

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 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 Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee have the honour to present their Report on the Report of the Auditor-General on the Accounts for the Financial Year ended 31 December 2005.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held 16 meetings.

Procedure adopted by the Committee

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

Your Committee further undertook local tours of some government schools, projects and offices that had been queried by the Auditor-General.

EXECUTIVE SUMMARY

The Public Accounts Committee Report on the Auditor-General's Report on the Accounts for the Financial Year ended 31st December 2005 contains the findings of the Committee on nineteen (19) ministries, provinces and spending agencies (MPSAs) that were audited, which collectively had a total authorised expenditure of K7,725 billion. The audit exercise in a number of MPSAs did not necessarily cover the entire operations, but was focused on selected programmes, activities and projects that were undertaken in the year under review. The scope of the audit was, however, adequate to give a fair view of the state of affairs in the Public Service with respect to financial administration.

Findings

The major finding of the Committee is that rules and procedures in the public service are being ignored, and, in certain instances, conveniently so, resulting in the following:

- i) misappropriation of revenue - as can be observed in Table 1 at page 4 below, a total sum of K11.2 billion was misappropriated in 2005 in the nineteen MPSAs. The Ministry of Communications and Transport had the worst record. During the period under consideration, K5.5 billion was misappropriated. This was 30% of the actual revenue collections in 2005 which amounted to K18.5 billion;
- ii) misapplication of funds – K15.4 billion was misapplied in the nineteen MPSAs. This was 0.2% of the total authorised expenditure in the cited MPSAs. The Ministry of Communications and Transport, and Ministry of Health had the worst records. K5.2 billion which was 11% of the total authorised expenditure (K45.5 billion) for the Ministry of Communications and Transport was misapplied. At the Ministry of Health, K6.9 billion was misapplied representing 0.8% of the total authorised expenditure (K907.7 billion). Under the Office of the President, Southern Province Provincial Administration, K1.67 billion (94%) of the K1.78 billion meant for cattle restocking, was misapplied;
- iii) delayed banking;
- iv) misuse of Appropriation-in-Aid;
- v) loss of public funds through badly managed projects and programmes such as poverty reduction programmes;
- vi) loss of public funds through signing of contracts that clearly put government at a disadvantage especially through advance payments;
- vii) greater loss to the public through loss of opportunity by poorly completed projects, delayed project commissioning dates and cost overruns;
- viii) delayed or non retirement of imprest, collectively, the nineteen MPSA had K23.6 billion outstanding as imprest;
- ix) failure to manage Government properties in missions abroad;
- x) failure to avail auditors with accounting documents and non cooperation during the auditing process; and
- xi) failure to secure accountable documents.

On the revenue side, the Committee have found that the amount of tax arrears remains high. Despite a 6.8% reduction from the previous year, the 2005 figure stood at K2,558 billion. A major concern of the Committee, and for which the Secretary to the Treasury is highly recommended to address, is the

increasing amount of arrears attributed to Government institutions. For example, out of the total company tax arrears of K809.8 billion, K410.3 billion was attributed to four Government institutions. Similarly, for the total outstanding K50.7 billion in Custom and Excise duties, K44.5 billion was attributed to one parastatal.

The irregularities highlighted above are not peculiar to the period under review only. Most of them were mentioned in previous Public Accounts Committee Reports, which is another concern of the Committee. For the irregularities to be occurring every year means that corrective action is either not taken or if indeed it is taken, then it is not effective. Table II at page 6 below shows a summary of irregularities that various audit reports revealed for specific MPSAs that were audited for the period 2001 to 2005.

Way Forward

Your Committee observe that there is no single solution to minimise the financial irregularities that are obtaining in the Public Service. This situation can be improved through a combination of strategies involving the three arms of Government, civil society and the general public.

From the legislative angle, your Committee have recommended, among others, the following:

- i) stern disciplinary action should be taken against any public officer who acts, in the performance of their duty, contrary to the requirements of the *Public Finance Act* and the *Financial Regulations*; lack of disciplinary action is one of the major reasons why rules are flouted with impunity;
- ii) the Ministry of Finance and National Planning should employ more qualified officers to manage revenue collecting offices in the MPSAs;
- iii) the Ministry of Finance and National Planning should improve its Treasury management and ensure that the release of funds and implementations of programmes are synchronised;
- iv) the audit process should be used as a management performance tool; Controlling Officers should take corrective action immediately irregularities are brought to their attention; and
- v) there is need to improve on project management in the Public Service; Projects are one major leak through which public resources are being lost.

PART I

CONSIDERATION OF SUBMISSIONS

Audit Queries and Comments

Paragraphs 1 – 5

5. The Auditor-General reported that the Report on the audit of the accounts of the Government of the Republic of Zambia for the financial year ended 31st December 2005 was submitted to the President for tabling in the National Assembly in accordance with provisions of Article 121(4) of the Constitution of Zambia.

According to the provisions of Article 118(1) of the Constitution, the Minister responsible for Finance shall cause to be prepared and shall lay before the National Assembly not later than nine months after the end of each financial year, a Financial Report in respect of that year. However, contrary to the provisions of Article 118(1) of the Constitution, the Financial Report was not prepared as at the date of this Report. Consequently, the Outturn and Appropriation Accounts could not be prepared.

Co-operation with Office of the Auditor General of Norway

In paragraph 3 of the Report of the Auditor General on the accounts for the financial year ended 31st December 2004, mention was made of the cooperation between the Office of the Auditor General of Zambia and Office of the Auditor General of Norway. The cooperation has continued to date. To further enhance the quality of audit work and reports, in 2006, the Office of the Auditor-General - Zambia with the help of the Office of the Auditor General – Norway (OAGN) under the Restructuring and Institutional Development Project (RIDP II) financed by the Norwegian and Netherlands Governments, sensitised all staff on the Financial Audit Manual, Quality Control guidelines and working papers and developed draft Performance and IT audit manuals. Further, the OAGN donated forty (40) laptop computers to the Office. However, the agreement for this cooperation has expired.

Institutional Development

In paragraph 4 of the Report of the Auditor General on the accounts for the financial year ended 31st December 2004, mention was made that construction of the new Provincial Offices would be done in 2005 by the Cooperating Partners, through the Public Expenditure Management and Financial Accountability (PEMFA) programme. These construction works have commenced. With the exception of the Headquarters and Mansa Office, works have reached advanced stages in Chipata, Kasama, Mongu and Solwezi

Following Cabinet's approval of the restructuring of the Office and the expansion of the establishment from two hundred and fifty (250) to five hundred and seventy (570) in line with the new structure, four hundred and thirty nine (439) officers have been recruited to date.

In 2006, under RIDP II, capacity building continued and officers attended various training programmes.

In the area of enhancing the Office's independence, good governance and public awareness, under the same support, the Office participated in the Agriculture and Commercial Show and launched a newsletter and a website (www.ago.gov.zm) and sensitised some stake holders.

Scope and Audit Methodology

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

Parliament in its oversight responsibilities over the application of resources and execution of programmes by the Executive.

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

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

Previously, outstanding issues have been reported as an appendix to the Report. However, from this year and henceforth, a separate report on outstanding issues will be produced. This is in an effort to bring outstanding issues to the fore in order for corrective measures to be taken.

Limitation in Scope

Paragraph 6

6. It was reported that the execution of the audit programmes was limited by factors outside the control of the Office of the Auditor General. The main limiting factors are set out hereunder:

(a) Budgeting

In 2006, the Office proposed a budget of K18, 995,947,488 including an amount of K3, 000,000,000 in respect of donor funding through the Restructuring and Institutional Development Project. In the Appropriation Act, this was however reduced to K16,951,758,074 made up of K3,000,000,000 donor funding and K13,951,758,074 from Government. Of the K13, 951,758,074 from government, K8, 984,898,246 was for Personal Emoluments and K4, 966,859,828 was for office operations (Recurrent Departmental Charges). Hence the work plan for the year had to be reduced accordingly.

(b) Transport

Lack of transport imposed a very serious constraint on the operations of the Office. The Office has continued to operate with an old and unreliable fleet of vehicles. Though twenty-four vehicles were budgeted to be procured for the Office under the PEMFA programme in 2004 (11) and 2005 (13), only three (3) had been delivered as of 31st December 2006.

(c) Staffing

With the recruited new staff, the audit coverage increased in that one hundred and twenty (120) audits were undertaken as compared to one hundred (100) in 2005. However, the process of recruitment, induction and training was time consuming and negatively impacted on the operations of the Office.

Further, although one hundred and twenty (120) audits were undertaken, only forty five (45) as compared to twenty four (24) in 2004 are included in this Report as the quality of work was not yet up to the required standard and officers are undergoing on the job training.

Secretary to the Treasury's Submission

The Secretary to the Treasury commented as follows:

a) Budgeting

The concerns raised by the Auditor-General regarding under funding were correct and had been noted. In 2005, the total budget for the Office of the Auditor-General was K16.24 billion of which

K4.86 billion was donor component. This meant that Government budget was K11.38 billion. Total funding for the same period was K10.04 billion.

He did recognise the importance of the Office of the Auditor-General and the need for adequate funding but due to insufficient resources, the Office was under funded by K1.34 billion. However, although the donor component of the 2006 budget reduced from K4.86 billion in 2005 to K3.00 billion in 2006, the Government budget was increased from K11.38 to K13.95 billion.

As regards the under funding relating to the 2006 budget, efforts will be made to adequately fund the Office of the Auditor-General from the increased Government budget in 2007.

b) *Transport*

He noted with regret that the Office of the Auditor-General had few vehicles during the period when delivery of vehicles from PEMFA Secretariat could have been done in time. However, the PEMFA Secretariat was committed to delivering the vehicles as soon as the World Bank endorsed on the evaluation document. It was estimated that fifteen vehicles would be delivered by May 2007 and the other six vehicles would be delivered before the end of the year. In total twenty-one vehicles would be delivered in 2007.

c) *Staffing*

He appreciated that with the recruitment of new staff, there was an increase in the number of audits conducted in 2005 as compared to 2004. He was confident that with time and continued training programmes, audit staff would measure up to the required standards and be able to produce quality work in future.

Observations and Recommendations

Your Committee note the comments and re-emphasise the need for the Treasury to release allocations to the Office of the Auditor-General on a timely basis. Ultimately, the Office needs to be financially autonomous in order for it to play its role to the full.

Control, Management and Accountability for Public Funds

Paragraph 7

7. It was reported that according to the *Public Finance Act*, the Minister responsible for Finance shall, subject to the provisions of the Constitution and the Act, have the management, supervision, control and direction of all matters relating to the financial planning and the economic management of the Republic. The Minister is head of the Office of the Treasury established under the Act and shall make policy and other decisions of the Treasury except those delegated under section six (6) of the Act to the Secretary to the Treasury who shall exercise the powers of the Treasury. In exercising these powers, the Secretary to the Treasury designates in respect of each head of revenue of expenditure provided for in any financial year, an officer who shall be a Controlling Officer. The responsibilities of the Controlling Officers are outlined in section 7 (3) to (9) of the Act and include the preparation and submission of financial statements to the Auditor General for audit and certification before inclusion in the Financial Report. The audited financial statements are then submitted to the Secretary to the Treasury to enable him/her prepare the Annual Financial Report for tabling in the National Assembly by the Minister responsible for finance in accordance with the provisions of Article 118(1) of the Constitution of Zambia.

Secretary to the Treasury's Submission

The Secretary to the Treasury, in his response, stated that he had taken note of the comments on the responsibilities of the Ministry of Finance and National Planning, the Secretary to the Treasury, Controlling Officers and the Auditor-General.

Observations and Recommendations

Your Committee note the submission.

Internal Control

Paragraph 8

8. The Auditor-General reported that previous annual audit reports had highlighted ineffective internal control systems obtaining in Ministries and Departments. The Public Accounts Committees had also called upon the Ministry of Finance and National Planning to improve the internal control mechanisms in the Government. In this regard, the Ministry had assured the Committee that measures were being taken to address the situation especially following the restructuring of many government ministries and departments. However, despite the assurances made, it has been observed that cases of misappropriations, lack of reconciliation of bank accounts and unretired imprest, losses of stores, awarding of contracts without evaluating the capabilities of contractors, poor project management resulting in Government paying huge amounts of interest and penalties and delayed implementation of projects and failure to follow procurement guidelines are still prevalent as reflected in this Report.

In the course of audit it was also observed that there were delays in the banking of revenue collections, and in some cases, where revenue was banked, there was no evidence that the monies were credited to Control 99 at the Bank of Zambia and captured by the Ministry of Finance and National Planning.

Secretary to the Treasury's Submission

The Secretary to the Treasury replied as set out below.

The Auditor-General's concerns on the need to further strengthen the Internal Controls had been noted.

Progress had been made in strengthening accounting systems and internal controls stipulated in the Public Finance Act and the Financial Regulations.

Integrated Financial Management and Information System (IFMIS)

Progress had been made on the implementation of IFMIS. The Government signed a contract with the supplier in 2006.

The IFMIS Project Team had drawn up a road map showing the logistics which included details on piloting of eight sites / MPSA in the period 2008/09.

Revised Financial Regulations

Copies of the revised Financial Regulations were printed in January 2007, under the PEMFA Reform Programme. All Controlling Officers were instructed to collect copies of the Regulations in February 2007.

Audit Committees

Twenty Audit Committees had so far been established in Ministries, Provinces and Spending Agencies (MPSAs).

There were, however, some problems in having the full complement of Audit Committees in some MPSAs particularly regarding representatives of the Zambia Institute of Certified Accountants and the Law Association of Zambia.

Revenue

Other than the strengthening of the Revenue Monitoring Unit under the Office of the Accountant-General, some Provincial Revenue Monitoring Teams had been set up in MPSAs to ensure that all the revenue provisions in the revised Financial Regulation were effectively implemented.

Capacity Building

In the years 2005 and 2006, about 160 revenue collectors were trained in financial management and good practices in collections, receiving and banking of revenue. It was anticipated that 600 revenue collectors would be trained in 2007 with the help of cooperating partners under the PEMFA Reform Programme.

Treasury and Cash Management

The Treasury was in the process of establishing a Treasury and Cash Management Department with the assistance of the cooperating partners by June 2007.

The Secretary to the Treasury had since issued Treasury and Cash Management circulars to all Controlling Officers in line with the provisions in the *Public Finance Act*.

During his appearance before your Committee, the Acting Secretary to the Treasury added that the Ministry was prompted to establish the Treasury and Cash Management Department after observing that MPSAs were hoarding funds in commercial banks and Government was borrowing the same funds. Treasury functions were also presently being undertaken in a haphazard manner. There was therefore need to smoothen the operations. The new arrangement would enable MPSAs to request funds when they were ready to spend.

Observations and Recommendations

Your Committee appreciate the measures that the Ministry of Finance and National Planning has taken to improve accountability both in raising revenue and expending public funds.

Your Committee submit that unless disciplinary action is taken against any erring officer both at supervisory and operative levels, the measures will not yield any positive results. The audit reports clearly show that public service workers do not care much about rules and procedures.

Your Committee therefore, challenge the Secretary to the Treasury to make public service workers realise that it was an offence not to follow the provisions of the *Public Finance Act* and *Financial Regulations*.

They further urge him to deploy more qualified accounting officers in revenue collecting ministries and departments otherwise the highlighted irregularities will not reduce.

Some of the issues that the Auditor-General brought can be avoided if the internal audit function is performing well. They advise the Secretary to the Treasury to strengthen the internal audit function in all Government ministries and departments.

On the establishment of the Treasury and Cash Management Department, your Committee advise that greater motivation should be to synchronise and match revenue generation to spending requirements to ensure that capital projects are completed on time and stop government losing vast sums of money through penalties, interest and opportunity losses.

GENERAL REVENUES

Revenue Collections – ZRA

Paragraph 9

9. In paragraphs 13 to 15 of the Auditor General's report for the financial year ended 31st December 2004, mention was made among others of the failure by Zambia Revenue Authority (ZRA) to collect tax arrears from defaulters, delays in crediting revenue to control 99, non remittance of interest earned on repayment/refund accounts to control 99, refer to drawer cheques which had not been replaced and misappropriation of revenue by some members of staff. An audit carried out in February 2006 revealed that the weaknesses have persisted as detailed below.

(a) **Tax Collections**

During the year 2005, ZRA's gross revenue collections totalled K6, 642,683,268,233 compared to K5, 491,730,554,141 collected in 2004 representing an increase of 21% from the year 2004.

Although the ZRA had an overall surplus collection of K10,443,268,233, there was a total net deficit of K125,212,747,791 against a total target of K2,741,000,000,000 in respect of Import Duty, Pay as You Earn and Withholding Tax and other taxes as shown below:

Tax Type	Profile	Net Collections	(Deficit)
	K	K	K
Import Duty	764,700,000,000	656,228,491,898	(108,471,508,102)
PAYE	1,732,800,000,000	1,718,651,874,582	(14,148,125,418)
WHT & Other Taxes	243,500,000,000	240,906,885,729	(2,593,114,271)
TOTAL	2,741,000,000,000	2,615,787,252,209	(125,212,747,791)

(b) **Tax Arrears**

A review of tax arrears revealed that a total of K2, 557.66 billion was outstanding as at 31st December 2005 compared to K2,743.76 billion outstanding as at 31st December 2004 representing a decrease of 6.8%. Details of the movements in tax arrears by type are shown below:

	2005	2004
	K' billion	K' billion
Company Tax	809.83	386.33
Back duty	0.59	0.21
Self Employed	91.42	92.79
PAYE	286.73	331.09
Customs & Excise	50.74	84.65
Domestic VAT	1,318.35	1,848.69
TOTAL	2,557.66	2,743.76

Although there was an overall reduction in arrears, company tax arrears increased from K386.33 billion in 2004 to K809.83 in 2005 representing an increase of 109.6% while back duty arrears increased from K0.21 billion to K0.59 billion representing an increase of 180.9%.

A further scrutiny of records revealed that the total outstanding arrears of K2,557.66 billion included among others the following:

(i) *Collections against Value Added Tax (VAT) Assessments*

Out of the VAT assessment amounting to K17,076,543,043 made during the period under review, K1,772,728,601 was collected and K1,806,232,200 was agreed to be paid under Time to Pay Agreements. It was not clear whether and how the balance of K13,497,582,242 would be collected.

(ii) *Warrants of Distress issued but not executed*

According to the VAT Act of 1995, tax and any interest due is a debt due to the Republic and has to be recovered. In this regard, any authorised officer may, under warrant by the Commissioner General levy distress upon goods and chattels of the defaulter. Such goods or

chattels may be sold by public auction if the defaulter fails to pay the amounts due. Records examined revealed that 92 warrants of distress were issued in 2005 for taxes amounting to K5,723,351,327. However the defaulters' goods had not been detained and subsequently auctioned by the ZRA so as to recover the debts. In this regard, the defaulters were still using the goods contrary to the provisions of the Act.

In response, the Commissioner General stated that the disposal procedure was being reviewed to ensure that when warrants of distress were issued, they were actually executed and goods sold.

(iii) *Value Added Tax arrears- Closed or Liquidated Companies*

In paragraph 13 (b) (i) of the 2004 report mention was made that K2,232,039,562 was owed by 82 companies in VAT. A review revealed that 24 companies which had closed down owed the Zambia Revenue Authority amounts totalling K4,808,217,017 in VAT as of March 2006.

Inquires revealed that these amounts are not likely to be recovered as no follow up had been made with the companies' liquidators.

(iv) *Outstanding Parastatal Debt*

As of 31st December 2004, twenty nine (29) quasi government institutions owed a total amount of K84, 626,693,274 which increased by K7, 558,483,783 bringing the total to K92, 185,177,055 as of 31st December 2005. It was noted that although the companies were submitting returns, they were not making any payments. As of August 2006, the Authority had not taken stringent measures to recover the money.

(v) *Uncollected Corporation Tax*

Contrary to Income tax Act Chapter 323, Corporation tax in amounts totalling K30,706,763,471 remained uncollected from thirty five (35) companies as of May 2006.

It was further noted that in some cases the arrears have been outstanding from as far back as 1997.

(vi) *Non Remittance of PAYE*

Records examined revealed that as of 31st March 2006, twenty one (21) companies had not remitted PAYE amounting to K60, 230,335,361, contrary to the provisions of the Act.

In response, the Commissioner General stated that all such cases had been referred to the Internal Debt Collection Unit for enforcement.

(vii) *Failure to send Tax Quantifications and Tax Irregularities to the Debt Collection Unit (DCU)*

Quantified tax is tax that an institution deducts from its employees but fails to remit it to the ZRA. Tax on irregularities refers to tax not deducted from employees on certain taxable allowances. This is discovered after carrying out a PAYE audit of an institution.

A comparison made between cases sent to the DCU and cases purported to have been sent to the DCU by the Tax Central Unit of ZRA revealed differences. As a result, outstanding quantified tax and tax on irregularities amounting to K16, 387,818,682 and K1, 488,660,618 respectively were not wholly sent to DCU for recovery. In this regard, only cases amounting to K4, 993,354,499 were sent.

(c) *Central Cash Office*

(i) *Unsupported Cancelled Receipts*

Contrary to the provisions of the Financial Regulations, fifty (50) cancelled receipts in amounts totalling K827, 307,177 issued to tax payers during the period from February to November 2005 were not supported by original receipts.

(ii) *Unreplaced Refer to Drawer Cheques*

During the period under review, a total of four hundred and thirty nine (439) cheques amounting to K14,918,400,420 were referred to the drawers. As of September 2006, three hundred and six (306) cheques amounting to K13,984,456,988 had been replaced leaving a balance of one hundred and thirty three (133) cheques amounting to K933,943,432 not replaced.

Delayed Remittance to Control 99

According to agreements between ZRA and commercial banks, money deposited in commercial banks is supposed to reach the Bank of Zambia within four (4) days for banks within Lusaka, five (5) for banks along the line of rail and seven (7) days for banks in other towns. Any bank that fails to meet these requirements is charged interest at the Bank of Zambia mid rate.

During the period under review, Zambia National Commercial Bank (ZNCB) delayed remitting revenue amounting to K7,511,576,190 to Bank of Zambia for periods ranging from eight (8) to fifty seven (57) days. It was observed that although ZNCB was supposed to pay interest charge as penalty for the delayed remittance, as of August 2006 the interest had not been paid. It was also noted that ZNCB had charged an amount of K2, 850,633 as bank charges on revenue deposits for the same period contrary to the banking arrangement.

(d) *Treasury Department*

The Authority maintained one hundred and thirty seven (137) bank accounts with commercial banks at all revenue-collecting points where daily tax revenue collections are banked for onward transmission to the Bank of Zambia. Each station is required to submit source documents such as deposit slips, daily revenue cashbooks and station returns on a weekly basis to the ZRA Headquarters Treasury Department. The Department in return reconciles each station's accounts against commercial bank statements.

It was observed that out of the one hundred and thirty seven (137) bank accounts, only twenty (20) accounts had been reconciled as of May 2006. A further scrutiny of bank reconciliation statements revealed unresolved unidentified credits and debits totalling K12,630,165,761 and K222,004,764 respectively. It was noted that some of the items had been outstanding since 2001 and no explanation was provided.

(e) *Garnishee Orders*

A Garnishee is an instrument used to collect debt that targets a taxpayer's source of income which can be served on a bank or a major client of the taxpayer.

In paragraph 13 (b) (iii) of the Auditor General's report for the year ended 31st December 2004, mention was made of the failure by the Authority to collect a total amount of K5,967,113,946 involving five (5) cases after garnishee orders had been served.

A review of the situation in 2006 revealed no improvements in that the amount of K5, 967,113,946 owed as at 31st December 2004 were outstanding. In addition, there were thirty-seven cases involving an amount of K8, 210,188,140 that had not been recovered after Garnishee Orders had been served for the year ended 31st December 2005.

(f) *Interest Earned on Tax Repayment/Refund Accounts*

In paragraph 13 (d) of the Audit Report for the financial year ended 31st December 2004, mention was made of the delays by the Authority in remitting a total amount of K2,137,668,876 that was earned as interest on four (4) payments accounts to control 99 at the Bank of Zambia.

A review of records for the period January to December 2005 revealed that the practice had continued. It was noted in this regard that a total of K3,854,942,588 had been earned as interest on the VAT refund, Direct tax refund, Duty Draw Back and the Customs General Deposit accounts.

Out of the total interest earned, K3,085,310,001 was remitted to the Bank of Zambia, K115,436,333 was transferred to the ZRA operational account contrary to Financial Regulations while the balance of K654,196,253 was still held by the ZRA and not credited to Control 99 as of August 2006.

(g) Debt Collection Unit

Although the DCU was created so as to make active follow up on all outstanding cases, it was observed that in most cases the Unit delayed in making follow ups. As a result, a number of cases had not been resolved as of August 2006 as shown below:

No. of Cases	Status	Amount Outstanding ZK
47	Missing Taxpayers	178,140,505
62	Under Objection	774,867,420
2	Liquidated/Closed	503,823,233
47	Pending Removal	270,185,446
28	Unvisited Taxpayers	369,289,696
70	Quasi Government	9,746,643,270
2	Time-to-Pay Agreement	5,041,048,851
		16,883,998,421

It was not clear as to whether some of the above debts will be recovered as some tax payers sent to the DCU as far back as May 2005 remained unvisited as of August 2006.

Secretary to the Treasury's Submission

The Secretary to the Treasury in response submitted as set out below.

a) Tax Revenue Collections

The tax revenue collected in 2005 had increased by 21.2% from the year 2004.

Revenue Surplus

Import VAT – The surplus was attributable to the revocation of concessions to the major mines, increase in motor vehicle imports (during 2005, a total of 18,137 vehicles were imported with a corresponding revenue yield of K103.7 billion compared with 14,540 vehicles and K92 billion in 2004), increased revenue from cellular mobile telephones and machinery importations by Zambian Breweries and the mines for their capitalisation programmes during the year.

Company Tax – The surplus of K12 billion was due to an unexpected outturn with contributions from the mining sector and banking institutions.

Extraction Royalty – The good performance of extraction royalty was attributed to outstanding performance of mineral royalty as driven by collections from the mines.

Domestic Value Added Tax

The tax exceeded the profile mainly due to strong performance in business activity in the following sectors that posted growth rates of above 24 percent:

- (i) coal and petroleum;
- (ii) finance and insurance;
- (iii) agriculture;
- (iv) transport storage and communication; and
- (v) mining and quarrying.

Revenue Deficit

i) Excise Duties

As earlier mentioned, the K720 million target profile included fuel levy and motor vehicle licence fees. The actual collections for these tax types amounted to K173, 459,493,632 and K3, 554,805,580 respectively. What this meant therefore was that the net collection was K774,425,415,134 and not K597,411,115,922 thereby giving a final result of K5,457,802,516 as a surplus. The reasons for this positive performance were as earlier explained.

ii) Import Duties

The performance of this tax type was correctly stated. Reasons for the under performance included reduced revenue yield from petroleum products during the period when the duty was suspended on crude oil and introduction of Statutory Instrument No. 54 of 2005 that suspended customs duty and reduced excise duty rates on petroleum imports. Further, the appreciation of the Kwacha over the period impacted negatively on the import duty performance. While the projected rate was K5,400, the closing rate was K3,600 to a US dollar.

iii) Pay as you Earn (PAYE)

The non-payment by some major employers and partial remittances from others had resulted in the deficit. For instance as at 31st December 2005, the following amounts still remained unpaid;

ZAMTEL - K19.9 billion
 ZESCO - K29.6 billion

iv) Withholding Tax and Other Taxes

The performance did not respond in full to the baseline parameters. For instance interest and dividends, being the major tax types, all had deficits. Interest deficit was attributed to a combination of a downturn in interest rates and maturities.

b) Tax Arrears

Company Tax

The major increase in company tax arrears was attributed to the charging of penalties on most outstanding arrears as at 31 December 2005.

An example of notable amounts is tabulated below:

Company	Principal Tax	Penalty Charged	Total Tax & Penalty	% Change
Lusaka Water	10.5 billion	5.3 billion	15.8 billion	50%
FRA	19 billion	5.7 billion	24.7 billion	30%
ZCCM	24 billion	4.8 billion	28.8 billion	20%
ZESCO	231 billion	110 billion	341 billion	48%
Total Analysed	284.5 billion	125.8 billion	410.3 billion	44%

Back Duty

Some cases were at the Revenue Tribunal resulting in prolonged settlement of objections. Such cases could not be sent for enforcement until after the case was settled. Additionally back duty tax amounting to K205 billion by Mopani Copper Mines was under objection.

Self-employed – there had been a slight reduction in self-employed debt arrears from K92.79 billion to K91.42 billion due to enforcement efforts. The authority was continuously analysing these debts to ensure collectable debts were enforced.

PAYE- The arrears through enforcement efforts had been reducing. Of the K286.7 billion, over half of the accounts were for parastatals such as RAMCOZ, K75 billion, ZAMPOST K11 billion and Times Printpak K5 billion. The Direct Taxes Division was in the process of recommending for remission of debt for companies that had gone into liquidation and were unable to pay. For some parastatals, time-to-pay-agreements had been signed to enforce the debt.

Customs and Excise- The K50.74 billion tax arrears consisted of ZAMTEL K44.54 billion and K6.2 billion assessments on opaque beer breweries. ZAMTEL had so far paid K17.1 billion. Collections on the opaque beer assessments had been minimal, about K149.0 million had since been paid. The outstanding court issues in the industry had made enforcement difficult.

Domestic Value Added Tax – Domestic VAT arrears were made up of return amounts, assessments, interest, penalties and in some cases estimated liabilities. Penalties and estimated liabilities constituted a significant portion of the debt. Most of the penalties and estimated liabilities related to businesses that had since ceased being VAT registered suppliers and were pending deregistration, missing taxpayers, closed companies and parastatal companies. The Authority had to continue reflecting outstanding amounts relating to pending deregistration and missing traders as the law does not currently provide for write-off of VAT liabilities. The other debt relating to parastatal and road contractors was actively being pursued with the respective Parastatals and the Ministry of Finance and National Planning respectively. The Authority had, however, stepped up the monitoring and management of the various aspect of compliance, including filing and payment compliance for all VAT registered suppliers.

(i) *Collection against Value added Tax Assessments for 2005*

The Debt Collection Unit did not have jurisdiction to collect for out-of-station cases. The Debt Collection Unit's operations were confined to Lusaka.

For the pending removal cases of K779,332,136, in 2005 warrants of distress were served but removals could not be executed due to limited storage space.

For the quasi government institutions, the Government funded these and due to cash flow problems they had been unable to pay. These accounted for K6,319,327,018.00

The time-to-pay agreements amount of K290,287,780.01 related to taxpayers that had made formal arrangements to pay their tax arrears in instalments and this amount was being reduced through their agreed instalments.

(ii) *Warrants of Distress Issued but not Executed*

Ninety-two (92) warrants of distress were issued in 2005 for taxes amounting o K5, 723,351,327.61 but removals could not be conducted due to limited storage space. According to Section 26(3) of the *Value Added Tax Act*, and Section 79A (3) of the *Income Tax Act* and Section 170 (6) of the *Customs and Excise Act*, once the warrant of distress was issued the taxpayer bears all the costs relating to the seizure such as storage, labour, transportation and any other incidental costs.

Therefore, where the Debt Collection Unit discovered that the value of the taxpayer's assets was low in relation to the cost of removals or where they did not have sufficient storage space in their warehouse, the assets were kept at the taxpayers premises. In this way, the taxpayer incurred the storage costs.

The disposal procedure was currently under review to ensure that more auction sales were conducted in order to free up storage space.

(iii) *Value Added Tax – Outstanding Debt Owed by Closed or Liquidated Companies*

Cases of this nature referred back to the Division by Debt Collection Unit had to be carefully investigated to establish their status as some may resort to registering a different company or simply stop submitting returns after relocating to different premises and ended up “missing” (cannot immediately be located) to evade tax. The verification process took time due to their “missing” nature. Efforts were continuing to try and locate them for enforcement purposes.

(iv) *Outstanding Parastatal Debt*

Efforts to reduce the outstanding debt that included corresponding as well as holding meetings with concerned parastatals were continuing.

(v) *Uncollected Corporation Tax*

Of the thirty-five companies, seven were under objection or appeal were settled or partially settled by respective offices. Aquilla Printers paid the outstanding amount while two cases were under time-to-pay agreements. The other cases were being reconciled before revisits.

(vi) *Non-remittance of PAYE by 21 Employers*

Out of the 21 indicated, the following movements were reported:

Activity	No.	Amount
Fully/partly paid	2	0.6 billion
Quasi Government	4	
Reconciliation	8	
Revisits/MTP etc	5	
Time-to-Pay	2	48.28 billion

(vii) *Failure to Send Tax Quantification and Tax Irregularities to Debt Collection Unit (DCU)*

The debt that was sent to DCU was the debt that was available at the time of sending the cases. The cases were subsequently sent on different dates when the cases were next reviewed.

c) **Central Cash Office**

(i) *Unsupported Cancelled Receipts*

Some more of the original receipts indicated on the schedule had been located and dispatched to tax payers. The process of getting correct receipts to taxpayers and retrieving ones earlier given was still in progress.

(ii) *Un-replaced refer to Drawer Cheques*

From the balance of K933,943,431.88 the Debt Collection Unit had since replaced cheques amounting to K23,684,825.76 leaving a balance of K910,258,606.12. The details of the current position was as shown below:

Remarks	Direct Tax (ZK)	VAT (ZK)	Grand Total (ZK)
Company closed	7,680,336.45		7,680,336.45
Computation error		48,498,377.00	46,496,377.00
Insufficient Address	8,065,880.75		6,065,880.75
Missing taxpayer	30,678,494.70	10,714,839.78	41,393,334.48
Out of town	4,108,566.30	200,444,731.36	204,553,297.66
Out Station	20,323,714.00	4,721,446.00	25,045,160.00
Quasi Government	485,889,743.42		485,889,743.42
Referred to Legal Counsel		6,363,116.00	6,363,116.00
Revisit	30,002,497.00	56,768,883.36	86,771,380.38
Grand Total	584,749,212.62	325,509,393.50	910,250,606.12

- (iii) *Delayed Remittance to Control 99 and Deduction of Bank Charges*
Follow up with the Bank had been made on the payment of interest charged for delayed remittance and they were still awaiting their response.

Whenever the bank charges were charged on the revenue collection accounts, the Bank reversed these each time they wrote to them. The amounts shown on the schedule related to monthly totals that could only be verified when details of the individual accounts were provided.

d) *Treasury Department*

From May 2006 to November 2006, eighty-four bank accounts had been reconciled. The exercise was continuing to bring these up to date.

Treasury had written to the commercial banks for them to provide details for the unresolved unidentified credits and debts, so far responses had been very slow and follow-up had been made through letters, e-mails and visits to the banks. They were yet to receive the remaining details.

Unidentified reconciling items were due to classification differences between the banks records and their records. The reconciliation was in progress and the response would be given once this was finalised. They had written to the banks to provide details of the unidentified amounts and they were yet to receive the details to enable them complete the task.

Meetings had also been held with both Finance Bank and ZANACO to ensure the old reconciling items were cleared from the reconciliation. They were yet to get back to them after the agreed time frame.

e) *Garnishee Orders*

Garnishes can only be disposed of if the garnished party still owed the defaulting taxpayers. Some garnishees could, therefore, remain outstanding due to the fact that the garnished party had no outstanding obligations to the defaulting taxpayers. However, there was need to review all outstanding garnishee orders as held by the various enforcement units that handle VAT debt to determine the appropriate reasons. The comment with regard to garnishees on banks was valid also in these cases.

f) *Interest Earned on Tax Repayment / Refund Accounts*

The interest was remitted to the Ministry of Finance and National Planning after correspondence with the Ministry as was evidenced by the transfer of K3, 085,310,001 in May 2005. The interest earned in January 2004 of K115, 436,333.93 was utilised before the letter was received from the Ministry requiring that the interest for the period be transferred. They also did not receive specific instructions for the transfer of the interest.

g) *Debt Collection Unit*

The Secretary to the Treasury acknowledged that sometimes there were delays in sending cases to Debt Collection Unit for follow up because the extraction of arrears was being done manually. The charging of penalties and interest was also being done manually. When the compliance function on ITAS was run, penalties would be charged electronically hence would lessen delays in sending cases to DCU. The position as of 18th December 2006 was as follows.

Current position as at 18/12/2006

Sum of Tax due	Tax Type	
Remarks	PAYE (ZK)	Grand Total (ZK)
Liquidation	623,700,144.33	623,700,144.33
Missing Taxpayer	211,491,115.30	211,491,115.30
Out of town	1,743,225.00	1,743,225.00
Pending removal	101,811,216.95	101,811,216.95
Quasi Government	9,746,643,270.07	9,746,643,270.07
Under objection	1,139,337,550.48	1,139,337,550.48
Unvisited	3,045,478.85	3,045,478.85
Garnishee	1,860,000,000.00	1,860,000,000.00
Revisit	3,181,048,851.00	3,181,048,851.00
Grand Total	16,868,820,851.98	16,868,820,851.98

Your Committee expressed their concern to the Acting Secretary to the Treasury on the apparent breakdown in the financial system. The Acting Secretary to the Treasury admitted that in a number of cases, Controlling Officers were not enforcing rules. To improve the situation, particularly in the pre-IFMIS period, the Secretary to the Treasury had commenced holding quarterly meetings for all Controlling Officers where some of the shortcomings could be addressed.

Observations and Recommendations

Your Committee note the explanations and recommend as follows:

a) *Tax Revenue Collections*

The Secretary to the Treasury should look into the issue of why major employers such as ZESCO and ZAMTEL are failing to remit PAYE on time.

b) *Tax Arrears*

Your Committee note the slight reduction of 6.8 percent in the tax arrears. They request the Secretary to the Treasury to achieve a higher reduction considering that the economic climate under which business entities are operating is relatively conducive.

i) *Collections against VAT Disbursements*

Considering that the DCU does not pursue cases outside Lusaka, your Committee call for introduction of an additional mechanism to pursue out-of-town cases. In addition, the Secretary to the Treasury is urged to put in place measures aimed at reducing the indebtedness of Government institutions.

ii) *Warrants of Distress issued but not Executed*

While appreciating the limitation of storage, what is required is a mechanism that will ensure that seized goods that are stored at a defaulting taxpayer's premises are not used during the period of seizure. They urge the Secretary to the Treasury to ensure that this is in place.

iii) *VAT – Outstanding debt owed by closed or liquidated companies*

As efforts continue to pursue the outstanding debt, they advise the Secretary to the Treasury to seek legal opinion on the adequacy of laws regulating the operation of companies. If company owners can evade tax by liquidating the defaulting company and register another, or simply relocating, then the laws need to be reviewed.

iv) Outstanding Parastatal Debt

Your Committee reiterate their earlier recommendation for the Secretary to the Treasury to find a way of reducing the indebtedness of Government institutions.

v) Uncollected Corporations Tax

Your Committee are concerned on the pace at which reconciliations are being conducted especially that some cases have been outstanding since 1997. They, therefore, urge the Secretary to the Treasury to ensure that the 26 remaining cases are dealt with in the shortest possible time.

vi) Non-Remittance of PAYE by 21 Employers

Your Committee observe that although the progress on the four companies will result in 81 percent reduction in the uncollected tax from the initial 21 companies, the pace at which individual cases are being dealt with is not impressive in that there has been only 19 percent progress. They, therefore, recommend that the Secretary to the Treasury ensures that cases that are not under dispute are dealt with expeditiously.

vii) Failure to send Quantified Tax Contributions and Tax Irregularities to the DCU

Your Committee advise the Secretary to the Treasury to ensure that differences on outstanding quantified tax and tax irregularities are reconciled.

c) Central Cash Office

i) Unsupported Cancelled Receipts

Your Committee strongly urge the Secretary to the Treasury to ensure that regulations on cancelled receipts are followed. The absence of originals on cancelled receipts points to fraud. They further urge the Secretary to the Treasury to ensure that the matter involving the fifty missing cancelled original receipts is adequately dealt with.

ii) Un-replaced Refer to Drawer Cheques

Your Committee note that 53 percent of refer to drawer cheques on the outstanding balance of K910.2 million are from quasi-government institutions. This underscores their earlier recommendation that the Secretary to the Treasury ensures that the problem of indebtedness of Government institutions to the ZRA is addressed.

iii) Delayed Remittances to Control 99

Your Committee recommend that the details of the reversal of the interest charged of K12.8 million be forwarded to the Auditor-General for verification.

They further urge the Secretary to the Treasury to see to it that any bank that delays remitting revenue to Control 99 is penalised. They, therefore, request that progress be reported on the case involving Zambia National Commercial Bank for the delay of remitting K7.5 billion.

d) Treasury Department

Your Committee is concerned at the pace at which reconciliation is being done. Delayed reconciliation has the potential of perpetuating fraudulent activities. They, therefore, recommend that the Secretary to the Treasury ensures that reconciliation is expedited so that outstanding cases can relate to reasonable periods preferably 6 to 12 months and not 6 years.

e) Garnishee Orders

Your Committee request an update on the review exercise on outstanding garnishee orders.

f) Interest Earned on Tax Repayment /Refund Accounts

Your Committee urge the Secretary to the Treasury to make guidelines on the remittance of interest clear. It appears that interest is only transferred upon the Ministry of Finance and National Planning requesting so.

g) Debt Collection Unit

Your Committee request an update on the commissioning of the ITAS function meant to among other things improve follow-ups by the DCU.

FEES OF COURT OR OFFICE

MINISTRY OF HOME AFFAIRS
Zambia Police

Paragraph 10

Weaknesses and Irregularities in Accounting for Revenue, Zambia Police

10. The Zambia Police Service collects revenue from fingerprinting fees, issuance of firearm licenses and Traffic fines, among others. During the financial year ended 31st December 2005, an estimate of K3,098,127,000 was made in the Estimates of Revenue and Expenditure out of which K2,678,810,763 was collected resulting in under collection of K419,316,237.

An examination of records relating to collections of revenue for the period January 2005 to August 2006 at Police Headquarters and other selected Police Stations in Lusaka, and a review of internal audit reports revealed the following:

(a) Headquarters

(i) Unaccounted for Revenue

Revenue in amounts totalling K215,695,400 collected between June 2005 and August 2006 was not accounted for contrary to Financial Regulations.

(ii) Collections not Credited to Control 99

A test check of deposit slips for the period January 2005 to August 2006 revealed that out of K1,503,493,200 purported to have been banked in Control 99, amounts totalling K976,661,400 were not credited to Control 99 and the deposit slips relating to the K976,661,400 had a fake Bank of Zambia stamp.

(iii) Delayed Banking

Amounts totalling K108,668,000 collected during the period January to June 2005 were delayed in banking for periods ranging from two (2) to thirty (30) days.

Test checks conducted at various Police Stations and a review of Internal Audit reports revealed that the situation was similar to that obtaining at Headquarters as tabulated below:

Station	Over-banking ZK	Delayed Banking (ZK)	Under Banking ZK	Misappropriation ZK
Lusaka Central	-	194,833,000	1,027,500	--
Lusaka Division	3,884,500	162,285,500	-	53,152,500
Emmasdale	1,361,400	159,247,000	-	-
Woodlands	-	114,565,500	-	385,000
Kabwata	-	114,422,500	1,378,000	-
Chelstone	-	57,132,000	11,368,400	1,008,000

Matero	4,087,000	108,226,000	-	-
Manda Hill	459,500	94,567,500	-	-
Mindolo	-		-	19,977,000
Mufulira	-		-	8,458,000
Kalomo	-		-	24,269,500
Choma	-		-	5,116,000
Pemba	-		-	1,892,000
Kafue	-		-	23,658,000
Mkushi	-		-	771,000
Kapiri Mposhi	-		-	1,341,500
Mpulungu	-		-	3357000
Mongu Division	-		-	13,703,506
Mongu Central	-		-	7,865,000
Sesheke	-		-	2,683,000
	9,792,400	1,052,279,000	13,773,900	167,637,006

As can be seen from the table above, revenue collections totalling K1,005,279,000 were banked late, K13,773,900 was not banked and was not on hand, and amounts totalling K167,637,006 were misappropriated.

The review of Internal Audit report also revealed that there were twenty seven general receipt books that were missing in respect of three Police Stations (Kafue Police Station – 10, Kabwe Central Police Station – 11, Mpika Police Station – 6). It was therefore not possible to ascertain how much revenue was collected on the receipts.

(iv) *Appropriation -In -Aid*

According to the guidelines on accounting of non-tax revenue and Appropriation-In-Aid issued by the Ministry of Finance and National Planning in March 2006, only ministries and departments that have been approved by Parliament shall have the authority to appropriate part of the revenue collected as per ceilings set by Parliament. Appropriation-In-Aid shall start on 1st April and end on 30th November during each fiscal year. Approved ministries or departments shall appropriate funds for programmes or activities relating to revenue operations. Total provisions of K2,797,098,981 were made in the Estimates of Revenue and Expenditure for the two financial years 31st December, 2005 (K1,072,500,00) and 2006 (K1,724,348,981) as Appropriation-in-Aid. It was revealed during the audit in May 2006 that:

- A total amount of K4,456,441,794 was spent during the period under review resulting in spending K1,659,342,813 above the amount approved as Appropriation- in- Aid.
- During the period January 2005 to August 2006, amounts totalling K1,036,268,815 were spent on activities such as procurement of air tickets, imprest, motor vehicle repairs, printing materials, house rentals among others which were not associated with enhancing revenue collection, contrary to the guidelines.

The Controlling Officer's Submission

The Controlling Officer explained that the under collection was due to the fact that the estimate was based on a number of assumptions which did not work in their favour.

i) *Unaccounted for Revenue*

The Controlling Officer informed your Committee that the officer involved was charged and the matter had been reported to the police who had since arrested the officer.

ii) *Collections not Credited to Control 99*

The Controlling Officer explained that this matter involved the same officer in (i) who was facing disciplinary action.

iii) *Delayed Banking*

The findings on delayed banking were correct. During the said period, there was a pending decision that was to be passed as to whether revenue collected should be deposited direct to Control 99 or in the Transit Account for appropriation purposes.

The auditors' findings about the amount of K1,005,279,000 being banked late was true. This was due to the same reasons given above.

However, the K13,773,000 purported not to have been banked was banked. The discrepancy was due to the additions when comparing the receipts against the deposit slips.

The amount of K167,637,006 was misappropriated as a result of misunderstandings of appropriation guidelines resulting from a workshop organised by Ministry of Finance and National Planning on Appropriation of Funds. As a result of this police stations started spending without written guidelines from the Ministry of Finance and National Planning. The funds were used for the purchase of fuel, stationery and coffins. The practice has since been stopped.

On the 27 receipt books, the Controlling Officer reported that they were not missing; officers in the various police stations did not update their Registers of Accountable Documents. The documents have since been updated and were available for verification.

iv) *Appropriation-in-Aid*

The Controlling Officer reported that a supplementary provision warrant was done to cover for the over expenditure. All the activities funded out of the K1,036,268,815 as pointed out by the auditors were associated with revenue collections except two (2) payments of K70,000,000.00 and K40,000,000.00 which were paid to Air Masters Travel and Tours for air tickets. However, a total amount K110,000,000.00 has been paid back into Appropriation in Aid Account.

Observations and Recommendations

Your Committee observe and recommend the following:

a) *Headquarters*

i) *Unaccounted for Revenue*

While appreciating the action that was taken after the audit query, your Committee are not impressed with the operations at the Ministry of Home Affairs with respect to financial management. The cited the Financial Regulations No. 117 or No.129 (2) of the 2006 Financial Regulations which requires that in addition to an officer bringing to account any revenue collected, the Controlling Officer is required to conduct checks to ensure that this is done. In this case, and in a period of over twelve months, the Controlling Officer did not perform this function well which led to the said revenue being not accounted for.

Your Committee, therefore, urge the Controlling Officer to take time and study the provisions on accounting for revenue and improve on the monitoring of revenues under the charge of his Ministry.

ii) Collections not credited to Control 99

The Controlling Officer should report progress on the matter, but should in addition ensure that there is strict monitoring of banking of revenue to avoid officers taking advantage of weaknesses in the system to defraud the Government.

iii) Delayed banking

The explanation on the pending decision on whether revenue should have been deposited in a Transit Account or Control 99 did not justify the delayed banking in that, either way, revenue should still have been banked on time. This is another case of poor supervision.

Your Committee find the explanation on the misappropriation of K167,637,006 unacceptable in that the letter from the Principal Accountant showed that the Ministry of Finance and National Planning only mentioned that Appropriation-in-Aid would be re-introduced and this was not authority for the Police to spend part of the revenue. Based on this, your Committee recommend that:

- (a) the Controlling Officer should ensure that revenue is banked on time either in Control 99 or Transit Account as the case may be as required by Financial Regulations;
- (b) the matter on the under banking amounting to K13,773,900 should close subject to verification of the calculations;
- (c) the K167,637,006 that was spent as a result of a “misunderstanding” should be normalised; and
- (d) the matter on the twenty-seven missing receipt books should close subject to verification.

iv) Appropriation-in-Aid

Your Committee recommend that:

- (a) the matter on the excess expenditure should close subject to verification; and
- (b) the matter on the K1,036,268,815 that was spent on revenue related activities should close subject to the Auditor-General confirming that the expenditure was incurred to enhance revenue collection.

