to Zambia Revenue Authority.

Controlling Officer's Submission

The Controlling Officer submitted that the Commission had fully paid a total of K105, 906,109 PAYE to ZRA as per the agreed repayment plan. After completing the repayment of the principal amount, on 13th February 2007 the Commission applied to ZRA for a waiver on interest and penalties. On 5th March 2007, ZRA granted them a 75 percent waiver on penalties and the Commission was currently servicing the remaining 25 percent. On 2nd April 2007, the Commission wrote a letter to ZRA requesting for a waiver on the interest as well. The response to this letter was still being awaited.

On Withholding Tax, the Commission was in the process of agreeing on the payment plan with ZRA. Further, the Commission would continue paying its tax obligations to ensure that all the debts with ZRA are cleared.

The accumulated arrears represented the periods of September 2000 to March 2002 and April 2003 to June 2003. As from July 2003, the Commission was up to date with its PAYE obligations.

The non-payment of PAYE and Withholding Tax was as a result of erratic disbursement of funds from the Ministry of Finance and National Planning during the aforementioned periods.

Observations and Recommendations

Your Committee make the observations and recommendations set out below.

i) Pay-as-You-Earn

Your Committee urge the Controlling Officer to submit the following to the Auditor-General for verification:

- details confirming the payment of K105,906,106 being the principal amount; and
- proof of the granting of a 75 percent waiver on penalties.

In the meantime, the Commission should continue paying interest pending ZRA's decision on their application for a waiver.

ii) Withholding Tax

The Controlling Officer should submit the Time-to-Pay Agreement to the Auditor-General.

O. ESSENTIAL DRUGS AND SUPPLIES / MEDICAL STORES LIMITED (UNDER THE MINISTRY OF HEALTH)

AUDIT QUERY PARAGRAPH 129

Unsupported Payments

98. Twenty-four payments made in respect of drug purchases involving amounts totalling K4, 640,080,490 were not supported in that there were no documents such as local purchase orders, invoices, delivery notes, and goods received notes among others contrary to Financial Regulations and, therefore, could not be verified at Medical Stores Limited. There was no assurance that the payments were made on account of obligations of Ministry of Health

Controlling Officer's Submission

The Controlling Officer in response confirmed that all payments made to suppliers of Drugs and Medical Supplies were supported by the appropriate contracts, local purchase orders and communication (goods received acceptance letter) from Medical Stores Limited indicating that the required items had been

delivered. Furthermore, the Ministry did not make payments to companies before delivery of goods unless it was a requirement in the contract that the supplier should be paid upfront. In which case there would be a requirement for the supplier to provide a performance guarantee equivalent to the amount being asked for.

Observations and Recommendations

Your Committee note the submission and advise that the Controlling Officer should forward documents supporting the payments to the Auditor-General for verification.

AUDIT QUERY **PARAGRAPH 130**

Drugs Paid for but not Received

99. Nineteen payments in respect of drug purchases involving an amount of K2, 290,357,853 had no receipt and disposal details at Medical Stores Limited contrary to Stores Regulations.

Controlling Officer's Submission

The Controlling Officer confirmed that the stated purchases were delivered and payments were made upon receipt of invoices and delivery notes stamped by Medical Stores Limited.

Receipt, storage and distribution were the major activities and responsibility of Medical Stores Limited. The system was that each time they were in receipt of drugs and medical supplies, they recorded and added to the balances in stock and also sent a receipt confirmation letter to the Ministry to facilitate payment.

Distribution was effected upon receipt of approved requisitions from user health institutions, generally on a monthly basis. Medical Stores Limited did not indicate on issue/distribution documents that such drugs and medical supplies being distributed were purchased from a specified supplier. It was, however, important to ensure that goods paid for were received.

The Permanent Secretary assured your Committee that goods paid for were received and were on account of obligations of the Ministry of Health.

Observations and Recommendations

Your Committee urge the Controlling Officer to submit documents confirming receipt of drugs worth K2, 290,357,853 to the Auditor-General for verification.

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Overstocking and Expired Drugs

100. It was observed that there was lack of a system of monitoring, storing and distributing drugs at the Ministry/Central Board of Health on one hand, and Medical Stores Limited on the other, although Medical Stores Limited regularly submitted stock movement reports to the Ministry of Health /Central Board of Health procurement units to help in planning and ordering the right replenishment quantities. In this regard, the following were observed:

a) there was over stocking of and poor storage of drugs which led to expiry of thirty (30) tones of drugs worth K24,374,196,068 during the period between 1998 and October 2005;

b) the expired drugs were not destroyed, but merely removed from the warehouse and stored in containers at the company's premises; and

c) in an effort to have the expired drugs destroyed the Controlling Officer in liaison with his counterpart at the Ministry of Finance and National Planning constituted a thirteen member Board

of Survey in October 2005 that recommended a cost/benefit analysis to be done before effecting disposal methods such as incineration, dilution and donation to institutions with laboratory facilities. It was observed, however, that this was not done as at October 2006, and a cost/ benefit analysis was not done, and the drugs were not disposed of.