**MINISTRY OF HOME AFFAIRS
Immigration Department**

Paragraph 11

Weaknesses and Irregularities in Accounting for Revenue

11. In the Estimates of Revenue and Expenditure for the Financial year ended 31st December 2005, an estimate of K25,603,677,938 was made for revenue collections under the Immigration department. It was however observed that during the year under review, amounts totalling K32,753,125,077 were collected, resulting in over-collection of K7,149,447,139.

An audit carried out in April 2006 at the Immigration Department Headquarters, Lusaka Regional Office, Lusaka International Airport, Kabwe Regional Office and Kapiri Mposhi Office revealed the facts set out below:

(a) Headquarters

(i) Revenue Appropriated above the Authorised Appropriation – in – Aid

According to provision in the 2005 Estimates of Revenue and Expenditure, the Immigration Department was authorised to use K4,204,109,000 as Appropriation-in-Aid. It was, however, observed that the Department utilised K4,336,216,653, resulting in unconstitutional expenditure of K131, 595,310.

(ii) Revenue Deposited into the Ministry's Control Accounts

During the period under review, amounts totalling K120,960,000 were deposited in Control 15 belonging to the Ministry (K24,840,000), and the Department's Operations Account (K96,120,000) instead of Control 99.

(iii) Unaccounted for Revenue

A scrutiny of Admission of Guilt cash book, receipts and bank records revealed that out of K256,460,000 collected during the period under review, K2,140,000 was not accounted for.

(iv) Accountable Documents not Produced for Audit

One hundred and twenty eight employment permits, eighteen self employment permits, thirty six entry permits and one study permit from which K359,500,000 was collectable were not produced for audit contrary to Financial Regulation No. 28(n).

(b) Lusaka Regional Office

(i) Temporal Permits and Re-entry Visas Not Presented for Audit

There were twenty-seven temporal permits and seven re-entry VISAS for which K54,035,000 was collectable, which were not presented for audit verification and no proper explanation was given. It was therefore not possible to ascertain how much was actually collected.

(ii) Delayed Banking

There were delays of up to thirty-one days in banking revenue collected between January and December 2005 amounting to K699,186,000 contrary to Financial Regulations

(c) Lusaka International Airport

(i) Receipts Removed from Receipt Books

According to the Financial Regulations, all quadruplicate copies of the receipts should be kept in the receipt books. It was, however, observed that seven fee receipts of US\$35 each and seven VISA fee receipts of GBP 25 each amounting to US\$245 (K1,131,900) and £175 (K1,508,325) respectively were removed from the books.

(ii) Unaccounted for Revenue

A scrutiny of the cash books, receipts and bank records revealed that revenue collected between September 2004 and August 2005 in amounts totalling US\$11,349, K9,079,080 and £1,121 could not be accounted for.

(iii) Receipt Books not Presented for Audit

Two general receipt books, serial numbered 1406901 – 1406950 and 147001- 147050 and a general revenue cash book serial number 154601-154700 were not presented for audit.

(d) Kabwe Regional Office

(i) Misappropriation of Revenue

During the period January to November 2005, amounts totalling K269, 485,000, US\$785 and GBP 185 were collected in respect of visa fees out of which a total of K83, 920,000 was

misappropriated by the Revenue Collector. As of December 2006, no action had been taken against the officer.

(ii) *Delayed Banking*

There were delays of one to thirty seven days in banking of revenue amounting to K183, 565,000 collected during the period from January to December 2005.

(e) ***Kapiri-Mposhi***

(i) *Cash Shortage*

A cash count carried out on 21st January 2006 revealed a cash shortage of K345,500 and no explanation was given for the shortage. The shortage had not been made good as of December 2006.

(ii) *Unbanked Revenue*

Although amounts totalling US\$705 were collected during the period November 2004 to March 2005, an amount US\$605 was banked and the balance of US\$100 could not be accounted for.

(iii) *Delayed Banking*

There were delays of seven to one hundred and thirty-five days in banking of revenue amounting to US \$2480 collected during the period from January 2004 to December 2005. A further K495, 500, US \$ 295 and GBP 35 that were collected from July 2005 was not deposited as of January 2006 about six months later.

Controlling Officer's Submission

Your Committee were informed that line ministries were always given targets by Ministry of Finance and National Planning based on a number of assumptions. Depending upon their ability, ministries sometimes met or surpassed their targets or failed to meet their target. The year in question was one such time when officers, despite the shortcomings did work hard to surpass the target.

a) ***Immigration Department Headquarters***

i) *Revenue Appropriated above the Authorised Appropriation-in-Aid*

The Department was allowed to appropriate 100% of its expenditure budget by the Treasury during the financial year in question. Therefore, the Department's total programme budget (excluding personal emoluments) was K5,933,858,670 and the expenditure for the years according to the audited Financial Statement for the financial year ended 31st December 2005 was K5,670,918,502.

ii) *Revenue Deposited into the Ministry's Control Accounts*

Your Committee heard that the observation that some revenue was deposited in Control 15 and Departments Operation Account was correct. This was the case only for the admission of guilt fees.

ii) *Unaccounted for Revenue*

Your Committee heard that the observation of the K2,140,000.00 was noted. It was possible that the under banking could be detected especially from January to December 2005. This was the period they experienced some problems with the former cashier who was later recommended for transfer due to some irregularities. The issue would be followed up to ensure that the funds were paid back and appropriate action taken against officers found wanting.

iv) *Accountable Documents not produced for Audit*

Your Committee were informed that the 128 employment permits, eighteen self employment permits, thirty-six entry permits and one study permit were actually not collected from the

Ministry of Finance and National Planning as they were missing from their respective batches. They were consequently not issued to the Department.

b) Lusaka Regional Office – Immigration Department

i) Temporary Permits and Re-entry visas not presented for Audit

Your Committee were informed that the issues of un-presented Temporary Permits and Re-entry visas for audit verification were probed together with late banking at the Regional Office, in Lusaka. When the cashier at the Immigration Headquarters was transferred back to the Ministry, the office asked for the transfer of the Regional Immigration Officer's Cashier to Headquarters. However, due to understaffing, there was no one to take up the duties of the cashier. As such, the transferred cashier continued operating from the Regional Office and the Headquarters. It was during this time that the office of the cashier, Lusaka Regional Office performed badly as observed, where even revenue was not deposited on time.

ii) Delayed Banking

With regards to delayed banking, the observation was correct and had been noted. However, this happened when they had no cashier at the office.

c) Lusaka International Airport

i) Receipts removed from Receipt Books

Most of the audit queries at the Lusaka International Airport were as a result of some unfaithful officers who had been doing illegal transactions. One female immigration officer fled the country to the United States of America. However, for those who remained appropriate action was recommended.

ii) Unaccounted for Revenue

Your Committee heard that the observation was correct. The missing accountable documents at the Airport were referred to police for investigations, consequently, the revenue collected during that period although deposited did not have supporting documents because these were the same documents which were at Police for investigations.

iii) Receipt Books not Presented for Audit

The missing accountable documents at the Airport were referred to Police for investigation. This included the receipt and general revenue cash books.

d) Kabwe Regional Office

i) Misappropriated of Revenue

The Controlling Officer reported that the cashier who misappropriated the K83,920,000 accepted the loss of the revenue and promised to pay the money by selling her properties. The matter was reported to the Police.

During their visit to the Office, the Regional Immigration Office informed your Committee that the cashier who misappropriated K83,920,000 took advantage of the absence of Entry Visa Receipts to defraud the Government. During the period, the Department only had general receipts in stock and these were being used for all purposes. The cashier used to enter different amounts on the original copy and other copies, for example, if she collected K2,500,000, she could enter K2,500,000 on the original copy and enter K5000 on the other copies and pocket K2,495,000.

ii) Delayed Banking

The delayed banking had since been addressed. When the matter was brought to management's attention, the first step the Ministry took was to replace the cashier with another officer. Further, management has been ensuring that all revenue collected was deposited within 24 hours.

e) ***Kapiri-Mposhi***

i) *Cash Shortage*

After a detailed scrutiny of their records, the Ministry established that there was no cash shortage at the time of audit as stated by the auditors. The deposit slip for the K345,500 was in the tray and was not filed. At the time of the audit, the officer in charge of receipting and banking was not in the office as he was manning a roadblock 15 kilometres away from the station at Manyumbi. When the officer was called back, the Auditor was shown the deposit slip.

ii) *Unbanked Revenue*

The Controlling Officer admitted that at the time of audit, US\$705 was in the safe. This was because ZANACO which was the only bank in Kapiri Mposhi where they had their Transit Account was not accepting foreign currency deposits as they did not have a US\$ Transit Account. All foreign currency deposits were being banked at Bank of Zambia in Ndola. Because of the distance between Kapiri Mposhi and Ndola, it was not economical to travel to Ndola to deposit amounts such as US\$25 and US\$100. They had to let the dollars accumulate to a reasonable amount.

iii) *Delayed Banking*

The US\$2,480 was collected over a period, and was not banked at once but over a period. As was earlier stated, they did not have a foreign currency account with ZANACO and all foreign revenue were being banked in Ndola at Bank of Zambia. He regretted the delays in banking and had written to all the heads of departments to ensure that they abided by the provisions of the Financial Regulations. All the amounts that were not deposited as of January 2006 have all been deposited and are available for verification.

When asked on measures taken to lessen irregularities in the Ministry, he informed your Committee that among the causes of the irregularities was lack of qualified accounting officers. The Ministry of Home Affairs was utilising, in extreme cases, Police constables to collect revenues. In view of these inadequacies, the Ministry had been holding sensitisation workshops. The Ministry had further appointed sub-warrant holders to help in revenue collections in order to minimise the incidence of misuse of public funds. The Ministry was undertaking quarterly monitoring checks on revenues collections.

On what the Ministry was doing to recover the money that was lost, your Committee heard that these were referred to the Drug Enforcement Commission.

Observations and Recommendations

Your Committee observe that operations at the Immigration Department, with respect to financial management, will not improve as long as there are no properly qualified accounting or specially trained officers to handle revenues. In addition, the manual system of receipting revenues has weaknesses which officers are taking advantage of to defraud government.

Your Committee, therefore, strongly recommend that the Secretary to the Treasury should reform the system of receipting moneys in the Government by way of computerisation as one of the measures to improve accountability.

a) ***Headquarters***

i) *Revenue Appropriated above the authorised Appropriation-in-Aid*

The matter should close subject to verification of Treasury authority for 100% appropriation of the Immigration Department's revenue.

ii) Revenue Deposited into the Ministry's Control Account

In closing the matter, your Committee advise the Controlling Officer to be more proactive and seek immediate clarification from the Ministry of Finance and National Planning whenever the administration of revenues and expenditure is not clear instead of taking action after the auditors have queried.

iii) Unaccounted for Revenue

Your Committee are of the view that the mere transfer of the cashier who is suspected to have engaged herself in unlawful activities is inappropriate. The cashier is supposed to be suspended and investigations instituted. They, therefore, urge the Controlling Officer to ensure that officers under probe should be suspended and not transferred. They await progress on the matter.

iv) Accountable Documents not Produced for Audit

The matter should close subject to verification that the documents in question were not collected from the Ministry of Finance and National Planning.

b) Lusaka Regional Office

i) Temporal Permits and Re-entry Visas not presented for Audit

In noting the explanation, your Committee request the Controlling Officer to seek the intervention of the Accountant-General on the accounting staff shortage. They await progress on the matter.

The Controlling Officer is advised to ensure that documentation is made available at the time of audit, nevertheless, the documents that were initially not presented for audit should be submitted to the Auditor-General for verification.

ii) Delayed Banking

In noting the submission, your Committee urge the Controlling Officer to regularly perform checks to ensure that banking is done.

c) Lusaka International Airport

i) Receipts Removed from Receipt Books

Your Committee maintain that officers under investigation should not be transferred or continue working. Since the six officers are still under investigation, they should be suspended to safeguard evidence.

ii) Unaccounted for Revenue

The Controlling Officer should report progress on the matter.

iii) Receipt Books not presented for Audit

The Controlling Officer should update your Committee on the outcome of Police investigations.

d) Kabwe Regional Office

(i) Misappropriation of Revenue

Your Committee observe that despite the fraud having been unearthed through internal investigations, they find it irregular that a case of a criminal nature such as this was not immediately reported to the Police, even at the point it was done, it was in a casual way. This approach in their opinion suggests the existence of a syndicate or in the absence of this, the management team at the regional level were inept in the performance of their duties.

They, therefore, recommend that:

- i) internal controls in the Department should be strengthened;
- ii) property that the cashier left behind should be seized; and
- iii) the Police should pursue the matter further through Interpol.

(ii) *Delayed Banking*
The matter should close.

e) ***Kapiri Mposhi***

(i) *Cash Shortage*
The matter should close subject to verification.

(ii) *Unbanked Revenue*
The Controlling Officer should ensure that officers in the Ministry cooperate with auditors. The explanation on the foreign currency that was not banked could have been given to the auditors during the audit process. The matter should close.

(iii) *Delayed Banking*
The matter should close subject to verification of the deposits.

MINISTRY OF HOME AFFAIRS
Passport Office

Paragraph 12

Irregularities in Accounting for Revenue

12. During the two financial years ended 31st December 2004 and 2005 estimates totalling K4,840,798,000 (K2,597,625,000 in 2004 and K2,243,173,000 in 2005) were made in the Estimates of Revenue and Expenditure from issuance of Passports.

An audit of revenue collections carried out in May 2006 at Passport Office Headquarters and Ndola Regional Office for the period January 2004 to December 2005 revealed the following:

(a) ***Headquarters***

Passport Sales not Accounted for

Although the Department had actual collections of K2,529,700,859 and K2,209,773,000 in 2004 and 2005 respectively, records for the sale of the passports indicated that total amounts of K2,697,915,000 and K2,452,472,000 were receivable during the years under review resulting in shortfalls of K168,214,141 and K242,699,000 for which no explanation was given.

Misappropriation of Revenue

During the period January to December 2004, amounts totalling K855,507,800 were misappropriated by the Cashier but no action had been taken as of August 2006.

Unaccounted for Revenue

Revenue collections amounting to K16,728,000 made in June 2004 although supported by deposit slips, were not credited to Control 99 at the Bank of Zambia.

Delayed Banking

There were delays ranging from two to one hundred and five days in banking revenue totalling K332,526,000 collected during the period January 2004 to December 2005.

(b) Ndola Regional Office

(i) Cash Shortage

A cash count carried out in July 2006 at the station revealed a shortage of K2,153,000 which had not been made good as of August 2006.

(ii) Un accounted for Revenue

Revenue collections totalling K139,278,000 made during the period January to December 2004 were not accounted for in that they were neither supported by deposit slips nor credited to Control 99 at the Bank of Zambia.

(iii) Misappropriation of Revenue

During the period January 2004 to December 2005, amounts totalling K24,706,888 were misappropriated by revenue collectors. As at August 2006, no action had been taken.

It was further observed that during the same period amounts totalling K133,013,000 were borrowed by members of staff and staff from other government departments contrary to the Financial Regulations . As of May 2006, only K40,865,000 had been repaid leaving a balance of K92,148,000.

(iv) Delayed Banking

There were delays ranging from three to one hundred and twenty two days in banking revenue totalling K36,629,000 collected during the period from January 2004 to October 2006.

(v) General Receipt Books not Produced for Audit

Three general receipt books with serial numbers 634401-634450; 01088551-1088600; and 0801350-0801400 received between July 2004 and July 2005 were not produced for audit scrutiny.

Controlling Officer's Submission

The Controlling Officer in response submitted as follows:

a) Headquarters

i) Passport Sales not Accounted for

The shortfall arose from the issuing centre catering for Central, Eastern and Western Provinces and also Zambian missions abroad. From time to time, during the breakdown of the system at Ndola Passport and Citizenship Office, Lusaka Headquarters had been catering for Copperbelt, Northern, North-Western and Luapula Provinces.

The role of receiving centres was to scrutinise receipted application forms for passports and thereafter forward them to Lusaka for printing of passports. After printing passports, they are then returned to the respective receiving centres for distribution and collection of passports by the clients.

The reported shortfall was attributed to already receipted forms and passports from receiving centres, as records of sales and revenue collections were available for verification for the periods at the respective receiving centres.

ii) Misappropriation of Revenue

The observation of the misappropriated revenue and the materiality of the misappropriation was brought to management's attention through the inspection report since no exit meeting was held upon completion of the audit. However, management had taken action following the revelations of the misappropriation of revenue amounting to K855, 507,800. The cashier and the immediate

supervisor at the time were written to exculpate themselves and after they exculpated themselves, the matter had been taken to the disciplinary committee as per the disciplinary code and procedures for handling offences in the Public Service.

iii) Unaccounted for Revenue

He regretted that there was no exit meeting between the Auditor and Management at which the issue of the K16,728,000 could have been brought to the attention of management so as to address the query.

iv) Delayed Banking

He regretted that there were some delays in banking. However, this had since been addressed and banking was now done on daily basis. Further, all revenue collection centres had been written to, to ensure that they abide by the provisions of the Financial Regulations and any officer found wanting would be disciplined.

b) Ndola Regional Office

i) Cash shortage

A thorough verification of the receipts for the period July to August 2006, during which the cash count was done, was undertaken. There was no break in the sequence of the receipts for this period. The total receipts for the period in question amounted to K10,717,000 only. The total deposits amounted to K3,369,000 and K7,348,000 banked on 2nd and 3rd August, 2006 respectively.

ii) Unaccounted for Revenue

It was a regrettable fact that at the time of audit, deposits slips did not support part of the revenue collections for the period January to December 2004. After further verifications, it was found that the amounts in question were not deposited and therefore could not be supported by bank deposits.

This was mainly because of the use of cash by members of staff within the Passport Office Ndola and other government departments after seeking authority from the late Regional Passport and Citizenship Officer.

iii) Misappropriation of Revenue

Out of the purported misappropriated K24,706,888, the total of K10,780,000 was deposited on 12th July 2005. The balance of K13,926,888 was attributed to under banking of revenue by officers. One officer to whom the under banking was attributed had since passed on while the other two were appearing before the courts of law for fraud involving housing allowance.

iv) Delayed Banking

It was regretted that there were some delays in banking. The problem had been addressed and banking was done on a daily basis. He had also written to all revenue collection centres to ensure that they abide by the provisions of the Financial Regulations and any officer found wanting would be disciplined.

iv) Missing General Receipt Books

It was regretted that three general receipt books were not availed to the auditors. The books were misplaced due to the volume of work at the office. However, the three books with serial numbers 634401-50, 01088551-600 and 08011350-400 had been found and were available for audit verification at the Passport Office in Ndola.

Observations and Recommendations

Your Committee observe that in the period under review, the Ministry had a problem of accounting for revenue, which was mostly as a result of lack of observance of Financial Regulations. They urge the Controlling Officer to improve on the internal controls.

On the specific queries, they recommend the following:

a) Headquarters

i) Passport Sales not Accounted for

This was a reconciliation problem and request the Controlling Officer to send the reconciled figures and supporting documents to the Auditor-General for verification.

ii) Misappropriation of Revenue

This was another case that underscores the need for the Controlling Officer to put in place an effective system of checking the receipting and banking of revenue. The Controlling Officer should report progress on the resolution of the Disciplinary Committee.

iii) Unaccounted for Revenue

The matter should close subject to verification that the K16,928,000 was part of the K855,507,800 considered in (ii).

iv) Delayed Banking

While noting the efforts made to ensure that accounting officers do not deliberately delay banking of government revenue, your Committee observe that the disciplined officers, going by their exculpatory letters, were blaming each other on who was responsible for banking. To avoid this confusion, your Committee urge the Controlling Officer to issue clear guidelines on who is responsible for banking.

b) Ndola Regional Office

i) Cash Shortage

The Controlling Officer should forward the corrected figures to the Auditor-General for verification.

ii) Unaccounted for Revenue

The Controlling Officer should ensure that the amount is recovered from the salaries of the concerned officers. In addition, the Controlling Officer should enforce the directives on delayed banking and private use of revenue.

iii) Misappropriation of Revenue

Your Committee resolve to await progress on the court cases.

iv) Delayed Banking

The matter should close.

v) General Receipt Books not Produced for Audit

Your Committee note that this is a question of poor record keeping. They urge the Controlling Officer to ensure that accountable documents are not only secured but also easily retrievable for audit purposes.

The matter should, however, close subject to verification of the receipt books.

Weaknesses and Irregularities in Accounting of Revenue

13. It was reported in the Estimates of Revenue and Expenditure for the financial year ended 31st December 2004 and 2005, that total revenue estimates of K959,539,368 and K1,050,000,001 were made against which collections of K943,415,760 and K1,163,250,003 were made respectively.

An examination of records relating to the collection of revenue at the Ministry Headquarters, Mines Development Department, Geological Survey Department, Mkushi Regional Mining Bureau and the Mines Safety Department in Kitwe, for the financial years ended 31st December 2004 and 2005 undertaken in January 2006 revealed weaknesses in internal controls as set out below.

(a) Ministry Headquarters and Mines Development Department

(i) Lack of Control over Revenue Collections

There were no registers maintained in respect of licenses issued, application forms issued, and area charges. In this regard, although K870,466,692 was receipted and banked during the period under review only K601,929,995 was supported by licenses and application forms among others. The source of the balance of K268,536,697 could not be ascertained, as no documentation was available.

(ii) Surface Rental Charges

The Ministry collected surface rental charges from the Mines. Area charges are annual levies charged on mines with licenses to carry out mining activities or excavations on a specified mining surface area. The charge is calculated per square kilometre or square meter depending on the size of the Mine.

It was noted, however, that no records were kept to show the mines that had paid the surface rental charges and those which had not settled the charges as of March 2006. Consequently, although an estimate of K495,283,019 was made for 2005, only K91,835,260 was collected representing 18.5% of the estimate.

(iii) Arrears of Revenue

A review of the internal audit report dated 19th December 2005 for the period January to December 2005 showed that, gemstone miners in Eastern Province owed the Ministry a total amount of K377, 305, 734 in surface rental charges, which as at March 2006, had not been paid.

(iv) Delayed Banking

There were delays ranging from eleven to fifty seven days in banking revenue totalling K166,681,343 collected during the period January to July 2005.

(v) Misappropriation of Revenue

A cashier who had since passed away misappropriated a total amount of K32,019,300 collected between November 2005 and January 2006. It was noted, however, that as of June 2006, no loss report had been processed.

(vi) General Receipt Books not Produced for Audit

There were four (4) general receipt books with serial numbers 187801-187850; 187851-187900; 187601-187650 and 187701-187750 issued by the Ministry Headquarters in 2003 to the Mines Development Department that were not produced for audit scrutiny.

(b) Geological Survey Department

(i) Misappropriation of Revenue

During the period January 2004 to February 2006, a total amount of K95,862,850 was collected from the sale of maps and reports. It was however observed that out of the amount collected, K27,355,400 was misappropriated by the cashier, and as of June 2006, no action had been taken against the culprit.

(ii) Unaccounted for Revenue from Hiring of a Drilling Rig

During the period under review, a total amount of K6,000,000 was collected from the hiring out of a drilling rig. A scrutiny of bank statements, however, revealed that only K3,000,000 was credited to Control 99. The balance of K3,000,000 was not accounted for.

(iii) Unaccounted for Scrap Metal Inspection Charges

A total amount of K 77, 550, 000 was collected during the period March 2004 to November 2005 from scrap metal inspection charges. It was observed that out of the total collections, K64, 850, 000 was traced to the bank statements leaving a balance of K12, 700, 000 unaccounted for.

(iv) Delayed Banking

There were delays ranging from fourteen to eighty six days in banking revenue totalling K10,900,000 collected from scrap metal inspections during the period March 2004 to November 2005.

(c) Mkushi Regional Mining Bureau

Revenue amounting to K3,888,000 collected between May 2005 and April 2006 had not been banked as at April 2006.

(d) Mines Safety Department – Kitwe

(i) Misappropriation of Revenue

A total amount of K460,778,929 was collected as revenue between January 2004 and April 2006. Out of the total collections, K426, 350, 788 was banked, K16,017,370 was spent on Recurrent Departmental Charges (RDCs) without Treasury authority and the balance of K18,410,771 was misappropriated by the Assistant Accountant and as at June 2006, no action had been taken against the culprit.

(ii) Delayed Banking

There were delays ranging from eight to one hundred and thirty-three days in banking revenue collections amounting to K24, 890, 304 made during the period January 2004 to August 2005.

Controlling Officer's Submission

The Controlling Officer's responses to the above is set out below.

a) Ministry Headquarters and Mines Development Department

(i) Lack of Control over Revenue Collection

The Ministry had always maintained registers for different types of licenses issued. The external auditor was subsequently shown the register for licenses issued.

Application forms for the licenses were not accountable documents, therefore, the Ministry did not keep a Register of the forms issued.

The external auditor was informed that application forms were issued upon payment of the prescribed fee for the forms. A receipt was issued and a record of the transaction was maintained in the receipt book and application file. No application for a mining right could be processed without the official government receipt.

The Ministry did not keep a Register for area charges either. Instead, it kept records of the area charges on the individual license holder files. However, the Ministry had introduced a ledger database for area charges as part of the upcoming computerised cadastre system. The database was available for inspection.

Your Committee sought clarification on why the application forms could not be treated as accountable documents when they were being sold.

The Controlling Officer informed your Committee that it had been a practice for an application to be accompanied by a receipt, though this was not a strict requirement to have an application processed. He further submitted that the K268, 536,697 that could not be ascertained was raised from area charges.

(ii) Surface Rental Charges

As was explained earlier records of area charges were kept on individual files for license holders. To improve on the record keeping, they had been included in the computerised cadastre system provision to show the mines that had paid area charges.

(iii) Arrears of Revenue

Out of the outstanding amount of K377, 305,734, a sum of K30, 034,000 had been collected.

Gemstone licenses were valid for 10 years. Most of them were issued in 1997 and were due for renewal in 2007. All licenses with arrears would not be renewed.

(iv) Delays in Banking Revenue

The observation was correct and money was banked. To avoid such delays, the Ministry had instituted a system of weekly and monthly checks on cash collected and banked. This system had removed the delays.

(v) Misappropriation of Revenue

A loss report was prepared and sent to the Ministry of Finance and National Planning in September 2006.

(vi) General Receipt Books not Produced for Audit

The receipt books were still missing because the cashier to whom the receipt books were issued had passed away.

b) Geological Survey Department

(i) Misappropriation of Revenue

The matter had since been reported to the Police and the officer had been suspended to pave way for investigations.

(ii) Hiring of Drilling Rig

The cashier did not account for the amount. The cashier had therefore been reported to the Police and had been suspended to pave way for investigations.

(iii) Unaccounted for Scrap Metal Inspection Charges

The K12,700,00 was also not accounted for by the cashier. The cashier had been reported to the police to pave way for investigations.

(iv) *Delayed Banking*

To correct the situation, the Ministry had instituted weekly and monthly checks on revenue collection and deposits. There were now no delays in banking.

c) ***Mkushi Regional Mining Bureau***

(i) *Delays in Banking Revenue*

Authority had been obtained from the Ministry of Finance and National Planning to open the Revenue Transit Account at the Mkushi, Zambia National Commercial Bank (ZANACO). The Account had since been opened.

d) ***Mines Safety Department - Kitwe***

(i) *Misappropriation of Revenue*

The Department was entitled to Appropriation-in-Aid as a revenue-collecting unit. The K16,017,370 represented part of the Appropriation-in-Aid.

The Assistant Accountant was unwell when the external auditors visited the Mines Safety Department. He had since recovered and had provided deposit slips and receipts of expenditure to account for the K18,410,770. The documents were available for inspection.

A typist was used to collect and bank revenue as a stop-gap measure because of the sudden illness of the Assistant Accountant. To improve on staffing levels, they had appointed the Laboratory Assistant, who had some accounting background, as a Revenue Collector because of the critical shortage of accounting staff that the Ministry was facing.

(ii) *Delayed Banking*

To avoid such delays, the Ministry had instituted weekly and monthly checks on revenue collected and deposited. This system was working well. There were now no more banking delays.

When asked how the weekly and monthly checks were being conducted, the Controlling Officer submitted that an officer had been assigned to be physically visiting the revenue collection points. When asked further how much was being realised from Mkushi as an example, he informed your Committee that about K4 million was being raised. Your Committee while appreciating the effort were of the view that it was not a cost effective measure if transport and lodging costs were taken into account for Mkushi in particular.

Observations and Recommendations

Your Committee observe that the style of management at the Ministry may not assist the country achieve maximum benefits from its mineral resources especially after taking into account the fact that in the medium to long term, mining will continue to contribute significantly to the overall economic activities of Zambia. In addition, they observe that there is so much happening in the mining sector, which requires a dynamic and effective management team to be in position.

Your Committee note that the Ministry has not done much in enhancing the collection of surface rental charges and the storage of accounting documents is poor.

They, therefore, strongly urge the Secretary to the Treasury to look into the above issues.

On the specific issues the Committee makes the recommendations set out hereunder.

a) *Ministry Headquarters and Mines Development Department*

i) Lack of Control Over Revenue Collections

The matter should close.

ii) Surface Rental Charges

While appreciating the efforts to computerise the cadastre system, your Committee are concerned with the operations at the Ministry with respect to collection of surface charges. Other than keeping specific details on individual miners' files, a separate system for quicker reference should be maintained which will show the rentals due from each mine and at what date. Before the system is computerised as planned, the Controlling Officer should ensure that a separate system is put in place immediately.

iii) Arrears of Revenue

The arrears in the Eastern Province are partly as a result of the poor tracking system in the Ministry. The Ministry's strategy to wait for the lapse of the ten year licence period before penalising defaulters is not in the best interest of the nation. In the ten years, the mines would have made profits without paying rental charges. Going by the difficulties that arise in determining the income of gemstone miners for tax purposes, it would have been ideal if straight forward charges such as surface rentals can be collected so that the nation has some rewards for its mineral wealth.

iv) Delayed Banking

The Controlling Officer should ensure that there is no repeat of the delays in the banking of revenue. The matter should close.

v) Misappropriation of Revenue

The matter should close subject to the Auditor-General's verification.

vi) General Receipt Books not Produced for Audit

While appreciating the difficulties faced with the passing away of the officer to whom the receipt books were issued, the Controlling Officer should keep custody of all unused and closed receipt books and indeed other accountable documents such that in the event of an officer suddenly passing away, the documents should be traced. Failure to do this will indicate that documents are deliberately destroyed to cover fraudulent activities.

b) *Geological Survey Department*

i) Misappropriation of Revenue

Progress should be reported on the outcome of the investigations.

ii) Unaccounted for Revenue from Hiring of a Drill Rig

Progress should be reported on the outcome of police investigations.

iii) Unaccounted for Scrap Metal Inspection Charges

The Controlling Officer should report progress on the case.

iv) Delayed Banking

The matter should close, however, any officer who fails to bank revenue as stipulated by the Financial Regulation should be disciplined.

c) **Mkushi Regional Mining Bureau**

The matter should close subject to verification of the availability of the Revenue Transit Account.

d) **Mines Safety Department - Kitwe**

i) **Misappropriation of Revenue**

Your Committee are disappointed that the Appropriation-in-Aid explanation was not made with the Auditor-General. This shows lack of seriousness in dealing with audit queries.

The matter should close subject to verification of the submission on the Appropriation-in-Aid and the now accounted for revenue amounting to K18, 410,770. In doing so, your Committee further urge the Controlling Officer to make a request to the Accountant-General for an accounting officer instead of depending on the Laboratory Assistant.

ii) **Delayed Banking**

The matter should close.

MINISTRY OF LANDS

Paragraph 14

Weaknesses and Irregularities in Accounting for Revenue

14. In paragraph 22 of the Auditor General's Report for 2002, mention was made of the Lands Information Management System (LIMS). In particular, mention was made of the Permanent Secretary who, in April 1999 singularly sourced and engaged Grant Thornton Limited without obtaining authority from Zambia National Tender Board contrary to tender procedures and that the contract signed did not state the completion period and that although the system went live in 2002, installations had not been completed and this had serious implications on the security in the system. It was further mentioned that as a result, there was unauthorized entries into the system through the use of Structured Query Language (SQL), a computer package which was not authorized by the Ministry as this facilitated retrieval, alteration and deletion of information.

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2004 and 2005, revenue estimates were made as shown below:

Year	Budget	Actual	Percentage
	K	K	
2004	3,857,314,477	3,631,463,645	(94%)
2005	15,631,463,645	6,205,681,333	(39%)

As can be seen whereas a total of K3,857,314,477 and K15,807,610,036 were estimated only K3,631,463,645 and K6,205,681,333 were collected respectively. The amounts collected represent 94% (2004) and 39% (2005) of budgeted amounts.

In her response dated 18th August 2006, the Controlling Officer attributed the under-collections to among others: incomplete land information management systems (LIMS), inadequate transport, and shortage of staff and non-availability of accounting staff at provincial offices.

A review of the system (LIMS) and examination of revenue records for the financial years 2004 and 2005 carried out in January 2006 at the Ministry of Lands headquarters, Livingstone, Kabwe, Ndola and Mongu Lands and Surveys departments revealed the matters set out below.

(a) Headquarters

The Ministry issued two types of receipts, computer generated receipts using the LIMS, and manual general receipts. When computer generated receipts are issued, the clients accounts are automatically updated, whereas the manual general receipts are subsequently posted to the LIMS in order to update the Client's accounts.

Once all the receipts have been entered into the system, a computer generated banking report that summarises all the collections for the day is then printed before the banking are made.

According to procedures in place, reversals of the entries made in the LIMS system can only be done with the authority of the Principal or Senior Accountant and where such reversals have been done an error report is generated.

A review of revenue records in respect of collections for the period January 2004 to December 2005 revealed that:

(i) Unauthorised Reversals in the LIMS System

Out of a total amount of K7, 321, 902, 696 collected during the period January to August 2003, entries on which a total amount of K19, 880,211 was collected, were reversed in the system without the authority of either the Principal or Senior Accountant. The error report was also not produced. In this regard the amount of K19, 880,211 was not banked and could not be accounted for.

(ii) Unauthorised Reversals on Banking Reports

A test check of banking reports generated for the period January 2003 to December 2004 showed that a total of K1, 735,791,475 was collected. However, entries on which a total amount of K96, 720, 268 was collected were reversed without the approval of either the Principal or the Senior Accountant. As of January 2006, the amount had not been accounted for.

(iii) Theft of Revenue Collections

A review of the Revenue collections as reflected in the LIMS reflected that although one hundred and forty seven receipts reflected zero amounts, a test check with three clients revealed that payments were actually made to the Ministry as shown below:

Date	Receipt number	Description	Amount as reflected on the receipt given to client	Amount as reflected in the LIMS system
			K	K
8/16/2004	F7848	Annual rent	948,750	-
8/16/2004	F7845	Annual rent	2,000,000	-
8/16/2004	F7846	Annual rent	<u>1,750,000</u>	=
Total			<u>4,698,750</u>	=

It was further confirmed that the amount of K4,698,750 had neither been banked nor found on hand.

(iv) Encashment of Personal Cheques from Revenue

According to the Financial Regulations, no government revenue should be used before banking. However, it was noted that nineteen personal cheques in amounts totalling K31,625,560 were encashed from government revenue during the period January 2004 to November 2005, contrary

to Financial Regulations. Included in the nineteen cheques were six personal cheques with amounts totalling K4,337, 360 that were referred to drawer and had not been replaced as of January 2006.

(v) *Refer to Drawer Cheques not Reversed and Replaced*

According to the procedure in place, only bank certified cheques were to be accepted and any "refer to drawer" cheques were to be reversed in the system and the drawer requested to make a replacement. It was noted however that contrary to this procedure, the Ministry accepted twenty-four cheques issued between February 2003 and August 2005 in amounts totalling K343, 656,730 that were not certified and were later referred to the drawer. As at January 2006, the refer to drawer cheques had not been reversed in the system and had not been replaced.

(vi) *Delayed Banking*

There were delays of five to twenty-one days in banking revenue amounting to K931,619,158 collected during the period January to August 2005.

(vii) *Map Sales*

The Ministry Headquarters has a map selling point and according to the procedure in place, revenue collected is to be taken to the main accounts on a daily basis for subsequent banking into Control 99. A review of records relating to map sales revealed the following weaknesses:

- *Non Maintenance of Records*
There were no ledgers or bin cards maintained to show the quantity of maps sold and balance in stock.
- *Irregular Deposit of Revenue in Third Party Account.*
Revenue collections totalling K17, 655, 000 made during the period April 2004 to November 2005 were deposited into a Third Party account instead of Control 99.
- *Missing Original Blank Receipts*
A receipt book No. 0448601 – 0448650 issued to the Assistant Cartographer on 9th June 2005 for map sales had nine (9) original blank copies of receipts removed (receipt numbers 0448624, 0448625, 0448629, 0448631, 0448633, 0448641, 0448644, 0448649 and 0448650) from the receipt book. The removal of unused original receipts from the book was contrary to the provisions of the Financial Regulations.
- *Receipt Book not Produced for Audit*
A receipt book with serial numbers ranging from 0448651 – 0448700 issued on 9th June 2005 to the Assistant Cartographer responsible for map sales was not produced for audit.
- *Rent of Government Premises*
The Ministry of Lands collects rent from properties and premises owned by the Government. During the financial years ended 31st December 2004 and 2005 provisions of K14,342,737 and K91,236,584 were made in the Estimates of Revenue and Expenditure in respect of rent of Government premises. However, the rent due could not be ascertained as there were no registers maintained for this purpose.

(b) *Provincial Offices*

The Department of Lands and Survey collects revenue in form of ground rent and survey fees, which is remitted to the Ministry Headquarters for eventual updating to the LIMS and subsequent banking into Control 99. The remittances must be accompanied by monthly revenue returns; duplicate receipts for collections made during the month, revenue cashbooks and monthly bank reconciliation statements. According to the procedure in place, revenues collected in the provinces are to be remitted to the Headquarters within the first week of each month.

Visits to the Provincial Lands and Surveys offices in Livingstone, Ndola, Kabwe and Mongu in January 2006 revealed the fact set out hereunder:

(i) *Livingstone*

There were weaknesses in the collection and custody of revenue in that Classified Daily Employees were involved in the collection of revenue and keys to the safe were transferred from one officer to another without following hand-over procedures, among others. In particular the following were observed:

Provincial Survey Office

- Out of a total amount of K121, 059,395 survey fees collected between June 2005 and January 2006, an amount of K6, 109,611 was not accounted for.
- There were fifteen (15) receipt books issued to Survey Department between January 2003 and June 2005 by the Provincial Administration Office that could not be produced for audit contrary to then Financial Regulation No. 28 (n).

Provincial Lands Office

- There were eight receipt books issued to Lands Department between 1st January 2003 and 30th June 2005 by the Provincial Administration Office, which could not be produced for audit. It was further noted that four receipt books issued by the Strong Room Superintendent on 25th April 2005 to Solwezi Provincial Office were instead found in Livingstone. The Auditor General was not advised of the transfers as required by Financial Regulations.
- During the period June 2005 to January 2006 a total amount of K97, 147,255 was collected in respect of ground rent, out of which an amount of K3, 206, 171 was misappropriated and no action had been taken as of September 2006. In addition, amounts totalling K75, 169,000 collected during the period October to December 2005 and deposited into a Transit Account had not been remitted to Control 99 as of January 2006 contrary to procedures in place.

It was also noted that whereas a total amount of K1, 621,338 was collected between February and November 2004 as recorded in the LIMS, a verification of computerized receipts with ten selected property owners revealed that K20, 766,755 was actually collected. The difference of K19, 145,417 was misappropriated. No action had been taken as of September 2006.

(ii) *Ndola*

Provincial Lands Office

During the period May 2005 and January 2006 a total amount of K443,662,774 was collected in respect of ground rent, out of which K29,310,623 was used before banking.

Provincial Survey Office

- A general receipt book with serial Nos. 173901-173950 found on hand had twelve (12) original copies of receipts removed from the book, (Receipt Nos 73905, 173906, 173908, 173918, 173919, 173920, 173921, 173922, 173923, 173924, 173925, 173926) and were missing. As of 31st January 2006 it had not been established as to how the receipts were used. It is likely that the missing receipts were used for fraudulent activities.
- During the period January to December 2005, a total of K90,837,960 was collected in respect of survey fees out of which K2,947,300 was misappropriated. No action had been taken as of September 2006.

(iii) *Kabwe*

There were weaknesses in the internal control systems in that typists and secretaries were allowed to handle revenue; no monthly revenue returns and bank reconciliation statements were prepared, among others. Arising from these weaknesses, the following were observed:

Provincial Survey Office

- A total amount of K90,162, 000 was collected between January 2005 and January 2006 out of which K1,325, 000 was misappropriated and no action had been taken as of September 2006.
- A Receipt book with serial numbers 574101 to 574150 issued on 5th September 2002 to a typist was not presented for audit and consequently the amounts collected could not be ascertained. Further, a receipt book with serial numbers 574150 to 574200 issued to Survey Department on 5th September 2002 had the original of receipt number 574200 removed.

Provincial Lands Office

- A total amount of K19, 629, 612 collected during the period January 2005 to January 2006 in respect of ground rent was not accounted for as of January 2006.
- A cheque no. 630, dated 12th September 2005 for K2, 558,000 that was referred to drawer in December 2005, had not been replaced as of January 2006.
- Out of amounts totalling K199, 052,763 in respect of ground rent collected between January and December 2005, K144, 000, 000 was only remitted to the Ministry Headquarters in January 2006 resulting in a delayed remittance of revenue of more than one year in some cases. It was further observed that as of January 2006, an amount of K55, 052,763 was in the account.

It was also observed that an amount of K2, 000,000 cash received in December 2003 on receipt number 1086486 in respect of ground rent was only remitted to Lusaka in January 2006 resulting in a delay of three years. The remittance was only done after the client complained that his account was not updated. As of September 2006, no reasons had been given for the delay.

(iv) *Mongu*

Provincial Survey Office

The Department did not maintain its own Third Party Account for survey fees. The fees were instead deposited into the general Third Party Account maintained by the Provincial Administration where it was commingled with other funds. It was observed in this regard that:

- A total amount of K788, 000 received on 8th July 2005 and receipted on receipt number 608146 was not banked and the money was not on hand as of February, 2006.
- The revenue returns for the period January to December 2005 had not been submitted to the Ministry headquarters as of January 2006.

It was clear from the above findings that the LIMS had not improved the accounting of revenue at the Ministry and therefore there was need to complete its installation.

Controlling Officer's Submission

The Controlling Officer submitted that he agreed with the contents of the Auditor-General's Report and responded to the issues raised above as set out hereunder:

a) *Headquarters*

i) *Unauthorised Reversals in the Land Information Management System*

All the reversals in the land Information Management System involving the amount of K19, 880,211 were done by the Senior Accountant who was authorised to carry out reversals.

ii) *Unauthorised Reversals on Banking Reports*

Exculpatory letters had been written to the officers over the K96, 720,266 purported to have been collected and reversed on the banking reports without the approval of either the Principal Accountant or Senior Accountant, and a response had since been received from one of the officers who had denied any wrong doing.

To address the problem, the Ministry, through internal audit, Financial Management Unit, Lands and Survey had embarked on a verification exercise with the clients to ascertain the circumstances surrounding the reversals and whether or not cash transactions took place.

The amount of K96, 720,268 included an amount of K14, 748,732 collected to receipt series numbers C21686 to C21769 collected on 9th January 2003 and deposited by the cashier on 1st September 2003.

After close examination of the schedules pertaining to the K96, 720,268, it was discovered that K14,748,732 was the actual amount banked on 1st September 2003 contrary to the K30,000 reflected in the schedules as the figures were transposed. Arising from this observation, the Controlling Officer stated that the amount in question was K81, 971,536 and not K96, 720,268 as was reported.

Two of the officers who initiated the reversals were currently on suspension for having issued receipts to clients, and later reducing the amounts in the Land Information Management System (LIMS). The matter had since been reported to the police for further investigations.

iii) *Theft of Revenue*

A total of fifty one receipts reflecting zero amounts were traced by the Ministry and those were found to be test receipts on which no revenue was collected. Officers from the Office of the Auditor-General had since verified these and the Ministry had since received a verification letter on the issue. The Ministry was in the process of locating the remaining receipts.

On the three verified properties, the Ministry carried out a thorough investigation on the receipts, which were found reading zero in the system by Auditor-General's Office on receipt numbers F7845, F7846 and F7848. A scrutiny of the account balances reflected on the statements of account indicated that though the receipts reflected as zero on the statements of account and banking reports, the balances reflected on the statements for the three properties were actually found to have been reduced resulting into the bills being reduced. An analysis of the same was available at the Ministry for verification.

The officer whose name was reflected on the receipts was written to and had since responded to the exculpatory letter. The matter had been referred to the police for further investigations and the officer had been suspended.

In order to prevent further losses of the revenue in that manner, the Ministry had put in place the following measures:

- a) checking all receipts against the cashbooks on a daily basis;
- b) maintenance of a register where officers were required to enter the amounts collected on a daily basis;
- c) the cashiers prepared the end of day cashier's report on cash being collected indicating:
 - i) the revenue collected by denomination; and
 - ii) revenue collected by cheques indicating date, cheque numbers and amounts; and
- d) all revenues were to be banked not later than the next working day.

iv) *Encashment of Personal Cheques from Revenue*

The practice of encashing personal cheques from revenue had been discontinued forthwith. The six personal cheques which were referred to drawer with amounts totalling K4,337,360 had since been replaced and revenue deposited in Control 99. No action had been taken against the officers for accepting uncertified cheques for encashment because all the cheques were government cheques issued by the Ministry.

v) *Refer to Drawer Cheques not Reversed and Replaced*

The Controlling Officer agreed with the Auditor-General's observation and added that not all the cheques were uncertified as four of the cheques which were referred to drawer were bank certified.

He reported that the Ministry had not attained any progress towards retrieval of the cheques, which were referred to drawer from both Bank of Zambia and the Ministry of Finance and National Planning. Letters had already been written to both Ministry of Finance and National Planning and Bank of Zambia and response was still being awaited and a follow up on the same had been made.

During his appearance before your Committee, the Controlling Officer informed them that it had been established that the bank cheques were actually forged. The Ministry managed to trace the property numbers for the three cheques on the banking reports and these had since been reversed through the system. The cheques that were reversed included:

i)	Cheque No. 22836	-	K10, 000,000
ii)	Cheque No. 002834	-	K10, 000,000
iii)	Cheque No. 002708	-	K14, 000,000

Efforts to trace the other cheques would still continue and these would be reversed as soon as the property numbers were identified

vi) *Delayed Banking*

The Ministry had taken note of the Auditor-General's observation. Cashiers sometimes processed cheques from provinces through the window, which in most cases took time to finish due to the fact that the Ministry had only one computer for processing of receipts from clients on the window on a daily basis and from provinces. This caused delays in banking. Currently, the Ministry was constrained by the staff paucity.

The Ministry had commissioned a consultancy under the Millennium Challenge Account (MCA) programme to improve all computer programmes including the receipting system. The Ministry had also opened a revenue transit account at headquarters where all cheques from provinces were deposited. A vehicle was also purchased for speedy banking of revenue.

vii) *Map Sales*

Non Maintenance of Records

All the maps had now been counted and the ledgers were updated and were available for verification.

Irregular Deposit of Revenue in Third Party Account

The Ministry had since cut a cheque in the sum of K17,655,000 from the Third Party Account and deposited it into Control 99. The position now was that no revenue was deposited into the Third Party Account.

With the introduction of Appropriation-in-Aid, all revenue collected on map sales was shared between Control 99 and Appropriation-in-Aid (Control 75) at the time of banking the revenue.

Missing Original Blank Receipts /Receipt Book not Produced for Audit

The Controlling Officer reported that the Ministry had not located the receipt book yet and the missing original receipts. In this regard, an advert had been put in the media informing the public of the missing receipt book with series 0448651-0448700. The Ministry had further suspended the officer involved.

When asked why it took the Ministry long to commence investigations on the missing receipt, the Controlling Officer reported that the situation of the missing receipt books was brought to light by their senior auditors around the same time the Auditor-General visited their Ministry. The missing receipt books had been in the custody of the cashier who also used to issue the receipts.

Rent of Government Premises

The Ministry was currently collecting rent on Government premises from eight properties.

The clients owed the Government a total sum of K245,514,417 and this was reflected in the opened register of tenants of government premises.

b) Provincial Offices

i) Livingstone

During the period under review, the Ministry did not have accounting or senior staff in the offices. This anomaly had since been corrected with the recruitment of a ground rent collector and senior staff. The custody of safe keys had been normalised.

Provincial Survey Office

The Controlling Officer had written to the officer who was involved directing him to account for the amount of K6,109,611 which was not accounted for at the time of audit and disciplinary measures would be taken against the officer upon receipt of his exculpatory letter.

The fifteen receipt books, which were reported missing at the time of audit had been found, and were now available for audit verification.

The revenue reflected in all the receipt books used had been captured in the computer system.

Provincial Lands Office

Missing Receipt Books - The eight receipt books, which were reported missing at the time of audit, which according to records in the Ministry were seven, were found and were now available for audit verification. The total sum of K88,719,966 from the seven books was collected and banked.

The reason for the transfer of the books was that the strong room had run out of receipt books for Livingstone. Since the Livingstone office had no receipt books at the time, a decision was made to give the four receipt books meant for Solwezi to Livingstone. However, all the books were correctly used and a total sum of K26,504,288 was collected and banked. He apologised for not notifying the Auditor-General of the transfer of the books.

Misappropriated Revenue - The Ministry had since written to the officer involved directing him to account for the missing revenue of K3, 206,171.

The amount of K75, 169,000 in the revenue transit account which was not remitted to headquarters at the time of audit, had since been remitted and transfers effected to Control 99, Land Development Fund (LDF) and Appropriation-in-Aid. The funds were remitted on 12th January 2006.

To ensure that all revenue collected and deposited in the transit accounts was transferred to Control 99 on time, the Ministry had put in place the following measures:

- a) All the provincial offices had been equipped with motor vehicles to ensure that the revenue was remitted to Headquarters on time.
- b) Due to inadequate staff in accounts, officers had been made to work over the weekend to try and expedite the capturing of receipts from the provincial offices.
- c) The Ministry had procured two more computers, which were aimed at increasing the number of pay points for capturing of receipts.

The observation that an amount of K19, 145,417 was misappropriated was correct. A verification of the account statements for the respective properties indicated that:

- The receipts reflected zero on all the records such as banking report by cashier, cash flow statement and account statement.
- Some receipts had reduced amounts in the system i.e. a receipt for K3, 000,000 would indicate K30, 000.
- The balances on the account statement did not show true reflections of the difference of the amounts owing and the receipts as reflected in the LIMS. The officers who issued the receipts were facing formal disciplinary proceedings, with one officer saving suspension pending further investigations.

ii) Ndola

Provincial Survey Office

The matter was reported to the police and the officer involved was on suspension. The receipt book in question was currently with the police to facilitate the investigations.

Unaccounted for Revenue - The Provincial Administration in Ndola had reported the matter to Police. The Ministry was in touch with the Ndola Office. Meanwhile, the Ministry had advertised in the print media to inform the public of the missing receipt series.

The Regional Surveyor had since been urged to ensure that all the revenue collected was banked on a daily basis and reports submitted to headquarters.

Provincial Lands Office

The sum of K443, 662,774 was not only for ground rent as indicated in Auditor-General's report. It included other fees such as registration fees, consent and consideration fees.

The sum of K29, 310,623 which was used before banking contrary to Financial Regulations had since been replaced and banked.

The Ministry had stopped using money before it was banked.

iii) Kabwe

The internal weaknesses were due to lack of accounting or senior staff in the offices. This anomaly had since been corrected with the recruitment of a Ground Rent Collector and Survey Assistant.

Kabwe Survey Office

The Controlling Officer reported that the Ministry noted the Auditor-General's observation that typists and secretaries collected revenue while bank reconciliations and revenue returns were not being prepared.

Misappropriated Revenue-The K1, 325,000 which was said to have been misappropriated at the time of audit was in actual fact used on survey works. One of the clients upon making payment demanded that the property be surveyed immediately and since the revenue was not yet banked, the Regional Office used the money to procure fuel and a battery, which were needed for the works to be done. The office had since been advised to ensure that all revenue was being banked before it was spent.

Missing Receipt Book and Receipt-The receipt book that was reported missing at the time of audit had since been found and was available for audit verification.

On the missing leaf of receipt No. 574200, the officer had been written to directing him to explain the circumstances leading to the missing leaf. The Ministry had also placed an advert in the print media for the missing receipt.

Provincial Lands Office

The use of typists and secretaries to collect and handle revenue was on account of lack of accounting personnel. With recruitment of Ground Rent Collectors, this practice had been stopped.

With regard to the sum of K19, 629,612 which at the time of audit was not unaccounted for, this still remained unaccounted for. In this regard, the two officers involved had been written to directing them to account for the money failure to which appropriate disciplinary action would be taken.

With regard to the latest position, on the refer to drawer cheques in sum of K2,558,000, the cheques had not been replaced because the property was re-entered by the Ministry for no payment of ground rent and the property owner took the case to the Lands Tribunal for legal redress.

The officer had since been written to and warned not to accept uncertified bank cheques.

The amount of K2, 558,000 had since been reversed in the cash books at Kabwe and replacement of the said cheque would only be done after the conclusion of the case from the Lands Tribunal.

It was true that revenue totalling K199, 052,763 in respect of ground rent was collected between January and December 2005 and that only K144, 000,000 was remitted to the Ministry Headquarters in January 2006. The balance of K55, 052,763 had since been remitted to the Ministry.

The delays in remitting revenue were due to the Department having no qualified officer with knowledge of accounts to handle the reconciliations, balancing of revenue preparation of returns and preparation of cash books. Remittances were only done after assistance from the Provincial Accounting Office, which in most cases took long.

iv) Mongu

Provincial Survey Office

The Department had opened an account with Zambia National Commercial Bank through which all the revenue collected was being deposited. Revenue amounting to K43, 000,000 which was deposited in the General Third Party Account maintained by Provincial Administration had since been remitted to Headquarters and had been captured in the Land Information Management System. The balance of K12, 052,763 was yet to be remitted by the Provincial Administration

A total amount of K788, 000 received on 8th July 2005 had been banked. The officer had been written to reprimanding him for delaying banking.

The revenue returns were not being prepared because the office had only one Surveyor manning the whole Province. The officer was also not conversant with the procedure of preparation of returns while at the same time the officer was also made to believe that the Provincial Administration should have been preparing the returns since the revenue collected was being remitted to that office for banking.

Observations and Recommendations

Your Committee are concerned with the state of affairs at the Ministry of Lands with respect to the management of revenues. It is worrying that in certain instances, secretarial staff are left to manage the revenue office. They wonder how revenue collections can be accounted for under such circumstances. They, however, take into account the view that the provincial establishments do not have provision for the position of accounting officer. To this effect, they urge the Secretary to the Treasury, in consultation with the Public Service Management Division, to re-examine the organisational structures of all revenue collecting ministries and departments so that appropriate positions can be established to enhance accountability in the handling of revenue at provincial and district levels.

Your Committee further observe and recommend as set out hereunder.

a) *Headquarters*

i) Unauthorised Reversals in the LIMS

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

ii) Unauthorised Reversals on Banking Reports

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

Your Committee are concerned on why it took long to get an explanation from the officer involved. Taking into account the recent administrative changes at the Ministry, they urge the Controlling Officer to discipline the officer if it will be proved that she irregularly made the reversals.

iii) Theft of Revenue Collections

The Controlling Officer should institute disciplinary action against the officer whose password was used in the illegal transactions. They further urge the Controlling Officer to have the LIMS immediately re-evaluated to determine its usefulness. Going by previous audit reports, the system is not functioning as was originally envisaged. Apart from distorting revenue figures, the system also affects the reliability of land information that the Ministry has on its records.

The Controlling Officer should report progress on the above.

iv) Encashment of Personal Cheques from Revenue

Your Committee urge the Controlling Officer to ensure that the encashment of cheques from revenue is stopped. They further urge him to provide supporting documents on the Refer to Drawer cheques to the Auditor-General for verification.

v) Refer to Drawer Cheques not Reversed

Your Committee observe that the monitoring of properties that had been paid for by cheque was weak. They were of the opinion that a register of all payments made by cheque should be kept which should contain the corresponding property numbers. In the event that a cheque was referred to drawer, the register should be used as a basis to make the reversals.

The Controlling Officer should report progress on the retrieval of the Refer to Drawer cheques from the Bank of Zambia and the Ministry of Finance and National Planning.

vi) Delayed Banking

The Controlling Officer should ensure that incidences of delayed banking are avoided. They resolve to close the matter based on the measures that have been taken to correct the situation.

vii) Map Sales

Non Maintenance of Records

Your Committee commend the Controlling Officer for the measures taken to correct the situation. They urge him to invite auditors to verify the system that has been put in place to ensure that proper sites and inventory records are up to date.

Irregular Deposit of Revenue in Third Party Account

The Controlling Officer should ensure that the supervising officers who allowed revenue collections to be deposited into the Third Party Account are disciplined.

Missing Original Blank Receipts / Receipt Book not Produced for Audit

If the officer did not immediately follow procedure when the original blank receipts and receipt book went missing, disciplinary action should be taken against the officer.

Rent of Government Premises

The Controlling Officer should report progress on the outcome of court cases.

b) Provincial Offices

i) Livingstone

Your Committee observe that problems in the collection of revenue outside Lusaka will not be resolved unless the Ministry recruits more qualified officers. With the implementation of the Decentralisation Policy and also the likely capacity building that will be carried out in local government institutions, your Committee recommend that the Ministry should consider using them as agents to collect ground rent.

They further implore the Controlling Officer to ensure that classified daily employees do not handle Government funds.

Provincial Survey Office

The Controlling Officer should forward the receipt to the Auditor-General for verification. The verification should include the K6,109,611 that could not be accounted for.

Provincial Lands Officer

- The matter on the receipt books that were not produced for audit should close subject to verification.
- On the four receipt books found in Livingstone Office, but originally issued to the Solwezi Office, your Committee advise the Controlling Officer to adhere to provisions of the Financial Regulations. The matter should close.
- The Controlling Officer should report progress on the reconciliation of the Lands Department's cashbooks that the Financial Management Unit was undertaking so that the matter of the unaccounted for K3, 206,171 can be resolved.
- The matter on the K75, 169,000 that was not remitted to Control 99 from the Transit Account should close subject to verification.
- The matter on the K19, 145,417 that was misappropriated underscores the need for the re-evaluation of the LIMS. The Controlling Officer should report progress on the outcome of investigations on officers that were suspended in connection with the various irregularities.

ii) Ndola

Provincial Lands Office

In noting the submission, your Committee advise the Controlling Officer to ensure that all revenues are banked as per requirement of the Financial Regulations. The matter should close subject to verification.

Provincial Survey Office

Your Committee note the submission and request the Controlling Officer to report progress on police investigations on the missing receipts.

They further request for an update on the investigations involving the K2,947,300 that was reported to have been misappropriated.

iii) Kabwe

After their visit to the offices, your Committee observe that the staffing levels at the offices has not improved much despite the recruitment of the Revenue Collector as the office continues to rely on the services of the typist for revenue collection.

Provincial Survey Office

- The Controlling Officer should liaise with the Accountant-General on how to resolve the shortage of accounting officers at revenue collection points.
- On the K1,325,000, your Committee observe that such irregularities will continue as long as revenue collection at provincial offices is under the charge of non-accounting officers.
- The matter on the missing receipt book should close subject to verification. The Controlling Officer should, however, report progress on the missing original receipt No. 574200.

Provincial Lands Office

- *Unaccounted for Ground Rent* – Considering that these are 2005 cases, there should be no further delays in instituting disciplinary action against the officers concerned.
- *Refer to Drawer Cheque not replaced* – The Controlling Officer should report progress on the outcome of the Lands Tribunal proceedings on the matter.
- *Unremitted Ground Rent* – The matter should close subject to verification.

iv) Mongu

Provincial Survey Office

The matter on the K788, 000 that was reported as being unaccounted for should close.

**MINISTRY OF FOREIGN AFFAIRS
Rent of Properties**

Paragraph 15

Irregularities in Accounting for Rental Collections

15. It was reported that due to financial constraints, the Government during the period October 1990 to July 2003 closed several missions abroad including Rome, Bonn, Paris and Lisbon. Consequently, Government decided to lease out the properties and the rentals collected were to be deposited in Government designated bank accounts. In this regard, Government appointed estate agents to manage the properties.

A review of the financial and accounting records relating to the leased properties for the period October 1990 to December 2005 and a physical inspection of the properties carried out in January 2006 disclosed the facts set out hereunder:

(a) ***Rome Mission***

The Mission owned two (2) properties, the chancery and the Ambassador's residence. The chancery was leased to the Ugandan Embassy while the residence was leased to the Associazione Internazionale Medicina Ortomolecolare (AIMO). According to the instructions from the embassy, the rentals were to be deposited in an account called "Zambia Permanent Representative to FAO Account" by the estate agent (Studio Legale Giorgio (Messrs Pasquale/Giounni Giorgio)). It was however observed that:

- (i) Although there was no signed agreement between the Government and the Agent, the Zambian Ambassador to Belgium conferred powers of Attorney to the Agent for the two (2) properties. The propriety of the Ambassador conferring Powers of Attorney on the Agent without a signed agreement is questionable.
- (ii) Although the instructions in place required the Agent to deposit the proceeds from the rentals in the Government designated account called "Zambia Permanent Representative to FAO Account", the rentals were instead deposited in the Agents account. In this regard, there was a delay of up to one (1) year for the funds to be transferred to the Government designated account.
- (iii) An amount of Lire 100,531,984 was spent on incidentals by the Agent on both properties but the expenditure was not verified by the Mission in Brussels to confirm its authenticity.
- (iv) Despite having engaged an Agent to look after the two properties, as of January 2006, the chancery and the residence were in a deplorable state.

Chancery – Via Ennio Quirino Visconti, 8 Rome

In November 1994, the Chancery was leased to the Embassy of Uganda for a period of five (5) years with effect from 1st February 1995 at a monthly rent of 12,500,000 Lire. The parties agreed that the rental payments would be annually reviewed upon request of the landlord. The lease agreement also provided for the payment of interest on the ruling bank rate in case of delay in paying rent exceeding (6) weeks.

A scrutiny of records maintained at the Mission in Brussels in January 2006 revealed the following:

- (i) on 31 March 2004, the tenant vacated the premises leaving unpaid rentals totalling 793,500,000 Lire; further, no interest was charged on the outstanding amounts as provided for in the agreement.
- (ii) during the five (5) years of lease to the Ugandan Embassy, the rentals were static at lire 12,500,000 per month despite the provision in the agreement to review the rentals annually; no reasons were given as to why the rentals were not reviewed; and
- (iii) according to the records made available, in January 2006, an amount of US\$200,000 paid on Bank draft No. 256307685 dated 26th April 2000 to the London Mission could not be traced to the London High Commission bank statements; the purpose for which the amount was purported to have been transferred and the whereabouts of the funds could not be established.

Ambassador's Residence – No. 68, Via Della Mendola, Rome

In February 1995, the residence was leased to a local organisation for a period of (4) four years at a yearly rental of Italian Lire 120,000,000. The rentals were to be paid every second month to the landlord's elected domicile in six (6) equal instalments of Lire 20,000,000.

Although neither party signed the lease document, the agreement was implied from the conduct of the two parties in that the tenant took occupation of the premises and the landlord received the rentals.

The Agreement further stated that repairs were at the tenant's expense regarding all installations pertaining to the rented properties. A scrutiny of the relevant records revealed the following:

- (i) the organisation had not paid rent for the period March 2004 to July 2005 for which Euro 88,983 had accrued, it claimed that it was unable to pay the outstanding rentals because it had carried out improvements to building and the surrounding areas at a total cost of Euro 150,000; however, the works, to modify the building into living quarters and a surgery, were done without authority from the Landlord.
- (ii) contrary to Financial Regulation No.123, the Ministry of Foreign Affairs in June 2005 permitted the abandoning of revenue collection due from rentals amounting to Euro 88,983 through a debt swap without the authority of the Secretary to the Treasury in the Ministry of Finance and National Planning; and
- (iii) a physical inspection in January 2006 revealed that the residence was in a deplorable state.

(b) ***Paris Mission***

In January 1996, the property at No. 47 Rue de Chateau 92200 owned by the Mission was leased out to the Government of the Peoples Democratic Republic of Korea for a period of four (4) years at an annual rent of 400,000 French Francs. The rentals collected were to be deposited in Credit Lyonnais Bank. A scrutiny of the relevant records and an inspection of the property revealed the following:

- (i) after the expiry of the 1996 agreement in 2000, there was no other agreement entered into with the Tenants despite the fact that they occupied the building up to June 2004; in her response dated 6th October 2006, the Controlling Officer stated that the renewal agreement was the same as the principal agreement but there was an apparent omission to obtain the tenant's signature.
- (ii) in July 2003, the Zambian Embassy in Belgium engaged an agent to administer the property, at a fee of Euros 1,000 per quarter net of taxes.
 - The Estate Agent was claiming an amount of Euros 4,965.98, in respect of management fees as at January 2006, but there were no records at the Mission to verify this claim.
 - The residence was in a deplorable state and was not occupied. It was also observed that the central heating system was not working despite the Mission having spent Euros 28,269.63 on the boiler, which was installed in October 2004.

(c) ***Lisbon Mission***

An examination of records pertaining to the above mentioned property revealed that the Zambian Embassy in Brussels had appointed a lawyer and an estate agent to carry out works related to the management of the property. However, there were no agreements pertaining to the nature of the relationship between the

lawyer and the embassy agent. Further, there were no lease agreements for tenants who occupied the properties between 1990 and 2004, which made it not possible to ascertain the rental amounts, collected and utilised and the general management of the property.

Controlling Officer's Submission

a) *Rome Mission*

- i) The Mission had taken note of the observation by the Auditor-General. It was regrettable that the then Ambassador to Belgium conferred Powers of Attorney to an agent for the two properties without a signed agreement. Currently, the Ministry ensures that agreements are duly signed on all contracts that the Government was committed to.
- ii) In light of the above observation, the agent could have taken advantage of the Powers of Attorney conferred upon him and lack of close monitoring of the Government designated Account by the Embassy to deposit the money in his account.
- iii) It was regrettable that the Mission in Brussels did not make an effort to verify expenditure amount of Lire 100,531,984 spent on incidentals by the Agent. However, the amount was spent on major repairs at both properties, in particular the residence where the heating system had to be overhauled and the swimming pool that needed major repairs.
- iv) The properties were in a deplorable state due to the normal wear and tear and this was long before the Ugandans took occupation of the Chancery. The tenants were using these premises until when the contracts were terminated in 2004 thereby showing that the premises were habitable though in bad state.

Chancery – Via Ennio Quirino Visconti, 8 Rome

- i) The reason for the non-settlement of rentals amounting to Lire 793,500,000 was due to the inability by the Ugandan Embassy to honour their obligation of the agreement.

In trying to follow the laws of the host Government (Italy), the tenant could not be evicted if the tenant was not willing to vacate as they enjoyed diplomatic immunity. Hence in trying to follow the regulations as advised by the lawyer, the rent arrears kept on accumulating. However, from the initial amount of Euro 413,165.44, the Ugandan Embassy had paid an amount of Euro 140,000 leaving a balance of Euro 273,165.44. The Mission was still following up the balance as the Ugandan Embassy had promised to continue making payments in order to redeem the debt.
- ii) It was true that rentals were static at Lire 12,500,000 per month despite the provision in the agreement to review the rentals annually. The Permanent Secretary had in fact suggested that the rentals should go up to Lire 15,000,000 per month.
- iii) The amount of US\$200,000 was handed over to the Mission in Dar-es-Salaam for onward transmission to the Ministry Headquarters. In the meantime, the Mission in Dar-es-Salaam had been contacted on the matter in order to ascertain whether the draft was sent to Ministry Headquarters and banked or was sent to London as reported.

In a later submission, the Controlling Officer stated that the Ugandan High Commission in Dar-es-Salaam presented a cheque in favour of the Permanent Secretary, Ministry of Foreign affairs to the High Commissioner in Dar-es-Salaam in May 2000. The cheque upon being receipted was sent to Ministry, Headquarters in Lusaka.

Authorised signatories did not sign the cheque that was initially submitted by the Ugandan High Commission, therefore, it was not accepted by the Bank. It was returned to Dar-es-Salaam for proper signing. When the properly signed cheque was received, it was presented to the Bank and was cleared in London. The High Commissioner in London was instructed to transfer US\$115,887 to the High Commission in Lagos to pay for the construction of the Chancery. US\$104,887 was paid to the main contractor and US\$11,000 to the consultant. It had been established that US\$33,227.44(GBP22,316.62) was used in London to settle operation bills.

The present state of affairs was that the arrears would be paid on a government-to-government arrangement since diplomatic immunities were taken into account. He reiterated that as a Ministry, they could only persuade the Ugandan Embassy to pay them what was due to them but could not compel them to do so within the specified time.

Ambassador's Residence – No 68 Via Della Mendola, Rome

- i) Without signing the lease document, it was difficult to ascertain whether the agreement was binding.

The organisation did not pay for rentals claiming that they had made improvements to the building and surrounding areas despite not obtaining authority from the landlord. This could not be resolved until a debt swap was arranged.

- ii) The decision on the debt swap was taken against the background and the fact that the current term of the lease agreement was still in force until March 2007 without a provision for its mid term termination by the landlord. The tenant was therefore prepared to go to court over the matter and over the question of Euro 150,000, which they wanted to be reimbursed.

Given the situation, the Embassy opted to swiftly deal with the matter by moving the difficult tenant out of the residence first on the strength of the authority given by the then Honourable Minister of Foreign Affairs. It was in good faith that the then Minister of Foreign Affairs went ahead to approve a debt swap without obtaining authority from the Treasury. However, in order to normalise the debt swap, retrospective authority has been requested from the Treasury. The Ministry awaits response from the Treasury.

- iii) His office had noted with concern the observation regarding the various properties in the missions abroad. To this effect, the Ministry had made a provision for maintenance of properties in missions in the 2007 budget.

b) Paris Mission

- i) The Principal Agreement for Residence No. 47, Rue de Chateau 92200 was signed by Ambassador I Z Chabala and the Ambassador of the People's Democratic Republic of Korea on 19th January, 1996. The renewal agreement was the same as the principal agreement, which had an omission of the Koreans signature. The lapses on not entering or signing new agreements could have been as a result of not properly handing over the affairs of these properties by the Belgium Mission each time there was a change in the Head of Mission.
- ii) He had requested the Embassy to provide more details concerning Euro 4,965.98 that the Estate Agent was claiming. He had also inquired from the Embassy on why the Agent did not bring the said claim to their attention.

The central heating system was installed in order to save the building from further deterioration owing to unabated moist.

However, due to the high cost of renovations, a decision was reached to sell it.

c) *Lisbon Mission*

His office had noted with concern the poor management of the various properties in the closed missions abroad.

On this matter, the Embassy in Rome had since requested for copies of the missing bank statements for the stated period in order to ascertain whether the rentals were received and accounted for.

He undertook to ensure that for missions that would be reopened in future such as Accra, advance parties would be directed to have all necessary information prior to the closure.

Observations and Recommendations

Your Committee observe that there is serious lack of commitment by representatives that were appointed to manage Zambian properties in closed missions. If they cannot act to protect government property, your Committee wonder whether the country's interests are being served.

On the financial management side, your Committee request the Secretary to the Treasury to direct the Controlling Officer to embark on a re-orientation programme for officers in missions abroad on the provisions of the Public Finance Act and Financial Regulations. They further request him to undertake an immediate follow-up on how properties in closed missions are being managed.

On the specific Missions, the Committee recommends as set out hereunder.

a) *Rome Mission*

- i) The Controlling Officer should advise all Zambian representatives abroad on the procedures of conferring Powers of Attorney on any party. In addition, he should advise the representatives that they have a duty to protect Government property.
- ii) Details supporting the submission that Lire 100,531,984 was spent on renovations should be forwarded to the Auditor-General for verifications.
- iii) the Ministry should, with authority from the Secretary to the Treasury, mobilise funds from leased-out buildings to maintain properties abroad.

Chancery – Via Ennio Quirino Viconti, 8 Rome

- i) The Controlling Officer should report progress on rental arrears that the Ugandan Government owed the Zambian Government.
- ii) The Controlling Officer should report, with appropriate recommendations, to the Secretary to the Cabinet any Head of Mission that acts contrary to the provisions of the Financial Regulations.
- iii) Documents supporting the submission on the US\$200,000 that the Ugandan Government paid through the Mission in Dar-es-Salaam should be forwarded to the Auditor-General for verification.

Ambassador's Residence – No. 68 Via Della Mendola, Rome

- (i) – (ii) The Controlling Officer should direct all Heads of Missions to ensure that all agreements are in writing and always signed for transparency and accountability purposes.

b) *Paris Mission*

- i) Your Committee urge the Controlling Officer to direct Heads of Missions to ensure that all documentation on rented or leased-out properties are duly signed.
- ii) The Controlling Officer is advised to determine the terms of reference of the agent and payment provisions as specified by the contract. They request him to provide them with an update on the matter.

Since a decision was made to sell the property which is one of the options that the previous Committee recommended, they reiterate the recommendation that the Ministry should first source funds and renovate it before selling to attract a good price.

c) *Lisbon*

The Controlling Officer should report progress on the rentals.

**MINISTRY OF INFORMATION AND BROADCASTING SERVICES
Miscellaneous Receipts**

Paragraph 16

Misappropriation of Revenue and other Irregularities

16. It was reported that the Ministry collected two types of revenue namely Information Services and Miscellaneous receipts. Information services fees were revenue collected from radio and television licenses, press accreditation and provision of public address systems. Miscellaneous receipts fees were collected from hire of video cameras, studios and sale of photos.

During the Financial Years ended 31st December 2004 and 2005, estimates of K111,871,000 and K177,160,738 were made in the Estimates of Revenue and Expenditure, against which amounts totalling K145,230,460 and K184,602,120 were collected respectively.

An examination of records relating to the collection of revenue at the Ministry Headquarters and the Zambia News and Information Services Department revealed the facts set out below.

a) *Media Fees*

Although amounts of K10,296,800 and K51,032,500 were collected as Media Fees in 2004 and 2005 respectively, there were no estimates made in the Estimates of Revenue and Expenditure.

b) *Misappropriation of Revenue Collections*

Out of the total amounts collected of K145,230,460 in 2004, amounts totalling K24,695,200 were misappropriated by the cashier at the Ministry Headquarters.

c) *Receipt Books not Produced for Audit*

Three receipt books with serial numbers 5620001-562050; 562051-562100; and 562151-5622000 issued to Zambia News Information Services Department by the Ministry Headquarters in April 2004 were not produced for audit.

d) Counterfoil Receipts

Counterfoils for receipt numbers 1449849, 1449850,422843, 562142 and 562350 were not retained in the books for audit purposes. In this regard, the collections made on the receipts could not be verified.

Submission by the Controlling Officer

In reply, the Controlling Officer submitted as set out hereunder.

a) Media Fees

The Ministry only collected two types of revenue under Subhead 160 Miscellaneous Receipts and Subhead 161 Information Services.

Under Subhead 160 Miscellaneous Receipts, the Ministry collected revenue for:

- TV and radio licence fees; and
- application forms for TV and Radio and construction permit fees for TV and radio stations

Subhead 161 Information Services, the Ministry collected revenue for the following:

- hire of Public Address System;
- sale of Presidential portraits;
- press accreditation;
- hire of video cameras; and
- hire of studio and editing

The issue of Media Fees under the above subheads did not therefore arise. The Controlling Officer also stated that the Ministry had no mandate to collect such revenue on media fees.

However, the Ministry did collect K145,230,460 under Subhead 160 and K184,602,120 under Subhead 161 and the estimates of revenue was stated in the 2004 and 2005 budgets as K111,871,000 for 2004 and K177,160,738 for 2005 respectively.

b) Misappropriation of Revenue Collections

The K24,695,200 was not misappropriated by a cashier at the Ministry Headquarters but by the Cashier at Zambia News and Information Services who had since been dismissed. His benefits had been withheld to recover the money.

c) Receipt Books not Produced for Audit

After a thorough check of the Register, it was discovered that the same cashier at ZANIS signed for them. Since the Cashier had been dismissed, He was of the view that the loss be charged to public funds and submitted a loss report.

d) Counterfoil Receipts

His office had failed to establish who had removed the counterfoil receipts. He, therefore, appealed to your Committee for the matter to be treated as a loss to the Government.

Observations and Recommendations

Your Committee observe that the Controlling Officer did not fully cooperate with the auditors as explanations on the media fees, and the information on the dismissed cashier who misappropriated Government funds could have been provided during the audit exercise.

They further observe that there is an element of laxity in the receipt form issuance procedures as it is evident that officers are taking advantage of the situation and misappropriating government revenue.

They, therefore, call on the Secretary to the Treasury to take disciplinary action against Controlling Officers that do not cooperate with auditors.

They further recommend that the Secretary to the Treasury reviews the procedure of issuing receipt forms. The first issuance should be made to the Controlling Officers who should keep custody of the same. User officers should request for the receipt forms locally to avoid situations where cashiers can have more than one receipt book at a particular time without the knowledge of the Controlling officers.

On specific issues, the Committee recommend as set out hereunder:

a) *Media Fees*

The issue should close subject to verification that the amounts that were reported as media fees were part of the miscellaneous receipts.

b) *Misappropriation of Revenue, Receipts not Produced for Audit; Counterfoil Receipts*

Following the submission that terminal benefits for the officer involved had been withheld to enable the Ministry make recoveries, they request the Controlling Officer to report progress on the matter.

c) *Receipt Books not Produced for Audit*

Your Committee advise the Controlling Officer to submit the loss report only if terminal benefits of the former Cashier will not be adequate to make a full recovery.

d) *Counterfoil Receipt*

Your Committee urge the Controlling Officer to see to it that receipt forms are properly secured at all times. They further advise that he submits the loss report to the Secretary to the Treasury.

**MINISTRY OF COMMUNICATIONS AND TRANSPORT
Air Service, Aviation and Landing Charges, Civil Aviation**

Paragraph 17

Weaknesses in Accounting for Revenue

17. It was reported that in paragraph 19 of the Auditor General's Report for 2004, mention was made of the weaknesses and irregularities in the collection of revenue at the Department of Civil Aviation. In particular, mention was made of the total collections of K27, 741,805, K97,367,904 (US\$23,216); and K5,075,151 (ZAR 7,409) made during the period January 2004 to December 2004 which though supported by bank deposit slips were not reflected on the control 99 bank statements and revenue collections totalling K7,505,450 made during the period November 2001 to July 2002 which was not banked.

In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, an estimate of K215,970,168 was made against which K1,020,614,736 was collected. The collections were 473% above the budget.

A review of revenue records carried out in February 2006 for the period under review at the Ministry Headquarters, Department of Civil Aviation (DCA) and Lusaka International Airport, revealed that the situation had not improved and in this regard, the irregularities set out hereunder were observed:

a) Headquarters

(i) Unaccounted for Revenue

During the year 2005, fifty-five Temporal Air Service Permits (TASP) were issued to various operators and a total amount of K 15,395,310 collected. It was observed that out of the total collections, only K 3,585,770 was credited to Control 99 leaving a balance of K 11,809,540 unaccounted for.

(ii) Outstanding and Unaccounted for Air Service Permits Fees

During the period under review, forty two air operators were issued with annual air service permits valued at K 165,816,224. Out of the total amount due, K123,955,964 had been collected from twenty-nine operators, leaving a balance of K 41,860,260 from thirteen operators as of February 2006.

It was further observed that out of the K123,955,964 received, only K48,186,000 was credited to Control 99 leaving a balance of K75,769,964 unaccounted for as at February 2006.

(iii) Delayed Banking

There were delays ranging from two to one hundred and twenty-five days in banking revenue totalling K82,597,670 and K6,169,374 (US\$1,471) collected during the period April to December 2005.

(b) Department of Civil Aviation

(i) Unaccounted for Revenue

Out of total collections of K42,855,226 made between January and December 2005, only K6,814,000 was banked leaving a balance of K36,041,226 unaccounted for.

(ii) Irregular Transfer of Receipt Books

The Ministry of Finance and National Planning Strong Room Superintendent issued the Department of Civil Aviation with ten (10) receipt books between January and December 2005. It was noted, however, that three (3) books were transferred to the Ministry of Communications and Transport headquarters without notifying the Auditor-General and the Strong Room Superintendent.

(iii) Delayed Banking

There were delays ranging from two to sixty-nine days in banking revenue totalling K310,154,787 collected between January and December 2005.

(c) Lusaka International Airport

(i) Unaccounted for Revenue

According to procedures in place, revenue from Temporal Air Service Permits (TASP) are collected by National Airports Corporation officials on behalf of the department of Civil Aviation and handed over to the cashiers at the Ministry Headquarters for banking the following morning.

A total amount of K16,044,898 was collected during the period January to December 2005. It was noted, however, that contrary to the procedures in place, an amount of K 6,338,645 was found on hand while the balance amounting to K9,514,260 could not be accounted for.

(ii) *Register of Accountable Documents*

It was observed that an accountable documents register was not maintained.

Controlling Officer's Submission

(a) *Headquarters*

(i) *Unaccounted for Revenue*

The Controlling Officer submitted that he had instructed the officer involved to substantiate the unaccounted for balance. This had since been done as the officer had obtained receipts from the Ministry of Finance and National Planning as evidence that revenues were deposited in Control 99.

(ii) *Outstanding and unaccounted for Air Service Permit fees*

The Controlling Officer said that the latest position with regard to the operators who were issued with permits but had been indicated as not having paid were: Air Malawi, South African Air Link, British Airways and Comer Pty but had since been verified as having paid for the air service permits.

He said Zambia Air Services Training Institute, Travel International Air Charters, and South African Cargo, Zambian Air Services and Trans Air Services had been written to confirm payment but had not yet responded. Payment for Air Services permits for Lunga Air Shuttle, Airlines and Regional Airlines was still being verified.

(iii) *Delayed Banking*

The Ministry had noted the observations of the Auditor-General and had instructed the National Airports Corporation (NACL) to bank the revenues collected directly into Control 99 within 48 hours and submit weekly returns on all collections and banking.

(b) **Department of Civil Aviation**

(i) *Unaccounted for Revenue*

The Controlling Officer said according to records available, the total collections and deposits made between January and December 2005 amounted to K277, 524,658.25 broken down as follows:

Kwacha	SA Rand	US Dollars
223,180,330	4,154.	7,282

He said deposit slips and receipts were available for verification. The reported K42, 855,266, he said, was only part of the above collection.

(ii) *Irregular Transfer of Receipt Books*

The Controlling Officer submitted that the Ministry acknowledged not notifying the Auditor General's office and the Ministry of Finance and National Planning after transferring three receipt books from the Department of Civil Aviation to the Ministerial Headquarters. In future the Ministry would endeavour to follow laid down procedures to avoid such anomalies.

(iii) *Delayed Banking*

The Ministry had taken note and had since directed the Director of the Department of Civil Aviation to deposit all funds collected the following working day.

(c) ***Lusaka International Airport***

(i) *Unaccounted for Revenue*

The Controlling Officer said a letter was written to National Airports Corporation Limited (NACL) to ascertain the amounts collected and how much was remitted to the Ministry and the total amounts banked.

(ii) *Register of Accountable Documents*

The Controlling Officer submitted that the National Airports Corporation had been instructed to open a register for all accountable documents.

Observations and Recommendations

Your Committee in noting the submission observe that the Controlling Officer only attempted to act on some queries such as delayed banking when summoned to appear before your Committee as the correspondence presented was written a week before the meetings. This reflects lack of seriousness in the way public resources are handled.

They, therefore, urge the Secretary to the Treasury to caution the Controlling Officer over such practices and direct all Controlling Officers to act on audit queries immediately they are brought up.

They further advise the Secretary to the Treasury to recheck the directives given to National Airports Corporation over banking of revenue as they were made in haste.

On the specific issues, they recommend as set out hereunder:

a) ***Headquarters***

i) *Unaccounted for Revenue*

The Controlling Officer should have the matter verified.

ii) *Outstanding and Unaccounted for Air Service Permit Fees*

The documents confirming that all revenue realised from Air Service Permits was remitted to Control 99 should be sent to the Auditor-General for verification.

The matter on the outstanding K41.9 million on Air Service Permits should close subject to verification.

iii) *Delayed Banking*

Copies of documents supporting the submission that revenues are banked within 48 hours after collection should be submitted to the Auditor-General for verification.

b) ***Department of Civil Aviation***

i) *Unaccounted for Revenue*

Your Committee appreciate the revenue that was collected. They, however, recommend that the revenue amounts be reconciled and verified that they were remitted to Control 99.

ii) *Delayed Banking*

The Controlling Officer should submit to the Auditor-General details showing that banking is done on a daily basis for verification.

c) Lusaka International Airport

i) Unaccounted for Revenue

The Controlling Officer should report progress on the reconciliation of revenue amounts with the National Airports Corporation and have the same verified by the Office of the Auditor-General.

ii) Register for Accountable Documents

Your Committee note the response.

**MINISTRY OF COMMUNICATIONS AND TRANSPORT
Maritime Fees**

Paragraph 18

Weaknesses and Irregularities in Accounting for Revenue

18. The Department of Maritime and Inland Water Ways is responsible for the issuing of water licenses, conducting surveys of water vessels along the lakes and rivers of Zambia and collecting fees relating to surveys and registration of water vessels among others.

During the year under review, estimates were made in the Estimates of Revenue and Expenditure for the financial years ended 31st December 2004 and 2005 of K125,623,820 and K303,188,890, against which K179,796710 and K131,164,743, respectively. The collections in 2005 were below target by 57%.

An audit of records pertaining to revenue collections at the Maritime Department in Lusaka for the period January 2004 to March 2006 revealed weaknesses in the internal control systems in that the Stores Officer who had no accounting knowledge was doing the collections. In addition, his supervising officers made no supervisory checks.

As a result of the above weaknesses, the following were observed;

(a) Misappropriation of Revenue

During the period January 2004 to March 2006, amounts totalling K136, 017,800 and US\$1,300 were collected as survey and registration fees. Out of the total collections, the Stores Officer misappropriated (K29, 531,000 and US\$1,300), while the Accounts Assistant misappropriated (K12, 295,600), bringing the total misappropriated to K41, 826,600 and US\$1,300 respectively.

Although the matter was brought to the attention of the Controlling Officer, no action had been taken against the culprits as of April 2006.

(b) Delayed Banking

There were delays ranging from one to ten months in banking revenue amounting to K25, 657,000 collected during the period May 2005 to January 2006, and had not been banked as of April 2006. The collections included cheque number 003084 dated 5th May 2005 for K1, 800,000, which had since become stale and had not been replaced as at April 2006.

(c) Accountable Documents not Produced for Audit

There were twenty eight books, fourteen certificates of competence, one receipt book Accounts Form 40 and thirteen application for survey and registration of vessels books) that were not presented for audit as of April 2006.

(d) Outstanding Fees from Inspections of Water Vessels

Out of two hundred and seventy-five inspections of vessels carried out between January and April 2005, thirty-four inspections valued at K4,590,000 had not been paid for as at April 2006.

(e) ***Unaccounted for Revenue***

A review of returns from Mongu for 2004 revealed that Mongu harbour collected revenue amounting to K81,766,000 between May and December 2004. Out of K81,766,000 collected, only K1,754,500 was credited to Control 99. The balance of K80,11,500 was not accounted for.

Further, no returns were submitted to the Ministry Headquarters for 2005, therefore total collections for the period could not be ascertained.

Controlling Officer's Submission

(a) ***Misappropriation of Revenue***

The Controlling Officer submitted that the officers concerned had admitted responsibility for the loss of revenue hence they had been charged and ordered to pay back. So far amounts of K1,000,000 and K500,000 had since been paid by the two officers respectively and instructions were given to recover the balances from their salaries. In addition they had been reassigned to other duties.

(b) ***Delayed Banking***

He further submitted that he had taken note and had since directed the Director of Maritime and Inland Waterways to deposit all funds collected the following working day. Further, the Director of Maritime and Inland Waterways had since written to the issuer of the stale cheque for a replacement to be made. In addition, the officer concerned was reprimanded, removed and re-assigned to other duties.

(c) ***Accountable Documents Not Produced for Audit***

The documents that were not produced at the time of the audit were now available for verification.

(d) ***Outstanding Fees from Inspections of Water Vessels***

He informed your Committee that the application form was a turn around document i.e. it served as an application form and a Surveyor's Certificate after endorsement.

He further said the thirty-four inspections were not successful hence no revenue was collected on them.

(e) ***Unaccounted for Revenue***

It was reported that the amount of K80,766,000 reported as unaccounted for was banked through the Zambia National Commercial Bank in Mongu.

Observations and Recommendations

Your Committee observe that financial misconduct in the public service will not be minimised if punitive measures are not stiff enough.

They, therefore, advise the Secretary to the Treasury to liaise with the Secretary to the Cabinet on the need to review disciplinary measures for misappropriation and misapplication of public funds and any form of misconduct of a financial nature. This will enhance the efforts of improving accountability in the Public Sector.

On specific cases, they recommend as set out hereunder:

a) *Misappropriation of Revenue*

The Controlling Officer should submit recovery details to the Auditor-General for verification.

b) *Delayed Banking*

The Controlling Officer should forward banking details supporting his submission that all revenues are banked on the next working day. They further urge him to report progress on the replacement of the stale cheque.

c) *Accountable Documents not Produced for Audit*

The matter should close subject to verification. However, your Committee advise the Controlling Officer to ensure that all accountable documents are properly secured and easily retrievable for audit scrutiny.

d) *Outstanding Fees from Inspections of Water Vessels*

The matter should close subject to verification.

e) *Unaccounted for Revenue*

The Controlling Officer should submit to the Auditor-General documentation supporting his submission that the unaccounted for K80.8 million was banked. They further urged him to also submit copies of returns for 2005 for verification.

MINISTRY OF COMMUNICATIONS AND TRANSPORT

Road Traffic Collections

Paragraph 19

Weaknesses in Control over Revenue Collections

19. In Paragraph 17 of the Auditor General's Report on the Accounts for the financial year ended 31st December 2004, mention was made of a number of weaknesses and irregularities in accounting for revenue. In particular it was mentioned that various officers at Road Traffic Commission headquarters, Lumumba Road, Chirundu, Livingstone, and Ndola offices misappropriated K13,114,895,208.

In their Report for the Fifth Session of the Ninth National Assembly, the Public Accounts Committee directed the Controlling Officer to minimise weaknesses in the accounting systems that were as a result of improper procedures. The Committee also directed the Controlling Officer to report progress on the case regarding the misappropriation of funds.

In December 2002, the Road Traffic Commission was transformed into the Road Transport Safety Agency (RTSA), but only became operational in 2005. An audit carried out in January 2006 at the RTSA Headquarters, Lumumba Road, Ndola, Livingstone and Kasumbalesa border posts revealed that the situation has not improved. In particular, the matters set out hereunder were observed:

During the period January to December 2005 the Agency collected revenue amounting to K35,571,116,135 as against an estimate of K44,700,840,941, resulting in an under collection of K9,129,724,806 for which no explanation was given.

(a) Headquarters

(i) Unaccounted for Revenue

Out of a total amount of K1,011,650,000 collected between July and December 2005 from one hundred and seventy two identity certificate books, a total amount of K629,089,400 was banked leaving a balance of K382,960,600 unaccounted for.

(ii) Missing Identity Certificate Books

There were twelve identity certificate books for licensing private service vehicles from which revenue totalling K70,200,000 was receivable, that were not produced for audit verification.

(iii) Missing General Receipt Books

There were twelve general receipt books issued to Ridgeway collection point that were not produced for audit verification.

(iv) Delayed Banking

There were delays ranging from two to one hundred and four days in banking revenue amounting to \$7,904 (K30,035,200) collected as toll fees between July and December 2005.

(b) Lumumba Road

(i) Delayed Banking

There were delays ranging from two to eleven days in banking revenue amounting to K945,918,900 collected during the period July to December 2005.

(ii) Revenue Collections not Credited to Control 99

There was no evidence that amounts totalling K3,554,000,000 collected by ZRA on behalf of the Agency in respect of motor vehicle registration fees were credited to Control 99.

(iii) Security Paper not Properly Accounted For

The system for collecting revenue has been fully automated through the Zambia Transport Information Systems (ZAMTIS). According to this system, once revenue has been collected and receipted, the system produces a print out of the transactions showing the amounts receipted and the customer is given the certificate paid for. The printouts are made on a pre-numbered special paper that has certain inherent security features. The paper has stock code numbers that are used for stock tracking purposes.

In Paragraph 17(e) of the Audit Report for the accounts of the financial year ended 31st December 2004, mention was made of the weaknesses in the manner in which the special paper was being handled. In this regard, it was mentioned that the paper was not usually signed for whenever it was issued.

A recent review revealed a serious weakness in that the paper, despite being an accountable document being used as a receipt in the collection of Government revenue was no longer being stored by the Strong Room Superintendent at the Ministry of Finance and National Planning but by the system vendor at Lumumba RTC station.

It was observed in this regard that the RTC did not maintain any record of the movements in the stocks of the paper and issues to the individual cashiers were not recorded.

Provincial and District Offices

Visits to selected RTSA Offices in the Copperbelt and Southern Provinces revealed the facts set out below:

(a) Ndola

(i) Cash Shortage

A cash count conducted on 17th March 2006 revealed a cash shortage of K13,409,300 out of which a total amount of K6,435,000 was paid back on 18th March 2006 leaving K6,974,300. As of August 2006, no action had been taken against the officers involved.

(ii) Public Service Operators Scheme

RTSA established a Public Service Operators scheme, whereby individuals or institutions that operate a fleet of Public Service Vehicles (PSV) are allowed to pay for their vehicle identity certificates in advance for a number of years.

It was however observed that amounts totalling K133,362,000, collected during the period July to December 2005 in Ndola were not accounted for.

Unaccounted For Revenue

A total amount of K409,045,200 was receivable from the issuance of pass driving certificates, motor vehicle fitness test certificates and identity certificates during the period July to December 2005. Revenue records examined however revealed that only K270,487,900 was collected and banked while the balance of K138,557,300 was unaccounted for.

(iii) Revenue Not Banked, ZAMPOST

In paragraph 27(e) of the Auditor General's report for the financial year ended 31st December 2002, mention was made of the irregularities in the manner in which ZAMPOST was handling Government revenue. In particular, ZAMPOST did not account for revenue amounting to K8,755,500 collected at the Woodlands Post Office.

A reconciliation of daily collections by the ZAMPOST Ndola against bank deposit slips revealed that a total amount of K51,102,350 collected during the period August to December 2005 was not banked and was not on hand.

(b) Kasumbalesa Border Post

There were delays ranging from two to thirty nine days in banking revenue amounting to \$125,606 (K477,302,800) collected as toll fees at Kasumbalesa border post during the period July to December 2005.

(c) Livingstone

(i) Revenue Collections not Supported by Bank Deposit Slips

Revenue totalling K4,137,400 collected during the period August to November 2005 was not supported by bank deposit slips.

(ii) Delayed Banking

There were delays ranging from nine to forty eight days in banking revenue totalling K350,535,080 from motor vehicle registration and US\$8,850 (K33,630,000) from toll fees collected during the period August 2005 to January 2006.

(iii) Delayed Remittances to Control 99 by Finance Bank (Z) Ltd

There were delays ranging from nine to ten days in remitting revenue amounting to K420,750,500 and US\$13,880 (K52,744,000) from the Kwacha and Dollar Transit Accounts respectively by Finance Bank to Control 99. This was contrary to Circular No. 1 of 2005 issued

to all Controlling Officers by the Permanent Secretary (FMA) that required all Controlling Officers to ensure that deposits into revenue transit accounts are remitted by commercial banks to Control 99 within 24 hours.

(d) Kitwe

(i) Unaccounted For Revenue

Although 2,130 identity certificates were issued in 2004 and 2005 to Public Service Vehicle Operators, no receipts were issued. In this regard, revenue totalling K246,457,800 collected during the period 2004 (K162,652,900) and 2005 (K83,808,000) could not be accounted for.

(ii) Missing Identity Certificates

There were five Identity Certificate books with total collectable revenue amounting to K25,000,000 issued to Kitwe station by the Strong Room Superintendent in June 2004 which were not produced for audit scrutiny.

(iii) Duplicate General Receipt Books

During the posting of accountable documents to the register, it was discovered that two fake general receipt books were used to collect revenue. In this regard revenue totalling K3,393,000 collected using the two fake receipt books was misappropriated by the cashier.

(e) Luanshya

Unaccounted for Revenue

During the years 2004 and 2005, 1,449 identity certificates were issued and a total amount of K166,460,400 was collectable. It was however not possible to verify whether the money was collected as no receipts were made available contrary to then.

Although the above matters were brought to the attention of the Controlling Officer, no action had been taken against the culprits.

Controlling Officer's Submission

Unaccounted for Revenue

The Controlling Officer submitted that it was at the moment difficult to determine using the general receipt books and cash books how much revenue was collected because the collections relating to the Road Service Licence (RSL) and Identity Certificates were receipted in the General Receipt books with other collections such as certificate of fitness, fines, cross border permits where receipt serial numbers were computer generated and did not tally with RSL and IC numbers.