Controlling Officer's Submission

The Controlling Officer in response submitted as set out below.

a) Overstocking of and Poor Storage Leading to Expiry of Drugs

He had taken advantage of the comments to review some operations and strategies to chart stronger systems for the future.

While there were appropriate systems in place at Medical Stores Limited, the comments on the accumulation of expired drugs over many years, in particular 1998 to 2005 remained valid, whatever the reasons for the expiry.

It was envisaged that with various developments taking place, the Minsitry would ensure that:

- the expiry of drugs was significantly reduced and in some cases eliminated altogether;
- the drugs which do expire were dealt with or disposed of expeditiously and not allowed to accumulate over many years; and
- such disposal will be done in line with relevant legislation.

b) Expired Drugs were not Destroyed

The process of setting up and systematically arranging to dispose of expired drugs did take long. The expired drugs were indeed in containers at the Medical Stores Limited premises as reported. Due to space constraints and regulatory requirements concerning the storage of expired products, the items which were stored in the Medical Stores Limited warehouse were removed and placed in secure containers on MSL premises. The stock could only be destroyed after Board of Survey approval.

The expired drugs had since been disposed of in an appropriate manner. When asked whether documentation was available to confirm the destruction of the drugs, the Controlling Officer reported that the documentation was available.

c) Board of Survey to Facilitate Disposal of Expired Drugs/further Delays in Effecting Disposal

The appointment of the Board of Survey was a transparent and systematic way of ensuring that the expired drugs were disposed of in an acceptable manner. However delays did occur and the time taken was rather long.

The expired drugs had been disposed of in line with the recommendations of the Board of Survey.

He further submitted the following on the drugs supply chain:

Management, Procurement, Storage and Distribution of Drugs

The Government had put in place measures to ensure that the systems relating to the management, procurement, storage, distribution and dispensing of pharmaceutical products in the Public Health arena were strengthened year by year. This included entering into a management contractor with Crown Agents.

Demand led Distribution System

Medical Stores Limited distributed pharmaceutical products to all districts and government hospitals every month on a demand-led basis. All facilities served by MSL, therefore, only received those items which they themselves had ordered and which were available at MSL. MSL was not permitted to "push" items to health institutions.

Strict Stock Rotation

Further, MSL uses strict stock rotation systems to ensure that all products are distributed according to the First Expiry First Out (FEFO) rule. This ensured that products were distributed in strict order of expiry date, with the earliest expiry date always being distributed first.

Cooling Systems

Environmental conditions at MSL are appropriate for the storage of drugs and medical supplies – an extensive programme of renovations was underway to make further improvements of warehouse facilities through the installation of the cooling system.

Stock Monitoring System

Medical Stores Limited uses regular stock monitoring meetings to ensure that potential expiry problems were identified well in advance and communicated to the relevant programme managers at the Ministry of Health. Medical Stores Limited also made contact with all its clients when items were in danger of expiry before use – through this kind of contact and information dissemination, many expiry issues could be avoided.

Detailed Monthly Stock Report

Medical Stores Limited did send detailed monthly stock reports and analysis to the Ministry of Health for use in assessment of drug and medical supplies needs.

The major reasons for the expiry of the more than K24 billion worth of drugs and medical supplies were:

i) inherently unstable drug consumption rates;
ii) inflexible public procurement guidelines;
iii) lengthy lead times;
iv) unwanted or unplanned for donations;
v) programme restrictions – until recently, many agencies involved in buying drugs and medical supplies for use in Zambia placed restrictions on the use of the items they procured;
vi) changes of treatment protocols – changes to the treatment guidelines for certain diseases and conditions had, for sound clinical reasons, often been changed at short notice. This type of change inevitably resulted in stocks of medicines throughout the supply system suddenly becoming redundant;
vii) poor stock management in health facilities; and
viii) lack of early identification systems of unwanted products.

Observations and Recommendations

Your Committee note the submission and resolve that the Controlling Officer should invite officials from the Auditor-General's Office to confirm the measures that have been put in place to, among other things, monitor, store, distribute and dispose pharmaceutical products.

Conclusion

101. Your Committee wish to express their gratitude to you Mr Speaker and the Office of the Clerk for the invaluable guidance and support rendered to them throughout their deliberations. They further thank the Secretary to the Treasury, controlling officers, members of the Boards of Directors and management teams of the respective institutions for their cooperation.

Finally, they wish to acknowledge and show appreciation for the advice rendered to them by the Office of the Auditor-General and that of the Accountant-General throughout their deliberations.

C L Milupi, MP
CHAIRPERSON

OCTOBER 2007
LUSAKA