To address the existing disparity in the system the Road Transport and Safety Agency (RTSA) was redefining the process and computerising this as a matter of urgency. Meanwhile the Ministry had issued a directive that RSLs and Identity Certificates be treated as accountable documents.

Missing Identity Certificate Books

He submitted the table below to show the status on the reported missing Identity Certificates at RTSA Headquarters.

Item	Serial number	Station Issued To	Officer Issued To	Status
i.	110751-110800	Kitwe		Available Used
ii.	110801-110850	Kitwe		Available Used
iii.	110851-110900	Kitwe		Available Used
iv.	110901-110950	Kitwe		Available Used
v.	110901-111000	-		Wrong range, correct range in iv. Above.
				withdrawn.
Vi.	111001-111050	-		Print
vii.	111051-111100	-		Print
viii.	111101-111150	Lusaka	Nancy Lungu	Officer requested to account
ix.	111151-111200	Lusaka	Nancy Lungu	Officer requested to account
x.	111201-111250	Lusaka	B Tembo	Available Used
xi.	111251-111300	Lusaka	B Tembo	Available Used
xii.	111301-111350	Lusaka	B Tembo	Available Used

He said as noted in the status column most of the Identity Certificate Books were available for inspection. However, two books could not be traced and the officer responsible had been directed to find them or face disciplinary action.

Missing Receipt Books

The table below was submitted to show the status on the reported missing General Receipt Books at RTSA Headquarters.

Item	Serial number	Station Issued To	Officer Issued To	Status
i.	825001-825050	-		Investigating range
ii.	1569601-1569650	-		Investigating range
iii.	548001-548050	-		Investigating range
iv.	548151-548200	-		Investigating range
v.	1703551-1703600	Lusaka	H Mwanza	Available Used
vi.	1015847-1015896	Lusaka	B Tembo	Available Used
vii.	1535051-1535100	Lusaka	H Mwanza	Available Used
viii.	1535651-1535850	Lusaka	H Mwanza	Available Used
ix.	1682651-1682700	Lusaka	M Simapuka	Available Used
x.	1604701-1604750	Lusaka	M Simapuka	Available Used
xi.	1683001-1683050	Lusaka	M Simapuka	Available Used

Item (i) to (iv) were being investigated with the help of the Strong Room Superintendent, as the range appeared to be outside that recorded in RTSA registers.

iv) Delayed Banking

The Controlling Officer submitted that procedures and guidelines had been issued and circulated to all station managers indicating that all revenue collected must be banked the following business day. Further, due to the strategic importance of all Lusaka RTSA revenue collection point, a security firm had been

engaged to provide cash-in-transit services.

Lumumba Road

Delayed Banking

He said the measures mentioned at A (iv) above equally applied to this.

Revenue Collections not Credited to Control 99

Your Committee heard that motor vehicle registration fees were remitted through commercial banks to the credit of a separate account called Motor Vehicle Registration Fees Account held at Bank of Zambia. Both the RTSA and ZRA had no control on the transfers from the Motor Vehicle Registration Fees Account to the Control 99 within BOZ.

Security Paper not Properly Accounted For

The Controlling Officer said the concern of the Auditor-General had been noted. The last consignment of security paper received was currently under the custody of the Strong Room Superintendent at the Ministry of Finance and National Planning.

A procedure had also been put in place where the security paper movement was recorded and signed for by issuing and receiving officers. As part of end of day procedure paper issued was reconciled with that used, cancelled, damaged and at hand.

Provincial and District Offices

a) *Ndola*

i) Cash Shortage

Your Committee were informed that the Cashier had since been charged and would appear before a disciplinary committee hearing soon.

ii) Public Service Operators Scheme

Following the Auditor General's observation, a directive was given to RTSA Management to institute investigations.

iii) Unaccounted for Revenue

He submitted that records available revealed that revenue amounting to K301, 800,100 was banked during the period 1st July to 31st December 2005 and documents were available for verification. Further, he said investigations were underway to establish the amounts receivable.

He said issuance of such paper to officers would be reconciled daily with the revenues raised and stock at hand. The receipts issued would be cross-referenced to the source documents. The Station Managers would supervise the process.

iv) Revenue not Banked ZAMPOST

Your Committee were informed that Management at ZAMPOST had been written to account for the Government revenue. RTSA Internal Auditors had been directed to reconcile ZAMPOST and other agents revenue for 2005 and 2006. ZAMPOST would be made to make good any shortfall arising from the reconciliation.

b) *Kasumbalesa Border Post*

Delayed Banking

He informed your Committee that the procedures and guidelines had been issued to all station managers indicating that all revenue collected must be banked the following business day.

c) Livingstone

i) Revenue Collections not Supported by Bank Deposit Slips

The Controlling Officer told your Committee that the Station Manager and the revenue collector had been suspended to facilitate investigations; procedures and measures had been put in place to stop the recurrence. Further, RTSA had reinforced the station with a Senior RTSA officer who would now manage the station. RTSA also intended to recruit qualified cashiers and cashier supervisors to man all critical stations.

ii) Delayed banking

The Controlling Officer submitted that procedures and guidelines had been issued to all station Managers indicating that all revenue collected must be banked the following business day.

iii) Delayed Remittances to Control 99 By Finance Bank (Z) Ltd.

All banks and agents had been notified that revenue collected must be banked the following business day. Measures had also been put in place to ensure that returns were submitted to RTSA for monitoring purposes.

d) Kitwe

i) Unaccounted for Revenue

The Station Manager had failed to account for the identity certificates issued against the receipts. RTSA was reviewing the process of issuing General Receipts and Identity Certificates through public sittings.

ii) Missing Identity Certificates

The missing identity certificates had not been found and the serial numbers had been reported to the Police. RTSA had commenced disciplinary action against the officer responsible.

iii) Duplicate General Receipt Books

The matter of duplicated receipts books at Kitwe RTSA offices had been referred to the RTSA Legal Department for advice. In the meantime, the officer involved had been suspended.

e) Luanshya

Unaccounted for Revenue

The officer has been suspended and awaits a disciplinary hearing.

Observations and Recommendations

Your Committee observe that there are serious weaknesses in the accounting of revenues at the RTSA. This is worsened by the fraudulent activities being perpetrated by staff. Your Committee believe that among the reasons for the creation of the RTSA is to improve accountability but this unfortunately does not appear to be the case.

They, therefore, urge the Secretary to the Treasury to closely monitor the operations of the RTSA. Going by the audit findings, the institution is prone to fraud and requires an effective internal control system to be in place.

On the specific issues, the Committee's recommendations are as set out below.

a) Headquarters

i) Unaccounted for Revenue

The Controlling Office should report progress on the improved system of accounting for revenue.

ii) *Missing Identity certificate Books*

- The Controlling officer should have the ten identity certificate books verified. The Controlling Officer is further urged to ensure that documents are made available to auditors during the audit process.
- The officer who could not account for two identity certificate books should be disciplined.

iii) *Missing General Receipt Books*

The Controlling Officer should forward the available receipt books to the Auditor-General for verification and reconciliation on the actual number of missing receipting books.

He should also report progress on the five missing receipt books.

iv) *Delayed Banking*

The Controlling Officer should forward details showing that banking is done the following business day to the Auditor-General for verification.

b) *Lumumba Road*

i) *Delayed Banking*

As recommended in (a) (iv) above.

ii) *Revenue Collections not Credited to Control 99*

The Controlling Officer is advised to cooperate with auditors. The explanation could have been given to auditors during the time of audit.. Documents showing that the K3,554,000,000 was deposited in the Motor Vehicle Registration Fees Account for onward transfer to Control 99 should be forwarded to the Auditor-General for verification.

iii) *Security Paper not Accounted For*

The matter should close subject to confirmation by the Auditor-General that the security paper is under the custody of the Strong Room Superintendent and verification of the procedure that has been put in place to track the movement of the security paper.

Provincial Offices

a) *Ndola*

i) *Cash Shortage*

The Controlling Officer should report progress on the outcome of the disciplinary hearing.

ii) *Public Service Operations Scheme*

Whilst investigations are going on, the Controlling Officer is urged to ensure that all funds received are accounted for.

iii) *Unaccounted for Revenue*

Records for the K301,800,100 should be forwarded to the Auditor-General for verification. The Controlling Office is requested to provide an update on the balance.

iv) *Revenue not Banked*

The Controlling Officer should report progress on the amounts that ZAMPOST could not account for.

b) Kasumbalesa

Delayed Banking

The matter should close subject to verification that banking is done the next working day.

c) Livingstone

i) Revenue Collections not Supported by Bank Deposit Slips

The Controlling Officer should report progress on the outcome of investigations.

ii) Delayed Banking

The matter should close subject to verification that banking is done the next working day.

iii) Delayed Remittances to Control 99

The Controlling Officer should caution Finance Bank over delays in remitting revenue deposited in Transit Accounts.

d) Kitwe

i) Unaccounted for Revenue

The Station Manager that failed to account for the identity certificates should be disciplined if this was not as a result of the system failure. The Controlling Officer is requested to give an update on the public hearings meant to improve operations.

ii) Missing Identity Certificates

The Controlling Officer should report progress on the disciplinary action taken against the officer.

iii) Duplicate General Receipt Books

The Controlling Officer is requested to report progress on the advice from the RTSA Legal Department. Your Committee, however, are of the view that the concerned officer should not be allowed to continue working in the public service.

e) Luanshya

Unaccounted for Revenue

The Controlling Officer should report progress on the outcome of the disciplinary hearing.

**MINISTRY OF WORKS AND SUPPLY
Weighbridge Charges**

Paragraph 20

Irregularities in Accounting for Weighbridge Charges, Kafulafuta

20. An examination of records pertaining to the collection of weighbridge charges at Kafulafuta for the period January 2003 to February 2005 revealed poor record keeping, failure to account for revenue and weaknesses in the systems of internal control in that the Register of Accountable Documents and General Revenue cashbooks were not maintained, revenue collections were not deposited in Control 99 and supervision over staff handling the collections was not adequate. In particular, the following were observed:

- (a) register of accountable documents and general revenue cashbooks were not maintained.
- (b) during the period January 2003 to February 2005, amounts totalling K449,187,000 collected as weighbridge charges. were not deposited into Control 99;

- (c) out of the K449,187,000 collected, K363,731,049 was deposited into an account maintained at a local commercial bank and the balance of K85,455,951 was not accounted for, and
- (d) out of the K363,731,049 banked, K287,032,307 was later withdrawn and utilised without Treasury authority. In addition, of the K287,032,307 utilised, expenditure amounting to K54,748,312 could not be verified due to lack of records.

Controlling Officer's Submission

The Controlling Officer in response submitted that the main objective for construction of weighbridges was to ensure that all heavy vehicles that were using the road network comply with the load limits as stipulated in the Public Roads Act and its regulations. This was done in order to protect the roads and bridges on the network and thus prolong their service life.

The protection of the roads and bridges was very important if the benefits of the investment were to be realised.

The benefits included:

- (i) reduction in vehicle operating cost;
- (ii) reduction in the number of accidents; and
- (iii) prolonged life of the roads and bridges.

The objective of axle load control was not to generate revenue but to monitor and control vehicle overloading.

It was also important to note that once the collections reduced, it was an indication of compliance by road transporters. An increase in the collection indicated non-compliance by the road transporters.

On the specific queries, the Controlling Officer responded as set out hereunder:

- a) The register of accountable documents and general revenue cash book were not maintained by the Provincial Roads Engineer because of lack of accounting staff at the Provincial Roads Engineer's Office which has no establishment for such functions. However, with the recruitment of new accounting staff under the newly established Road Development Agency, the problem would not recur.
- b) The collections were not deposited into Control 99 but into the Transit Account. Without the knowledge of the Ministry of Works and Supply, the Provincial Administration introduced signatories to this Transit Bank Account perhaps with a view of accessing these collections contrary to Financial Regulations. However, a recommendation was made that the Permanent Secretary, Copperbelt Province should reimburse the Weigh Bridge Transit Account with the collections so that they were deposited in Control 99.
- c) The Provincial Road Engineer was identified as the officer that had used the money on roads related activities. The Ministry Internal Audit also observed the irregularities and made the recommendation that Copperbelt Provincial Administration should reimburse the funds.
- d) Recommendations were made that the Provincial Administration seconds an Accountant to the Provincial Roads Engineer's Office to assist organise the accounting function and update the records.
- e) The K287,032,307 which was withdrawn by the Provincial Administration's Office was done without Treasury authority. To deter such kind of practices there was a recommendation that

disciplinary action be taken against the officers involved. The Ministry does not withdraw funds, for whatever purpose, from the Transit Account without obtaining authority from the Treasury.

- f) The payment that was made to Zambia National Service as allowances for Weighbridge operators was authorised by the Secretary to the Treasury.

Ideally, the Commercial Bank Transit Account was not supposed to hold any money since the money was in transit through to Control 99. However, the situation had been normalised and no more money was being held in a Commercial Bank (records could be verified at Provincial Administration's Office). Since the area Provincial Administration handled the weighbridge collections, it was recommended that the Copperbelt Province be asked to clarify on actions taken to normalise the anomalies.

The operation of the Transit Account was that it was not an investment or savings account, which would earn interest. However, the opportunity cost foregone in terms of interest earnings if the said amount of money was in an interest savings account would be calculated as notional interest earnings.

Observations and Recommendations

Your Committee observe that lack of coordination between provincial administrations and ministries' headquarters is affecting accountability in the utilisation of government funds. They, therefore, urge the Secretary to the Treasury to:

- i) investigate and advise on what led to withdraws being made from the Transit Account resulting in K449,187,000 not being deposited in Control 99 during the period under review;
- ii) see to it that officers that were responsible for the withdrawal of the K287,032,307 are disciplined as well as ensure that the funds are accounted for; and
- iii) ensure that there is coordination between provincial and ministerial controlling officers particularly in the use of public funds.

On the specific issues, the Committee recommended the following:

- a) the matter on the accountable documents register and general revenue receipt cash books should close on the basis that RDA has put up a proper accounting system;
- b) the Controlling Officer should impress upon the Permanent Secretary – Copperbelt Province to reimburse the K446,187,000 that was irregularly utilised by the Province; and
- c) the Controlling Officer should similarly ensure that the K85,455,951 is reimbursed by the Copperbelt Province Permanent Secretary

EXCEPTIONAL REVENUE

Audit Query

Paragraph 21

MINISTRY OF FINANCE AND NATIONAL PLANNING

Exceptional Revenue - Fuel Levy

21. The Auditor-General reported that in paragraph 29 of the Auditor General's Report on the Accounts for the Financial Year ended 31st December 2002, mention was made of the non remittance of the fuel levy by the Ministry of Finance and National Planning to the National Roads Board.

In their report for the Third Session of the Eighth National Assembly, the Public Accounts Committee directed the Secretary to the Treasury to ensure that the budget provisions of the fuel levy for each particular year were released to the National Roads Board in full before any other considerations for excess collections.

In 2005, the National Roads Board was transformed into the National Roads Fund Agency, whose objectives and funding modalities remained the same.

During the financial years ended 31st December 2004 and 2005, total estimates of K1,215,330,302,550 and K173,459,494,374 were made in the Estimates of Revenue and Expenditure for fuel levy collections, against which K121,533,030,255 and K173,459,493,632 were collected, respectively. The collections of 2004 were below target by 90%.

Records examined at the Zambia Revenue Authority and the National Roads Fund Agency revealed that whereas the collections for 2005 were remitted to the National Roads Fund Agency, collections amounting to K146,828,221,505 for the previous years had not been remitted as of May 2006.

Secretary to the Treasury's Submission

The Secretary to the Treasury submitted that before the introduction of the Activity Based Budget in 2004, all moneys collected and banked in Control 99 were expended in accordance with the approved budget allocation by Parliament. As such, funding to the then National Roads Board (NRB) was based on the original budget estimate, which was approved by Parliament, and not on total fuel levy collection. In this regard, the alleged shortfalls on fuel levy remittance of K146,828,221,505 were based on total fuel levy collections which was in some cases more than the budget estimates approved by Parliament. In view of the fact that other tax types performed below par, this revenue actually bridged the gap in order to execute the Budget as approved by Parliament.

In line with the road reforms under the Road Sector Investment Programme (ROADSIP), the Government in 2004 decided that all revenue collected as fuel levy be channelled to the Road Fund. This was actually part of the financing strategy adopted by the Government and Cooperating Partners. In this regard, the Ministry of Finance and National Planning committed itself to be remitting all funds collected as fuel levy to NRB. The 2004 total fuel levy collections amounting to K121,533,030,255 was remitted. Similarly, in 2005, total collection of K173,459,493,632 was remitted to the National Road fund Agency (NRFA) representing one hundred per cent remittance of the collected amount. In the 2004 estimates of revenues and expenditure, the fuel levy estimate was erroneously reflected as K1,215,330,302,550 instead of K121,533,030,255.

When asked if the over collections in some years would ever be remitted, the Acting Secretary to the Treasury replied that under Activity Based Budgeting, this was most unlikely.

Observations and Recommendations

Your Committee note the submission and resolve that the matter be closed.

EXPENDITURES

Audit Query

MINISTRY OF HOME AFFAIRS

Immigration Department – Central Province

Paragraph 22

Weaknesses in the Administration of Personal Emoluments and Other Irregularities

22. An audit carried out in January 2006 at the Immigration department in Kabwe reviewed weaknesses in the internal controls in that there was lack of supervision, poor record keeping, among others, which resulted in loss of public funds and other irregularities.

In particular, the matters set out hereunder:

(a) *Payment Vouchers Not Produced for Audit*

One hundred and thirty-two payment vouchers involving a total sum of K163,361,804.85 drawn from personal emolument funds were not produced for audit inspections.

(b) *Backing Sheets not Produced for Audit*

Backing sheets on which twenty-three payments were made between June and July 2004 involving a total sum of K141, 549,661.74 were not produced for audit.

(c) *Inadequately Supported Payments*

One hundred twenty-nine payment vouchers totalling K335, 959,311 had no supporting documents such as authority for the payments, local purchase orders, invoices and receipts.

(d) *Misapplication of Funds*

A test check made on payments relating to the salaries account involving ninety one transactions revealed that amounts totalling K210,715,000 were misapplied during the period February 2004 to July 2005, in that they were paid as imprest. It was also observed that no imprest registers were maintained and the imprest had not been retired as of December 2006.

It was further observed that amounts totalling K6,030,000 drawn from salaries account were misapplied in that they were used to pay house rentals.

(e) *Loans and Salary Advances*

Twenty one payments for loans and salary advances totalling K 96,500,000 had no record to show that they were recovered as of October 2006.

(f) *Non Remittance of Statutory Payments*

Contrary to the Income Tax Act Cap 323, Pay As You Earn (PAYE) deducted for the years 2004 and 2005 was not remitted to Zambia Revenue Authority (ZRA).

Further tax withheld from payments to landlords amounting to K5,440,325 for the period June 2006 to November 2005 was also not remitted to ZRA as of September 2006.

It was also observed that out of the twenty four months period under review, only fourteen monthly contributions amounting to K5, 828,669 were made towards pension contributions while the contributions not remitted for the ten months could not be ascertained due to non-availability of the payroll schedules.

(g) *Overpayments*

Although, claims in respect of imprest, advances and subsistence allowance involving three transaction totalled K2,000,000, a total of K9,200,000 was paid to three officers representing an over payment of K7,200,000 and no action was taken to recover the money as of December 2006.

(h) *Unauthorised Transfer of Funds*

An amount of K13,900,000 which was transferred from the Salaries Account to General Administration Account without authority from the Controlling Officer had not been refunded as of October 2006.

(i) *Failure to Produce Acquittal Sheets*

Acquittal sheets involving fourteen in amounts totalling K788,960,000 were not produced for audit.

(j) *Unretired Imprest*

Imprest in amounts totalling K80,694,200 involving fifty nine transactions issued during the period January 2004 to December 2005 had not been retired as of October 2006.

Controlling Officer's Submission

The Controlling Office submitted that he had appointed a sub-warrant holder from among the Heads of Departments of the Ministry at provincial level who would be in charge of all the budget implementation activities for all departments under the Ministry of Home Affairs as a way to enhancing internal controls at this level.

Further internal controls had been enhanced by the Provincial Administration, as there were now two Internal Auditors as compared to one. All payments under the Ministry at this level were subjected to pre-audit by auditors from the respective provincial Permanent Secretaries. He further submitted on the other matters raised as set out hereunder:

a) *Payment Vouchers not Produced for Audit*

The Ministry had located eighteen payment vouchers totalling K64,236,920.12 leaving a balance of fifty-four payment vouchers totalling K99,124,884.73. Efforts were being made to locate the balance.

b) *Backing Sheets not Produced for Audit*

Out of the twenty-three missing backing sheets totalling K141,549,661.88; ten backing sheets totalling K53,263,723;14 had been located leaving a balance of thirteen backing sheets totalling K88,285,938.74. These are available for verification at the Kabwe Regional Office. Efforts were being made to locate the remaining thirteen backing sheets.

The officers who were responsible for the financial management of the office at the time were appearing before the courts on charges of fraud and misappropriation of Government funds and could have destroyed such evidence as backing sheets and payment vouchers.

c) *Inadequately Supported Payments*

It was regrettable that one hundred and twenty nine payment vouchers totalling K335,959,311 had no supporting documents. This may be attributed to the unfaithfulness and ill intentions of the officers who were entrusted with the responsibilities of managing the finances at this level. Efforts were being made to try and obtain the supporting documents.

d) *Misapplication of Funds*

It had been established that the same officers who were currently on suspension drew the imprest. The six officers involved were identified and written to. The total imprest which was improperly drawn totalled K204,965,000. He had written to the officers to exculpate themselves. Some of the officers were on suspension. As for those who were still in employment he had given them seven days in which to retire the imprest failure to which he would start recovering from their salaries. As at the end of January 2007; K9,400,000 of the imprest had been retired leaving a balance of K201,315,000. The documents were available for verification at Kabwe Regional Office.

e) *Salary and Loan advances*

He had directed the Provincial Accountant to immediately start recovering the salary advances and loans obtained by the officers.

f) *Non Remittance of Statutory Payments*

The non-remittance was due to the unfaithful officers mentioned above, who decided to use the third party funding allocation for other purposes other than payment of statutory obligations.

g) *Overpayments*

He had given instructions to the Accountant at Kabwe Regional Office to ensure that recoveries were instituted immediately from the concerned officers to recover the K7,200,000. Once it was established that this was a wilful act, disciplinary measures would be taken against the officers involved.

h) *Unauthorised Transfer of Funds*

The office failed to remit the third party payments to Pensions Board and ZRA because of the transfers as they were made without authority from the Controlling Officer. The offices involved had been suspended and reported to the Police and were appearing before the courts.

i) *Failure to Produce Acquittal Sheets*

The Controlling Officer submitted that acquittal sheets for the K788,960,000 had not been found. The housing allowances were drawn in the names of the suspended officers.

j) *Unretired Imprest*

The bulk of the imprest of K80,694,200.00 were obtained by the suspended accounting officers.

Observations and Recommendations

Your Committee observe that the Ministry of Home Affairs through its various departments is susceptible to fraud and other vices owing to its huge structure. In addition, record keeping is poor and there are no effective controls in place to detect irregularities unless through an audit.

Your Committee, therefore, request the Secretary to the Treasury in his capacity as Chief Controlling Officer to re-examine the financial system in the Ministry to improve accountability in its numerous departments and institutions under its charge.

On the specific queries the Committee recommend as set out hereunder:

a) *Payment Vouchers not Produced for Audit*

The number of missing vouchers should be reconciled. The located eighteen vouchers worth K64,236,920.12 should be verified and progress reported on the remaining fifty-four.

b) *Backing sheets not Produced for Audit*

The located ten backing sheets with amounts totalling K53,263,723.14 should be verified. Progress should be reported on the remaining thirteen.

c) *Inadequately Supported Payments*

All the supporting documents that have been traced should be verified. The Controlling Officer should report progress on the matter.

d) *Misapplication of Funds*

Your Committee believe that the officer may have had no authority to pay out the funds as imprest from the Salaries Account. They, therefore, recommend that the supervising officer should be disciplined.

The Controlling Officer should institute recoveries from serving officers immediately. The Financial Regulations are clear on the matter.

They await updates on the matter as well as on the advice of the Attorney General on the six officers already facing other charges.

e) *Loans and Salary Advances*

The Controlling Officer should report progress on the recoveries.

f) *Non Remittance of Statutory Payments*

The Controlling Officer should report progress on the clearance of statutory payments amounting to K25,229,755.04.

g) *Overpayments*

Once the Controlling Officer has established that this was a deliberate act on the part of the officers, stern action should be taken against them to deter others from doing the same.

h) *Unauthorised Transfer of Funds*

The Controlling Officer should report progress on the outcome of the court cases.

i) *Failure to Produce Acquittal Sheets*

Your Committee request for an update on the court cases.

j) *Unretired Imprest*

The Controlling Officer should submit a progress report on the retirement of the imprest.

Audit Query**Paragraph 23****MINISTRY OF FOREIGN AFFAIRS****Missions Abroad – Washington****Irregularities in Procurement of Goods and Services and in the use of Revenue**

23. The Auditor General reported that in the Estimates of Revenue and Expenditure for the Financial Year ended 31st December 2005, a provision of K6,361,387,780 was made to cater for the Mission's operations. In this regard, amounts totalling K6,540,296,115 were released resulting in an excess release of K178,908,335.

A review of the financial records and a physical inspection of the properties carried out in July 2006 revealed the matters set out below.

(a) Funding to the Mission

There were some discrepancies between amounts funded to the Mission as per funding schedules from Ministry headquarters and the amounts actually received by the Mission as per bank statements for the months of February, April, August and December as shown below.

Month	Funding Schedule US\$	Amount Received as per Bank Statement US\$	Variance US\$
Feb	146,619	89,007	57,612
April	110,264	85,466	24,798
Aug	89,000	88,922	78
Dec	66,916	65,000	1,916

There was no satisfactory explanation given for the differences.

(b) Mission Properties

The Mission owns five properties, 2419 Massachusetts Avenue (chancery), 2300 Wyoming Avenue (residence), 1915 Spruce Drive, 8355 East Beach Drive and 5208 Linnean Avenue. Due to lack of regular maintenance, the properties were in a deplorable state.

(i) 2419 Massachusetts Avenue-Chancery

In December 2004 Ministry of Foreign Affairs authorized the Mission to use an amount of K803,130,500 (US\$ 191,221.55) from Revenue account on minor works. Consequently, the Ministry of Works and Supply Tender Committee conveyed its authority on 16 January 2006 to the Mission to use an amount of US\$182,850 (K660,271,350) on repairs.

In this regard, in February 2006, the Mission engaged a local contractor at a total cost of US\$189,600 (K684,645,600) to carry out the works which included removal of all windows, securing window guards, power washing the entire building and installing the main entrance door among others. The contract was for a period of six (6) months starting in February 2006.

It was observed that:

- Contrary to the authority given, the Mission signed a contract for US\$189,600 (K684,645,600) instead of the authorised amount of US\$182,850 (K660,271,350). As of October 2006, no retrospective authority had been obtained for the excess amount of US\$6,750 (K24,374,250).

- The contract did not provide for deduction of retention fees against future defects.
- Although the works were completed, there were still some serious leakages in some parts of roof, which needed to be rectified.

(ii) 2300 Wyoming Avenue – Ambassador Residence

In September and November 2005 the Mission received a total of US\$15,400 (K62,447,000) for minor works at the residence. In this regard, three contractors were engaged as follows:

- **Local contractor A**

In 2005, the Mission engaged a local contractor at a total cost of US \$ 5,556 (K22,529,580) to carry out repairs to the dining area, the kitchen door, the residence and office and replace the main entrance door. In October 2005, the contractor was paid a total amount of US \$ 4,306 (K17,460,830) leaving a balance of US \$ 1,250 (K5,068,750). As of July 2006 the contractor had not been paid the balance of US\$ 1,250 (K5,068,750) as the Embassy was not satisfied with the workmanship and the quality of the door that was supplied.

- **Local contractor B**

In 2005, the Mission engaged another local contractor at a total cost of US\$7,450 (K30,209,750) to carry out repairs to the roof at the residence. In October 2005, the contractor was paid a total amount of US \$ 7,050 (K28,587,750) leaving a balance of US \$400 (K1,622,000). Although the contractor was paid for the repairs of the roof, leakages to the roof persisted and paint in the ceiling was peeling off. The contractor had not been called to rectify the defects as of July 2006.

- **Local contractor C**

In December 2005, the Mission engaged yet another local contractor at a total cost of US \$ 4,800 (K19,464,000) to install a new furnace at the residence. As of July 2006, the contractor had installed the furnace and had been paid the whole amount.

It was, however, observed that in all the three cases above, no contracts were signed and no explanation was given.

(iii) 915 Spruce Drive NW

The property, which was abandoned in June 2000, was run down and in a deplorable state. It was further noted that, there were government mattresses, carpets and some furniture, which were left in the house and were being destroyed by the animals that invade the house.

(iv) 8355 East Beach Drive NW

A physical inspection of the house showed that the basement allowed water to seep through the walls, the kitchen roof was leaking and it had a crack in the ceiling, the main entrance door frame was eaten up by termites, behind the house the foundation was sinking because the wood underneath was rotten and the stairs required replacement.

(v) 5208 Linnaean Avenue NW

A physical inspection of the house showed that the ceiling in the kitchen required replacement, the bath room ceiling was damaged due to leakages and the master bedroom wall had developed a crack. In the basement the bathroom wood panels required replacement and the whole roof of the house needed to be redone.

(c) **Inventory**

An inventory carried out in July 2006 at the Chancery, the Ambassador's Residence and other Mission houses showed that there were no inventory records maintained and Government furniture was not labelled making it impossible to distinguish between the furniture belonging to Government and that belonging to the staff.

(d) **Irregular Disposal of Motor Vehicles**

A review of the monthly vehicle returns and enquiries into existence and ownership of the motor vehicles for the Mission disclosed that two motor vehicles, a Dodge Van and Dynasty registration nos, respectively were disposed off in 2005 without convening a board of survey.

(e) **Failure to procure a Motor Vehicle**

In 2005 the Mission received an amount of US\$ 100,000 (K405,500,000) for procurement of three motor vehicles; two utility motor vehicles and a representational car. As at July 2006, one utility vehicle had not been procured although the funds were available and no explanation was given.

(d) **Revenue**

- (i) During the period 2004 to June 2006 amounts totalling US\$ 794,444 (K3,221,470,420) were collected in respect of VISA fees out of which the Mission used a total amount of US\$109,134 (K442,538,370) without authority. Included in the amount of US\$109,134 (K442,538,370) was US\$76,500 (K310,207,500) in respect of salaries to the locally engaged staff. Using revenue temporarily or otherwise is contrary to Financial Regulations. As of October 2006, a total of US\$76,500 (K310,207,500) had been reimbursed leaving a balance of US\$32,634 (K132,330,870).
- (ii) Revenue totalling US\$9,370 (K37,995,350) involving nine transactions for the period January and December 2005 was collected and within the same period a total amount of US\$9,910 (K40,185,050) banked resulting in an over banking of US\$540 (K2,189,700). No explanation was given for the over banking.

Controlling Officer's Submission

a) **Funding to the Mission**

The explanation on differences between amounts remitted and on the funding schedules are as follows:

i) **February 2005**

Amount indicated on funding schedule	\$146,619
Amount Received	<u>\$89,007</u>
Difference	<u>\$57,612</u>

The Controlling Officer reported that the actual amount that was remitted was \$89,007 broken down as follows:

Mission	PEs	RDCs	Total
Washington	45,000	6,396	51,396
Ottawa	32,388	5,223	37,611
Totals	77,388	11,619	89,007

However, the Ministry made an error on the funding schedule to Washington, which indicated a total of US\$146,618.78 as having been remitted.

The difference arose because initially an amount of US\$50,000 for PE's was supposed to be remitted to the newly opened Ottawa Mission through Washington. However, since the full complement of staff had not yet been posted to Ottawa, the amount was reduced to US\$32,388 to pay only staff who were at the Mission.

Similarly, the Ministry was supposed to remit US\$40,000 to purchase furniture for the newly opened Mission. This amount was not remitted in February.

Unfortunately, with the reduction of the PE's and removal of purchase of furniture, the funding schedule was not adjusted.

The difference of US\$57,612 is therefore broken down as follows:

ii) *April 2005:*

Amount indicated on funding schedule	\$110,264
Amount received	<u>\$85,466</u>
Difference	<u>\$24,798</u>

Further, the Controlling Officer reported that during that period, the funding for the newly opened Ottawa Mission was being remitted through the Washington Mission's Account.

In March, the breakdown of the funding for the two missions was as follows:

Item	Washington	Ottawa	Total
Personal Emoluments	49,807	20,000	69,807
RDCs			
Outstanding Bills	7,571	4,770	12,341
Education Allowances	10,000	0.00	10,000
Acting Allowance	17,000	0.00	17,000
	1,116	0.00	1,116
Totals	85,494	24,770	110,264

Therefore, the amount that was indicated on the funding schedule included the amount for Ottawa. It was necessary to differentiate between the amount for Washington and Ottawa as the funds were routed through the same account.

iii) *August 2005:*

Amount indicated on funding schedule	\$89,000
Amount received	<u>\$88,922</u>
Difference	<u>\$ 78</u>

The Controlling officer informed your Committee that according to their records, both the remittance schedule and the funding advice indicated that US\$89,000 was actually remitted. The difference of US\$78.00 was due to remittance charges.

iv) *December 2005:*

Amount indicated on funding schedule	\$66,900
Amount received	<u>\$65,000</u>
Difference	<u>\$1,916</u>

The amount that was actually remitted was US\$65,000.00 as indicated on the remittance schedule.

The breakdown of the funding was as follows:

Allowances	\$50,000
Outstanding Bills	<u>\$15,000</u>
Total	<u>\$65,000</u>

An error was made on the funding advice, which indicated an overstated amount of US\$66,915.94 instead of US\$65,000.00 thus, the difference of US\$1,915.94.

The Controlling Officer informed your Committee that arising from those errors, they have put measures in place where a senior officer verifies the funding advice against the actual amounts remitted before they are sent. Previously, the cashier was preparing the funding advice without a senior officer checking after the allocations had been made to the Mission.

b) Missions Properties

i) 2419 Massachusetts Avenue - Chancery

The Controlling Officer submitted that it was true that the Mission signed a contract for US\$189,600 (K684,645,600) instead of the authorised amount of US\$182,850 (K660,271,350). However, between the time the quotations for the Chancery Building rehabilitation were obtained in October 2005 and the time the tender approval was conveyed in February 2006, there was a hike in the prices of construction materials in the United States. The main causes were the increase in oil prices coupled with increase in the demand for building materials following the extensive damage to buildings caused by the hurricane Katrina.

The implication of the above was that the cost of the Chancery repairs also went up. After negotiations, revised amount of US\$189,600.00 was agreed upon and the contract was signed accordingly.

The payment terms under the contract with US Building systems were as follows:

- a) deposit 50% of product value upon signing of contract (inclusive of US\$4,500 commitment fee) US\$94,800;
- b) payment of 25% project upon completion of window installation or outside work whichever occurs first \$47,400; and
- c) final payment of 25% upon completion \$47,400.

The amount of US\$189,600 had been paid in full and the works relating to the contract had been completed.

The contractor resolved the problem of water collecting on the roof. Heavy rains coming through the ventilation caused the leakages on the third floor. The water damage to the ceiling was also attended to.

ii) 2300 Wyoming Avenue – Ambassador’s Residence

The Controlling Officer reported that it was true that the Mission had engaged three contractors for minor works at the residence

Local contractor A had not been paid the balance of US\$1,250.00 because of the poor workmanship on the final product. He later provided some sample doors for the mission to select a new replacement for the front entrance.

However, given the concern raised on his poor workmanship, the Mission had decided to seek another contractor to improve on the work within the amount withheld.

Local contractor B's works were covered by a three months warranty. He was informed of the peeling and after an initial assessment for the likely cause, his view was that the roof had a bigger problem that could only be fully addressed by replacing the roofing tiles. What had been done so far was patchwork.

Local contractor C was specially assigned for the installation of the new furnace and was the mission's official service provider for the heating system as per renewal service contract.

Although no separate contracts were signed for the works, the quotations/invoices contained clear descriptions of the works that were to be carried as well as the agreed terms of payment. The Mission considered that the terms were contractually binding and therefore legally enforceable.

Notwithstanding the above, the Mission would ensure that future contracts were properly entered into and duly signed.

With regard to the guesthouse, the Mission had not been able to attend to it due to the limited financial resources. Renovations at the guesthouse would have to be undertaken as a full separate project given the extent of the dilapidation. Your Committee was informed that this had been factored in the 2007 budget.

iii) 1915 Spruce Drive NW

The property was indeed in a deplorable state. However, the Ministry had been following up with the Ministry of Finance and National Planning and K2,580,000,000 was released for rehabilitation of the property. Works would commence as soon as all tender procedures were done.

iv) 8355 East Beach Drive NW

Although US\$10,000 was sent to the Mission to undertake emergency repairs after the roof had curved in during a heavy rainstorm, the amount was sufficient only to replace the damaged roof. As in (iv) above, the Ministry hoped to complete the remaining works in 2007.

c) *Inventory*

The inventory list that was updated during the July 2006 audit had been used to prepare a master property register for the Mission, which was updated periodically as new items were purchased.

The process of labelling all Government property was on going. Not all Government property had been labelled because some properties like glasses, white chairs etc required special labelling stencils.

d) *Irregular Disposal of Motor Vehicles*

After following the procedures of disposal of motor vehicles, authority was granted by the Ministry of Finance and National planning to dispose of the motor vehicles in question.

The factors that led to the fast track authority to be granted were as follows:

- i) the two vehicles, which were both outdated seventeen year old models, had been non-runners for more than three years in the case of the van and more than five for the sedan. Both had been deemed to be non-repairable and were valued at less than US\$500 each;
- ii) despite point (a) above, Washington DC motor regulations required that the vehicles be insured as long as they had registration numbers; the insurance cost the mission more than US\$2,000 per vehicle per year;
- iii) the Mission decided to deregister both vehicles to cut down on unnecessary insurance costs. Authority to dispose of the vehicles was then requested; and

- iv) whilst waiting for the disposal authority, the vehicles were kept on Mission grounds; however, the US office of foreign Mission (OFM) insisted that to comply with the motor vehicle regulations (by way of sale or scrapping) or otherwise re-register and insure them for the period they would remain in Mission custody. For this reason, the Office of Foreign Mission refused to issue official diplomatic plates for the Mission's new vehicles, including the Ambassador's representation car. This was despite the Mission's explanation that it had to follow *Zambian* procedures to dispose of the vehicles.

When authority was granted to dispose of the vehicles, the Mission failed to find any interested buyers for the two vehicles. Therefore, it was decided to scrap both of them. They were towed to Smith and Son's Junk yard for scrapping.

e) *Failure to Procure a Motor Vehicle*

The Mission was in the process of procuring a vehicle following the granting of tender authority by the Ministerial Tender Committee.

f) *Revenue*

i) Utilisation of Revenue without Authority

The Controlling Officer reported that it was true that funds were used from the revenue account to pay salaries to locally engaged staff. This was due to the delays in remittance of personal emoluments to avoid undue embarrassment to the Government. The balance of US\$32,643.36 had since been reimbursed to the revenue account.

However, the Ministry had put measures in place where funds from the revenue accounts could not be withdrawn without the authority from the Permanent Secretary. He reported that withdrawal of funds from the revenue account had since been stopped.

ii) Over Banking of Revenue

The over banking in some incidences arose because VISA applicants sent in cheques that were in excess of the required VISA fees. When that happened, the Mission deposited the cheques in the Revenue Account and made refunds of the excess amount from the same account, thereby offsetting the overpayment.

Since change was given against such overpayment, what was expected was the correct Visa fee amount.

Therefore, when the receipts were checked against the deposit slips it appeared as if there was over banking.

Observations and Recommendations

Your Committee observe that there is urgent need to put in place a programme to rehabilitate properties in missions abroad. The appearance of these properties has a bearing on how the country is perceived by foreigners.

They, therefore, urge the Secretary to the Treasury to look into ways on how rental income can be effectively utilised to rehabilitate properties. They are cognisant of the fact that these funds have been mobilised before to purchase some properties abroad and also finance the re-opening of some of the closed missions.

With regard to the other matters raised the Committee recommends as set out hereunder:

a) *Funding to the Mission*

The Controlling Officer should forward the remittance details to the Auditor-General for verification. The Controlling Officer is further urged to instruct the Mission to cooperate with auditors. The explanations should have been given during the audit process.

The Controlling Officer is advised to have the excess release of K178, 908,335 regularised.

b) *Mission Properties*

i) *2419 Massachusetts Avenue - Chancery*

Whilst appreciating the measures that the Controlling Officer has taken relating to retention fees in contracts and ensuring that identified defects are attended to, the question of whether authority was obtained for the US\$6,750 still stands. They, therefore, urge the Controlling Officer to have the excess expenditure normalised.

(ii – v) *Residences*

The Controlling Officer should report progress on the renovations to the Guest House at 2300 Wyoming Avenue and rehabilitation works at 1915 Spruce Drive Avenue, 8353 Beach Drive Avenue and 5208 Linnean Avenue NW.

c) *Inventory*

The Controlling Office is urged to ensure that inventory lists are up to date at the Mission. They further request that copies of pages for the Master Register for the period January to June 2006 be sent to the Auditor-General for verification.

d) *Irregular Disposal of Motor Vehicles*

The matter should close.

e) *Failure to Procure a Motor Vehicle*

The Controlling Officer should report progress on the procurement of the second utility vehicle.

f) *Revenue*

i) *Utilisation of Revenue*

The matter should close subject to verification.

ii) *Over Banking*

The matter should close.

Audit Query

Paragraph 24

MINISTRY OF FOREIGN AFFAIRS
Missions Abroad – New York

Accounting and Other Irregularities

24. In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, a provision of K6, 697,639,642 was made to cater for Mission's operations. In this regard, amounts totalling K7, 045,826,967 were released resulting in an excess release of K348, 187,325.

An examination of financial and other records and a physical inspection of the Mission's properties carried out in July 2006 revealed the matters set out below:

(a) ***Failure to Repair the Heating System – Permanent Representative's Residence***

In December 2004 and October 2005 amounts of US\$8,500 (K34,467,500) and US\$20,000 (K81,100,000) were released to the Mission for the repair of the heating system at the residence. As of October 2006, the US\$20,000 (K81, 100,000) released in October 2005 had not been utilised and the heating system problem had not been rectified.

(b) ***Installation of Carpets at the Permanent Representative's Residence***

In June 2005 a company was engaged to supply and install wall-to-wall carpets at the residence at a total cost of US\$7,200 (K29, 196,000). Although the company was paid the full amount in July and August 2005, the carpets were not fully installed as of July 2006.

(c) ***Outstanding Bills***

Although amounts totalling US\$110,000 (K446, 050,000) were released in 2005 towards the settlement of outstanding bills, as of December 2005 the bills stood at US\$143,925 (K583, 615,875) and had risen to US\$193,675 (K785, 352,125) as of July 2006. It was further observed that the outstanding bills did not include an amount of US\$ 300,905 (K1, 220,169,775) in respect of parking violations offences committed by various diplomatic staff while driving mission vehicles. It was also observed that a bill from New York City Water Board of US\$10,000 (K40, 550,000) incurred between 1996 and 1999 had not been settled as of July 2006.

(d) ***Inventory***

There were various items such as beds, pots, mattresses and sofas that were stored in the basement of the chancery, which required boarding but this had not been done as of July 2006. An inquiry from the Mission staff revealed that the furniture came from the Ottawa mission when it was closed in December 1995. There were no handing and taking over records to show in detail the furniture, which came from Ottawa Mission.

(e) ***Renovation of the Chancery Building***

In August 2005, the Mission received a total of US\$47,040 (K190, 747,200) for capital expenditure. In this regard, in December 2005 the Mission engaged a contractor to carry out the works which included patching and installing new capping on the roof and replacing of roof entrance at a total cost of US\$43,000 (K174, 365,000).

It was, however, observed that:

- (i) The contract document did not provide for retention fees and duration of the contract was not specified.
- (ii) The contractor was paid amounts totalling US\$ 85,000 (K344,675,000) against the agreed contract price of US\$43,000 (K174,365,000) resulting into an overpayment of US\$ 42,000 (K170,310,000).

Although the works were done, water still leaked into some offices and damaged some tiles. It was also noted that the elevator was non operational and inquiries revealed that a total of US\$32,200 (K129,760,000) for labour and material would be needed for the service to resume.

(f) *Irregular Disposal of Motor Vehicles*

A physical count carried out in July 2006 revealed that out of the eight vehicles owned by the Mission, three were disposed off irregularly as follows:

- (i) A Toyota Land Cruiser registration number 007 GGD purchased in 1987 was sold as a non-runner to a driver at the Mission at a cost US\$ 200 (K811,000). Although the ownership had changed into the driver's name in October 2003, no authority was obtained from the Ministry of Finance and National Planning and no payment had been made for the vehicle.
- (ii) A Jeep Cherokee registration number 017 GGD was given to the same driver by the Mission but there were no written instructions to confirm the transaction. The other vehicle, a Jeep Cherokee registration number 015 GGD was said while being driven by one of the drivers to have broken down and was abandoned.

However, as at July 2006, the vehicle could not be traced and in both cases no loss reports were processed.

(g) *Revenue*

- (i) *Non Maintenance of Register of Accountable documents*
Contrary to Financial Regulations, there was no Register of Accountable Documents maintained.
- (ii) *Revenue not Accounted for*
Out of amounts totalling US\$52,921 (K214,594,655) collected as visa fees during the period from January 2004 to June 2006, amounts totalling US\$35,308 (K143,173,940) could not be accounted for.
- (iii) *Under-Collection of VISA fees*
In July 2005 visa fees were revised from US\$40 (K162,200) to US\$100 (K405,500) for the American nationals visiting Zambia. It was noted however, that three hundred and seventy four Americans were issued with visas and paid at the old rate of US\$40 (K162,200) instead of US\$100 (K405,500). Consequently, a total of US\$14,960 (K60,662,800) was collected between July 2005 and June 2006 instead of US\$37,400 (K151,657,000) resulting into an under-collection of US\$22,440 (K90,994,200).

Controlling Officer's Submission

a) *Failure to Repair the Heating System – Permanent Representative's Residence*

The Controlling Officer reported that it was true the Mission received US\$20,000 for the purpose of rectifying the heating system at the Residence. However, there was a lapse between the time the quotation was obtained and the time of release of funds, which resulted in the amount of works increasing to US\$60,000. Therefore, the US\$20,000 could not be utilised since the contractor had demanded 50% down payment before he could embark on the project.

The Ministry had since remitted an amount of US\$40,000 to make a total of US\$60,000. The works were in the process of being re-tendered.

b) *Installation of Carpets at the Permanent Representative's Residence*

The Controlling Officer reported that it was true that a company was engaged to supply and install wall-to-wall carpets at the residence at a total cost of US\$7,200 (K29, 196,000). However, the

total cost of US\$7,200 for installation of carpets was based on the request made for specific rooms and not the whole residence. The amount paid was based on the specifications and was paid in full.

c) *Outstanding Bills*

Regarding this issue, the Controlling Officer reported that indeed outstanding bills had continued to increase due to insufficient funding in almost all missions. The Ministry had been remitting funds to clear the outstanding bill but it had not been possible to clear all the outstanding bills.

The Mission did not include the amount of US\$300,905 (K1, 220,169,775) in respect of parking violations offences committed by various diplomatic staff and mission drivers because the matter was under discussion with the host Government

The issue was still being pursued.

d) *Inventory*

- *Boarding of GRZ Items*

The Controlling Officer reported that due to financial constraints, the Ministry of Finance and National planning did not send a Stock verifier to New York to carry out the disposal of obsolete stores items.

The Ministry in liaison with the Ministry of Finance and National Planning would constitute a board of survey in 2007 to go and board the items at the Mission.

- *Handling and taking over Records*

The Mission had clarified that the various items stored in the basement of the Chancery that needed boarding were from various officers' homes at the mission at the time Government was buying furniture for diplomatic staff and the items were properly recorded.

However, the other items stored in the basement at the Permanent Representative's Residence were from Ottawa which should have come in between 1995/6 as there were no records of receipt.

The Controlling Officer submitted that under the circumstances, the Mission had been requested to follow up the matter and submit a loss report.

e) *Renovation of the Chancery Building*

i) Provision of Retention Fees

The Controlling Officer reported that it was true that there was no provision of retention fees in the contract documents. The Mission had taken note to include retention fees in future contracts.

ii) Overpayment to Contractor

The Controlling Officer reported that although there was an overpayment to the contractor, the Mission had followed the procedures in that all works were advertised and resulted in three quotation and the cheapest of US\$43,000.00 was awarded the contract. However, the extra cost of US\$42,000.00 was due to additional works that were done such as the rehabilitation of damaged pipes in the walls of the building. The additional works were not subjected to tender as the quotations were obtained from the same contractor who proved to be the cheapest.

The contractor was requested to rectify the defects in August 2005 and he complied without any additional payments.

The Controlling Officer further informed the Committee that it was difficult to obtain quotations in America.

With regard to the elevator, a separate tender would be processed and funded separately in view of the amount involved. The elevator was not in a condition to be repaired, as the model was obsolete. Orion Elevators advised the Mission to purchase a new elevator at a total cost of US\$150,000. This purchase would be made during the current financial year.

f) Revenue

i) Non Maintenance of Accountable Documents Register

The Controlling Officer submitted that the Mission had since opened and was maintaining an accountable documents register.

ii) Revenue not Accounted for (US\$35,308)

The Controlling Officer submitted that it was true that the Mission utilised a total of US\$35,308 without authority. This amount was utilised on RDCs by the Mission due to financial difficulties at the time arising from inadequate funding. These funds were being deposited together with operation funds (RDCs).

The Controlling Officer assured your Committee that the funds that were utilised without authority would be recovered from the Mission during the year. Measures had been put in place by opening a separate revenue account through a directive which was issued.

iii) Under Collection of Visa Fees

The Controlling Officer submitted that it was true that the Mission under collected revenue by using an old rate of visa fees. This was because the Ministry and the Mission were not informed in good time by the Immigration Department of the revised rates.

However, the Mission had since affected the revised visa fees of US\$100.00.

Observations and Recommendations

Your Committee observe that the number of unserviceable items at various missions was high and this was partly attributed to the failure to constitute Boards of Survey.

They, therefore, urge the Secretary to the Treasury to devise a fast-track mechanism of disposing of unserviceable items in Missions abroad.

They further request the Controlling Officer to have the excess release of K348,187,325 regularised.

With regard to the particular issues raised the Committee's recommendations are as set out hereunder:

a) Failure to Repair the Heating System

The Controlling Officer should report progress on the repairs to the heating system. They, however, urge him to ensure that the tender process does not take too long otherwise the repair costs can go up and render the US\$60,000 insufficient again.

b) Installation of Carpets

They resolve to close the matter.

c) Outstanding Bills

The Controlling Officer should report progress on the efforts to reduce the outstanding bills at the Mission and also on the outcome of discussions regarding the potential bill of US\$300,905 for parking violations.

d) Inventory

The Controlling Officer is requested to report progress on the constitution of the Board of Survey.

e) Renovation of Chancery Building

i) Non Provision of Retention Fees

The Controlling Officer is advised to caution the Mission on the issue of retention fees.

ii) Overpayment to Contractor and other Works (elevator)

The Controlling Officer is urged to have the overpayment normalised. He is further requested to report progress on the replacement of the elevator.

f) Irregular Disposal of Motor Vehicles

The Controlling Officer is advised to treat the matter on the vehicles as a loss to the Government and prepare loss reports.

g) Revenue

i) Non Maintenance of Accountable Documents Register

The Controlling Officer is urged to caution the Mission over non maintenance of the Register of Accountable Documents.

ii) Revenue not Accounted for

The Controlling Officer is advised to caution the Mission on the utilisation of revenues without authority. He is further requested to report progress on the reimbursement.

iii) Under Collection

The matter should close subject to confirmation that Immigration Department did not advise the Mission on time to revise the rates.

Audit Query

Paragraph 25

MINISTRY OF FOREIGN AFFAIRS

Missions Abroad – Nairobi

Accounting and other Irregularities

25. In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, a total provision of K3, 265,138,028 was made to cater for the Mission's operations.

An examination of accounting and other records maintained at the Mission in June 2006 revealed the matters set out hereunder:

(a) **Excess Funding**

A total amount of K3, 713,927,164 was released out which K3, 093,220,658 was spent. The amount released was K448, 789,136 more than the authorised provision and no supplementary provision was obtained.

(b) **Delayed Remittance of Revenue**

The Mission collects revenue from the issue of visas, travel documents and passports. According to procedures in place, the Ministry is required to give instructions to the Missions from time to time authorising them to utilise the revenue collections after consultations with the Secretary to the Treasury. The equivalent amounts are then deducted from the monthly funding to the missions and credited to Control 99.

During the period under review, a total amount of US\$66,180 (K104,658,485) was raised from the issue of visas, travel documents and passports. As of June 2006, no instructions were issued in respect of collections amounting to US\$23,855 (K83,257,963) made from September to December 2005 and as of June 2006 were still held in the revenue account.

(c) **Outstanding Bills**

As of June 2006, the Mission had outstanding bills totalling US\$33,043 (K115,321,780) some of which dated as far back as 2004 for various goods and services rendered to the Mission. Included in the bills was a total amount of US\$14,121 (K49,283,127), which was in respect of telephone bills. In this regard, out of the eight telephone lines maintained by the Mission, service was suspended on seven lines leaving only the High Commissioner's line.

It was further noted that despite being paid a telephone allowance of US\$300 per month for his residential telephone, the former High Commissioner had bills amounting to US\$458 (K1, 289,745) settled by the Mission in April and July 2005.

(d) **Irregular Expenditure**

In July 2005, a total amount US\$5,570 (K25,956,200) was paid to the then High Commissioner when he attended the Ambassador's conference which was held from 12th to 26th July 2005 in Lusaka. The amount was broken down as follows:

	<u>US\$</u>
14 nights allowance @ US\$ 225	3,570
Accountable imprest	<u>2,000</u>
	<u>5,570</u>

It was noted, however, that on return to his station, the High Commissioner claimed US\$2,040 (K7,466,400) covering the period 27th July to 3rd August 2005, out of which an amount of US\$1,020 (K3,733,200) covering four days was not authorised.

In addition, whilst in Lusaka, the High Commissioner hired his own vehicle at a cost of US\$1,120 (K5,219,200) at the rate of US\$80 per day for 14 days. He further used a total amount of US\$291 (K1, 356,060) for refuelling the same vehicle for which hire charges were paid. The amounts were paid using the accountable imprest of US\$2,000. The balance of US\$589 (K2,744,740) was retired.

(e) ***Third Party Payments***

In July 2005, an amount of US\$1,197 (K5, 577,127) was paid to a local hotel in Nairobi for food and accommodation from 30th May to 4th June 2005 in respect of some Zambia Army Officers who were on a peace mission to Sudan. It was observed that as of June 2006, the Embassy had not claimed for a refund from the Ministry of Defence.

(f) ***Property Management***

The Mission had three properties comprising the chancery, the Residence and the Deputy High Commissioner's house. During the year 2005, amounts totalling US\$23,099 were released for the rehabilitation of the properties.

A physical inspection of the properties conducted in June 2006 revealed the matters set out below:

(i) *The Chancery - 48741 Nyerere Road*

In March 2005, the Mission engaged a local contractor to carry out maintenance works that included scrapping off the sand/cement that was screed on the rooftop, laying new sand/cement screed and finishing with appropriate waterproofing on the rooftop. The contractor was paid a total amount of Ksh221, 870 (K13, 984,885) between March and October 2005 although no formal contract was entered into. In this regard, the terms and conditions of the contract could not be ascertained.

It was further noted that despite the Mission paying K13,984,885 to the contractor, the works were poorly done and the Chancery continues to have leakages.

Consequently, in June 2006 the Mission engaged another contractor to undertake similar maintenance works at a total cost of US\$8,268 (K28,855,320). At the time of audit in June 2006, the works were on going and a total of US\$8,202 (K29,940,585) had been paid to the contractor.

(ii) *The Residence - 74 Riverside Road,*

In March 2006, the Mission engaged a local contractor to carry out maintenance works, which included among other things repair of the roof, flooring and paving slabs at the residence at a total cost of US\$7,624 (K26, 607,760). This amount did not include the cost of renovating the kitchen, which was estimated at US\$14,660 (K51, 163,749).

It was noted that although the High Commissioner wrote to the Permanent Secretary in March 2006 over the need to have the kitchen renovated no response had been received as of June 2006.

At the time of the audit, the renovation works excluding the kitchen were still going on and the contractor had been paid a total of US\$7,228 (K26,382,711).

154, Ngong Road, Nairobi.

The ceiling was damaged due to leakages in the roof, the gutters were blocked, and the timber members were heavily infested with termites and the area had poor drainage. Further, the large portion of bare land behind the house was at risk of being occupied by squatters, as it is not secured with a fence.

Due to the poor state of the house and the heavy leakages from the roof, the then Deputy High Commissioner vacated the house in September 2001 and the house has never been occupied since then. The Deputy High Commissioner sought alternative accommodation and was paid a total amount of US\$23,000 as housing allowance (US\$1000/month) from October 2001 until his transfer to New York in September 2003.

It was further noted that when the new Deputy High Commissioner was transferred from Addis Ababa to Nairobi in January 2005, the house had still not been repaired due to lack of funds. Consequently, the Deputy High Commissioner had to go into a rented house and rentals amounting to Ksh1,080,000 (K76,853,769) for the period from January 2005 to January 2006 including a security deposit of Ksh90,000 (K6,980,000) had been paid as of June 2006.

The Mission had made representations since 2003 to the Ministry of Foreign Affairs to have the house rehabilitated. In this regard, the Mission in March 2006 recommended that Frankam Builders undertakes the works at a total cost of US\$71,812 (K249,269,760). The works to be carried out included the rehabilitation of the roof, construction of a 200mm perimeter wall with electric fence on top, and the rehabilitation to plumbing and electrical systems.

Further, there was a recommendation for the construction of a block of flats on the large space behind the house at an estimated cost of Ksh338,882,000 (K2.628billion). The flats were meant to house the Embassy staff and ultimately save on rent payments.

It was observed, however, that despite the numerous submissions made to the Ministry of Foreign Affairs about the poor state of the house, the need to construct a perimeter security fence to have the plot secured and the recommendations on the construction of a block of flats on the idle land no action had been taken by the Ministry as of June 2006.

(h) Failure to Record Stores Items

Three items namely, a deep freezer, an LG upright fridge and a Nokia 7270 mobile phone though on the inventory list were not recorded in the Asset Register. It was further noted that the items had no GRZ numbers.

(i) Advances

(i) Medical

According to existing Foreign Service regulations, an officer shall contribute 40% towards medical bills for him/herself and members of his/her family.

It was noted that the Mission paid medical bills on behalf of staff but did not recover the 40% as required by the regulation although the amounts were shown as advances to the officers. In this regard, a total amount Ksh63,408 (K6,780,430) had not been recovered.

(ii) Other

As per Foreign Service regulations, the Mission is required to clear the goods belonging to staff transferred to the Mission.

The advances register revealed that a total amount of Ksh21600 and US\$2964 (K12,404,596) in respect of personal advances issued to three officers during the period was outstanding. Included in the K12,404,596 was an amount of US\$2,500 (K9,000,000) owed by the Deputy High Commissioner as a result of the advances he obtained in order to clear his goods when he came on transfer from Addis Ababa.

As at June 2006, the officer was claiming a refund of US\$7,738.51 including an amount of US\$5,238.51 that had been recovered from his allowances for the earlier advances obtained to clear his goods.

Controlling Officer's Submission

a) *Excess Funding*

The Controlling Officer informed your Committee that the excess amount that was released was in respect of personal emoluments (other emoluments) that were over funded due to the fluctuation of the Kwacha against the dollar. Although a supplementary request was submitted to the Ministry of Finance and National Planning to normalise the expenditure, the supplementary was not provided.

However, the Ministry requested the Treasury to consider normalising the expenditure through the Excess Expenditure Appropriation Bill.

b) *Delay in Remittance of Revenue*

The revenue that had been reported by the missions as at 31 December 2006 had been remitted to Control 99. As mentioned in the Auditor-General's Report, revenue was remitted quarterly to Control 99 to enable accumulation of revenue at the missions. The revenue was recovered at source and missions were advised to withdraw an equivalent from the Revenue Account to reduce on remittance charges.

c) *Outstanding Bills*

The outstanding telephone bill amounting to US\$458 that was settled by the Mission on behalf of the former High Commissioner had since been paid. The refund was sent to the Nairobi Mission.

d) *Irregular Expenditure*

The former High Commissioner had paid back the unauthorised extra 4 days amounting to US\$1,020 and the amount paid on fuel for hired vehicle amounting to US\$291.

When asked why the High Commissioner in the Nairobi Mission made a claim for the conference in Lusaka, the Controlling Officer reported that Ambassadors got per diem when they travelled abroad. They were also allowed to carry accountable imprest. However, the money in question had since been refunded.

e) *Third Party Payments*

The amount of US\$1,197 (K5,577,127), which was paid to a local hotel for food and accommodation in respect of some Zambia Army Officers who were on a peace mission in Sudan, had been refunded by the Ministry of Defence (Zambia Army).

f) *Property Management*

i) *The Chancery – 48741 Nyerere Road*

The Mission was in the process of entering into a formal contract, which would, be time bound. The works on the Chancery were ongoing.

ii) *The Residence – 74 Riverside Road*

The Ministry had so far remitted US\$155,000 towards rehabilitation of both the Chancery and Residence as of September 2006. The Ministry would remit the balance of US\$29,268 during the course of this year.

iii) *154, Ngong Road, Nairobi*
Rehabilitation works and construction of a wall fence on the house were in progress. However, construction of a block of flats had not started. The Ministry was liaising with the Ministry of Works and Supply on the groundwork and the costing. This would be included in the Budget for 2008 once the initial works were completed.

g) ***Failure to Record Stores Items***

The Asset Register had since been updated and the new purchased items recorded.

h) ***Advances – K6,780,430***

i) *Medical*

The total amount of K6,780,430 being 40 percent on medical bills had been recovered from staff.

Other Advances – K12,404,596

The total amount had been recovered. With regard to the claim of refund of US\$7,738.51 to an officer for storage charges, customs, warehouse rent and container damage charges, authority was granted for refund.

Observations and Recommendations

Your Committee's recommendation and observations are set out hereunder:

a) ***Excess Funding***

The Controlling Officer was requested to report progress on the normalisation of the excess expenditure.

b) ***Delayed Remittance of Revenue***

The matter should close subject to verification.

c) ***Outstanding Bills***

The matter on the US\$458 should close. Your Committee, however, request the Controlling Officer to provide an update on the efforts to reduce the outstanding bills.

d) ***Irregular Expenditure***

Whilst appreciating the refunds on the queried expenditures, your Committee observe that there was abuse of authority on the part of the former High Commissioner. The High Commissioner should be reported to the Secretary to the Cabinet for further action.

e) ***Third Party Payments***

The matter should close.

f) ***Property Management***

i) *Chancery*

Your Committee urge the Controlling Officer to take action on Heads of Missions that engage contractors without formal agreements. Such practices are highly irregular and cause Government to lose money.

They await progress on the completion of the maintenance works.

ii) The Residence

Your Committee request the Controlling Officer to report progress on the completion of the renovations.

iii) 154 Ngong Road

Your Committee request the Controlling Officer to report progress on the completion of the renovations.

With respect to the block of flats, they note that the Ministry is liaising with the Ministry of Works and Supply on the possibility of constructing the flats. They, however, advise the Controlling Officer to take into account the fact that Government has several incomplete buildings in some Missions abroad. The Ministry should approach the issue in a systematic way such that incomplete buildings will be first attended to and not start fresh constructions then 'abandon' them due to lack of funding.

h) Failure to Record Stores Items

Your Committee urge the Controlling Officer to caution the Mission on their failure to record stores items. This was a routine function, which does not require auditors to correct.

i) Advances

i) Medical

The Controlling Officer is urged to instruct the Mission to deduct staff contributions within the same month when medical expenses are incurred.

ii) Other

Your Committee observe that the Mission has a problem of attending to matters on time. In most cases, action was taken after the audit. Your Committee advise the Controlling Officer to direct the Mission staff to observe time when performing their duties particularly on issues relating to finance.

Audit Query

Paragraph 26

MINISTRY OF FOREIGN AFFAIRS
Missions Abroad – New Delhi

Accounting and Other Irregularities

26. In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, a total provision of K3,193,615,595 was made to cater for the Mission's operation and K3,431,954,596 was released resulting in an excess funding of K238,339,001. No supplementary provision for the excess funding had been obtained as of August 2006.

An audit carried out at the Mission in June 2006 for the period under review revealed the matters set out below:

(a) Revenue

Out of amounts totalling Rs1,622,503 (K138,131,044) collected by the Mission in 2005, amounts totalling Rs715, 265 (K60, 893,739) were utilised by the Mission without authority from the Secretary to the Treasury and no evidence was produced to show that deductions had been made from the Mission's funding by the Ministry Headquarters.

(b) *Missing Visa Fee books*

According to the Financial Regulations, all accountable documents are supposed to be well secured for accountability purposes. An inspection of the register of accountable documents revealed that ten (10) Visa fee books issued between October 2000 and December 2004 could not be produced for audit verification as of June 2006.

In her response dated 13th September, the Controlling Officer stated that the visa fee books could not be located.

(c) *Education Allowances*

According to Foreign Service Regulations, education entitlement shall be paid directly to the identified school on behalf of the officer. Contrary to the provisions of the regulation, a total amount of US\$4,817 (K22, 241, 926) was paid to two officers as refunds for private lessons provided to their children outside their normal school curriculum. This was in addition to the normal education bills paid to the schools for the children.

(d) *Transport*

The Mission had four vehicles, two Mercedes Benz cars, a Cressida Grande and a Toyota Corolla. One Mercedes Benz car, which was purchased in 2004, was the representational car while the remaining three were utility vehicles that constantly broke down and had become costly to run. Repair costs for the three vehicles during the year under review amounted to US\$5,421 (K24, 802, 670).

A physical inspection of the vehicles revealed that the cars were in a bad state. Due to the poor state of the utility vehicles, the Mission was often forced to hire cars whenever there was a visiting delegation and as of December 2005, a total amount of US\$3,553 (K16, 087, 556) had been paid for hire of cars.

(e) *Rent of Properties*

Apart from the High Commissioner's residence, the Mission does not own any property in New Delhi. All the buildings occupied by the Mission including the Chancery are rented. It was observed in this regard that in June 2006, the Mission shifted from D-5/4, Vasant Vihar to Plot 86 Paschini Marg, Vasant Vihar. The monthly rentals at the new Chancery were pegged at US\$13,000 (K42,462,140) compared to US\$6,374 (K20,523,088) for the old Chancery. The payments were to be made six (6) months in advance. The Mission only paid for one month effective from 20th June 2006 leaving a balance of US\$65,000 (K209, 300, 000).

In her response dated 13th September 2006, the Controlling Officer stated that the balance of US\$65,000 (K209,300,000) was paid in June 2006 and that the Ministry was writing for supplementary provision to normalise the expenditure and avoid unconstitutional expenditure for 2006.

(f) *Inventories*

In September 2002, the Board of Survey recommended that several unserviceable stores that included office machinery, cutlery, furniture and fittings at the Mission valued at Rs 273,000 (K25,600,000) be disposed off. As of July 2006, the Mission had not yet disposed them off.

(g) The Residence -7 Panchsheel Marg

A review of records and a physical inspection of the property revealed the following:

- (i) contrary to Foreign Service Regulations, the building had not been insured as of June 2006; and
- (ii) the building was in poor state of disrepair in that:
 - the exterior façade had a visible horizontal crack at the first floor parapet, which was also visible from inside; and
 - the Dining Room ceiling was damaged due to leakages and the carpets had been removed due to damage caused by water.

(h) Fuel Register

There were no receipt and disposal details in respect of fuel worth US\$9,497(ZK40,941,070) purchased during the period under review.

(j) Unretired Imprest

During the period under review, imprest issued to seven (7) Officers, in amounts totalling US\$14,685 (K64,960,775) had not been retired as of June 2006.

Controlling Officer's Submission

The Controlling Officer reported that it was true that a total provision of K3,193,615,595 was made to cater for the missions operation and K3,431,954,596 was released resulting in an excess funding. However, the expenditure on the excess funding was captured in the 2006 accounts of which a supplementary request was submitted to the Ministry of Finance and National Planning. The release of excess funding arose due to exchange rate fluctuations in the year under review.

a) Revenue

The funds were utilised on recurrent expenses due to financial constraints at the time. The Ministry had applied for retrospective authority from the Treasury. The Ministry awaited a response.

He reiterated that measures had been put in place to curb withdrawals from the revenue account without authority by opening a separate revenue account.

b) Missing Visa Fee Books

All the ten missing visa books had been located.

c) Education Allowances

The Controlling Officer confirmed that according to Foreign Service Regulations, that education entitlement was paid directly to schools on behalf of officers. Private lessons were the responsibility of the parents. The total amount of K22,241,926 that was refunded to two officers for private lessons were being recovered. One officer had retired and the amount of K6,091,289 would be recovered from his terminal benefits. The other officer had paid back K1,010,800 leaving a balance of K15,139,837.

d) Transport

The Mission had since purchased three motor vehicles. The problem of transport at the Mission had now been resolved.

e) Rent of Properties

The balance of US\$65,000 (K209,300,000.00) for renting the new Chancery at Plot No. 86 Paschimi Marg was settled and a supplementary request was submitted to the Ministry of Finance and National Planning to avoid unconstitutional expenditure for 2006.

f) Inventory

Your Committee heard that a subsequent mission inspection team was constituted in December 2006, which included a stock verifier from the Ministry of Finance and National Planning. All the unserviceable items were verified and boarded. The Mission had started disposing-off the items as recommended.

g) The Residence – 7 Panchsheel Marg

i) Insurance of the Building

The building had now been insured as per insurance documents, which were attached.

ii) State of Disrepair

Following the mission inspection team that visited the Mission in December 2006, the Ministry of Works and Supply prepared a report. Arising from this report, the Ministry would start remitting funds in the 2007 budget to rehabilitate the residence.

h) Fuel Register

He reported that the Fuel Register had since been opened and a circular had been issued to all drivers at the Mission directing them to be submitting fuel requisition slips on a monthly basis. Fuelling of Mission vehicles was done on credit basis and that all payments were made after a month. The fuel requisition slips were then attached to the Fuel Register where as the actual receipts from service station were attached to the payment vouchers upon settlement of the bills.

i) Unretired Imprest – K64,960,775

K61,412,975 had been retired leaving a balance of K3,547,800. Payments that were made using direct expenditure code as subsistence allowance – 201 002 could not be retired using retirement forms as they were already considered as expenditure. Admittedly, it was a mistake and corrective measures had been taken by sensitising the accounting officer.

Observations and Recommendations

Your Committee's recommendations and observations are set out below:

The matter on the supplementary provision should close subject to verification.

a) Revenue

Your Committee appreciate the fact that funding is at times not released on time to meet pressing needs particularly in missions. However this does not mean that Financial Regulations should not be observed. When the Mission had utilised revenues without authority, it was expected that they would have taken the initiative to inform the Controlling Officer about the development and not

wait for the auditors to highlight the irregularity. They urge the Controlling Officer to caution the Mission for not acting on time to alert Headquarters.

Your Committee await progress on the Treasury authority.

b) *Missing Visa Books*

Your Committee advise the Controlling Officer to ensure that record keeping is improved at the Mission. They urge him to have the visa fee books verified.

c) *Education Allowances*

Your Committee strongly urge the Controlling Officer to see to it that the practice of making irregular refunds is stopped. They further advise him to take action against the officers that authorised the refunds.

They await progress on the recoveries.

d) *Transport*

The matter should close.

e) *Rent of Properties*

The matter should close subject to verification.

f) *Inventory*

Your Committee await progress on the disposal of the unserviceable items.

g) *The Residence*

i) *Insurance*

The matter should close

ii) *Repairs*

The Controlling Officer should update your Committee on the rehabilitation works at the Residence.

h) *Fuel*

The matter should close following the measures that the Mission has put in place to monitor fuel utilisation.

i) *Unretired Imprest*

The Controlling Officer is urged to send the retirement details to the Auditor-General for verification. He is further urged to provide an update on the retirement of the balance of K3, 547,800.

**MINISTRY OF FOREIGN AFFAIRS
Missions Abroad – Ottawa****Accounting and Other Irregularities**

27. The Ottawa Mission was closed in December 1995 but was later reopened in February 2005. In this regard, during the financial year ended 31st December 2005, a provision of K2,469,927,219 was made in the Estimates of Revenue and Expenditure to cater for the Mission's operations but K3,238,517,102 was released resulting in an excess release of K768,589,883.

An examination of financial and other records maintained at the Mission and a physical inspection carried out in July 2006 revealed the matters set out hereunder:

(a) Failure to Account for Mission Assets and Liabilities

The Statement of Affairs, which should have shown among others the position of the Mission's assets and liabilities at the time of the closure in 1995, was not produced for audit verification.

It was explained that on closure of the Mission, the furniture was shipped to Lusaka and boarded while an unspecified amount of cash balance was surrendered to the Mission in Washington DC. Contrary to explanation given some furniture was found in New York in July 2006, which came from Ottawa Mission.

(b) Failure to follow Tender Procedures

In 2005, the Mission received a total amount of US\$120,000 (K486,600,000) for the purchase of a representational car (Mercedes Benz S320 Series) and a utility vehicle (Toyota Sienna).

In this regard, in February 2006 the Mission procured a utility Vehicle Toyota Sienna at a cost of US\$37,280 (K117,926,057) and a representational car a Mercedes Benz S420 series at the cost of US\$91,107 (K308,894,984). This resulted in over expenditure of US\$8,387 (K28,435,820) which had not been normalised as of July 2006

(c) Failure to Record Stores Items

Furniture costing C\$74,325 (K301,387,875) procured for the Mission, was neither recorded in the stores register nor labelled.

(d) Lease of 9 Mission Inn Grove

Amounts totalling C\$283,000 (K1,147,565,000) earned from leasing the property during the period March 1997 to October 2003 could not be accounted for as no expenditure records were made available for audit.

It was further observed that although an agent was engaged to manage the property, it was in a dilapidated state.

Controlling Officer's Submission**a) Failure to Account for Mission Assets and Liabilities**

The Controlling Officer informed your Committee that the Mission was unable to avail the statement of affairs, which could have shown the position of the mission's assets and liabilities at the time of closure because it was not handed over to the advance team. The only asset which was

handed over for which little information was available was an empty property at 9 Mission Inn Grove, the Residence of the High Commissioner. The record made available was the status report on the state of the property prepared by Dionne Caldwell, Property Manager.

However, through records at Ministry Headquarters, a report had since been located which was prepared on the closure of the Zambian Mission in 1995.

The Report had details on the expenses on closure and list of items boarded and sold during closure of the mission.

b) *Failure to Follow Tender Procedures*

The Controlling Officer informed your Committee that Tender procedures were followed in the procurement of the mission vehicles as per authorities granted which were attached.

The total amount that was received by the mission was US\$146,000 for the purchase of the vehicle broken down as follows:

Representational Vehicle	US\$100,000
Utility vehicle	US\$ 46,000
Total	US\$146,000

The representational vehicle was eventually purchased at US\$93,767 (ZMK314,586,239) while the utility vehicle was purchased at US\$37,691.90 (ZMK112,051,877.00) making a total of US\$131,459 (ZMK436,638,116.00). The over expenditure against the amounts allocated for both vehicles did not arise

c) *Failure to Record Store Items*

The Controlling Officer reported that all stores purchased for both the Chancery and residence had since been captured in the stores ledger inventories. The latest inventory at the residence was conducted on 1st February 2007 prior to the new High Commissioner's occupation of the premises. All items were accounted for and marked with an improvised GRZ stamp.

d) *Lease of 9 Mission Inn Grove*

With regards to amounts totalling C\$283,000 (K1,147,565,000.00) from leasing the property during the period March, 1997 to October, 2003, the Controlling Officer informed the Agent who was engaged to manage the property had so far handed over some receipts and bank statements covering the period December 1995 to February 1998. He further promised to furnish the mission with remaining records in due course for accountability. The records handed over were available at the Mission for verification.

Observations and Recommendations

Your Committee note the response and request the Controlling Officer to report progress on the normalisation of the excess expenditure that the Mission incurred amounting to K768,589,883.

a) *Failure to Account for Mission Assets and Liabilities*

The Controlling Officer is requested to submit the Status Report to the Auditor-General for further scrutiny.

b) *Failure to Follow Tender Procedures*

The matter should close subject to reconciling the amount that was authorised to purchase the vehicles.

c) *Failure to Record Store Items*

Your Committee advise the Controlling Officer to ensure that staff at the Mission are oriented on Financial Regulations since it was recently reopened to avoid irregularities taking root.

d) *Lease of 9 Mission Inn Grove*

Your Committee are concerned that despite the appointment of an agent to manage the property, the rental revenues cannot be accounted for and banking details are not easily traceable. They advise the Controlling Officer to ensure that all properties in closed missions are managed in a transparent manner.

They request him to forward the traced documents to the Auditor-General for verification, and to report progress on the remaining documentation.

Audit Query

Paragraph 28

THE JUDICIARY

Weaknesses in Accounting for Special Imprest and Other Irregularities

28. During the two financial years ended 31st December 2004 and 2005 provisions of K86,227,971,280 and K61,034,195,402 were made in the Estimates of Revenue and Expenditure, out of which total funding in amounts of K50,771,463,859 and K63,314,997,096 respectively were released for operations.

An examination of financial and stores records carried out in August 2006 at the Judiciary headquarters for the period under review revealed weaknesses in internal controls, poor record keeping in that imprest registers were not updated, very few imprest transactions had been captured and no journal numbers were entered to provide an audit trail, among others: Arising from these weaknesses the matters set out hereunder were observed:

(a) *Questionable Retirement of Imprest*

Imprest in amounts totalling K479,292,341 and K453,245,475 involving one hundred and nine and sixty transactions issued in 2004 and 2005 respectively could not be verified as retired as retirement details were not made available for audit.

(b) *Failure to Account for Cash*

In April 2005, imprest totalling K105,790,464 were issued to two officers to meet the facilitation of an induction course for the newly appointed magistrates in Siavonga. The imprest was to cater for lodging and out-of-pocket allowance for the participants.

However, PSCAP had initially paid for the lodging of the participants thereby creating a saving of K 60,000,000, which was subsequently retired through the cashier in May 2005. However, the cashier failed to account for the K60,000,000 in that there was no evidence that the money was banked nor was it on hand. No action had been taken as of August 2006.

(c) ***Missing Payment Vouchers***

Seventy-seven payment vouchers for the year ended December, 2004 and twenty-six payment vouchers for the year ended December, 2005 in amounts totalling K835,652,138 and K138,285,575, respectively were missing.

(d) ***Failure to Account for Stores***

There were no receipt and disposal details in respect of stores items costing K117,150,100 and K1,110,611,840 involving ten and thirty-four transactions for the years 2004 and 2005, respectively.

(e) ***Irregular Payments***

(i) ***Judiciary Football Club***

A total of K71,439,000 (K35, 569,000 for 2004 and K35,870,000 for 2005) was paid to a club formed by the Judiciary as a social club for its staff from General Administration to meet its expenses without budgetary provision.

The payments were in form of imprest whose retirements could not be verified due to poor record keeping.

(ii) ***Trust Fund Account***

The Trust Fund Account was established to cater for trust funds remitted by various institutions and individuals for minor beneficiaries of the deceased persons. Funds received are initially deposited into a current account maintained at a commercial bank and later transferred to individual investment accounts such as savings and fixed deposits for the purpose of earning interest. In order to effect payments to beneficiaries, funds are transferred from the investment accounts to the current account on instruction from Judiciary Headquarters.

During the financial year ended 31st December, 2005, Judiciary paid a total of K363,908,783 to the beneficiaries of the Trust Fund Account involving thirteen transactions from General Administration, contrary to the Appropriation Act. As of August 2006, the funds had not been reimbursed.

Controlling Officer's Submission

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

a) ***Questionable Retirement of Imprest***

The Controlling Officer informed the Committee that the huge amount of unretired imprest was attributed to the imprest registers, which were not updated. This was also as a result of lack of accounting staff as only twenty-nine positions were filled out of the established forty-six positions.

From the K479,292,341 that was outstanding in 2004, K262,512,300 had been retired. Similarly, from the K453,245,475 that was outstanding in 2005, K268,003,732 had been retired.

When asked if he was aware of Financial Regulation No. 96 (5) and (7), which required, among other things, for the accounting officers to submit, on a monthly basis, a copy of the schedule of unretired imprest to the Accountant-General, the Controlling Officer replied that he was not.

b) *Failure to Account for Cash*

The Controlling Officer informed the Committee that deposits slips for K50,000,000 and K3,240,000 were available. The Cashier who was responsible for the imprest had been requested to account for the balance failure to which the money would be recovered from the officer.

c) *Missing Payment Vouchers*

The Controlling Officer submitted that he regretted that payment vouchers went missing. Eight of the twenty-six payment vouchers for the year 2005 totalling K51,815,000 had been traced. The loss of the payment vouchers was partly attributed to the relocation of the Accounts Department from the main building to the former Chikwa courts. They were still searching for the remaining missing vouchers.

d) *Failure to Account for Stores*

The Controlling Officer agreed with the observation by the Auditor-General. The sudden departure of the former Stores Officer had led to the failure to account for stores.

K847,469,350 was remitted to T. Birch and Company (PTY) Limited for the importation of judges outfits. The outfits were subsequently issued to the judges. Disposal details were available for verification.

The aggregate balance of K380,292,590 related to the purchase of various stationery and other office requisites. Disposal details were now available.

Measures to ensue that stores procured were properly accounted for had been put in place.

e) *Irregular Payments*

(i) *Judiciary Football Club*

The Controlling Officer submitted that the imprest retirement details were made available and were verified by the auditors.

There was no Treasury authority to spend K71,439,000 on the Judicial Football Club. They were in the process of validating this wrongful expenditure.

Budget ceilings had made it difficult to have a specific expenditure budget line for such expenses therefore payments were made from the entertainment vote. They had since stopped paying the club's expenses.

(ii) *Trust Fund Account*

The Controlling Officer agreed that claims on the Trust Account were paid from RDCs. This was because funds in the Trust Account had been exhausted and there was a long list of beneficiaries who were still eligible for payments. It was therefore decided to make payments from the RDCs in the interest of minors to cater for their educational needs.

Problems on the Trust Account began in 2001 when funds were transferred from Standard Chartered Bank to the Zambia National Commercial Bank, as some funds could not be accounted for. The matter was before the Task Force on Corruption.

It was not feasible to refund the moneys and he appealed to your Committee that the expenditure stands as a charge against public funds.

Observations and Recommendations

Your Committee note with concern the unsatisfactory manner in which finances are managed at the Judiciary. Previous audit reports had similarly revealed weaknesses in internal controls and poor record keeping. It was, therefore, worrisome that the recent audit has revealed the same shortcomings.

Your Committee, therefore, call upon the Secretary to the Treasury to see to it that financial management at the Judiciary is improved. Other than just improving accountability, the measures will also preserve the integrity of this important arm of Government.

Of particular importance to your Committee is the Trust Fund Account. The operations of the Account have been queried before and it is unfortunate that funds in the Account have now been exhausted. They, therefore, urge the Secretary to the Treasury to ensure that all transactions relating to the Account are first cleared by the Office of the Accountant General until such time when a more transparent system is put in place.

On the specific issues, the Committee recommend as set out below.

(a) *Questionable Retirement of Imprest*

The Controlling Officer is urged to submit imprest retirement details to the Auditor-General for verification. Your Committee await an update on the balances of K216,780,041 for 2004 and K185,241,743 for 2005.

Your Committee caution the Controlling Officer against allowing imprest to remain unretired beyond the stipulated time as per Financial Regulations.

(b) *Failure to Account for Cash*

The Controlling Officer is urged to institute recoveries from the officer immediately. Inability to take corrective action is one reason why officers in the Public Service are misappropriating and misapplying public funds.

They request the Controlling Officer to report progress on the recovery of the balance of K6,760,000. In addition, deposit slips for the K50,000,000 and the K3,240,000 should be forwarded to the Auditor-General for verification.

(c) *Missing Payment Vouchers*

Your Committee advise the Controlling Officer to ensure that accounting documents are properly secured at all times and that they are easily retrievable for audit purposes. The Controlling Officer is requested to report progress on the remaining missing payment vouchers.

(d) *Failure to Account for Stores*

The disposal details should be submitted to the Auditor-General for verification.

(e) *Irregular Payments*

(i) *Judiciary Football Club*

The Controlling Officer should report progress on the normalisation of the K71,439,000 that was spent on the football club.

- (ii) *Trust Fund Account*
- In order to ensure transparent use of funds from the Account, the Controlling Officer is advised to make it a point that the Office of the Accountant-General clears every transaction and copies forwarded to the Auditor-General.
 - The K363,908,783 should stand as a charge against public funds.
 - The Controlling Officer is requested to report progress on the outcome of investigations by the Task Force.

Audit Query

Paragraph 29

MINISTRY OF FINANCE AND NATIONAL PLANNING

Poverty Reduction Programmes

Zambia Social Investment Fund

29. It was reported that the Government and International Development Association (IDA) of the World Bank signed a Development Credit Agreement on the 14th June 2000 in order to provide sustainable and improved basic social services for beneficiary communities and specific vulnerable groups in the Republic of Zambia. In order to manage the activities of the project, the Government established the Zambia Social Investment Fund (ZAMSIF).

The objective of the project was to support the Government's efforts to achieve improved, expanded and sustainable use of the services provided in a governance system where local government and communities would become mutually accountable.

The Government through the International Development Association (IDA) was entitled to receive an amount of Special Drawing Rights (SDR) 48.3 million for the purpose of the project.

During the Financial Year ended 31st December 2005, an amount of K60,776,594,700 was provided in the Estimates of Revenue and Expenditure under ZAMSIF.

An examination of financial and other project records and physical inspection of projects carried on between February and March 2006, revealed the facts set out below:

(a) Eastern Province

Kapata Market Improvement

In December 2003, ZAMSIF and Kapata Market Committee signed an agreement for the construction of a market at a contract sum of K493,694,941.

Although the project progress reports and stage completion certificates indicated that the project was 100% complete and payment made in full, a physical inspection carried out in March 2006, indicated that the works were not completed in that the market stands were partially erected, the fittings to the ablution block such as toilet pans, sinks, windows, doors were not fitted; and the floor and walls were not completed, among others. In addition as of March 2006, the market was not operational.

(b) Lusaka Province

(i) Chanyanya Rural Health Centre Expansion

In 2003, ZAMSIF and Chanyanya Rural Health Centre Expansion Committee signed an agreement at a contract sum of K264,184,801 for the expansion of the rural health centre, sinking of a borehole and mounting of a tank, among others.

A physical inspection of the project revealed that while the rural health centre was expanded, the borehole and water tank for the clinic were not functional as of February 2006.

(ii) Chongwe District Hospital – X Ray Building Project

A financing agreement was signed in January 2003 between ZAMSIF and Chongwe District Council for the construction of an X-Ray building at contract sum of K199,807,981.

A physical inspection of the x-ray building revealed that although the funds had been completely utilised, the works were not complete on the floor, electricity wiring and plastering of the building had not been done.

(c) Southern Province - Kazungula District Council Office Block

In September 2004, a financing agreement was signed between ZAMSIF and Kazungula Council Office Block Project for the construction of an office block and a three bedroom house at a contract sum of K664,500,391.

A site inspection carried out in February 2006 revealed that while the office block and house were completed, they were both not connected with electricity despite ZAMSIF having paid Zambia Electricity Supply Corporation (ZESCO) a total amount of K20,236,611 for electricity connection in September 2005. As of March 2006, the office block was not in use.

Controlling Officer's Submission

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

a) Eastern Province

Kapata Market Improvement

Before the commencement of the project, there was a problem with the budget that had been confirmed by the parties concerned as being inadequate. That meant that not all activities would be completed within that budget. However, it was resolved that despite the shortfall in the budget, work had to proceed on the basis of the original budget, relying on supplementary from internally generated funds to complete the project.

The project was classified 100% completed in terms of fund disbursements since all funds from the original budget had been paid to the project account.

b) Lusaka Province

(i) Chanyanya Rural Health Centre Expansion

The borehole became functional after installation of necessary electrical fittings, which cost K653,000. However, test runs had not been completed due to the breakdown of the transformer that was under repair by ZESCO.

(ii) Chongwe District Hospital – X – Ray Building Project

Due to poor coordination within the Chongwe District, the District Development Coordinating Committee, who should have spearheaded the implementation of the project, did not perform to expectation. By 31st December 2005, when ZAMSIF closed it was clear that the project would not be completed as there was failure by the implementing committee to utilise funds already sent to them. A decision was then reached to hand over the project to the Ministry of Health who were to mobilise additional funds to complete the project. Substantial progress had been made, in that the building had been roofed and chances of successfully completing the project were much better.

When asked when the X-Ray Building would be completed, your Committee were informed that the project would be completed when funds would be made available.

c) ***Southern Province – Kazungula District Council Office Block***

ZESCO had finally connected electricity to the office block on 26th May 2006. The late connection of electricity by ZESCO was unfortunate and that it was a prevalent problem being experienced by most customers.

Observations and Recommendations

Your Committee observe that following the winding up of ZAMSIF, a number of projects across the country remain incomplete despite the communities having made their 25 percent contribution, and there is no successor programme. They, therefore, request the Secretary to the Treasury to take stock of all incomplete projects through which data the Ministry should devise a programme of completing the projects.

On the specific queries, your Committee resolve as indicated below.

a) ***Eastern Province***

Kapata Market Improvement

Your Committee request the Controlling Officer to report progress on the completion of the project.

b) ***Lusaka Province***

i) *Chanyanya Rural Health Centre Expansion*

The Controlling Officer should invite the Auditor-General to verify the completion of works on the borehole.

ii) *Chongwe District Hospital – X-Ray Building Project*

Considering that the project has been taken over by the Ministry of Health, they resolve to close the matter.

c) ***Southern Province – Kazungula District Council Office Block***

Following the connection of electricity, your Committee resolve to close the matter.

Audit Query

Paragraph 30

**MINISTRY OF FINANCE AND NATIONAL PLANNING
Projects**

Zambia National Response to HIV/AIDS

30. It was reported that the Zambia National Response to HIV/AIDS (ZANARA) project was a country program within the context of the second phase of the multi-country AIDS program for the Africa Region which was approved on 7 February 2002 in amounts totalling US\$ 42 Million (SDR 33.7 million).

The ZANARA project objective was to significantly increase access to, and use HIV/AIDS prevention, care and impact mitigation programs with particular emphasis on vulnerable population (e.g. youth women of childbearing age, orphans, widows and widowers, child or women-headed house holds, people living with HIV/AIDS and other groups at increased risk of infection or being affected).

The project had four components namely Community Response to HIV/AIDS (CRAIDS), National HIV/AIDS Council (NAC) and its secretariat, line ministries and Programme Administration Unit

During the Financial Year ended 31st December 2005 a total authorised provision of K91,155,648,200 was made in the Estimates of Revenue and Expenditure for the activity.

An examination of financial and other project records and site visits to projects made to three provinces namely Copperbelt, Luapula and Lusaka revealed the facts set out hereunder:

Copperbelt Province

Nkwazi Support Group-Ndola

The project did not maintain an asset register for assets valued at K18,183,900 and the assets were not given identification marks. It was also observed that the project did not submit expenditure returns to ZANARA.

Luapula Province

(i) Regional Office, Mansa

- Imprest in amounts totalling K10,527,400 issued to ten officers between January and June 2005 had not been retired as at January 2006.
- A payment of K1,500,000 drawn on cheque number 1825 for office expenses was not adequately supported in that it lacked receipts, invoices and quotations.

(ii) Namwande Orphans and Vulnerable Children and the Aged – Mansa

The main purpose of the project was to help orphans, vulnerable children and the aged.

A scrutiny of the register for orphans and vulnerable children revealed that there were fifty-four registered children out of which twenty-four had their school fees paid for leaving thirty unpaid for. However, the project management paid for twenty-six children who were not registered with the project.

Inquiries made with the project officials as to why they paid for children not registered with them proved futile, as the committee members could not give a satisfactory answer.

(iii) Samfya DAPP – Samfya

The project was made up of ten committee members and was funded a sum of K130million in October 2004. Out of the funds released, the project trained forty people in positive living with HIV/AIDS and forty trainers of trainees and purchased ten bicycles and twenty mattresses. Due to poor record keeping, the exact amount spent on training members and purchase of project materials could not be ascertained. It was also observed that the assets were not given identification marks.

Controlling Officer's Submission

The Controlling Officer in response submitted as given below.

a) Copperbelt Province – Nkwazi Support Group in Ndola

The Nkwazi support group in Ndola had since corrected the anomaly and all the sub-projects' fixed assets had been given identification codes and had been recorded in the fixed assets register.

The K18,183,900 in question was composed of two activities; K12,181,400 was for training of thirty-five committee members in positive living and K6,002,500 was for training to management members in business management.

All expenditure returns not submitted to ZANARA were now available.

b) Luapula Province

(i) Regional Office in Mansa

The imprest amounting to K10,527,400 which had been issued to various districts had since been retired and all the receipts were kept at the Luapula Regional Office.

The K1,500,000 was the balance from the K4,500,000 that was drawn on the same cheque and was spent accordingly and the receipts were available.

(ii) Namwande Orphans and Vulnerable Children (OVC) and the Aged in Mansa

The project was compelled to include the twenty-six children who were not registered merely as a replacement for the thirty registered children who failed to show up. When the project was funded the registered children who failed to show up were either taken away elsewhere by relatives, married, taken on by other organisations or died. The replacements were picked from the original list of 500 OVCs who had been recruited. When the budget was approved only 100 OVCs were considered.

The project erred because no consultation was sought to do so from ZANARA. The project attributed this to lack of guidelines on how to proceed on such matters.

(iii) Samfya DAPP – Samfya

All the supporting documents relating to the payments for training of forty people living with HIV/AIDS, forty trainees of trainers, ten bicycles and twenty mattresses were currently with the Project's Regional Office in Mansa from the sub project.

All the assets that had no identification marks, namely; sewing machines, chairs and all other assets bought after the audit, had since been given identification marks and included in the Projects' fixed assets register. The register was at present being regularly updated at regional level and kept at the Project's Head Office.

Observations and Recommendations

Your Committee observe that the ZANARA Programme faces a potential threat of not achieving its intended objectives if the highlighted laxity in the observance of Financial Regulations continues. Staff employed under such programmes are relatively better remunerated, which means that qualified and experienced staff can be employed to professionally manage the programme.

They, therefore, urge the Controlling Officer to enhance the monitoring of the programme and individual projects so that problems of poor record keeping, imprest not being retired and expenditure returns not being submitted are minimised. Any officer found wanting should be disciplined.

On the individual queries the Committee makes the resolutions set out below.

Copperbelt

Nkwazi Support Group – Ndola

The matter should close subject to verification of the fixed asset register and expenditure returns.

Luapula Province

i) Regional Office - Mansa

The matter should close subject to verification of the imprest retirement documents and supporting documents for the payments of K1.5 m.

- ii) *Namwande Orphans and Vulnerable Children and the Aged - Mansa*
The Project Management team should be censured for not consulting ZANARA when making the replacements. The Controlling Officer should also ensure that clear operational guidelines are in place without delay.
- iii) *Samfya DAPP*
The matter should close subject to verification of expenditure documents and fixed asset register.

Audit Query

Paragraph 31

MINISTRY OF FINANCE AND NATIONAL PLANNING
Accounting

Payments of Compensation and Awards

31. It was reported that in paragraph 31 of the Auditor General's Report for the Financial Year ended 31st December 2003, mention was made of the inadequate provision in the Estimates of Revenue and Expenditure to meet payments of compensations and awards.

In their recommendations to the Fourth Session of the Ninth National Assembly, the Public Accounts Committee expressed concern on the rising compensations and awards debt stock and requested the Controlling Officer to report progress on the subsequent reduction in the arrears.

During the Financial Year ended 31st December 2005, a provision of K54 billion was made in the Estimates of Revenue and Expenditure to cater for compensations and awards and the whole amount was released.

An audit that was conducted at the Ministries of Justice, and Finance and National Planning in January 2006 revealed the matters set out hereunder.

(a) ***Movements in the Compensation and Awards Debt Stock***

	K
Balance as at 1st January 2005	57,409,405,085
Compensation incurred during the year	84,935,749,032
	142,345,154,117
Payments during the year	53,877,892,945
Balance as at 31st December 2005	88,467,261,172

As shown in the table above, the debt stock had increased from K57, 409,405,085 at 1st January 2005 to K88, 467, 261,172 as at 31st December 2005. The debt stock is made up of K51, 880, 881, 374 principal and K36, 586, 379, 798 interest involving eighty-two claims.

Although the matter was brought to the attention of the Controlling Officer, there was no response as of September 2006.

(b) ***Irregular Payment***

In October 2005, the Ministry of Finance and National Planning paid K2,250,000,000 (US\$ 500,000) to Norsad as compensation.

However, there was no budget line for Compensations and Awards under Head 21 and therefore, the payment was irregular.

(c) ***Delayed Payments***

In October 1997, the Prison Service Department engaged a local supplier for the supply of foodstuffs and other requisites. In this regard, supplies worth K5, 606,327,380 were made during the period October to November 1997 for which a down payment of K500,000,000 was made leaving a balance of K5,106,327,380 as of November 2000.

Due to delays in settling the balance, the company sued the Government claiming the outstanding amount plus interest all totalling K13, 112,793,699. Consent judgement was entered against the Government and consequently, the plaintiff was awarded K2,878,607,220 with interest thereon of 25% per annum starting from October 1997 and thereafter a statutory rate in terms of the Judgement Act to the date of payment.

It was observed, however, that although the Government owed the company a total of K15,727,513,379 as of December 2005, the Ministry paid a total amount of K16,405,313,881 between February 2003 and December 2005 resulting in an over payment of K677, 800,502.

It was further noted that the supplier disputed the over payment and subsequently sought judicial review. A consent order was awarded to the supplier in April 2006 and the Government was to pay K4, 078,439,180 exclusive of all amounts paid to the plaintiff by the defendant as of April 2006. The Government, however, took the matter back to Court.

In May 2006, the Solicitor General wrote to the Secretary to the Treasury advising him to settle the amount on account of weak arguments from the State. However, the amount had not been settled as of June 2006.

In his response dated 14th August 2006, the Controlling Officer, Ministry of Finance and National Planning reported that the Solicitor General had since signed a consent order with the plaintiff for the sum of K4.2billion citing the Ministry's base of dispute as weak. In this regard, the whole amount of K4, 078,439,180 had since been paid as of September 2006.

It was clear from the above that if no stringent measures are taken to minimise claims on the Government and ensure all cases in the courts of law were adequately represented; the Government would continue losing huge amounts of money through payments of compensations and awards.

Controlling Officer's Submission

The Controlling Officer in response submitted as set out below.

a) ***Movements in the Compensation and Awards Debt Stock***

Out of the eighty two claims cited in the Auditor-General's Report amounting to K88,467,261,172, seventy three cases in the sum of K14,222,180,388 had been cleared and the remaining seven cases were reduced from K72,799,074,548 to K32,307,508,345 as at 31st December 2006.

The budget provision for the year (2007) was K80 billion compared to K60 billion for the last fiscal year representing an increase of K20 billion.

b) ***Irregular Payment***

The irregular payment had been normalised.

c) ***Delayed Payments***

The Controlling Officer was working closely with the office of the Solicitor-General to address the situation. In this regard, the Solicitor General was trying by all means to secure out of court settlements so that there was no interest accruing. Further, officers in various ministries were also being educated on how to avoid some of the actions they took which resulted in litigation.

On the measures that had been put in place to reduce the arrears, the Controlling Officer informed your Committee that there was need for more money than had been budgeted for in 2007 because the cases were so many.

Observations and Recommendations

Your Committee observe that the country will be starved of development funds if the figure for compensation and awards keeps rising. While appreciating the complications associated with this particular matter, they note that a substantial amount can be attributed to Government's failure to pay for goods and services supplied on time. Your Committee, therefore, request the Secretary to the Treasury to ensure that growth of the domestic debt stock is curbed otherwise the country will continue spending funds on compensations and awards and not funding developmental projects.

On the specific issues raised, the Committee recommends as set out below.

- a) ***Movements in the Compensation and Awards***
Your Committee note the response and resolve to keep the matter in view.
- b) ***Irregular Payments***
The matter should close.
- c) ***Delayed Payments***
Your Committee note the response.

Audit Query

Paragraph 32

**MINISTRY OF COMMUNITY DEVELOPMENT AND SOCIAL SERVICES
Headquarters**

Inadequate Management Control over Public Funds

32. It was reported that a total authorised provision of K43,216,662,242 was made in the Estimates of Revenue and Expenditure for the Financial Year ended 31st December, 2005. Out of the total provision K34,608,075,590 was released to cater for the various programmes.

An examination of financial and stores records carried out at the Ministry Headquarters in January, 2006 revealed the matters set out below.

(a) ***Unretired Imprest***

Imprest in amounts totalling K1,433,198,485 involving two hundred and nineteen transactions issued during the period January to December 2005 had not been retired and no recoveries had been effected as of July 2006.

(b) ***Irregular Payments***

- (i) In May and June 2005, two Ministers were issued with imprest in the sums of K8,000,000 and K5,060,000 respectively when they proceeded on leave. It is not clear why the Ministers were issued with imprest when they proceeded on leave.

- (ii) In December 2005, the Ministry paid an amount of K45,000,000 to an engineering firm for the drilling of two boreholes and installation of one hand pump at Kampumbu resettlement scheme in Serenje district without entering into a contractual agreement.

(c) ***Hammer Mills***

There were no disposal details in respect of four hammer mills purchased from a local company in December 2005 at a total cost of K59,876,000.

(d) ***Inadequately Supported Payments***

There were sixty-two payments in amounts totalling K532,743,854 that were inadequately supported by cash sale receipts or invoices.

(e) ***Non Recovery of Staff Loans and Advances***

There was no loans and advances register maintained at the Ministry. A test check carried out on seventy-five payments revealed that no recoveries had been effected in respect of 24 payments totalling K106,970,000 as at July 2006.

Included in the twenty-four payments was a household loan of K15,000,000 paid to the then Deputy Permanent Secretary who was not on the Ministry's payroll, and has since left the Public Service.

(f) ***Misapplication of Funds - Hammer Mill Loan Revolving Fund***

The hammer mill loan revolving fund was created in December 1993 to provide loans to women in peri-urban and rural areas who could not secure loans from lending institutions to secure hammer mills. This was in an effort to empower the women economically and ensure household food security.

It was, however, observed that during the period under review, amounts totalling K1,049,203,504 were used contrary to the Fund's guidelines, in that:

- amounts totalling K549,203,504 were paid out as imprest;
- K400,000,000 was transferred to the Ministerial Staff Loan Revolving Fund account; and
- K100,000,000 was transferred to the Salaries Account for payment of other emoluments such as Long Service bonuses.

(g) ***HIPC Funds – Non Submission of Expenditure Returns***

There were no expenditure returns in respect of K3,567,598,553 paid to sixty eight District Welfare Schemes during the period under review contrary to HIPC guidelines.

Submission by the Controlling Officer

a) *Unretired Imprest*

The issue of retiring imprest had been an on-going exercise and the status as at December 2006 was as given below:

Account	Amount
Mirror	193,859,309
Donor	19,951,975
Hammer mill	36,135,280
Total	K249,946,558

Further recoveries had been made and the details would be forwarded to the Auditor-General's Office for verification. Deadlines had been given to members of staff to repay, failure to which deductions from their salaries would be effected.

b) *Irregular Payments*

- i) Letters had been written to the two former Ministers asking them to reimburse the imprest but they did not respond. Ministry of Finance and National Planning had been requested to deduct the imprest from their benefits.

He reported that deductions had been made from the former ministers' benefits.

- ii) It was regretted that the contract had not been signed before engaging the contractor. However, the works had been completed and the auditors from the Office of the Auditor-General had visited the site.

c) *Hammer Mills*

The hammer mills had been given to women clubs in Luampa and Keembe Constituencies. The Members of Parliament that signed the acquittal forms were requested to provide a list of women clubs that benefited.

d) *Inadequately Supported Payments*

The Provincial Permanent Secretaries had been requested to submit receipts for traditional ceremonies paid out to them.

e) *Non Recovery of Staff Loans and Advances*

Recoveries for the twenty-four payments totalling K106,970,000 were being recovered. The pay slips were available for the Auditor-General to verify. Ministry of Finance and National Planning had been requested to deduct the loan from the former Deputy Permanent Secretary's benefits.

f) *Misappropriation of Funds – Hammer Mill Loan Account*

- The K549,203,504 paid out, as imprest under this Account was to facilitate monitoring of the distribution of hammer mills and to conduct training to various women clubs in the country. K411,404,024 of the same imprest had been retired as at October 2006 leaving a balance of K36,135,280 which was included in the unretired imprest figure of K249,946,558.
- The K400,000,000 and K100,000,000 transferred to the Ministerial Loan Revolving fund and Salaries Account respectively had since been reimbursed following the K598,756,352 funding

received from Ministry of Finance and National Planning. Funding details were available for verification.

g) *HIPC Funds – Non-Submission of Expenditure Returns*

Letters had been written to Provincial Social Welfare Officers in the Provinces to remit the expenditure returns to Headquarters as soon as possible.

Observations and Recommendations

Your Committee observe that economic empowerment programmes such as the Hammer Mill Programme despite the good intentions are likely to be meaningless and at the same time be a drain on national resources going by the way they have been implemented. Your Committee strongly feel that political interference has affected the operations of such schemes resulting in poor accountability of funds.

They further observe that there has been poor supervision of staff at the Ministry in the wake of the failure to retire imprest and generally adherence to Financial Regulations.

The apparent poor coordination between Permanent Secretaries at Ministries and those in Provinces has contributed to some of the financial irregularities observed such as none remittance of expenditure returns.

Your Committee, therefore, call upon the Secretary to the Treasury to tighten loopholes in the operation of economic empowerment programmes and other public welfare schemes to avoid them becoming opportunity windows for misuse of public resources. No funding should be disbursed to any scheme that is not justifying its expenditures.

They also urge the Secretary to the Treasury to look into the issue of coordination, particularly regarding financial management, between Controlling Officers at Ministries and those in Provinces so that delays in the submission of expenditure returns can be minimised.

On the specific issues, the Committee recommend as set out below.

a) *Unretired Imprest*

The Controlling Officer should immediately commence deductions from the concerned officers. Your Committee await progress on the matter.

b) *Irregular Payments*

- i) The matter on the two former ministers should close subject to verification that the outstanding amounts were recovered from their gratuities.
- ii) In closing the matter on the two boreholes, your Committee advise the Controlling Officer to ensure that there is no repeat of such an act especially that public funds are being used for this purpose.

c) *Hammer Mills*

The Controlling Officer should report progress on the matter.

d) *Inadequately Supported Payments*

The Controlling Officer should report progress on the matter.

e) Non Recovery of Staff Loans and Advances

Your Committee caution the Controlling Officer on delays to commence recoveries for loans and advances. They further urge him to ensure that no person who is not on the Government payroll has access to public funds that need to be retired.

The Controlling Officer is requested to report progress on the recovery of the K15 million loan that was given to the former Deputy Permanent Secretary.

f) Misappropriation of Funds – Hammer Mill Loan Account

The Controlling Officer is advised to see to it that administrative costs of projects are not astronomical. They urge him to forward the retirement details to the Auditor-General for verification and also report progress on the outstanding K36,135,280.

On the K400 million and K100 million that was borrowed by Headquarters, they urge the Controlling Officer to desist from utilising programme funds in the hope of reimbursing them. They request him to forward the reimbursement documents to the Auditor-General for verification.

g) HIPC Funds – Non Submission of Expenditure Returns

The Controlling Officer should intensify efforts to ensure that expenditure returns are remitted to Headquarters. As per guideline, no further funding should be disbursed to any social welfare scheme where there are no expenditure returns.

Audit Query

Paragraph 33

**MINISTRY OF COMMUNITY DEVELOPMENT AND SOCIAL WELFARE
Social Welfare Department - Public Welfare Assistance Scheme**

Accounting and Other irregularities

33. It was reported that Public Welfare Assistance Scheme (PWAS) was a scheme of assisting the vulnerable people throughout the country administered by the Department of Social Welfare in the Ministry. A provision of K10,350,901,822 was made in the Estimates of Revenue and Expenditure for PWAS out of which K9,485,009,321 was released.

An examination of financial and other records pertaining to the scheme revealed the matters set out below.

(a) Misapplication of Funds

Contrary to PWAS guidelines, a total amount of K30,763,158 was misapplied on activities outside the scheme such as payment of commutation of leave days, leave travel benefits, golf tournament and air tickets.

(b) Non Submission of Expenditure Returns

A total of K7,696,113,835 was disbursed to the nine provinces in the country to cater for social welfare activities as shown below:

Province	Disbursement (K)
Central	729,836,569
Copperbelt	1,044,462,174
Eastern	1,074,209,527
Luapula	668,229,987
Lusaka Urban	510,922,157
Northern	1,165,195,816
N/Western	539,832,799
Southern	1,162,135,023
Western	801,289,783
Total	<u>7,696,113,835</u>

However, there were no expenditure returns submitted to headquarters to show how the funds were utilised contrary to PWAS guidelines.

(c) Unretired Imprest

Amounts totalling K250,770,925 were issued to thirty-one officers as imprest during the period under review. It was observed, however, that as of July 2006, only an amount of K82, 790,000 had been retired leaving a balance of K167, 980,925.

Controlling Officer's Submission

a) Misapplication of Funds

This had been reimbursed following the K300,000,000 and K298,756,352 funding that was received from Ministry of Finance and National Planning.

b) Non Submission of Expenditure Returns

Letters had been written to the districts requesting them to submit the returns. The exercise had been slow because of communication difficulties in some districts.

c) Unretired Imprest – Donor Account

The unretired figure now stood at K19,951,975 and efforts continued to ensure that unretired balance imprest was cleared. Furthermore reminders had been sent to the affected officers failure to which deductions from their salaries would be effected.

When asked how long government institutions were allowed to submit returns, the Controlling Officer replied that institutions were expected to file returns after a week or so. However, he did not have much power over the returns as Provinces also had Controlling Officers who were supposed to ensure that the funds were accounted for.

Observations and Recommendations

Your Committee observe that there is a tendency by Controlling Officers of permitting the utilisation of funds meant for particular activities in the hope of making reimbursements later. They request the Secretary to the Treasury to ensure that this practice is stopped henceforth.

Your Committee further recommend on the other matters raised as set out hereunder.

a) *Misapplication of Funds*

The matter should close, however, they strongly urge the Controlling Officer to desist from utilising public welfare funds for administrative purposes in the hope of paying back later.

b) *Non Submission of Expenditure Returns*

The Controlling Officer should report progress on the expenditure returns. They further urge him to ensure that no disbursements are made to provinces and districts that are not filing expenditure returns.

c) *Unretired Imprest*

The Controlling Officer should institute recoveries from concerned officers' salaries for any imprest that was not retired within the stipulated period. In addition, supervising officers should be censured for allowing unretired imprest to accumulate.

Audit Query

Paragraph 34

MINISTRY OF HEALTH

Poverty Reduction Programmes

Accounting Irregularities

34. It was reported that during the Financial Year ended 31st December 2005, provisions totalling K437,970,162,429 (Support to Institutions – K44,425,205,622, Support to Sector wide Approach – K363,950,054,293, Implementation of Various Poverty Reduction Programmes – K29,594,902,514) were made in the Estimates of Revenue and Expenditure to cater for the above programmes out of which amounts totalling K83,069,679,363 were released (Support to Institutions – K47,482,151,993, Support to Sector wide Approach – K6,049,849,262, Implementation of Various Poverty Reduction Programmes – K29,537,678,108).

An examination of financial and other records maintained at the Ministry revealed the matters set out hereunder.

(a) *Misapplication of Grants*

Although K44,425,205,622 was approved in the Estimates of Revenue and Expenditure, the Ministry of Finance and National Planning released K43,180,029,048, leaving a balance of K1,245,176,575. Out of the released amount of K43,180,029,048; K36,283,675,683.42 was paid out to grant aided institutions, while the balance of K6,896,353,365 was misapplied at the Ministry headquarters on administrative services.

(b) *Overpayment of Management Contract Fees*

During the period March 2004 to March 2005, amounts totalling K3,946,278,647 were paid to a consultant for consultancy over the management of Medical Stores Ltd. It was, however, observed that though K7,500,019,119 was owed to the consultant, the consultant had outstanding taxes amounting to

K4,678,205,050 which were offset by the government leaving a balance of K2,821,794,900 due to the consultant. This resulted in an overpayment of K1,124,464,577 to the consultant which had not been recovered as of June 2006.

(c) ***Unaccounted for Fuel***

There were no receipt and disposal details in respect of fuel costing K795,295,656 procured during the period under review.

(d) ***Unaccounted for Stores***

There were no receipt and disposal details in respect of stores items costing K480,313,500 procured during the period under review.

(e) ***Wasteful Expenditure***

In March 2005, K21,612,500 was paid to a local company to print 650 Christmas cards at a cost of K33,250 each.

(f) ***Irregularities in Payment of Mobile Telephone Bills***

Contrary to circular number 1 of 2000 which prescribes thresholds on expenditure regarding mobile and telephone services for officers at the rank of Permanent Secretary and above, the Ministry paid K59,319,960 in respect of cell phone bills for three senior government officials thus exceeding their entitlements of K18,000,000 per year by K27,092,760.

(g) ***Unretired Imprest***

Imprest in amounts totalling K781,585,580 involving thirty seven transactions issued during the period March to December 2005 had not been retired as of June 2006.

(h) ***Student Allowances***

Although K1,419,944,500 was due to students as allowances, amounts totalling K1,633,053,500 were drawn resulting in an excess of K213,109,000. As of June 2006, there was no evidence to show how the excess money had been utilised, nor was there any evidence to show whether the money had been receipted or banked. In addition, no loss report had had been raised.

Controlling Officers' Submission

When the Controlling Officer made the first submission on the queries, your Committee were unable to proceed with the matter as it turned out that the Controlling Officer did not fully cooperate with the auditors during the audit process. After, further deliberations, the Controlling Officer apologised to the Auditor-General for the inconvenience his Office had caused. The Auditor-General sent her officers to the Ministry of Health to verify the submissions. The Controlling was then requested by your Committee to make a fresh submission based on the outcome of the audit verifications. He submitted as given below.

i) ***Misapplication of Grants***

The following details were availed to the auditors during the exercise.

- funding details showing how much money the Ministry received as grants for the financial year 2005.
- disbursement profiles indicating how the grants were disbursed and how much was retained at the centre; and
- payment vouchers in respect of disbursement to institutions.

Effective January 2006, all grants had been disbursed in full.

ii) *Overpayment of Management Contract Fees*

After discussions with the Auditor-General, it was agreed that a meeting should be convened between Ministry of Finance and National Planning, Sunrise Investments through their Lawyers Messer's Eric Silwamba and Company, Zambia Revenue Authority and Medical Stores Limited (Crown Agents) in order to reconcile and resolve the differences in the reported figures. The contract with Sunrise Investments was terminated in 2003 and their services were taken over by Crown Agents.

Crown Agents, the new consultant for Medical Stores had been following up the matter with Investments and Debt Management Unit in the Ministry of Finance and National Planning who had shown willingness to clear the debt to Zambia Revenue Authority. He, therefore, requested for more time to enable the three concerned parties to meet and reconcile the figures.

iii) *Unaccounted for Fuel*

The following details were availed to the Auditor-General:

- list of authorised vehicles;
- Statement of Account from the Service Station;
- some coupons indicting authorised quantities to be drawn; and
- fuel payment vouchers.

However, in the process of verification, the Anti-Corruption Commission requested for the documents, which made the exercise difficult. It was further agreed that since the matter was under investigation, the Auditor-General would be informed on the availability of the documents.

iv) *Unaccounted for Stores*

At the time of the verification exercise, the Anti-Corruption Commission had taken possession of the documents, which made it difficult for the Auditor-General to verify. Similarly like in (iii) above, the Auditor-General would be notified on the availability of the documents.

v) *Wasteful Expenditure*

He had seriously taken note of the observations and concerns raised by your Committee.

Under the prevention and awareness programmes, health care information was disseminated in many forms such as television, radio, documentaries, cards and pamphlets.

vi) *Irregularities in Payment of Telephone Bills*

This was a practice that he found at the Ministry when he assumed Office and thought it wise to apply for authority, which was granted by the Secretary to the Cabinet.

Arising from the above, he requested that the expenditure stand as a charge to public funds.

vii) *Unretired Imprest*

After the verification exercise, the total outstanding reduced from the initial query of K781, 585,850 to K516, 585,580. However, after the verification exercise they had since reduced the figure to K274, 995,600.

In view of the above, he had instructed Accounts Office to immediately effect recoveries against the remaining K274, 995,600 from the concerned officers in line with existing Financial Regulations.

viii) Student Allowances

He had instructed Accounts Department that moneys should be withdrawn only when students were ready to be paid and that, in any case, unpaid balances should be banked immediately.

The Ministry had since strengthened their internal controls and all students were now paid through the bank.

Observations and Recommendations

Your Committee note that there is a general misconception of the audit process in the Public Service. Controlling Officers have taken it to be a fault-finding exercise and tend to be defensive in the way they react to queries. As a result, it is seldom used as a management tool to improve performance. They, therefore, urge the Secretary to the Treasury to ensure that this point is emphasised during the Controlling Officers' seminars. They further urge the Secretary to Cabinet to take action against the Controlling Officer for not cooperating with the Auditor-General especially that the Ministry of Health is one of the highest spending ministries and funds have to be accounted for.

a) Misapplication of Grants

The Controlling Officer should report progress on the outstanding K190,373,450.

b) Overpayment of Management Contract Fees

Your Committee await progress on the outcome of the consultations between the Ministry of Finance and National Planning, Ministry of Health, Sunrise Investments, Zambia Revenue Authority and Medical Stores.

(c - d) Unaccounted for Fuel and Stores

The Controlling Officer should report progress on the outcome of the Anti-Corruption Commission investigations.

e) Wasteful Expenditure

Your Committee strongly advise the Controlling Officer to be modest in his expenditure on non-operational activities. There is no need to appease donors with expensive seasonal cards when they are more than aware of the limited financial resources Zambia has at its disposal.

f) Irregularities in the Payment of Telephone Bills

The excess expenditure of K27,092,760 should stand as a charge against public funds.

g) Unretired Imprest

The Controlling Officer is requested to report progress on the retirement of the balance of K274,995,600. They further urge him to ensure that the Ministry does not allow unretired imprest to accumulate to such levels. Any accounting officer that allows imprest to remain outstanding should be disciplined.

h) Student Allowances

The Controlling Officer is requested to report progress on the balance of K213,109,000 that was not accounted for.

Audit Query

Paragraph 35

MINISTRY OF HEALTH
Lusaka Province

Accounting Irregularities

35. During the Financial Year ended 31st December 2005, Lusaka Provincial Health Office received a total amount of K2,976,772,945 to cater for the operations of the Office. In addition amounts totalling K10,737,213,969 were received to cater for the payment of housing allowances.

A review of records held at Lusaka Provincial Health Office carried out in September 2006 revealed the matters set out hereunder.

(a) Unsupported Payments

Out of the K10,737,213,969, only K230,300,000 was supported by payment vouchers, leaving K10,506,913,970 unsupported by payment vouchers or any form of acquittal sheet, making it impossible to ascertain how the balance was spent.

It was also observed that during the period between 30th November 2004 and 18th July 2006, fourteen cheques amounting to K1,788,971,863 were drawn on this Account. These were paid in the cashier's name but the purposes for which these payments were made were not availed as payment vouchers and other relevant records were missing.

(b) Irregular Payments

Amounts totalling K11,960,000 were paid to two officers who claimed to have had travelled to pay housing allowances when in fact they had not.

It was observed that K6,035,000 was recovered while the balance of K5,925,000 remained outstanding as of November 2006.

(c) Questionable Payments

(i) In December 2005, an amount of K9,500,000 was paid to six officers as costs for investigating an officer based at Central Prison Health Centre who had been reported to Anti-Corruption Commission to have been drawing his monthly salary while absconding from duty. It is not clear why such payments were made to the officers.

(ii) Retirement details in respect of amounts totalling K34,145,000 which were purported to have been paid towards accommodation and meals during a workshop to review action plans in September 2005, were questionable in that they did not reflect the names of the service provider.

It was further observed that amounts totalling K1,350,000 were paid for airtime to officers below the rank of Permanent Secretary contrary to Cabinet Office circular number 1 of 2000.

(iii) In August 2005, an amount of K32,550,000 was paid to a lodge for accommodation and meals for participants attending a workshop. In addition, imprest amounting to K66,125,000 was drawn to cater for expenses during the workshop.

However, retirement details of the K66,125,000 as reflected on retirement voucher No. 738 dated 21st October 2005 included a supposed cash payment of K29, 583,000 for accommodation and meals for which payment had already been effected on 4th August 2005. The supposed cash payment of K29,583,000 was not supported by cash receipt and inquiries with the lodge revealed that no payment was made to them as confirmed in their letter dated 13th November 2006.

- (iv) A deposit of K20,000,000 was paid to a lodge to cater for accommodation and meals for training of private sector staff on management of sexually transmitted infections against a total quotation of K42, 525,000.

In addition, an imprest of K90, 970,000 was issued to an accountant to meet allowances and other expenses for the above training.

However, retirement details as reflected on an unnumbered retirement voucher dated 15th July 2005 which was prepared whilst the workshop was still in progress indicated that K22,462,250 (balance from K42,525,000) was paid in cash for services rendered by the lodge but no cash receipt was issued. The training took place between 12th and 17th July 2005. Enquiries at the lodge in November 2006 revealed that no such payment was made.

(d) Inadequately Supported Payments

Eleven payments amounting to K24, 035,386 were not adequately supported in that they lacked invoices, local purchase orders, among others.

(e) Unacquitted Payments

Four transactions amounting to K11, 660,000 paid between February 2005 and July 2005 were not acquitted.

(f) Unretired Imprest

Imprest in amounts totalling K22,020,000 involving three transactions issued to three officers during the period under review, had not been retired as of September 2006.

(g) Inventory

An inventory conducted in September 2006 revealed that a laptop computer (serial number CNU 5161517) and a Samsung digital camera (serial number 5346564) were missing, as they were not produced for verification.

Controlling Officer's Submission

a) Unsupported Payments

The Controlling Officer in his response stated that during the time of the audit, there were staff changes at the Provincial Health Office in Lusaka. New accounting staff had been deployed.

In view of this, the new staff found it difficult to trace the vouchers at the time. However after a vigorous search, a total of fifty-five vouchers amounting to K10,213,718,283 had been traced and were available for verification. A search for the remaining vouchers of K393,195,686 had been intensified.

He admitted that during the time of audit, fourteen cheques amounting to K1,788,871,863 were drawn on the Account. The amounts drawn were intended for payment of housing allowances to health personnel in various urban clinics and districts in Lusaka Province.

The cheque payments to the cashiers were to facilitate for quick dispersion of housing allowance to the staff in view of industrial unrests experienced at the time due to the delayed payments. Management at the Provincial Health Office, therefore, made a decision to pay through cashiers.

Payment vouchers and other relevant records paid to cashiers in the amount of K1,788,871,863.00 had been traced and were ready for verification.

b) *Irregular Payments*

It was true that two officers were paid the sum of K11,960,000 intended for housing allowance verification field tours.

One officer paid back K6,035,000 in September 2006 and the other officer resigned from the Central Board of Health and efforts were being made to recover the sum of K5,925,000 from the former employee.

c) *Questionable Payments*

i) Your Committee was informed that the payment of K9,500,000.00 had management approval. Apart from the investigations the officers had carried out at Central Prison Health Centre, officers were also tasked to visit other health centres to verify if there were personnel who were drawing salaries illegally and also check on ghost workers who had absconded from duty on a sampling basis. Unfortunately, the narration on the payment voucher was incomplete hence it distorted the picture and portrayed the impression that the money given was only for Lusaka Central Prison Health Centre.

ii) The service providers of the workshop on Action Review Plans held in September 2005 were UTH Catering Department and Tecla Lodge, which provided meals and accommodation.

He provided copies of the receipt in the sum of K18, 705,000 and invoice from Tecla Lodge in the sum of K12, 129,150 confirming the payments.

He admitted that the sum of K1, 350,000 was used to buy airtime to officers below the rank of Permanent Secretary. This was in accordance with Central Board of Health Conditions of Service at the time of audit. Since the Board was dissolved, payments for airtime had been discontinued.

iii) The workshop was held at Mwiza Lodge from 8th to 14th August 2005. The total invoice was K62,133,000.08 out of which a down payment of K32,550,000 was made. The balance of K29,583,000 had been cleared as per invoice no. 3409.

iv) The workshop was held at Mwiza Lodge from 12th to 18th July 2005. The total invoice was K42,462,250 out of which a down payment of K20,000,000 was made on cheque no 395439. The balance of K22,462,250.00 had been cleared as per invoice no. 3361.

d) *Inadequately Supported Payments*

The Controlling Officer informed the Committee that it was true that eleven payments amounting to K24,035,386 were not adequately supported in that they lacked invoices and local purchase orders. All the supporting documents had now been attached for verification.

e) *Unacquitted Payments*

The payments of K11,660,000 paid between February 2005 and July 2005 were actually acquitted. The system of retirement under the Central Board of Health Accounting System (FAMS) was different in that

general vouchers were used instead of journal vouchers. At the time of audit, the general vouchers were available for verification but were not considered.

f) Unretired Imprest – K22,020,000

The imprest amounting to K22,020,000 issued to three officers during the period under review were actually retired using a general voucher instead of a journal voucher.

g) Inventory

The Controlling Officer informed your Committee that the laptop was available for inspection. He clarified that during the audit process, the laptop had been taken in the field.

The Samsung digital camera was in their inventory. The camera was stolen when the Provincial Health Office moved from its premises at the Boma near the Flyover Bridge to Saise Road off Addis Ababa Drive. A police report was obtained on 23rd March 2007.

Observations and Recommendations

Your Committee observe that the storage of accounting documents in the Ministry of Health is poor as evidenced by queries on missing payment vouchers and other relevant documents to support payments.

Your Committee note that in 2006 when submitting on queries in the Auditor-General's Report on Accounts for the Financial Year ended 31 December 2004, the Controlling Officer had informed your previous Public Accounts Committee that the Ministry had computerised its filing system of accounting documents and that all 2005 transaction documents had been electronically stored. They, therefore, cannot reconcile his explanation on missing supporting documents with his earlier statements on the computerised filing system.

Your Committee further observe that cooperation with auditors was poor going by the explanations that the Controlling Officer gave to them which could have been given to auditors at the time of the audit. Your Committee are concerned on the tendency by Controlling Officers of taking action just before appearing before them as was the case with reporting of the stolen digital camera to Police and getting receipts and invoices for workshops.

They, therefore, call upon the Secretary to the Treasury to:

- i) caution the Controlling Officer not to be inconsistent in the explanations that he gives to your Committee; and
- ii) ensure that Controlling Officers develop a culture of taking immediate corrective action on issues that auditors raise.

On specific queries, the Committee recommend as set out below.

a) Unsupported Payments

- i) The Controlling Officer should ensure that accounting documents are secured at all times and should be provided to auditors upon request. He is requested to update your Committee on the remaining vouchers amounting to K393, 195,686.
- ii) All records relating to the K1, 788,871,863 should be forwarded to the Auditor-General for verification.

b) Irregular Payments

The Controlling Officer should report progress on the recovery of the K5,925,000. They further urge him to report the matter to the Police.

The receipt for the K6, 035,000 should be submitted to the Auditor-General for verification.

c) Questionable Payments

- i) The Controlling Officer should ensure that there is maximum cooperation with the auditors. The explanation on the narration on the payment voucher should have been given to the auditors during the audit. The matter should close subject to the Auditor-General verifying the number and health centres where the officers carried out investigations.
- ii) the matters on K34,145,000 and K1,350,000 should close subject to confirmation that UTH Catering Department and Tecla Lodge were the service providers, and that Conditions of Service at the former Central Board of Health provided for airtime.
- iii) The Controlling Officer should forward the retirement details of the K66,125,000 to the Auditor-General for verification.
- iv) The matter should close subject to confirmation that the lodge had received the money.

d) Inadequately Supported Payments

The matter should close subject to verification of supporting documents for the K24,035,386.

e) Unacquitted Payments

The matter should close subject to verification.

f) Unretired Imprest

The matter should close subject to verification.

g) Inventory

- i) The matter on the laptop should close subject to verification.
- ii) The Controlling Officer should prepare a loss report for the digital camera.

Audit Query

Paragraph 36

**MINISTRY OF COMMUNICATIONS AND TRANSPORT
Headquarters**

Accounting and other Irregularities

36. In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, a total provision of K32, 130,344,339 was made out of which a total of K20, 654,021,397 was released to cater for the various programmes. The Ministry also benefited K5, 891,981,711 in the form of Appropriation-In-Aid bringing the total funding to K26, 546,003,108.

An examination of financial and stores records maintained at the Ministry headquarters carried out in March 2006 revealed the matters set out below.

(a) *Misappropriation of Funds*

During the period June 2004 to April 2006 amounts totalling K607,606,931 involving forty-three transactions were misappropriated by various officers and as of September 2006, the Police were investigating the matter.

(b) *Misapplication of Appropriation-In-Aid*

According to the Ministry of Finance and National Planning guidelines, Appropriation-In-Aid funds are to be used on programmes or activities relating to revenue collections. It was noted, however, that contrary to the guidelines, K5,248,555,000 out of K5,891,981,711 received as Appropriation-in-Aid was used to pay loans to members of staff.

(c) *Review of Internal Audit Report on Revolving Funds*

A review of the Internal Audit report dated 23rd March, 2005 relating to the management of the revolving fund account revealed that no deductions had been effected in respect of loans amounting to K463,500,000 paid to five (5) officers as they were not yet on the payroll.

A review of the status in March 2006 revealed that the situation had not changed, as the deductions had not yet been effected.

(d) *Undelivered Goods*

In November 2005, the Ministry entered into a contract with a local hardware company for the supply eight thousand (8,000) Temporally Registration Number plates for Road Traffic Safety Agency at a contract price of K800,000,000. The terms of the contract stipulated that the company was to receive a down payment of 80% of the contract price and the balance upon delivery of the number plates. Although the down payment of 80% (K640,000,000) was made in December 2005, the plates had not been supplied as of March 2006.

(e) *Unretired Imprest*

Imprest totalling K1, 271,247,149 involving one hundred and sixty one transactions issued between January and December 2005 had not been retired as at March 2006.

(f) *Weakness in the Management of Transport*

A Toyota Hilux registration GRZ 618 BH, belonging to Department of Civil Aviation was cannibalised by removing the engine and gear box when it was taken for repairs in August, 2005 at a local garage and the whereabouts of the engine and gearbox whose value could not be determined were unknown as at March 2006.

A seven (7) tonne Mitsubishi Truck, registration GRZ 149 BN, belonging to Mweru Water Transport Board under the Department of Maritime and Inland Waterways in Nchelenge was taken in a running condition, for engine overhaul in 2003 at a local garage. The total cost of repairs as assessed by the garage was K39,480,000. In this regard, in October and November 2003, the Ministry paid the garage a total amount of K25,000,000 towards the cost of repairs. However, during a physical inspection carried out in March 2006, the status of repair on the engine could not be ascertained as it was not made available for inspection and its whereabouts were not known.

A Nissan Terrano, registration GRZ 348 BS was involved in a road traffic accident in 2004 while being driven by a Deputy Minister. He was charged for careless driving by the police and consequently, the Standing Accident Board surcharged him 100% of the total repair costs

amounting to K48,608,105. Although the Ministry paid the amount in full, as of April 2006, no recoveries had been made from the Deputy Minister.

Controlling Officer's Submission

(a) *Misappropriation of Funds*

The Controlling Officer informed your Committee that various officers had been summoned by the Police and warn and caution statements had been obtained. The matter was with the police and the outcome was being awaited.

(b) *Misapplication of Appropriation -In-Aid*

He submitted that the Appropriation - In - Aid of K 5,891,981,711 was for the Department of Road Traffic and the expenditure per programme was as follows:

General Administration	K2, 007,496,357
Traffic Information system	K 3,505,685,331
Joint Route Management	K378, 800,023

He further stated that during the period January to December 2005, an amount of K75 million for Revolving Fund was budgeted for under the activity Office Administration.

(c) *Review of Internal Audit Report on Revolving Funds*

The mentioned five officers although not on Ministry of Communications and Transport payroll were on Government payroll and had transfer letters from their respective ministries. Information on the pay slips and files was used to calculate their entitlements of advances and loans. The officers were included on Ministry payroll and deductions had been effected.

(d) *Undelivered Goods*

The 8000 Temporary Registration Number Plates were delivered in two consignments in June 2006 and August 2006. The last payment of K159, 370,000 was made in August 2006.

(e) *Unretired Imprest*

As at December 2005, the unretired imprest had reduced from K1,272,247,149 to K418,086,612. Final warning had been issued to the officers concerned before deductions were effected. Further, instructions had been given not to issue any imprest to the officers with outstanding imprest.

(f) *Weakness in the Management of Transport*

The Ministry had resolved to take legal action against the private garages. A ruling had been made in favour of the Government in one of the cases.

Observations and Recommendations

Your Committee in noting the submission observe that the practice of making advance payments when procuring goods and services is working against Government. Even if the 8,000 temporary registration plates were delivered, they were not comfortable that 80% of the total cost had to be paid to the supplier before delivery. The case involving the seven tonne Mitsubishi Truck, GRZ 149 BN, support their stand on advance payments. The vehicle had not been repaired for over two years despite the garage having been paid K25, 000,000 (63% of costs).

They, therefore, urge the Secretary to the Treasury to suspend the making of advance payments until effective measures to safeguard public funds are put in place.

On the individual cases, the Committee recommend set out below.

a) *Misappropriation of Funds*

The Controlling Officer should give an update on the Police investigations.

b) *Misapplication of Appropriation-in-Aid*

The Controlling Officer is urged to take the expenditure details to the Auditor-General for confirmation that the Appropriation-in-Aid received in 2005 amounting to K5,891,981,711 was used on revenue collection activities.

c) *Review of Internal Audit Report on Revolving Fund*

The Controlling Officer is advised that it is irregular to give a loan to an officer who is not on their pay roll even if he or she is a public service worker. They urge him to forward the deductions details to the Auditor-General for verification.

d) *Undelivered Goods*

The Controlling Officer is urged to desist from making advance payments for goods and services as a number of suppliers are using the channel to defraud the State.

e) *Unretired Imprest*

The Controlling Officer is requested to institute recoveries from the officers' salaries and also warn supervisors that had allowed such a situation to occur. They further request him to report progress on the recoveries.

f) *Weaknesses in the Management of Transport*

The Controlling Officer should report progress on the legal action that the Ministry has taken against the garages and also on the recoveries for the cost of repairing of the vehicle that was damaged whilst being driven by a Deputy Minister.

Audit Query

Paragraph 37

**MINISTRY OF COMMUNICATIONS AND TRANSPORT
Support to Institutions**

Government Communication Flight

37. The Auditor-General reported that during the Financial year ended 31st December 2005, a provision of K1,000,000,000 was made for the operations of the Government Communication Flight (GCF).

An examination of financial and other records maintained at the institution and physical inspections carried out in April 2006 revealed the following:

(a) *Non Release of Funds to GCF by Ministry Headquarters*

Although Ministry of Finance and National Planning released amounts totalling K1,041,666,667; K41,666,667 above the total authorized provision to the Ministry headquarters as a grant to GCF, the Ministry however, disbursed amounts totalling K917,007,045 leaving a balance of K124,659,622 unaccounted for.

(b) Aircraft Lease Agreement

In September 1998, GCF entered into a three year Aircraft Lease Agreement with local company. The agreement provided for among other things, that the lessee would recover the costs of bringing the aircraft into an airworthy condition by utilising the aircraft commercially in accordance with air service permit requirements. The agreement further stated that the lessor acknowledged and confirmed that maintenance of the aircraft and the lessee would procure spares during the lease period.

A review of the operations and a physical inspection of the aircraft in April 2006 revealed the following:

- (i) although the lease agreement had expired in 2001, the aircraft was not brought to an airworthy condition; and
- (ii) in 2003 the engine and the hot section component of the aircraft were taken to an aviation-engineering firm in South Africa for engine overhaul. However, as of February 2006 the engine had not been returned and the firm was demanding a payment of US\$35,000 as repair costs and storage charges.

Controlling Officer's Submission

(a) Non Release of Funds to GCF by Ministry Headquarters

The Controlling Officer submitted that the funds cited as not having been released to the Government Communications Flight by the Ministry Headquarters were in fact recoveries as the GCF had earlier been advanced the sum of K120, 000,000 with the intention that recoveries would be made once the GCF was funded.

(b) Aircraft Lease Agreement

Your Committee were informed that a team led by an officer from the Auditor General's office, together with officers from Ministry of Justice, GCF and the Ministry of Communications and Transport had travelled to South Africa to establish the status of the part of the engine, which was at Executive Turbine for repairs. A final report on the matter was being awaited.

Observations and Recommendations

Your Committee note the submission and recommend as set out below.

a) Non Release of funds to GCF by Ministry Headquarters

The matter should close subject to verification.

b) Aircraft Lease Agreement

The Controlling Officer is requested to make available the outcome of the investigations carried out by the Government Team.

Delays in the Completion of the Zambia Transport Information System (ZAMTIS) Project

38. In paragraph 36 of the Auditor General's Report on the accounts for the financial year ended 31st December 2003, mention was made of the delays in the completion of the ZAMTIS project. A review of the project carried out in March 2006 revealed that the contractor had been paid a total of K17,778,877,450 (US\$3,919,171) representing 88% of the contract sum of K19,875,000,000 leaving a balance of K2,470,537,000. According to the terms of the contract, the contractor was to refurbish 16 regional offices and construct new offices in border areas and install satellite equipment in all offices and link it with Headquarters. However, as of March 2006, only six regional offices had been refurbished, representing 38% of the contracted works. It was further observed that of the six offices that were refurbished, only four were in use.

It was also observed that the contractor had made a variation by transferring equipment, which was meant for Victoria Falls Border office to Road Traffic Commission (RTC) Headquarters without the approval of the Ministerial Tender Committee.

Status of Lumumba RTC Offices

In paragraph 37 of the Auditor General's Report on the accounts for the financial year ended 31st December, 2003, mention was made about the high amount of dust which accumulates inside the building posing a threat to equipment and that the drainage system around the premises was poor leading to the buildings surroundings flooding during the rainy season.

In their Report for the Fourth Session of the Ninth National Assembly, the Public Accounts Committee requested for progress on the matter. A review of the situation in March 2006 revealed that the road leading to ZAMTIS offices continues to be in a deplorable state as no major works had been done to improve the drainage system.

Controlling Officer's Submission

The Controlling Officer informed your Committee that the current status on the ZAMTIS deliverables was as set out below.

Ninety percent of the contract amount had been paid out to the contractor except for the ten percent retention.

The Ministry had instructed RTSA to undertake a system audit of ZAMTIS with the view to establishing the contractor's conformity to the contract terms. Further, an internal audit of the system was undertaken by management, which revealed a number of outstanding issues on the contract. These were communicated to the contractor.

He informed your Committee that the contractor had responded and had committed himself to honour all outstanding issues on the contract.

Status of Lumumba RTSA Offices

The Controlling Officer submitted that an initial tender floated for the works at the Lumumba Road offices could not be awarded due to poor response from the bidders, and the unfavourable terms that were being attached by the sole bidder. A re-tender to pave the access road to Lumumba RTSA offices was placed by the Road Development Agency through the National Board and the tender closed on Friday 23 March 2007.

Observations and Recommendations

The ZAMTIS Project is of concern to your Committee considering that ninety percent of the total contract price has been paid. The terms of the contract had led to a situation where the contractor has received his payments without fulfilling his contractual obligations. This is the kind of situation that Government can avoid by not making advance payments. While appreciating the different mode of payment that was used in the ZAMTIS Project, a safeguard mechanism should have been put in place that would have ensured that payments were made equal to the percentage of work completed.

Your Committee, therefore, urge the Secretary to the Treasury to closely monitor the ZAMTIS Project. They further strongly advise him to ensure that the RTSA get clearance from his office for any future undertakings with the contractor.

They advise the Controlling Officer to invoke the liquidated damages clause in the contract for the delays the contractor had caused.

Status of Lumumba Road

The Committee directed the Controlling Officer to report progress on improvement works on the building and access road.

Audit Query

Paragraph 39

MINISTRY OF WORKS AND SUPPLY Rural Development and Road Rehabilitation

Non-Construction of Mbesuma Bridge

39. It was reported that in paragraph 93 of the Report of the Auditor General for the financial year ended 31st December 2000, mention was made of the none construction of Mbesuma Bridge despite the awarding of the works to a local contractor at a contract price of K7,419,117,936 in April 2000.

During the financial years ended 31st December 2001 to 2005, total provisions of K9,286,233,572 were made in the Estimates of Revenue and Expenditure for the construction of Mbesuma Bridge.

An examination of financial and other related records maintained at the Ministry of Works and Supply and Provincial Roads Engineer, Kasama revealed that between April 2002 and December 2005, a total amount of K4,408,438,400 was paid, K2,700,000,000 to the contractor and K1,708,438,400 to the consultant.

A physical inspection carried out in October 2006 revealed that no works had been done and the contractor was not on site.

Controlling Officer's Submission

The Controlling Officer submitted that the construction of Mbesuma Bridge across the Chambeshi River was awarded through a competitive tender to the contractor at a contract price of ZMK7,419,117,939 or US\$3,000,000 in April 2000. The Roads Department gave the letter of possession of site and commencement of works to the contractor on 5th October 2000. The contractor submitted the detailed programme of the works on 15th November 2000. The contractor submitted an advance payment claim in the amount of ZMK741,911,793 about US\$290,000 on 30th October, 2000. This amount was meant to enable the contractor to mobilise.

The contractor did not receive any payment in 2000 and 2001 respectively. However, the contractor mobilised to site with the following equipment:

i)	tractor	01
ii)	tipping trailers	01
iii)	water bowser	01
iv)	fuel tank	01
v)	concrete dumper	01
vi)	water pump	01
vii)	vibrator pocker	01
viii)	caravan	01

Further, the contractor brought to the site various quantities of construction materials such as cement, building sand, reinforcing bars, fill material for the coffer dam, concrete stone and timber which was valued for payment.

First Suspension

The contract was eventually suspended on 18th January 2002, due to non-payment of certified claims comprising the advance payment claim and certified works for clearing of the approach road to the bridge site. Following the part settlement of the advance payment claim in the amount of US\$163,548.18 on 2nd May 2002, the suspension of the works was lifted. The contractor was requested to remobilise to site once again. However, the money was not enough to clear the amount owed to the contractor and re-mobilise fully. The contractor was requested to commence the building of houses for the supervisory staff. No further funding was released to the project in the remaining part of 2002 and 2003. The contractor and the consultant requested the client to consider terminating the contract but the client was hopeful that the Treasury would release funds. In August 2004, a payment of ZMK800,000,000 was made to the project. This amount was just sufficient to clear the amount owed to the contractor. The cumulative total amount certified as of August 2004 comprised the following.

	Item	Amount US \$
i)	Advance payment	298,000
ii)	Preliminary & general items	225,000
iii)	Approach road to bridge site	3,000
iv)	Materials on site	10,000
v)	Suspension costs	7,000
	Total	543,000 (ZMK2,700,000,000)

The preliminary and general items included the establishment of contractor's camp, offices for the supervisor, vehicle maintenance and compliance with contract conditions.

The amount of ZMK2,700,000,000 (US\$543,000) covered not only the building of the houses but included the activities as earlier tabulated above. The building of the houses was not completed at all due to insufficient funding. It was decided that the houses should be roof thatched to make them habitable by local people as caretakers. The three houses were meant for the senior supervisory staff from the consultants. The contractor was to make his camp at his own cost. The consultant was paid K1,708,438,400 as cost related to the preparation of the project for implementation like designs and emoluments for consultant's staff.

During his appearance before your Committee, the Controlling Officer informed them that the major works on the bridge was piling which was to be sub contracted. Due to lack of payments, the piling was not done. Piling formed part of the cost of the project.

Second Suspension

The amount certified up to August 2004 was US\$543,000 out of the contract amount of US\$3,000,000. Following these financial difficulties, they suspended the contract in 2004 in order to minimise cost on

standing time and establishment costs. The Ministry of Works and Supply was not aware that there were provisions in the budgetary allocations for Northern Province for the construction of Mbesuma Bridge.

Current Status

The Ministry of Works and Supply had commenced the termination process. The contractor had been informed of the intention of the Ministry of Works and Supply to terminate the contract. The consulting engineer had been requested to prepare outstanding technical details and their consequences after termination. The contract provided for termination by either party for breach of contract. The failure to pay on time by the client could lead to termination of contract by the contractor. The client could also terminate the contract if faced with financial difficulties or if contractor fails to perform.

Your Committee visited the Bridge site. During a brief meeting with the Controlling Officer, Ministry of Works and Supply, the contractor and consultant, the representative of the consultant informed your Committee that according to the design, the works comprised a five span over bridge (120m) of composite reinforced concrete/steel construction carrying an 8.0m carriageway and two 1.3m walkways with associated embankment and approach road works and reinforced concrete foundations on piles

According to the consultant, a number of points needed to be noted:

- *foundation/piling works comprised 20% of the contract value;*
- *physical work comprised approach roads and house construction only;*
- *the contractor mobilised in 2000 and incurred initial expenses which included testing of soils;*
- *problems experienced were financial and not technical. Payments made were too little and too late and could not finance the piling sub-contract;*
- *the client was in default according to the contract and the contractor is entitled to interest on late payments;*
- *the majority of expenses were in the contractor's establishment (preliminary and general) costs;*
- *the project had been the subject of investigations by the Auditor-General, the Public Accounts Committee and the Anti-Corruption Commission; and*
- *the contractor had a final account claim comprising preliminary and general items, interest and loss of profit. RDA would need to reach a negotiated settlement alternatively an arbitration hearing.*

As a way forward, the consultants were of the view that two options were available on the contract:

- i) *terminate works and the consultancy contract then employ a new consultant to design review and update cost estimates.*
- ii) *renegotiate the contract with the current contractor and consultant, review design and cost estimates.*

Your Committee heard that the consultants were paid over US\$300,000 on the project which was more than the contract price.

The Controlling Officer admitted that this was an example of a badly managed project. The Ministry of Works and Supply was of the view that the format of contracts was disadvantaging Government in case of default in payments. The format was adopted at a time when the Government used to meet its contractual obligations on time, which was no longer the case.

Your Committee proceeded to view the three incomplete houses that the consultants said had cost \$60,000. The houses had thatched roofs, which according to the consultant was a temporal measure to make them habitable. The workmanship was generally poor and the floor in the houses did not have a concrete slab.

Observations and Recommendations

After the Controlling Officer's submission and the visit to the site, your Committee observe the following:

- i) no construction of any part of the bridge had been done; in addition, other than wheelbarrows, water bowser and tractor, there was no other equipment or any building materials on site;
- ii) there was negligence and carelessness on the part of contracting parties. Certification of completed works such as the \$60,000 for the houses was questionable as the payment was not commensurate with the works done; it was also clear that the client was not visiting the project site, which casts doubt on sense of duty;
- iii) despite the consulting contract being between the Government and the consultants, the consultant was serving the interest of the contractors; this pointed to collusion between the three parties;
- iv) there was unwillingness on the part of the contractor to commit funds to the project which action was not consistent with the terms of the contract; the contractor was expected to finance the project, in part, from own working capital, advance payment and bridging loan, based on this, your Committee hold that the failure of the project and subsequent termination of the contract should not be entirely based on non-payment by the Government;
- v) considering that K4,408,438,400 has been spent which represents fifty-nine percent of the initial contract price with nothing to show on site, this is wasteful expenditure; and
- vi) the proposed Mbesuma Bridge can provide an alternative and shorter route from Chinsali and Isoka to Kasama, and could also be a catalyst in the development of the Kasama-Chinsali-Isoka corridor.

Your Committee, therefore, recommend that the Secretary to the Treasury should:

- i) ensure that before the contract is terminated, State investigative wings should clear the project of any cases of corruption, abuse of office and theft;
- ii) restructure contracts, in consultation with the Attorney-General, taking into account prevailing resource constraints so that government interests are safeguarded; and
- iii) ensure that there are adequate resources for projects, otherwise government would continue with wasteful projects as was the case with Mbesuma Bridge Project.

They further recommend that the Controlling Officer should:

- i) lessen dependence on private consultants for major projects. This entails increased supervision of works by government engineers, with possible input from the National Construction Council and Engineering Institution of Zambia;
- ii) re-initiate the Mbesuma Bridget Project with different consultants and contractor;
- iii) not make any payment before termination of the contract and final claims or accounts on the project should be verified by an independent consultant; and
- iv) ensure that all contractors and consultants that do not act in good faith are not granted any Government contracts.

**MINISTRY OF EDUCATION
Sector Plan Implementation****Weaknesses in Accounting for Sector Plan Support Funds**

40. It was reported that in paragraph 33 of the Auditor-General's Report on the Accounts for the Financial Year ended 31 December 2004 mention was made of weaknesses in accounting for Sector funds.

In their Report for the Fifth Session of the Ninth National Assembly, the Public Accounts Committee (PAC) observed and recommended among other things that the Controlling Office should:

- continue to impress upon the donors to fund the Sector Plan;
- provide an update on the data capturing that will assist clear the unretired imprest backlog and further directed that the Controlling Officer should ensure that recoveries are instituted from concerned officers' salaries.

An examination of the financial and other records carried out in June 2006 at the Ministry Headquarters and various provincial and district offices revealed the matters set out hereunder.

Financing

During the financial year under review, the cooperating partners released a total sum of K273,191,589,804 while the Government released K254,795,800 bringing the total amount available to cater for activities under the Sector Plan to K273,446,385,604.

The cooperating partners in 2005 pledged to release US\$90,606,000 (K439,533,068,000) but only released US\$ 64,689,150 (K 273,191,589,804). It was also observed that although some cooperating partners pledged more funds they released less than pledged while others released more than pledged. There was another category of partners whose pledged amounts were not released to the pool but controlled by the cooperating partners themselves.

Expenditure***Headquarters - Management of Contracts*****(a) Construction of Six Basic Schools in Luapula Province**

In October 2003, the Ministry entered into a contract (contract with a local contractor for the construction of six primary schools in Luapula Province at a contract price of US\$928,913.14 (K4,180,109,130) with a completion period of thirty-six weeks. The works which involved the construction of six 1x3 classroom blocks, six 1x2 classroom blocks, twenty-one teacher's houses, twenty-one VIP single pit latrine/washroom and thirty-six VIP double pit latrines were to commence in October 2003 with a completion date of July 2004 and a defects liability period of 270 days.

As of June 2006, the contractor had been paid a total amount of US\$551,834.88 representing 59.4% of the contract price.

A review of the contract and other available documentation revealed that:

- the works which started in October 2003 with a contract period of twenty-six weeks ending July 2004 had not been completed as of June 2006, the project had gone 102 weeks beyond, the contract duration of twenty-six weeks as at the time of audit; and

- although the contract provided for termination of the contract in the event of poor performance, this was not done by the Project Manager at the Ministry of Education School Infrastructure Section when it became apparent that the contractor was failing to meet the contractual time frames, but instead, continued extending the contract periods.

The table below illustrates the status of the works at the six sites at the time of audit:

Construction of six (6) Basic Schools In Luapula Province					
School	Works to be done				Comments
	1*2 CRB	1*3 CRB	VIP Latrines	Staff Houses	
Chifunabuli Basic	X	X	X	X	The CRBs had reached roof level and were partly roofed. The staff houses had reached roof level while the VIPs were at slab level.
Masanta Basic	X	X	X	X	The CRBs had reached roof level. Out of the 6 VIP latrines four (4) were at foundation level, one (1) was at roof level and the others were at slab level. No works had been done since August 2005
Musangu Basic	X	X	X	X	The 1*2 CRB was at window level, the 1*3 CRB was at lintel level, the four staff houses were at window level while the VIPs were at slab level
Kanyembo Basic	X	X	X	X	The 1*2 and 1*3 CRBs were at window level, 3 staff houses were at window level while 1 house and 6 VIPs were at slab level
Mununga Basic	X	X	X	X	Both CRBs were abandoned at lintel level, the six (6) VIPs were abandoned at foundation level while the four (4) staff houses were at window level.
Myengele Basic	X	X	X	X	Roofing on the 1*2 CRB was condemned by the buildings officer, 1*3 CRB was at ring beam level, the six (6) double VIPs were at foundation level, two (2) staff were at roof level, one (1) staff house was at ring beam level, three (3) single VIP latrine/washrooms were at slab level

Legend:

CRB = Classroom Block

VIP = Ventilation Improved Pit Latrine

√ = Works completed

X = Works not completed

Improvement of Water Supply System – Chibombo High School

In 2005, the Ministry engaged a local company to drill and equip two boreholes, build two pump houses and rehabilitate the water tank at a total cost of K88,000,000.

A visit to the School in June 2006 revealed that:

- although the two boreholes were drilled, only one was equipped. It was also observed that only one pump house was built and that the 1.5 HP capacity pump installed was suitable for domestic use and not for a school population; and
- the contractor was to mend the tank and paint it together with its stand using two coats of aluminium metallic paint at a cost of K15,000,000. However, the contractor used oil paint instead of metallic paint and no repairs were done to the tank as the tank did not require such attention contrary to what the Ministry Headquarters had alleged and paid for.

(b) Procurement, Storage and Distribution of Textbooks

The Ministry of Education engaged three suppliers to supply 508,184 books at a total cost of K 3,057,918,017. It was, however, observed that 61,200 books costing K357,594,521 were not supplied while 12,012 books costing K80,711,600 were stolen as shown below:.

Date of contract	Supplier	Amount Paid K	Quantity			Quality of books stolen	Unit cost K	Value of books not supplied K	Value of books stolen K
			Quantity of books paid for	Quantity of books supplied	Quantity of books not supplied				
Feb-05	Mc Millan Publishers	596,176,500	79,000	79,000	-	6,886	7,547	-	51,968,642
Dec-05	Mc Millan Publishers	2,383,271,467	424,984	364,984	60,000	5,126	5,608	336,480,000	28,746,608
n/a	ZEPH	21,120,000	1,200	-	1,200		17,600	21,120,000	-
n/a	Insaka Press	57,350,050	3,000	3,000	-		19,117	-	-
		3,057,918,017	508,184	446,984	61,200	12,012		357,600,000	80,715,250

(c) **Unretired Imprest**

Imprest in amounts totalling K17,361,523,021 (Institutional Imprest – K11,128,585,585 and Travel Debtors – K6,232,937,436) issued before and during the period under review had not been retired as of December 2005.

(d) **School Infrastructure**

In 2005, the Government embarked on a programme to construct portal frame supported classrooms, VIP toilets and drill and equip boreholes in four provinces namely, Central, Copperbelt, Luapula and Northern provinces. In this regard, eight contractors were engaged to carry out the works. Test checks carried out at selected sites in Luapula and Northern Provinces revealed the following:

(i) **Northern Province**

The contract for the construction of 1x2, 1x3 portal frame classroom blocks, six VIP double toilets and drilling of a borehole at each one of the thirty-eight primary schools was awarded to a local contractor at a contract price of K 18,718,933,000 for the following durations and estimated completion dates:

- Lot 1,2,3,8 & 9 13th December 2005 (38 weeks)
- Lot 6 10th January 2006 (42 weeks)
- Lot 4,5, & 7 22nd February 2006 (48 weeks)

As of June 2006, the contractor had been paid amounts totalling K9,187,536,143.

A review of progress reports from the School Infrastructure Section and visits to thirteen schools revealed that works at two schools had been completed while very little progress was recorded at most of the remaining sites as shown in the table below:

School	Date of commencement as per contract	Works to be done				Comment
		1*2 CRB	1*3 CRB	VIP Latrines	Boreholes	
NORTHERN PROVINCE						
Chilekwa Mwamba	Mar-05	√	√	√	X	Soak away for drainage on 1*2 CRB was sinking while a crack had developed across slab of the 1*3 CRB
Nambuluma Basic	Mar-05	X	X	X	X	All construction works were at slab level while the borehole had not been drilled
Chabola	Mar-05	X	X	X	√	Only the borehole has been drilled
Bwalya Chokwe	Mar-05	X	X	X	√	Only the borehole has been drilled
Vyonga Primary	Mar-05	X	X	X	√	Only the borehole has been drilled and fitted with a hand pump
Mufubushi Basic	Mar-05	X	X	X	X	Only trenches for the foundations for the CRBs and VIP Latrines had been dug
mukungwa Basic	Mar-05	X	X	X	X	Status as per progress report-only trenches had been dug for the CRBs and VIPs
Kantimba Basic	Mar-05	X	X	X	X	Status as per progress report-only trenches had been dug for the CRBs and VIPs
Kapilya Basic	Mar-05	X	X	X	X	Status as per progress report-only trenches had been dug for the CRBs and VIPs
Muyembe Basic	Mar-05	√	√	√	√	The contractor completed works
Mukolwe Basic	Mar-05	√	√	√	√	The contractor completed works
Bweupe Basic	Mar-05	X	X	X	X	Only trenches for the foundations for the CRBs and VIP Latrines had been dug
Lusengwa Basic	Mar-05	X	X	X	X	Only trenches for the foundations for the CRBs and VIP Latrines had been dug
Cholwe Basic	Mar-05	X	X	X	X	No works had been done
Kashitu Basic	Mar-05	X	X	X	X	No works had been done
Chongoyo Basic	Mar-05	X	X	X	X	No works had been done

Legend:

CRB = Classroom Block

VIP = Ventilation Improved Pit Latrine

√ = Works completed

X = Works not completed

(ii) Luapula Province

Contract "A"

In September 2005, the Ministry entered into a contract with a local contractor for the construction of portal frame classroom blocks in fifteen schools in Luapula Province at a contract price of K 8,523,653,148. The works comprised a 1x2 class room block, 1x3 class room block and six double VIP toilets and a borehole at each one of the fifteen school sites. The contract had duration of thirty-six weeks.

Contract "B"

In February 2005, the Ministry entered into a contract with a local contractor for the construction of portal frame classroom blocks in five schools in Luapula Province at a contract price of K1,565,548,569. The scope of works at each school comprised a 1x2 class room block, 1x3 class room block and six double VIP toilets and a bore hole. The contract duration was twenty six weeks and the works were to end in September 2005.

A review of progress reports from the School Infrastructure Section and visits to six schools revealed that works at two schools had been completed while work was still in progress at most of the remaining sites as illustrated below.

School	Date of commencement as per contract	Works to be done				Comment
		1*2 CRB	1*3 CRB	VIP Latrine	Boreholes	
Mwaba Basic	Sep-05	√	√	√	√	The slab for 1*3 CRB has developed cracks, the borehole was not functional and walls to the VIPs had caved in.
Chinsanka Basic	Sep-05	√	√	√	√	The borehole was not functional and the six VIPs were caving in.
Chisheta Basic	Feb-05	√	X	X	X	Drainage works on the 1*2 CRB and plastering of VIPs were still in progress
Kalundu Basic	Feb-05	X	√	X	√	1*2 CRB and 2 VIPs yet to be constructed, Borehole though completed produces dirty water.
Munwa Basic	Feb-05	X	√	X		1*2 CRB and 2 VIPs yet to be constructed,
Tente Basic	Feb-05	X	√	X		1*2 CRB and 2 VIPs yet to be constructed,

Legend:

CRB = Classroom Block

VIP = Ventilation Improved Pit Latrine

Controlling Officer's Submission

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

Weaknesses in Accounting for Sector Plan Support Funds

The Ministry was equally concerned with the general weaknesses in accounting for Sector Plan support funds. As a consequence, the Ministry had deployed about 439 accounting staff in 2006 and they expected improvement in the 2006 audit. The Ministry in conjunction with Ministry of Finance and National Planning had since oriented all the recruited accountants.

The Ministry was in the process of seeking Treasury authority to establish positions of Procurement and Stores Officers at Provincial Education Offices and District Education Board Secretary's Offices (DEBS). These officers would be reporting direct to the Head of Procurement at Ministry Headquarters. This was in a bid to improve transparency and accountability in the procurement process.

Data inputs to clear the unretired institutional grants to schools and districts which used to be given as imprest had been raised and posted in the Sub System during the year 2005 after the districts and schools submitted retirement details. Furthermore, this system of accounting for grants by districts and schools had since changed under the Sector Plan arrangement when BESSIP Project came to an end in 2003. The current system was that data inputs were raised according to the activities being implemented and captured in the Sun System of the Sector Plan Accounts. The consolidation of the captured data from the boards was done at all the Provincial Education Offices who in turn brought the consolidated data for final posting at Ministry Headquarters to determine how much had been expended to each Board according to programmes and activities. The process had delayed due to the problems they had experienced in the computerisation of the provinces. However, Lusaka and Central Provinces had been computerised and connected to the main server at Ministry Headquarters so that they could post data direct at the Province. A programme had been drawn where the rest of the provincial offices were invited to the Ministry Headquarters to come and post this data.

Financing

There were three funding modalities in the Education Sector:

- i) direct funding;
- ii) designated (stand alone) funding; and
- iii) other support funding.

Funds that were released under the direct funding support went direct into the Sector Pool Account and were expended directly by the Ministry in line with the Annual Work Plan and Budget. Designated funding referred to funds that are kept in different bank accounts but controlled by the Ministry whereas other Support Funds are controlled by co-operating partners but meant for the Education Sector.

In the year under review, the disbursement of pledged funds to the Sector Pool under direct funding was 97% of the pledged amount in US Dollars terms. However, due to the appreciation of the Kwacha in the year under review, the Ministry experienced a considerable exchange loss resulting in receiving only 84% of the pledged amount in Kwacha terms.

On the non-release of funds by DFID, Canada and USAID/SPAA under Direct Funding Support, the releases were done in full in the first quarter of 2006 to implement activities for the first quarter of 2006.

With regard to World Bank and ADB Projects under the designated funding mode, the pledges were for the period extending to 30th June 2006 and 31st December 2007 respectively. The World Bank had since disbursed all the funds pledged to the Sector by 30th June 2006, when the credit came to an end while the ADB Project was on-going and the Ministry had continued to request for funds for the implementation of projects.

The Ministry would continue to impress upon the cooperating partners to give them audited accounts for the other support fund that were spent on the Education Sector.

Expenditure

Headquarters - Management of Contracts

a) Construction of six Basic Schools in Luapula Province

The case was initially referred to the Ministry of Justice and later taken for arbitration, which was being presided over by Ndilila and Associates in accordance with the contract.

b) Improvement of Water Supply System – Chibombo High School

The state of affairs was regrettable. The Ministry had since written to the contractor, Giga Drilling, to complete the works as stipulated in the contract at their own cost.

c) Procurements, Storage and Distribution of Text Books

She regretted the loss of text books. Districts such as Livingstone, Kalomo, Chongwe, Luangwa and Kafue did not receive full allocation of their text books as a result of the theft at ZEPH warehouse. The stolen books were part of the books to be distributed. After the theft of text books, the matter was reported to the Police and the matter was still under investigation. An inventory which was carried out by ZEPH revealed that books worth K368,280,000 were stolen and not K80,715,250 as reported.

d) Unretired Imprest

(i) Institutional Imprest

The current position regarding retirement of school grants being referred to as institutional imprest amounting to K11, 128,585,585 was that all the imprest had been retired and retirement documents were available for audit verification.

(ii) Travel Debtors Imprest

The poor record keeping system at the time of the audit was noted. It had come to the fore that most travel debtors had actually been retired but retirement documents were misplaced. A thorough investigation was continuing in all districts, and provinces to retrieve the documents after which recoveries may be instituted for those that would remain unretired.

A total amount of K4, 042,085,142 had been retired of the travel debtors imprest leaving a balance of K1,255,324,882. Efforts were being made to ensure that the remaining balance was retired.

e) School Infrastructure

The Controlling Officer submitted that it was regrettable that there was a delay in the completion of constructing the thirty-eight schools in the Northern Province. This was as a result of the impassable roads during the period when the Ministry was to handover sites to the contractor. Progress made on each project was as indicated below.

(i) Northern Province

Chilekwa Mwamba Basic School – Kasama (666 pupils)

The construction of 1 x 2 and 1 x 3 portal frame classroom blocks and six double VIP toilets had been completed while the drilling of the borehole was yet to be done.

On the poor workmanship, the contractor had agreed to re-do the works at his own cost since it was within the defects liability period.

TOUR FINDINGS

During their visit to the School, your Committee noted the following:

- *The portal frames had been constructed and the school had received K60 million from the Ministry of Education for construction of walls, which had been done, though yet to be plastered;*
- *At the time of the visit, the Head teacher informed your Committee that they had a balance of K7.6 million from the grant and would only be enough to plaster the 1 x 2 classroom block. The School had, however, bought doorframes; grill gates and strong room door;*
- *The contractor had not rectified the snags that were highlighted by the Auditor-General;*
- *The borehole was drilled and had been fitted with a hand pump but it had run dry; and*
- *there was no technical staff from the Ministry of Education to explain technical details of the project.*

Nambuluma Basic School

The current position regarding the construction works at the School was that the construction of 1 x 3 CRB was complete, the borehole had been sunk and equipped while the remaining works on the construction of 1 x 2 classroom block was roofing. Construction works on the six VIP toilets was in progress.

Chabola Basic School

The borehole had been sunk and equipped. Five VIP toilets had been dug and work was in progress while foundation trenches for 1 x 2 and 1 x 3 classroom blocks had been dug. Works were on-going.

Bwalya Chokwe Basic School

The borehole had been sunk and equipped. Construction works on the 1 x 2 and 1 x 3 classroom blocks and six VIP toilets was in progress.

Vyonga Basic School

The construction of the 1 x 2 and 1 x 3 classroom blocks, six VIP toilets and sinking and equipping of the borehole had been completed.

Mufubushi Basic School-Mpika (631 pupils)

Trenches and concrete footing for the construction of the 1 x 2 and 1 x 3 classroom blocks had been done while six trenches for the construction of VIP toilets had also been done. Works were on going.

TOUR FINDINGS

During their tour of the School, your Committee noted that:

- *both the 1 x 3 and 1 x 2 classroom blocks were complete;*
- *the six VIP toilets were complete;*
- *the borehole was drilled and was operational;*
- *the slab of the 1 x 3 class room block had cracks; and*
- *no funds had been released for the walls.*

Mukungwa Basic School – Mpika (309 pupils)

Trenches and concrete footing for the construction of the 1 x 2 and 1 x 3 classroom block had been done while six trenches for the construction of VIP toilets had been dug. Works were on-going.

TOUR FINDINGS

Your Committee during their visit noted the following:

- i) the School still had grass thatched classrooms;*
- ii) the portal frames had been constructed and completed;*
- iii) the borehole had been drilled and was operational;*
- iv) the VIP toilets were complete;*
- v) there were some defects in that-*
 - *the slab for the 1 x 3 classroom block had cracked;*
 - *the spoon drain slope was defective on the 1 x 2 classroom block;*
 - *the slab level of the 1 x 2 classroom block was too low and would require either to level the ground around the structure or raise the slab level; and*
- vi) no funds had been released for construction of walls, but the community had made the bricks.*

Katimba Basic School

Six VIP toilets had been constructed and were in use. The concrete slab for the 1 x 2 and 1 x 3 portal frame classroom blocks had been completed.

Kapilya Basic School / Mulolesha Basic School

Construction trenches for the 1 x 2 and 1 x 3 classroom blocks and six VIP latrines had been dug.

TOUR FINDINGS

During their tours, the District Education Board Secretary (DEBS) for Mpika informed your Committee that initially the School that was identified was Kapilya as was reported, but owing to the poor state of the road, the contractors could not proceed with the works despite having done the foundation. Her office was asked to identify another School and Mulolesha with 305 pupils was selected.

At the time of visit, the contractor was on sight working on the sub-structure of one of the classroom blocks. The VIP toilets were yet to be done. The School already had a borehole.

There was no Government inspector on site. Your Committee were uncomfortable with the absence of basic equipment such as concrete mixers and vibrators to show that a professional job was being done. A test on the bricks showed that they were poorly cured.

Muyembe and Mukolwe Basic Schools

Construction of the 1 x 2 and 1 x 3 classroom blocks, six VIP toilets and sinking and equipping of the borehole had been completed at both schools.

Bweupe Basic School

The construction of the 1 x 2 and 1 x 3 classroom blocks, six VIP toilets and sinking and equipping of the borehole had been completed.

Lusengwa Basic School

The construction of 1 x 2 and 1 x 3 classroom blocks and six VIP toilets had been completed. However, there had been some cracks on the drainage system, which required attention. The contractor had agreed to re-do the works on the drainage section since the works were within the defect liability period.

Cholwe Basic School

The construction of the 1 x 2 and 1 x 3 classroom blocks and six VIP latrines had been completed and were ready for use.

Kashitu Basic School

The construction of the 1 x 2 and 1 x 3 classroom blocks and six VIP latrines had been completed while the contractor was still on site finalising the works on the drainage system.

Chiyogo Basic School

The construction of the 1 x 2 and 1 x 3 classroom block and six VIP toilets had been completed and were ready for use.

(ii) Luapula Province

Contract "A"

The Controlling Officer regretted that at the time of audit there were some defects at Mwaba and Chishimba Basic Schools. The status was as follows:

Mwaba Basic School

The cracks on the slab of the 1 x 3 classroom block had been worked on and the borehole had been repaired and was operational. The walls to the VIP toilets had been worked on and were in good condition.

Chinsaka Basic School

The borehole, which was not functional, had been repaired and the six VIP toilet walls, which were curving, had been worked on by the contractor at his own cost.

Contract “B”

The contractor submitted to your Committee that it was true that in February 2005, the Ministry entered into a contract with Chichi’s General Contractors for the construction of portal frame classroom blocks in five schools at a contract price of K1,565,548,569.

The construction of the 1 x 3 and 1 x 2 classroom blocks and VIP latrines at Chisheta Basic School had been completed.

The two 1 x 2 classroom blocks, which were to be constructed at Munwa and Tente Community Schools, were transferred from the designated sites to another site, Lukwesa Basic School. This was because the community wanted to upgrade the Basic School into a High School due to the increase in the pupil population. Lukwesa Basic School was transformed into Lukwesa High School.

The pupil population at Tente and Munwa Community Schools was very low because they are community schools. The variation was as follows:

- construct 1 x 3 classroom blocks and four double VIPS at Tente and Munwa Community Schools respectively; and
- construct two 1 x 2 classroom blocks at Lukwesa Basic School and four double pit latrines.

The Provincial Education Officer – Luapula Province gave authority to vary the projects.

On the construction of works at Kalundu Basic School, the 1 x 3 classroom block and four VIP latrines had been completed. The contract target for Kalundu Basic School was for the construction of the 1 x 3 classroom block, 1 x 2 classroom block and six VIP latrines.

However, a variation was made to the bill of quantities after taking into consideration the rise in prices for construction materials due to inflation. This meant that the scope of works at certain designated sites including Kalundu Basic School were to be reduced by 1 x 2 classroom block and two VIP latrines.

The Ministry would ensure that the 1 x 2 classroom block and 2 VIP latrines were constructed once funds were made available.

The borehole, which was producing dirty water at Kalundu Basic School, had been attended to.

Your Committee enquired from the Controlling Officer whether the Ministry had capacity to monitor construction projects that were being implemented throughout the country. In response, the Controlling Officer informed your Committee that the Ministry had qualified technical staff in the school infrastructure unit to undertake inspections. The Ministry was in the process of acquiring additional vehicles for the School Infrastructure Unit to enhance its monitoring capacity.

Observations and Recommendations

Your Committee note the submission on the Sector Plan financing and re-emphasise the need for the Ministry of Education to ensure that funds are put to good use and there is value gained.

The Committee further makes the observations set out below.

- i) The Ministry of Education lacks capacity in terms of the staffing levels to effectively supervise and monitor building projects. This has resulted in contractors delaying the completion of works as well as producing sub-standard works. The result has been that of lost or delayed opportunity to provide education to the Zambian children.

The situation is worsened by the practice of awarding contracts from Headquarters with minimal, if any, involvement of the local school officials, as was the case at Chibombo High School. Despite the School authorities having noticed defects in the works, they had nothing to do with the contractor other than writing to Headquarters to express their concerns.

- ii) Accounting officers are not adhering to Financial Regulations. This is evidenced by poor storage of accounting documents and failure to take measures on officers that failed to retire imprest within the stipulated 48 hours after returning to station.

Your Committee, therefore, recommend that the Secretary to the Treasury should re-examine the tender processes at the ministerial level to avoid situations where contractors without capacity are awarded government contracts. They further urge the Secretary to the Treasury to look into the issue of monitoring projects. To ensure that there is value for money spent, it is imperative that the Government enhances its monitoring capacity through the engagement of competent and honest private consultants to supplement the efforts of government officers.

On the individual cases mentioned in the Audit Report, they observe and make the recommendations set out below.

a) (i) ***Construction of Six Basic Schools in Luapula Province***

The Controlling Officer should report progress on the outcome of the arbitration.

(ii) ***Improvement of Water Supply System – Chibombo High School***

They have difficulties appreciating the way the Ministry is administering projects. In this particular case, the School had made effort to inform the Ministry of the problems with the water supply system in 2005. It is, therefore, unacceptable that in 2007, the Ministry is still resolving the problem.

They, therefore, urge the Controlling Officer to aggressively engage the contractor through meetings other than just writing letters to have the problems resolved as stipulated in the contract.

b) ***Procurement, Storage and Distribution of Text Books***

They call for reconciliation of the number and value of books that were stolen. The Controlling Officer should report progress on the police investigations on the stolen books.

c) ***Unretired Imprest***

The matter on institutional imprest should close subject to verification.

On unretired travel debtors' imprest, your Committee urge the Controlling Officer to see to it that recoveries are instituted immediately and all supervising officers cautioned for allowing such a situation to prevail. The Controlling Officer should report progress on the recovery of the remaining K1,355,324,882.

d) ***School Infrastructure***

(i) ***Northern Province***

After taking into account their tour findings, your Committee are satisfied that considerable works had been undertaken at the schools they had visited and they can only assume that there is similar progress at the other schools.

They, however, observe that the Ministry of Education is not adequately supervising the construction works and wonder how the Ministry is certifying the works for payment. In addition, the works were being undertaken beyond the contractual completion time.

They further observe that the contract in Northern Province was awarded to one single company that had resorted to sub-contracting and this had resulted in compromised standards.

Delays in the release of Phase II funds will result in further cracks in the slabs due to the effect of wind blowing over the frames and roofs.

They, therefore, request the Controlling Officer to ensure that:

- i) there is a limit to the number of schools that can be offered to any contractor for purposes of ensuring that qualitative works are done; where it is established that a contractor causes any delay, the Ministry should be invoking the liquidated damages clauses;
- ii) supervision of the construction works is stepped up;
- iii) the release of funds for construction of walls is done without delay; the communities at the visited schools had already secured the building blocks;
- iv) defects at Chilekwa Mwamba, Mukungwa and Mufubushi are rectified and the borehole at Chilekwa Mwamba is worked on; and
- v) progress is reported on all the thirty-eight basic schools in the Province considering that at least 49 percent of the total contract price has been paid to the contractor.

i) Luapula Province

Your Committee observe that almost all the portal frame construction works had been completed though there are defects that need to be attended to. They, therefore request the Controlling Officer to report progress on the rectification of the defects as well as on the construction of walls at all the twenty schools. Repair works on the borehole at Kalundu Basic School should be verified.

Audit Query

Paragraph 41

**MINISTRY OF EDUCATION
Provincial Offices**

Grants to the Provinces

41. The Auditor-General reported that during the period under review, amounts totalling K265,812,174,632 were disbursed as grants to the provinces as shown below.

Province	Amount Disbursed (K)
Lusaka	26,528,928,530
Copperbelt	42,968,072,969
Central	27,869,043,923
Northern	34,406,866,033
Western	25,726,917,202
Eastern	32,156,683,410
Luapula	19,954,620,746
North Western	19,115,218,443
Southern	37,085,823,374
Total	265,812,174,632

An examination of expenditure records pertaining to the disbursed amounts revealed the facts set out hereunder.

(a) Northern Province

(i) Provincial Education Office

There were thirty-eight payment vouchers in amounts totalling K305,874,580 that were unvouched in that they had no supporting documents.

(ii) Mporokoso District Education Board

Misapplication of Funds

Amounts totalling K146,109,722 were misapplied in that they were used to pay outstanding arrears for teachers in respect of repatriation, travel benefits and settling in allowances. As at June 2006, the funds had not been reimbursed.

Fraudulent Withdrawal of Cash

A total amount of K16,304,000 was fraudulently drawn as shown below:

Cheque No.	Date	Amount Authorised as per Payment Voucher K	Amount Drawn K	Amounts Fraudulently Withdrawn K
000842	25-May-05	4,010,000	15,704,000	11,694,000
000902	Sep-05	680,000	2,970,000	2,290,000
000915	Oct-05	680,000	3,000,000	2,320,000
				16,304,000

(c) North Western Province

Provincial Education Office

In May 2005, an amount of K8,000,000 was paid as part payment towards the supply and installation of a Panasonic Digital Telephone system whose total cost was K15,000,000. However, as of June 2006, the supplier had not delivered the equipment although the Local Purchase Order was signed acknowledging receipt of the equipment and the supplier's whereabouts were unknown. Although the matter was reported to the police, no recoveries had been made.

(d) Lusaka Province

(i) Chongwe District Education Board

A scrutiny of accounting records at Chongwe DEBS for the year ended 31st December 2005 revealed the following:

- out of 17,035 various titles of text books allocated to the District, only 11,440 books were delivered as of June 2006 leaving a balance of 5,595 undelivered; and
- 3,290 books allocated to community schools had not been received by Chongwe District Education Board as of June 2006.

(ii) Chongwe High School

In May 2005 a local contractor was engaged to rehabilitate five science laboratories at a contract price of K15,600,000 out of which amounts totalling K14,800,000 had been paid to the contractor leaving a balance of K800,000. A site inspection in June 2006 revealed that most of the works had not been done despite the contractor having been paid 95 percent of the contract price.

Although the requirements for the school were 200 stool tops, the DEBS procured 1,000 stool tops, 800 more than the requirement resulting in wasteful expenditure of K28,000,000.

(iii) *Kafue District Education Board*

- 2,515 textbooks of various titles meant for community schools were not delivered to the District Education Board Secretary's office as of June 2006;
- Out of 17,035 text books of various titles allocated to the district, only 12,712 text books had been delivered leaving a balance of 4,323.

(iv) *Luangwa District Education Board Secretary*

Luangwa District Education Board Secretary's office was allocated 17,035 various text books at ZEPH warehouse. These books were supposed to have been delivered to the District Education Board Secretary's office in 2005 but only 5,853 books were delivered as at the date of audit leaving 11,182 text books which had not yet been delivered. A scrutiny of stores and other records disclosed the following:

- a total of 320 books allocated to Community Schools had not yet been received by DEBS' office as of June 2006;
- communication between the Ministry of Education and the District Education Board Secretary's office to facilitate smooth delivery of school requisites was lacking;
- there were no records of receipt and distribution of books costing K14,922,400 procured from a local company in respect of five zone 'B' schools; and
- books valued at K 1,492,500 were not supplied by a local company although they were paid a sum of K 8,206,500 to supply school text books to five zones 'A' schools .

(v) *Recovery of Misappropriated BESSIP Funds*

In paragraph 53 of the Auditor General's Report for the financial year ended 31st December 2003, mention was made of the misappropriation of K25,897,807 BESSIP funds by the Assistant Accountant at DEBS office in Luangwa. In their recommendations the Public Accounts Committee requested to be given an update on the outcome of investigations on the officer who misappropriated K25,897,807.

A review of the situation in 2006 revealed that the District Education Board Secretary had withdrawn the case and indicated that K200,000 would be recovered monthly until the whole amount was liquidated. As at date of audit, the Assistant Accountant had only paid back K2,200,000 into the BESSIP Account as recoveries.

It was not clear why the District Education Board Secretary withdrew the case.

(e) *Southern Province*

(i) *Livingstone District Education Board*

The District was allocated a total of 17,826 cartons of books of various titles from ZEPH out of which 12,742 cartons had been delivered, leaving a balance of 5,084.

(ii) *Maramba Basic School*

The District Education Board procured building materials costing K19,872,400 on behalf of the School for the rehabilitation of two (2) staff houses. In this regard, a labour only contract was awarded to a local contractor in February 2005, at a contract price of K9,000,000. A visit to the School revealed that both houses were leaking and the old cracks had resurfaced a few months after works had been carried out.

(iii) *Kalomo District Education Board*

Out of 17,826 cartons of books of various titles allocated to the District only 12,802 cartons were delivered.

(iv) *Kalomo High School*

A review of accounting records revealed that a sum of K72,554,500 was paid to individuals and companies for the supply of stationery and building materials. It was, however, observed that the payments were split to avoid tender procedures.

(f) **Western Province**

Phelim O'Shea High School

The construction works commenced in October 2004, and were near completion. However, the roof which was partially complete was blown-off by a strong wind in December 2005 resulting in the destruction of eighty-eight iron roofing sheets costing K14,920,000.

(g) **Luapula Province**

(i) *Twingi Basic School*

A physical inspection of the School revealed that the Basic School, which was established in 1934, had only one chair for the teacher and fourteen damaged desks to cater for about four hundred and twenty pupils. The infrastructure was dilapidated.

(ii) *Mwaba Basic School*

A physical inspection of the infrastructure at the School revealed that the infrastructure was dilapidated and required total rehabilitation and pupils sit on the floor due to lack of desks.

(iii) *Mansa College of Education Board.*

In November 2005, the College engaged a local contractor to construct one staff house at a price of K 96,067,857 out of which K67,250,713 was paid. The contract was for a period of twelve weeks commencing in December 2005 with an estimated completion date of March 2006.

A site inspection conducted in June 2006 revealed that the works had not been completed although the Controlling Officer in her response dated 20th September 2006 stated that the house was completed in stipulated time and the contractor wrote to the Provincial Buildings Engineer on 28th April 2006 who acknowledged completion of the house.

(iv) *Delivery of Furniture from the Ministry of Education*

A verification exercise of furniture procured by the Ministry of Education Procurement and Supplies Unit and delivered to schools in Samfya District for the period under review revealed that most of the items listed on the delivery notes were received. However, the following were observed.

Chifunabuli Basic School.

A visit to the School revealed that thirty desks received by the School were not in use as they could not be assembled due to lack of bolts and nuts as of June 2006.

Masanta Basic School

A visit to Masanta Basic School revealed that pupils were still sitting on the floor as the teachers were waiting for the completion of the new classroom blocks before assembling the furniture. It was noted that the completion of the school infrastructure was delayed as the works had been abandoned by the contractor.

Bombawamenshi Basic School

A visit to the School in June 2006 revealed that the school only had 4 members of staff and had no desks nor teachers' tables.

Controlling Officer's Submission

In response to the queries, the Controlling Officer submitted as given below.

Grants to the Provinces

a) *Northern Province*

(i) Provincial Education Office

The matter had been verified and resolved.

(ii) Mporokoso District Education Board

The matter on misapplication of funds had been verified and resolved.

The K16,304,000 which was fraudulently drawn would be recovered from the concerned officer's salary. The District Education Board Secretary had been instructed to start the recoveries.

b) *North-Western Province*

Provincial Education Office

The Controlling Officer regretted that a part payment amounting to K8,000,000 was paid to a supplier for the supply and installation of a Panasonic Digital Telephone System at the Provincial Education Office in Solwezi. The supplier disappeared upon receipt of the down payment. The matter was reported to the police and investigations were underway. To avoid such problems, the Ministry of Education had since stopped the practice of making down payments.

c) *Lusaka Province*

(i) Chongwe District Education Board

The Controlling Officer submitted to the Committee that it was regretted that the District did not receive 5,595 text books for basic schools and 3,290 text books for community schools in the year under review.

The non-delivery of books to the District was as a result of theft of assorted textbooks that occurred at ZEPH warehouses, as these were part of the consignment that was to be distributed.

(ii) Chongwe High School

The Controlling Officer regretted that most of the rehabilitation works on the School laboratories had not been done despite having paid the contractor ninety five percent of the contract sum.

The amount, which was allocated to rehabilitate the five laboratories, was not adequate resulting in two agricultural laboratories not being rehabilitated.

As regards to the purchase of 1,000 wood stool tops, the 800 excess wood stool tops were exchanged for other building materials from the same supplier to avoid waste.

(iii) Kafue District Education Board

The Controlling Officer regretted the non-delivery of textbooks. The undelivered books were part of the consignment of books, which were stolen at ZEPH warehouse.

The matter on books procured from a local company costing K14,922,400 in respect of Zone 'B' Schools had been verified and resolved.

(iv) *Recovery of Misappropriated BESSIP Funds*

The Controlling Officer regretted the misappropriation of BESSIP funds totalling K25,897,809. Only K2,200,000 had been paid back to date by the officer involved. Furthermore, the District Education Board Secretary had instituted monthly deductions of K200,000 from his salary to recover the balance.

d) ***Southern Province***

(i) *Livingstone District Education Board*

The non delivery of books to the District was as a result of the theft of assorted text books that occurred at ZEPH warehouse.

(ii) *Maramba Basic School*

The same contractor at his own cost rectified all the cracks that had developed and the leaking roof on. The two houses were in use.

(iii) *Kalomo District Education Board*

The non-delivery of books to the District was as a result of the theft of assorted textbooks that occurred at ZEPH warehouse.

(iv) *Kalomo High School*

The matter was verified and resolved.

e) ***Western Province***

Phelim 'O' Shea High School

She regretted the incidence of a blown-off roof. The roof was blown off because the structure was half roofed. The incidence was due to natural causes.

Efforts were being made by the school management to ensure that the construction works were completed as soon as funds were made available.

f) ***Luapula Province***

(i) *Twingi Basic School*

The Ministry procured some desks and twenty desks were allocated and delivered to the School. The Ministry had budgeted for the procurement of desks for various schools in the country as well as rehabilitation of dilapidated schools.

Efforts were being made to ensure that funds were mobilised to rehabilitate the infrastructure and procure more desks especially that the matter had been included in the 2007 Annual Work Plan and Budget (AWPB).

(ii) *Mwaba Basic School*

The Ministry procured some desks and twenty desks were allocated and delivered to the School.

On the rehabilitation of the dilapidated infrastructure, an amount of K60,000,000 was disbursed and the works had been completed. Works had been verified.

(iii) *Mansa College of Education Board*

The Controlling Officer corrected the impression that Mansa College of Education contracted two contractors for the construction of one staff house each. It was true that at the time of the audit, one of the contractors was paid a total of K67, 250,713 out of K96, 067,857 for the works completed. The contractor had since completed the works and had been paid the balance of K28, 817,144.

The other contractor had been struggling with the works. It was probably this house that the auditors might have referred to.

It was, however, regretted that the contractor had not yet completed the construction of a second staff house. To this effect, the College administration had written a letter to the Permanent Secretary – Luapula Province raising concerns over the delays in completing the project and a response was being awaited. The contract was awarded by the Permanent Secretary – Provincial Administration and was supervised by the Provincial Buildings Engineer who was issuing the completion certificates at each stage.

(iv) *Delivery of Furniture from the Ministry of Education*

Chifunabuli Basic School

The matter was verified and resolved.

Mansata Basic School

The matter was under arbitration and was being handled by the School Infrastructure Section at Headquarters.

Forty desks out of hundred had been assembled for the existing 1 x 2 classroom block and were in use. The other sixty desks would be assembled upon completion of the other classroom block.

Bombawamenshi Basic School

The Ministry procured desks and twenty (20) desks were allocated and delivered to the School.

On the shortage of staff at the School, the Ministry was making effort to ensure that the School benefited from the next recruitment exercise for teachers.

Observations and Recommendations

In noting the submission set out above, your Committee observe the following:

- i) contrary to the spirit of the *Public Finance Act*, punitive measures are not being meted out on erring accounting officers to deter other officers from committing similar offences, as was the case at the Mporokoso and Luangwa DEBS offices where officers fraudulently withdrew cash and misappropriated BESSIP funds respectively and only recoveries were instituted. Accounting officers are taking advantage of this kind of situation to indirectly award themselves interest free loans and advances;
- ii) Government funds are easily being expended without officers showing any concern as was the case at the Solwezi Provincial Education Office where payment was made for a telephone system to a supplier of no fixed abode; and
- iii) coordination between Controlling Officers in different spending agencies is poor, particularly as regards contracts as was the case at Mansa College of Education Board where the provincial administration awarded contracts to build two staff houses and the Ministry of Education Headquarters was unaware of progress on the projects.

Your Committee, therefore, recommend the following to the Secretary to the Treasury:

- a) Controlling and Accounting Officers that deliberately act contrary to Financial Regulations while performing their duties should be punished; they further advise that the practice of merely

transferring officers to other ministries should be stopped as it serves no purpose in instituting discipline;

- b) officers who cause losses to the Government by making payments to questionable suppliers should be punished to avoid collusion. They further call for a complete halt to making of advance payments except in unavoidable circumstances; and
- c) coordination between Controlling Officers should be improved; Controlling Officers are taking advantage of the situation to justify irregularities and simply state that it is being handled at Provincial Administration or Ministerial Headquarters.

On the specific queries, the Committee recommends as set out below.

a) Northern Province

i) Provincial Education Office

The matter should close as it was cleared by the Auditor-General.

ii) Mporokoso District Education Office

- The matter on the misappropriation of funds should close following clearance by the Auditor-General.
- On the fraudulent withdrawal of cash, the Controlling Officer should ensure that recoveries are made and the officer should not perform any cash handling duties.

b) North-Western Province

The Controlling Officer should report progress on the outcome of police investigations.

c) Lusaka Province

(i) Chongwe District Education Board

A progress report on police investigations over the undelivered books should be submitted to your Committee.

(ii) Chongwe High School

Disciplinary action should be taken against officers who deliberately bought 800 unwanted wood stools. The Controlling Officer should report progress on the rehabilitation of the laboratories.

(iii) Kafue District Education Board

The Controlling Officer should report progress on the undelivered books.

(iv) Luangwa District Education Board Secretary

- Progress should be reported on police investigations on the undelivered books.
- The matter on receipt and disposal details on school books should close following the Auditor-General's verification.

(v) Recovery of Misappropriated BESSIP Funds

Since the Ministry has instituted recoveries, the matter should close.

d) Southern Province

(i) Livingstone District Education Board

The Controlling Officer should report progress on the police investigations.

(ii) Maramba Basic school

The matter should close.

(iii) *Kalomo District Education Board*

The Controlling Officer should report progress on the police investigations.

(iv) *Kalomo High School*

The matter should close following clearance by the Auditor-General.

e) ***Western Province***

The Controlling Officer should update your Committee on the completion of Phelim 'O' Shea High School. The incidence at the School was a consequence of delayed completion of the projects.

f) ***Luapula Province***

(i) *Twingi and Mwaba Basic Schools*

Your Committee commend the Controlling Officer for supplying twenty desks to each of the two schools. They, however, urge her to procure more desks, as the number of those delivered is far from adequate. They further request her to update them on the rehabilitation works at the two schools.

(ii) *Mansa College of Education Board*

The Controlling Officer should invite the Office of the Auditor-General to verify information on the completed house.

In addition, the Controlling Officer should impress upon the provincial administration to invoke the liquidated damages clause in the contract for the delayed completion of the house project. To this effect, they request for an update on the matter.

(iii) *Delivery of Furniture from the Ministry of Education*

Chifunabuli Basic School

The matter should close following clearance by the Auditor-General.

Mansata Basic School

The Controlling Officer should inform your Committee on the outcome of the case that was taken to arbitration.

They urge her to have all school desks assembled, as it will be difficult to account for unassembled components, which are more prone to pilferage.

Bombawamenshi Basic School

The matter should close, however in doing so, your Committee urge the Controlling Officer to ensure that the issue of staffing is addressed.

Audit Query

Paragraph 42

MINISTRY OF EDUCATION

North-Western Province - Grants to High Schools

Solwezi Technical High School

42. The Auditor-General reported that during the financial year ended 31st December 2005 a provision of K890, 854,574 was made in the Estimates of Revenue and Expenditure for grants to high schools in the Province. Out of the provision, an amount of K81, 107,000 was allocated to Solwezi Technical High School Board and the whole amount was released.

In addition, during the year under review, an estimate of K449,460,000 was made by the Board in respect of user fees out of which K396,999,000 was collected. The amount collected represented 88% of the estimate.

An examination of financial and other records maintained at the School revealed the matters set out hereunder.

(a) Failure to Account for Funds

Out of the amounts totalling K396,999,000 collected during the period January to December 2005 in respect of user fees K344,712,450 were banked while the balance of K52,286,550 could not be accounted for. In addition, during the period January to July 2006 amounts totalling K309,585,000 were collected out of which K255,649,700 was banked, K37,042,750 was spent at source while the balance of K16,892,550 could not be accounted for.

(b) Stock Discrepancies

A stock count carried out in July 2006 revealed a shortage of 298 kgs of meal samp, valued at K 1,172,000. No explanation was given for the difference.

Controlling Officer's Submission

a) Failure to Account for Funds

The Controlling Officer informed your Committee that at the time of the audit, the Ministry had not given clear guidelines on the usage of user-fees. Apparently, most schools collected user-fees from pupils and applied them towards procurement of foodstuffs and payment of medical fees for pupils. The procedure should have been to allow for the banking of the fees collected then withdrawing later for use.

It was regretted that amounts totalling K52,286,550 were not accounted for in the period January to December 2005. The school spent the funds before banking as earlier stated.

Similarly, the K16,892,550 which was not accounted for in the period January to July 2006, was used for procurement of various food stuffs and payment of medical fees for pupils.

The amounts which were used at source and reported as not having been accounted for were broken down as follows:-

Amounts spent at source – Jan – Dec 2005	K52,286,550
Amounts spent at source – Jan – July 2006	<u>K16,892,550</u>
	<u>K69,179,100</u>

The expenditure details for the unaccounted for funds were available and ready for verification.

b) Stock Discrepancies

As regards to the shortfall of 298 kg of meal samp worth K1,172,000.00 which was not accounted for, the meal samp was used to feed pupils who remained in the School during holidays and those who went for sports and NATAAZ in Mwinilunga. It was, however, regretted that at the time of audit the bin card was not updated hence the shortfall in the kilograms of meal samp. The bin card had been updated and was available for audit verification.

Observations and Recommendations

Your Committee in noting the submission observe that there was a lapse on the part of the Ministry of Education on the issuance of user fees guidelines.

They also observe that the Controlling Officer did not fully cooperate with auditors during the audit process. The explanation on meal samp should have been given to the auditors at the time of audit.

Your Committee, therefore, request the Secretary to the Treasury to ensure that the Controlling Officer at the Ministry of Education issues the school fees guidelines to avoid audit queries.

They also implore the Secretary to the Treasury to re-emphasise the need for all Controlling Officers to cooperate with auditors as the overall objective of the public audit exercise is to improve accountability.

On the specific queries, the Committee made the resolutions set out below.

a) Failure to Account for Funds

The Controlling Officer should submit all expenditure details to the Auditor-General for verification.

b) Stock Discrepancies

The Controlling Officer should forward the updated Bin Card to the Auditor-General for verification.

Audit Query

Paragraph 43

OFFICE OF THE PRESIDENT - LUSAKA PROVINCE ADMINISTRATION Headquarters

Accounting and Other Irregularities

43. The Auditor-General reported that during the financial year ended 31st December 2005, a total provision of K11,425,972,088 was made in the Estimates of Revenue and Expenditure to cater for various programmes under the Poverty Reduction Programme (PRP) such as infrastructure development, health improvement programmes, education improvement, feeder roads rehabilitation among others. Out of the total provision, an amount of K11,521,038,431 was released.

An examination of expenditure records carried out at the Provincial Administration and a physical inspection in March 2006 revealed the matters set out hereunder.

(a) Construction of District Offices in Kafue

A total amount of K253,000,000 was provided for and released under infrastructure development for the construction of Kafue District Offices.

In May 2005, the Provincial Administration entered into a contract with a contractor for the construction of the offices at a contract price of K963,206,205, and the works were to be executed within a period of four months.

As of December 2005 a total of K 743,684,231 had been paid to the Contractor. It was observed however that the contract amount was K 710,206,250 in excess of the approved provision and there was neither evidence that variations had been made nor a supplementary provision obtained.

A physical inspection of the project undertaken in March 2006, eight months after the date of completion revealed that the project was not completed.

It was however observed that as of March 2006, no claims were made for liquidated damages due to the Government for the delayed work although the contract provided for such claims.

(b) *Construction of Mortuary at Luangwa Boma*

In 2005, the Provincial Administration had provided K345,000,000 in the Estimates of Revenue and Expenditure for the construction of a mortuary in Luangwa and the whole amount was released. The Provincial Administration requested for a supplementary of K476,415,808 which was approved and provided bringing the total to K821,415,808.

In September 2005, the Provincial Administration engaged a local contractor at a contract sum of K132,982,446. The construction was to run for a period of twelve weeks commencing October 2005 up to January 2006.

It was observed, however, that although the supplementary provision of K476,415,808 was obtained the contract sum was only K132, 982,446. The propriety of obtaining a supplementary provision was questionable and it was not clear as to how the balance of K695, 482,452 would be utilised.

A physical inspection carried out in March 2006, ten weeks after the estimated completion period, revealed that construction works were in progress and was estimated to be at 75% complete stage.

It was also observed that as of March 2006, no claims were made for liquidated damages due to the Government for the delayed work although the contract provided for such claims.

(c) *Rehabilitation of Luangwa Boma Clinic*

In September 2005, the Provincial Administration contracted a local contractor to rehabilitate Luangwa Boma Clinic at a contract price of K188, 187,530. As at March 2006, the contractor had been paid a total amount of K56, 456,259 for the works.

It was observed that the project had not been provided for in the Estimates of Revenue and Expenditure for the financial years ended 31st December 2004 and 2005 and therefore the expenditure was unconstitutional.

(d) *Drilling of Borehole for Water Supply at Kasisi Health Centre*

The Provincial Administration contracted a local contractor to drill two water boreholes at Kasisi Rural Health Centre in Chongwe at a contract price of K208,994,400 with a completion period of five weeks.

Out of the total contract price, the contractor had been paid a total amount of K136,412,300 as of March 2006, leaving a balance of K72,582,100. It was observed that the project had not been provided for in the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005 and therefore the expenditure was unconstitutional.

Controlling Officer's Submission

a) *Construction of District Offices in Kafue*

The Controlling Officer in her response stated that the programme of constructing the District Offices was started in 2003 under the programme of Infrastructure Development. The Bills of Quantities submitted on the Office of the Provincial Building Engineer, amounted to K362,

160,000 which was above the Provincial Administration threshold and hence, it was sent to the Ministry of Works and Supply Tender Committee for approval and award of contract. The Bill of Quantities were revalued to K963, 206,205. The amount of the contract increased due to the following factors:

- the estimate was prepared with a view of the Provincial Buildings Engineer to carry out the works themselves; although the works were to be carried out by the PBE the works were still under estimated; and
- the contract was awarded two years later to a contractor after the estimate of K362,160,000 was prepared and the cost of materials had risen.

This amount was in excess of the K253,000,000 provided for in 2005 but there were funds brought forward from 2003 and 2004 on the programme. Therefore, a decision was made to add on the funds brought forward from 2003 and 2004 amounting to K540, 000,000 to enable the construction of the office block in Kafue district which was a priority.

The Controlling Officer stated that it was also envisaged that it was beneficial to complete one project rather than scatter the resources to a number of projects that could not be completed in the year.

The District was a priority because the District Commissioner was operating from Chilanga and was spending a lot of resources on rental charges and transport costs. A sum of K743, 684,231 was paid to the contractor as at December 2005. An application for a supplementary had been submitted but was not approved.

As of March 2006 the project had not been completed because the contractors certificate No. 4 for K55, 121,566.25 had not been paid due to non-release of funds in 2006. The development prompted the contractor to withdraw from the site for non-payment. However, after negotiations the contractor agreed to continue with the works. The Controlling Officer reported that the works were completed in July 2006 and the offices were occupied then.

As of March 2006, the Provincial Administration could not claim liquidated damages due to the Government for the delayed work because Government had also faltered on delayed payments to the contractor. The balance of K55, 121,566.25 had now been paid to the contractor by varying funds within the same programme.

b) *Construction of Mortuary at Luangwa*

The Controlling Officer submitted that the K345,000,000 in Estimates of Revenue and Expenditure in 2005 included the purchase of a mortuary unit at a cost of K200,000,000. A supplementary of K476,415,808 was requested and approved bringing the total to K821,415,808. This transaction was done to safeguard and account for the funds brought forward from 2004 for the rehabilitation of Luangwa Boma Clinic and Mpuka Rural Health Centre also in Luangwa among other activities which were not provided for in the 2005 Budget.

The Controlling Officer informed your Committee that the delay in completion of the project was as a result of the change of the site. The earlier proposed site was too distant from the clinic with no supporting infrastructure services and was also not surveyed. This prompted the District Development Committee to source and approve a site that was next to the clinic.

In addition, the new Provincial Buildings Engineer discovered some omissions in the bills of quantities i.e. services for water, electricity, sewerage disposal, access road, walk way for bringing in bodies. The sloping nature of the site meant additional costs for the sub structure. The client also wanted an extension to include an office for the mortuary attendant and toilets for mourners. These additional works required tender approval. Tender approval of an additional K66,761,757.75 was granted, bringing the total to K199,744,184. She also reported that

construction of the mortuary was completed and the mortuary unit had been procured although it was yet to be fitted.

Liquidated damages due to Government for the delayed work could not be claimed even when the contract provided for such claims because it was not the contractor's fault but the District that had provided for a wrong site, plus the consideration and request for additional works which were necessary.

c) *Rehabilitation of Luangwa Boma Clinic*

She reported that it was not correct that the project was not provided for in the Estimates of Expenditure in 2004 and 2005. The project was budgeted for in the Financial Year 2004 under the Unit: Office of the Permanent Secretary, Programme 17 Activity 4: Rehabilitation of Hospitals in the Province with a Budget Provision of K380,000,000. These were pool funds budgeted for a number of PRP activities.

The estimated cost for the rehabilitation of the clinic was pegged at K9,000,000 in 2004 but was revised to K188,187,530 due to omissions in the earlier Bill of Quantities. Rehabilitation included the entire clinic and four staff houses whose works involved the construction of a store room, installation of additional windows in the wards, replacement of plumbing fittings, electrical fittings, broken window panes, carpentry works and general painting. This was a 2004 constitutional expenditure, which was implemented in the financial year 2005.

d) *Drilling of Boreholes for Water Supply at Kasisi Health Centre*

The Controlling Officer stated that it was correct that the Provincial Administration contracted a local contractor to drill two water boreholes at Kasisi Rural Health Centre in Chongwe at a contract price of K208,994,400 with a completion period of five weeks.

It was also correct that as of March 2006 the contractor had been paid a total amount of K136,412,300 leaving a balance of K72,582,100. As explained in (c) above, the project had been budgeted for in 2004 under unit: Office of the Deputy Minister under Programme II Improvement of Health Services, Activity 02 with a budget provision of K419,000,000. This project had been among the health institutions listed on letter from Provincial Health Director, Lusaka Province. The project was a 2004 constitutional expenditure implemented in the financial year 2005.

In the light of the above the Controlling Officer appealed to your Committee to allow the excess expenditures for the construction of the Kafue District Offices, the construction of the mortuary at Luangwa, the rehabilitation of Luangwa Boma Clinic and the drilling of the boreholes for the water supply at Kasisi Health Centre to stand as a charge against public funds.

She assured your Committee that overlapping of programmes was now a thing of the past. The bills of quantities were now correctly estimated. Budgeting was accurate and only projects planned were implemented i.e. funds were no longer placed in a pool but were separated based on the actual project classified as activities were done. In addition projects were closely supervised and monitored.

She assured your Committee of the commitment to double efforts to ensure that Government got value for money spent on all projects undertaken.

Observations and Recommendations

Your Committee observe the following:

- a) there was an administrative lapse which resulted in the K3,504,352,146 being unconstitutional expenditure;

- b) the provincial administration did not cooperate fully with the Auditor-General going by the responses that the Controlling Officer gave on the queries; they audited several offices and did not find anything that could have caused the provincial administration not to address some of the issues at the exit meeting or indeed through other post-audit procedures; and
- c) The decision to embark on building or rehabilitation projects appears to have been made without conducting any feasibility studies as was revealed by the matter on the construction of a mortuary at Luangwa Boma.

Your Committee, therefore, recommend that:

- a) the Secretary to the Treasury should re-sensitise Controlling Officers on the procedures and of retaining funds and to avoid these becoming unconstitutional expenditure in the following financial year; and urge him to caution the Controlling Officer for Lusaka Province on the matter; they further recommend that the expenditures stand as a charge against public funds; and
- b) the Secretary to the Treasury should instruct Controlling Officers not to embark on projects without first conducting feasibility studies to avoid wasteful expenditures.

On other queries the Committee recommends as set out below.

a) *Construction of District Offices in Kafue*

The constructed district offices and payments should be verified.

b) *Construction of Mortuary at Luangwa Boma*

The Controlling Officer should ensure that the mortuary unit is fitted without any further delay. To this effect, they request her to report progress.

c) *Rehabilitation of Luangwa Boma Clinic*

The completed rehabilitation works should be verified.

d) *Drilling of Borehole for Water Supply at Kasisi Health Centre.*

The completed works should be verified.

Audit Query

Paragraph 44

OFFICE OF THE PRESIDENT – CENTRAL PROVINCE ADMINISTRATION

Weaknesses in Control over Bank Accounts

44. The Auditor-General reported that an examination of three bank accounts maintained by the Provincial Administration and other expenditure records for the period carried out in March 2006 at the Provincial Administration revealed that there were weaknesses in internal controls, in that commitment ledgers were not maintained, filing was poor among others. Arising from these weaknesses, the following in particular were observed:

(a) *General Administration*

(i) *Unacquitted Payments*

A total of K108, 275,568 involving fifteen transactions drawn from the account for payment to various officers involved in the implementation of various programmes such as road maintenance and drilling of boreholes under the Office of the President relating to

February to November 2005, had no supporting acquittal sheets contrary to Financial Regulations.

- (ii) *Unretired Imprest*
Imprest amounting to K558, 679,223 involving one hundred and forty-seven transactions issued in the period under review out of the Recurrent Departmental Charges was not retired as of June, 2006, contrary to Financial Regulations.
- (iii) *Failure to Account for Fuel*
There were no disposal details in respect of fuel costing K101, 466,318 procured during the period under review.

(b) Poverty Reduction Programmes

- (i) *Unretired Imprest*
A total of K326,140,950 involving eighteen transactions issued during the period under review was not retired as at June 2006.
- (ii) *Misapplication of Funds*
A total amount of K148, 447,000 was spent on programmes and activities not related to the poverty reduction programmes such as purchase of a building, subsistence allowances, telephone bills, among others, in 2005 and K590, 000,000 in 2004 was not reimbursed as of June 2006.
- (iii) *Irregular Payment*
In December 2004, an outbreak of cholera was reported in Waya area of Kapiri Mposhi and a budget for cholera intervention amounting to K21, 580,000 was drawn by the Provincial Health Office for subsistence allowances, granular chlorine, water pumps, fuel and contingency.

A scrutiny of related transactions revealed that the above budget was irregularly altered at the Provincial Administration to K91, 200,000 and consequently an amount of K77, 700,000 was paid to an accounting officer in December 2004.

It was further revealed that another cheque amounting to K60,000,000 was again paid to the same officer as additional imprest to carry out Cholera interventions in all the six districts though no outbreaks were reported.

Therefore a total of K137, 000,000, K116, 120,000 in excess of the initial budget of K21, 580,000 was spent while the imprest remained unretired as of June 2006.

- (iv) *Failure to Account for Programme Funds*
An amount of K45,000,000, accountable imprest paid to the senior accountant from Provincial Administration meant for mobilisation and sensitisation of mushroom propagation, a poverty reduction programme could not be accounted for at the Forestry Department and the provincial administration while the imprest remained unretired as at September 2006.

A further amount of K77,230,000 paid to another accountant at the provincial administration in December 2004 for allowances and fuel for the community mushroom training could not be ascertained as to what the funds were used for as the payment voucher was still missing as of review date in September 2006.

The K30,000,000 additional imprest paid to the above accountant in January 2005 to facilitate training of local communities was not requested for by the Principal Extension Officer and remained unaccounted for as at September 2006.

A further amount of K8, 750,000 used to procure assorted stationery from Probitry Trading in December 2004 purported to be for the Forestry Department was not received at the Department.

(c) ***Accounting for Third-Party Funds***

During the period under review, amounts totalling K437,541,792 were received from various ministries to cater for various activities on their behalf in the Province.

An examination of accounting records revealed that there were no separate records maintained in respect of the funds remitted

(d) ***Unacquitted Payments***

An amount of K22,830,000 paid to an officer meant to pay various officers involved in the implementation of various programmes such as Road Maintenance and Drilling of Boreholes under the Office of the President could not be accounted for in that the acquittal sheet could not be produced for audit verification.

(e) ***Unretired Imprest***

Contrary to the Financial Regulations, imprest paid to officers amounting to K76, 157,000 involving twenty-two transactions made in 2005 from General Deposits were not retired as of June 2006.

(f) ***Housing Allowance***

During the period under review amounts totalling K2,373,123,220 were received from the Ministry of Finance and National Planning for payment of housing allowances. A further amount of K762,587,207 was transferred into the account by the provincial administration bringing the total to K3,135,710,427. It was, however, observed that K2,908,228,595 paid to various officers were not supported by acquittal sheets making it difficult to verify the validity of the expenditure.

In addition, the source of the extra amount of K762,587,207 being the difference between the funded amount and the transferred amount to the deposit account could not be explained.

Controlling Officer's Submission

The Controlling Officer in response submitted as set out below.

Weaknesses in Control over Bank Accounts

The Controlling Officer agreed with observations of the Auditor-General and informed your Committee that the books were now updated and documents were properly kept. This had since been verified by the Auditor-General's Office.

a) ***General Administration***

i) ***Unacquitted Payments***

The documents were submitted to the Auditor-General and had been verified.

ii) ***Unretired Imprest***

Out of the total of K588, 679,233 involving 147 transactions issued in the period under review, K130, 978,016 involving seventy transactions were found to be repeated and eight were direct payments to suppliers. This left a balance of K427, 701,217 of which K259, 189,931 had been

retired and verified by Auditor-General leaving a balance of K168, 511,286. Efforts were being made to have the amount recovered from the officers involved.

iii) Failure to Account for Fuel

At the time of audit, auditors had reported that K101,466,318 worth of fuel had not been accounted for during the period under review, but after collectively going through the figures it was discovered that fuel worth K52,448,380 was repeated leaving a balance of K49,018,000. From this balance, fuel worth K8, 500,000 was verified and cleared by the Auditor-General leaving a balance of K40, 518,000 still outstanding. Efforts were being made to clear this outstanding amount.

b) Poverty Reduction Programmes

i) Unretired Imprest

Out of K326, 140,950 involving eighteen transactions reported not to have been retired, K285, 020,950 was found to be direct payments to suppliers and only K41, 120,000 was imprest. From this amount, K16, 120,000 had since been retired and verified by the Auditor-General. Efforts were being made to have the balance of K25, 000,000 deducted from the officers' salaries.

ii) Misapplication of Funds

Out of K148,447,000 borrowed in 2005 and K590,000,000 said to have been borrowed in 2004, it was discovered that K171,727,986 was spent on PRP activities and that K58,854,421 was repeated. This left a balance of K507, 864,593 which would be refunded upon receipt of VAT refund from Ministry of Finance and National Planning through the Accountant-General.

iii) Irregular Payment

The cholera intervention programme came about as a result of the cholera outbreak in the Province. During the same period, there were HIPC related programmes that were being undertaken in the Province. When the money was drawn, it was not meant for cholera only, but to cater for other programmes under PRP. The mistake was made on the payment voucher as it read cholera intervention only leaving out the aspect of monitoring of other projects in the Province. The works were undertaken and retirement schedules had been submitted to the Auditor-General's Office. They were waiting for the response.

iv) Failure to Account for Programme Fund

The Controlling Officer submitted that it was true that the overall objective of the Mushroom Propagation Project was to improve the standard of living of the local communities through sustainable mushroom production and reduce heavy dependency on forest resources.

K609, 160,000 was budgeted and released in 2004 for mobilisation, sensitisation, and training, purchase of equipment, tools, materials and mushroom seed in all the six districts.

The Controlling Officer further submitted that it was true that K45, 000,000 was paid as imprest to a Senior Accountant from Provincial Administration. But it was not true that the money could not be accounted for at the Forestry Department and Provincial Administration. The K45,000,000 was planned for as per project proposal and work plan for community oyster mushroom cultivation. After the activity had taken place, a report was issued by the Office of the Principal Extension Officer of which a copy and the retirement was sent to the Office of the Auditor-General for verification.

In addition, amounts of K77,230,000 and K30,000,000 meant to facilitate training of local communities in mushroom growing were duly authorised. The retirement schedules have not been produced. Efforts were being made to have the retirements or deduct the money from the officer. The Controlling Officer attributed the delays due to lack of accounting officers at district levels.

It was also true that a further K8, 780,000 was paid to probity. However, it was not true to allege that the materials were not received at Forestry Department. The Department ordered the goods, Provincial Administration paid and the Department received and used the goods. The receipt and the disposal details were submitted to the Auditor-General and had been cleared.

c) *Accounting for Third-Party Funds*

The Controlling Officer submitted that it was true that the Province received K437, 541,792 into General Deposit Account from various parent ministries in Lusaka to support their respective departments through the Office of the President Provincial Administration. It was also true that journals were not raised to transfer the expenditure back to the respective ministries at the time of audit. They had since journalised the expenditure and sent them to various ministries. Copies of journals had since been submitted to the Auditor-General for verification.

d) *Unacquitted Payments*

The K22, 830,000 that was paid to an officer from the General Deposit Account was not meant for road maintenance and drilling boreholes as stated in the Report. The funds were meant for paying officers sitting allowances from Provincial Tender Committee. The payment voucher and its acquittal were submitted to the Auditor-General for verification.

e) *Weaknesses in Retirement of Imprest*

Out of the K76,157,000 reported not to have been retired, K5,125,000 was discovered to be direct payments and that adjusted the balance to K71,032,000 of which K63,650,000 has since been retired leaving a balance of K7,382,000. Efforts were being made to clear the balance.

f) *Housing Allowance*

It was true that the acquittal sheets were not made available at the time of audit for they were submitted to Ministry of Finance and National Planning. Efforts were being made to retrieve the acquittal sheets from Ministry of Finance and National Planning.

Observations and Recommendations

Your Committee observe that the Provincial Administration during the period under review had problems adhering to the provisions of the Financial Regulations going by incidences of imprest not being retired and expenditure returns not being filed.

Your Committee, therefore, advise the Secretary to the Treasury not to relent on ensuring that Controlling Officers follow the Financial Regulations and other similar guidelines such as on the utilisation of poverty reduction funds.

On specific queries, the Committee recommends as set out below.

a) *General Administration*

i) *Unacquitted Payment*

The matter should close following clearance by the Auditor-General.

ii) *Unretired Imprest*

Recoveries should be instituted immediately. Supervising Officers should be warned for not taking action when subordinates do not retire imprest.

iii) Failure to Account for Fuel

The Controlling Officer should intensify efforts to bring to account fuel worth K40,518,000. The Controlling Officer is requested to report progress.

b) *Poverty Reduction Programme*

i) Unretired Imprest

Recoveries should be instituted from the salaries of concerned officers.

ii) Misappropriation of Funds

Progress should be reported on the reimbursement of the PRP funds. Your Committee strongly advise the Controlling Officer to strictly follow guidelines on PRP funds.

iii) Irregular Payment

Your Committee note that the explanation given should have been given to auditors at the time of the audit process. They advise the Controlling Officer to fully cooperate with auditors by responding to preliminary issues as they arise.

iv) Failure to Account for Programme Funds

The matter on the K45 million and the K8.7 million should close following clearance by the Auditor-General.

Your Committee are, however, uncomfortable with the K77.2 million and K30 million still outstanding. They wonder how many years it will take to recover the total of K107.2 million from the officer. To avoid a repeat of such, they urge the Controlling Officer to ensure that expenditure returns are submitted as soon as possible and no further funds should be released to the same officer who had not submitted returns. They, however, urge the Controlling Officer to proceed with the recoveries.

c) *Accounting for Third Party Funds*

They strongly advise the Controlling Officer to ensure that accounting entries are done there and then to avoid situations where documentation was put in order after a transaction was queried. They urge the Controlling Officer to report progress on the verifications.

d) *Unacquitted Payments*

The matter should be closed following verification by the Auditor-General.

e) *Unretired Imprest*

Recoveries should be instituted from the salaries of the concerned officers considering that the amount of K7.3 million was spread over a number of officers. Your Committee are certain that this can be recovered in a shorter time.

f) *Housing Allowance*

The Controlling Officer should expedite the process of getting copies of the acquittal sheet from the Accountant-General. They await an update.

OFFICE OF THE PRESIDENT – CENTRAL PROVINCE ADMINISTRATION
Rehabilitation of Feeder Roads

Road Rehabilitation

45. It was reported that during the financial years ended 31st December 2004 and 2005 provisions of K2, 221,184,000 and K4, 805,626,329 were made in the Estimates of Revenue and Expenditure, respectively for the rehabilitation of feeder roads. The total provisions for 2004 and 2005 were released. Out of the total amounts released, an amount of K1, 805,625,329 was spent in 2004 leaving a balance of K415, 558,671, while in 2005, a total amount of K3, 540,560,325 was spent.

An examination of financial and other records maintained at the Provincial Accounting Control Unit revealed weaknesses in the internal controls in that commitment and expenditure ledgers were not maintained and that no specific guidelines were given to regulate how much of the funds could be allocated to other activities other than road rehabilitation. Consequently, it was not possible to establish how much money was available for each programme and how much was available for other activities, in particular the matters set out below were observed.

(a) Headquarters

- (i)** Although the Provincial Administration received a total amount of K4,721,184,000 in 2004 and 2005 for rehabilitation of feeder roads, K4,200,000,000 was allocated to relevant activities leaving a balance of K521,184,000 unaccounted for.
- (ii)** Although amounts of K155,680,000 and K149,736,013 were provided for in the Estimates of Revenue and Expenditure for 2004 and 2005 respectively for monitoring of projects in the province, the Provincial Administration allocated amounts totalling K550,000,000 from the funds received for road rehabilitation to supervision and monitoring and evaluation activities.
- (iii)** Although in January 2004 there was a brought forward balance of K1,261,031,827, and an additional K2,221,184,000 was released in October 2004 to the province, bringing the total available funds to K3,482,215,827, no roads were rehabilitated during the year.

It was further observed that during the period under review, K588,548,386 was spent by the Provincial Administration on repair of graders.

- (iv)** A grader, which broke down while being used on the Mulungwe – Mboroma road, was abandoned on site in December 2004. Consequently, it was vandalised, parts worth K123,000,000 were stolen and what remained was gutted by fire. As of July 2006, no loss report had been processed.
- (v)** *Mpunde-Ngabwe Road*
 Although no budget was allocated for the rehabilitation of the Mpunde – Ngabwe road, in February 2005, a local contractor was contracted at a contract sum of K115, 885,080 to carry out the works within a period of eight weeks commencing in February 2005. The works involved heavy grading and spot gravelling. As of June 2006, the contractor had been paid a total amount of K109, 328,016 out of the total contract sum.

A physical inspection carried out in June 2006 revealed that works had not been completed, ten weeks after the expiry of the completion period and the contractor was not on site. No action had been taken against the contractor for delaying the works.

(b) Serenje District

- (i)** The District received K180,000,000 in 2005 for rehabilitation of feeder roads out of which amounts totalling K82,067,500 were spent on unrelated activities such as payment

of allowances and wages (K55,177,500); inspections (K14,140,000); repair of the District Commissioners' vehicle (K7,750,000) and repair of the District Council vehicles (K5,000,000). Although the District explained that the activities were related to the road rehabilitation project no evidence was produced to this effect.

- (ii) Out of the total amount of K161,300,000 spent on the procurement of fuel, only fuel costing K84,142,377 was by the grader that was used for road maintenance, leaving a balance of K77,157,623 that could not be accounted for.

(c) ***Mkushi District***

- (i) In April 2005, the Director of Works, Mkushi District Council diverted a grader working on the Luanshimba - Miloso road to work on a private road on an individual's farm covering a stretch of 6km using government resources valued at K6,874,000. As of July 2006, the Luanshimba – Miloso road had not been done.
- (ii) Although K90,000,000 was spent on the Fibanga-Chitina road, a review of a report from the District Road Foreman dated 9th June 2006 and a site inspection carried out in July 2006 revealed that the works were poorly done in that road formation, back slopping and grabbing among others were poorly done.
- (iii) Although K90,000,000 was spent on the Tuyu - Mpale Road, a review of a report from the District Road Foremen dated 9th June 2006 and a site inspection carried out in July 2006 revealed that the works were poorly done in that road formation, back slopping and grabbing among others were poorly done.
- (iv) There were no receipt and disposal details in respect of fuel costing K72,722,500 procured for rehabilitation of feeder roads.

(d) ***Kapiri Mposhi District***

- (i) In 2005, the District was funded K180,000,000 out of which K20,100,000 was misapplied on repair of equipment while K8,408,000 was borrowed by the council and had not been refunded as of July 2006.
- (ii) There were no receipt and disposal details in respect of fuel costing K77, 083,000 purchased during the period under review.

(e) ***Chibombo District***

Chiyuni/Ipongo Road

In 2004, the Provincial Roads Engineer assessed that the works to be undertaken on the Chiyuni/Ipongo road were vegetation control, road formation, mitre drains, side drains and spot gravelling. Though no cost estimates were made for these works, a total of K104,636,825 was spent.

A further amount of K60,000,000 was allocated on the same road in 2005 but no works were carried out and no explanation was given. It was however observed that the works were undertaken in April 2006.

A physical inspection of the road carried out in July 2006 revealed that the road was still in a bad state and needed to be redone.

(g) ***Mumbwa District***

The District was allocated total amounts of K180, 000,000 in 2004 and K180, 000,000 in 2005 for road rehabilitation. No amounts were released in 2004 while in 2005 the whole K180, 000,000 was released.

Out of the funds released, K30,000,000 paid as imprest to an officer had no retirement details as of July 2006.

Controlling Officer's Submission

The Controlling Officer agreed with the Auditor-General's observations and informed your Committee that the accounting books had been updated and were verified by the Auditor-General.

The Controlling Officer further submitted as stated below.

a) Headquarters

i) The K521,184,000 was part of the funds Provincial Administration borrowed and the same would be refunded when they receive the VAT refund from Ministry of Finance and National Planning.

ii) Due to the magnitude of projects that were undertaken in the Province for the period 2004 – 2005, there was need for more inspections hence the allocation of more funds to the monitoring activities. However, management had put in place measures to ensure that monitoring expenses are not more than those for actual activities.

iii) It was not true that no project was undertaken in the year. Some projects were undertaken in 2004. The Province embarked on major road rehabilitation works in the districts on Force Account, but some districts did not have graders. A decision was made to repair council graders as the Roads Department did not have graders.

iv) Broken Down Grader

It was true that a grader broke down while working on the Mulungwe-Mboroma Road and was abandoned on site in December 2004. At the time the grader broke down, there was no low loader and bulldozer to collect the grader hence the delay in picking the grader. People who were engaged to guard the grader abandoned it because of non-payment of wages resulting in the vandalism. A full report was being compiled by the Roads Department.

v) Mpunde-Ngabwe Road

In the work plan for 2004 PRP funding, K600,000,000 was allocated for contracts and Mpunde-Ngabwe road was catered for. The works on Mpunde-Ngabwe road was for access improvement only and they included bush clearing, heavy grading for 15 km and spot gravelling for 0.6 km. However, works could not be completed on schedule due to adverse weather conditions and to-date the contractor had been paid K109,328,016 for heavy grading and bush clearing only. The contractor had since been asked to go and complete the spot gravelling after the rains.

b) Serenje District

i) The Controlling Officer submitted that it was true that Serenje District received K180,000,000 in 2005 for rehabilitation of feeder roads.

The analysis of the expenditure from the Auditor-General's Report was indicating that the District spent K243, 367,500 whose breakdown was as follows:

- Fuel	-	K161,300,000
- Wages and Allowances		
Monitoring and Vehicle Repair	-	K 82,067,500
Total	-	<u>K243,367,500</u>

From the above there was an excess of K63,367,500 from the K180,000,000 which was sent to the District. According to the work plan from Serenje District, five roads were targeted and these were:

- Mailo-Kanjanja Road
- Chilisha-Munte Road
- Mponde Road
- Fikondo Road
- Kabansa Road

In all these, works involved were bush clearing, stamping and road formation.

The K180, 000,000 actually received by the District in 2005 was spent as follows:

	ZK
Grader maintenance	- 2,076,000
Maintenance of monitoring vehicles	- 12,500,000
Allowances for monitoring and inspections	- 13,190,000
Culvert rings	- 4,550,000
Cash books and bank charges	- 1,366,500
Wages and allowances (casual workers and grader operators)	-44,149,500
Total	- <u>77,832,000</u>

ii) The District Administration procured fuel worth K90,000,000 from which K48,766,500 worth of fuel was used in the grader leaving the balance of K41,233,499 for monitoring sites. The documents for the above had been sent to the Auditor-General.

c) *Mkushi District*

i) The Controlling Officer submitted that it was true that the Director of Works at Mkushi District Council diverted a grader working on the Luanshimba – Miloso road to work on a private individual farm road using government resources valued at K6,874,000. The Council had been instructed to refund the money once proved that the funds used were for the Government.

ii) The road was poorly done due to heavy rains experienced at the time. In future, all road works shall be done before and after the rains.

iii) Works were done poorly due to heavy rains experienced at the time. He undertook to ensure that all road works were done before and after the rains.

iv) Records for fuel worth K36,386,383 were produced and verified by office of the Auditor-General Kabwe Office leaving a balance of K36,336,117. The Council had also been asked to refund the fuel worth K25,058,617 borrowed from the Project Account. Efforts were being made to trace the documents for the remaining unaccounted for fuel worth K11,247,500.

d) *Kapiri-Mposhi District*

i) The Controlling Officer agreed that the District was funded K180,000,000 out of which K20,100,000 was used on maintenance of the equipment that was being used in road rehabilitation. The District Commissioner for Kapiri-Mposhi had written to the Council asking them to urgently refund the K8,408,000.

ii) Receipts and disposal details for fuel worth K44,510,393 had since been verified leaving a balance of K32,572,607. Efforts to trace the documents for the balance were continuing.

e) Chibombo District – Chiyuni-Ipongo Road

The Controlling Officer submitted that it was true that a total of K104, 636,825 was spent in 2004 on the same road and a further K60, 000,000 in 2005. Despite, the additional expenditure, the funds were not enough to complete the works. The Controlling Officer had instructed the District Commissioner and the Council Secretary for Chibombo District to re-do the works.

g) Mumbwa District

The imprest amounting to K30 million had since been retired and was verified by the Auditor-General.

Observations and Recommendations

Your Committee in noting the submission observe that project management is a serious problem in government institutions. The delays by the contractor to complete the Mpunde-Ngabwe Road when Government had paid 94 percent of the contract price were unacceptable. They were of the view that the Provincial Administration was at fault to allow road rehabilitation works to be done during the rainy season. This ultimately resulted in wasteful expenditure.

Your Committee find it highly irregular that money was committed to the Chiyuni-Ipongo Road without any initial cost estimates.

On the grader that was abandoned and later vandalised, they find this to be gross negligence of duty to allow such an expensive piece of equipment to be vandalised and later destroyed.

They, therefore, call on the Secretary to the Treasury to improve project management in the public sector as one way of minimising losses of funds. In the meantime, it is important to ensure that Controlling Officers take keen interest in projects under their charge and they should not be making any advance payments.

On the specific queries, your Committee recommend as set out below.

a) Headquarters

- i) The Controlling Officer should report progress on the reimbursement of the PRP funds.
- ii) The matter should close subject to the Auditor-General verifying the number of projects that were monitored in 2004 and 2005.
- iii) The Controlling Officer should cooperate with auditors during any audit process and avail all necessary documentation for scrutiny. They urge the Controlling Officer to immediately forward the reports for 2004 and 2005 from the Roads Department for verification.
- iv) The Controlling Officer should ensure that officers who were in charge of the grader are disciplined.
- v) The Controlling Officer should claim liquidated damages from the contractor for delaying completion of the Mpunde-Ngabwe Road works.

b) Serenje District

- (i) and (ii) The Controlling Officer should report progress on the reconciliation and verification of the expenditures on the road works.

c) *Mkushi District*

- i) Your Committee strongly feel that requesting for a refund from the Council owing to one of their workers having deliberately delayed completion of a government project was not enough. They urge the Controlling Officer to liaise with the colleague at Ministry of Local Government and Housing and have the Director of Works disciplined if that officer is still in service.
- ii) The matter on the road rehabilitation should close.
- iii) The Controlling Officer should ensure that all accounting documents are secure at all times. They urge him to report progress on the unaccounted for fuel.

d) *Kapiri-Mposhi District*

- i) The Controlling Officer should report progress on the refund from the Council.
- ii) The Controlling Officer should report progress on the fuel receipts and disposal details.

e) *Chibombo District – Chiyuni/Ipongo Road*

Whilst appreciating the efforts to complete the road works, your Committee advise the Controlling Officer not to commit any public funds to the project until the remaining works are costed.

f) *Mumbwa District*

The matter should close.

Audit Query

Paragraph 46

**OFFICE OF THE PRESIDENT-NORTHERN PROVINCE ADMINISTRATION
Poverty Reduction Programmes (PRP)**

Failure to Implement Poverty Reduction and other Irregularities

46. It was reported that a total provision of K8,552,457,556 was made in the Estimates of Revenue and Expenditure for the financial year ended 31st December, 2005 for various PRP projects in the province out of which K4,446,484,629 was released.

An examination of financial and other related records maintained at the Provincial Administration Headquarters, Kasama relating to the PRP Account revealed the matters set out hereunder.

(a) *Funding*

- (i) Although the activities such as rehabilitation of canals and road maintenance and other construction works are ordinarily undertaken between April and October each year, it was observed that K3,016,344,648.50 of the total releases of K4,446,484,629, was released and deposited in the account on 12th December 2005, two weeks to the year end .

In response to the observation the Controlling Officer stated that due to the late release of funds coupled with the onset of the rains, most of the projects could not be executed in the year they were planned.

It was also observed that the PRP account had a balance of K5, 583,111,320 brought forward from 2004. It is therefore not clear why most of these projects were not implemented in the period they were planned for.

- (ii) As at 31st December 2005, the account had a credit balance of K5,684,068,919. However, according to the financial statements for 2005, PRP projects recorded a total expenditure of K2,895,202,583 representing 33.8 per cent of the approved budget of K8,552,457,556 during the year. It is therefore not clear why projects such as rehabilitation of canals, construction of rural health posts and road maintenance works, etc could not be fully implemented in 2005 when adequate funds were available in the account and remained unutilised during the year under review.

(b) Hire of Motor Vehicles

Amounts totalling K281,288,450 involving thirty-three transactions were paid from the account to private transporters for hire of transport for project supervision and monitoring, and transportation of materials for various construction and maintenance works, mostly on behalf of Roads Department.

It was observed, however, that:

- (i) out of the thirty-three contracts entered with the transporters, sixteen contracts involving K69,550,000 were awarded without obtaining at least three competitive quotations contrary to procurement guidelines; and
- (ii) according to the agreements, the cost of hiring the vehicles and the cost of fuels and lubricants were treated separately. In this regard, the Roads Department and Provincial Administration incurred costs totalling K61,546,640 on fuels and lubricants.

Controlling Officer's Submission

a) Funding

The Controlling Officer in response stated that in most cases it was not practical to commence and complete big government projects within the year in which the projects were planned due to the following reasons:

- i) the current timing for the preparation of the national budget whereby the first quarter of the year goes to budget preparation and parliamentary approval, left Government with only nine months in which to release funds and implement projects; for provinces such as Northern Province, which received heavy rains from October to about April, the following year, the implementation period was further reduced to only six months because with heavy rains construction work was difficult as roads were almost impassable in remote areas where most of the PRP projects, such as construction and rehabilitation of health facilities, schools and roads were being implemented. At the time of the submission, grading works on the Luwingu-Nsombo/Chaba and Shiwang'andu Roads had been suspended until after the rains;
- ii) tender procedures normally took more than two months and the contractor would also need time to mobilise and commence works; the mobilisation period was even much longer for Northern Province due to the bad state of roads and the long distances over which materials were transported; and
- iii) Budget Office did not release funds immediately the budget was approved by Parliament. Funds were released through out the year and at times even at the end of the year. For example, out of the K4,446,484,629 released in 2005, K3,016,344,648 was released on 12th December 2005.

Implementation of PRP Projects in 2005

- i) The K5, 583,111,320 that was brought forward from 2004 in the PRP Account was committed to the following projects which commenced in 2004 and 2005:

	K
Rehabilitation of health posts	1,409,768,608.00
Rehabilitation of high schools	2,097,392,155.00
Rehabilitation of feeder roads	1,797,296,100.94
Borehole drilling	150,264,427.87
Canal dredging and clearing	66,999,996.00
Monitoring and inspections	61,390,032.19
Total	5,583,111,320.00

It, therefore, followed that since these funds were committed, they could not be used to implement 2005 projects.

Furthermore, it should be noted that cash balances at the end of 2004 could not be avoided because:

- payments to contractors were not made when tenders were awarded but stage by stage based on certificates of completion; this meant that funds were paid out slowly until the project was completed; and
 - for construction and rehabilitation works, some funds were retained for a period of six months after completion of the works; this period would normally spill over into the following year.
- ii) The K5, 684,068,919 closing balance at the end of 2005 was made up of the following:
- K3,016,344,648 which was funded on 12th December 2005, therefore, it was not practical to meaningfully apply the funds within the same year; and
 - K2, 667,724,271 was committed to 2004 and 2005 projects.

b) Hire of Motor Vehicles

- i) The Controlling Officer agreed that out of thirty-three contracts entered with transporters for hire of transport for project supervision, monitoring and transportation of materials for various construction and maintenance works, competitive quotations for sixteen contracts were not obtained. This was due to the fact that while invitations to tender were advertised, only a few transporters responded due to the fact that most of the transporters were not willing to take their vehicles in mountainous areas like Nabwalya in Mpika because of the anticipated high cost of wear and tear.
- ii) It was true that Government paid both the cost of hiring and the cost of fuel and lubricants. This was because the agreements for hiring the vehicles indicated that charges were at dry rate. This implied that the cost of fuel and lubricants was to be met by Government. Contracts were made available to the auditors during the audit and they were still available for further verification.

Observations and Recommendations

Your Committee observe that the queries on the Poverty Reduction Programmes in Northern Province brought in a new dimension to project implementation in that on one hand government was losing money through interest for delaying payments, on another, it was failing to implement projects despite money being made available.

They, therefore, strongly urge the Secretary to the Treasury to ensure that Controlling Officers do not unnecessarily carry forward substantial sums of money, as was the case in Northern Province. Where this is unavoidable, Controlling Officers should follow laid down procedures on how to retain the money.

On the specific queries, the Committee recommend as set out below.

a) Funding

(i) – (ii) The Controlling Officer should submit to the Auditor-General, a schedule of payments to all projects on which the K5, 583,111,320 carried over from 2004 was utilised.

In addition, the Controlling Officer should report progress on the utilisation of the K4,446,484,629 that was released in 2005 including the list of projects.

b) Hire of Motor Vehicles

(i) – (ii) The Controlling Officer should forward to the Auditor-General, documentation supporting the submission that tenders were advertised and only a few transporters responded.

Audit Query

Paragraph 47

OFFICE OF THE PRESIDENT – NORTHERN PROVINCE ADMINISTRATION
Water Affairs Department – Water Management (PRP)

Wasteful Expenditure and Other Irregularities

47. It was reported that during the financial Year ended 31st December 2005 a provision of K1, 400,001,000 was made in the Estimates of Revenue and Expenditure under the Water Affairs Department. An examination of records carried out at the Provincial Administration Office and Water Affairs Department and physical inspections of the selected projects in February 2006 revealed the matters set out hereunder.

(a) Variance in Funding

A comparison of schedule of funding obtained from the Department of Water Affairs (DWA) in Lusaka and funding shown on the bank statements for PRP account maintained by the Provincial Water Office in Kasama revealed that a total amount of K812,229,367 was released to the DWA, between May and December 2005 whereas the bank statements only showed K777,299,367 leading to unexplained variance of K35,000,000

(b) Unauthorised Expenditure

In 2005, the Department embarked on a number of projects such as Presidential Park Spring water project, Kapata and Musa water well projects, Kalupwa dam construction and Luwingu Parish water supply project. There was however no feasibility studies undertaken and no treasury authority (variation) obtained to use the funds for such projects. This resulted in planned for activities such as rehabilitation of Kakwisha Dam (Mporokoso), Mwanduzi Dam (Mbala), Ikawa Dam (Nakonde), among others, not being fully implemented and completed in the year under review.

It was further observed that there was no close supervision and monitoring of activities at the Provincial Water Office by both Ministry Headquarters and the Provincial Administration Office resulting in wasteful expenditures as set out below.

(i) Presidential Park Spring Water Development Project - Kasama

The objective of the project was to develop the source of Mulilansolo stream at the presidential park with the view of supplying water to the low lying areas of Kasama by gravity through the Chambeshi water and Sewerage line. In this regard, a total amount of K58,089,409 was spent in respect of payments for wages and imprest and other related costs.

A visit to the site in February 2006 revealed that the project had been abandoned due to its non-viability as the water to be tapped was found to be inadequate and that the human settlement above the spring coupled with septic tanks meant that the quality of water was compromised. The only works that had been done were the excavation of a trench through which the water was to be channelled.

Consequently, in September, 2006 the Provincial Administration engaged the Zambia National Service to cover the trench at a cost of K1,447,460 comprising fuel (K1,247,460) and lunch allowance for ZNS staff (K200,000). The expenditure incurred on the project was therefore wasteful

(ii) *Kapata and Musa Water Wells Construction Project*

The projects involved the digging of fifty wells up to water table level in Henry Kapata Village in Milima area (47 wells) and Musa Farming area (3 wells). As of October 2006, a total of K171,101,764.40 (K111, 021,664.40 for wages to dig the wells and mould rings for the wells, K15,000,000 for fuel, K25,660,000 for purchase of well windlasses and K19,419,900 for tools and building materials) had been spent.

A site inspection carried out in October 2006, revealed that all the fifty wells had been dug to water table level. It was however observed that the project had stalled due to lack of funds. Inquiries and scrutiny of the annual report for 2005 revealed that the project needed a budget of K335,000,000 to be fully implemented.

Forty-four windlasses were found lying in stores. These were meant for the wells

It was further observed that out of a total of forty four windlasses meant for the wells, sixteen of these costing K10,940,000 were bought on credit from a local company which remained unpaid as of October, 2006. The expenditure incurred on the project is therefore wasteful.

(iii) *Kalupwa Dam Construction*

The project, which involved making an embankment in order to trap water commenced in November 2005. As of October 2006 a total expenditure of K14,924,088 in respect of wages had been incurred.

A physical inspection carried out in October 2006 revealed that the project remained abandoned due to lack of funds.

According to the Annual Report for 2005 by the Provincial Water Engineer, the project needed K1,200,000,000 to be completed.

(iv) *Luwingu Parish Water Project*

In October 2005, DWA released K60, 000,000 to rehabilitate the existing network and supply line but it was later changed to develop the source of a water spring about 1.2km from the parish. In this regard, further K168, 000,000 was released from the Dam rehabilitation funds under PRP to the project. Scopes of works involved developing the source of the spring by constructing a spring chamber where water could be trapped and gradually flow into pipes using gravity and laying of a 1.1km pipeline to the parish. The line was supposed to supply water to the hospital.

A physical inspection carried out in October 2006 revealed that the spring chamber was not completed. The hospital and the whole Luwingu town had no water supply. Due to critical water problem, patients and residents resorted to drawing dirty water at the parish from the spring chamber for use.

Inquiries with the Acting Provincial Water Officer revealed that the project was viable and just required a fresh injection of funds which as of October 2006 was estimated at K80,000,000.

(c) ***Other Irregularities***

(i) *Unretired Imprest*

Imprest in amounts totalling K83, 261, 400 involving sixteen transactions issued during the period June to November, 2005 had not been retired as of August, 2006. It was also observed that the imprest register was not maintained for the period under review.

(ii) *Un-acquitted Payments*

Seven payments amounting to K17, 596,673 in respect of wages for the period November to December 2005 were not supported with acquittal sheets making it not possible to establish whether the moneys were paid to the beneficiaries.

(iii) *Missing Payment Vouchers*

Eight payment vouchers in amounts totalling K13, 308,000 relating to the period July to December, 2005 were missing and could therefore not be verified.

(iv) *Stores*

There were no receipt and disposal details in respect of materials costing K72, 843,136 procured during the period October to December 2005.

Controlling Officer's Submission

In his response to the queries, the Controlling Officer submitted as set out hereunder.

a) ***Variance in Funding – K35, 000,000***

The K35, 000,000 variance in the funds released by the Department of Water Affairs (DWA) in Lusaka and the funds received in the PRP Account of the Provincial Water Office, Kasama, was actually deposited in the General Deposit Account belonging to the Department of Water Affairs in Kasama. These funds were used as counter-part funding for the JICA funded Groundwater Development and Sanitation Improvement Project. The funds were used in drilling boreholes.

b) ***Unauthorised Expenditure***

He clarified that the construction of wells was budgeted for under borehole allocations. In 2005, this provision was available both in the Provincial Administration budget under Head 93/19 Programme 9, Activity 02 and the amount was K1, 081,062,250 and in the Ministry of Energy and Water Development budget under Head 13/03 Programme 12 Activities 01 to 05 amounting to K339, 584,938.

Planned projects for 2005 were fully implemented including rehabilitation of Kawikisha Dam (Mporokoso), Mwandwizi Dam (Mbala), Ikawa Dam (Nakonde).

Provincial Administration did monitor the projects implementation. In fact, both the Permanent Secretary and the Deputy Permanent Secretary did visit the projects in Luwingu while the Internal Auditor in the Office of the Permanent Secretary visited all the project sites.

i) *Presidential Park Spring water Development Project - Kasama*

This project was not planned for but was started with good intentions of alleviating the water problems in Kasama. The project involved development of the source of Mulilansolo stream at the Presidential Park in order to supplement the water supply by Chambeshi Water and Sewerage Company. However, it was later discovered that the supply of water from the stream was not

adequate for the purpose and the project was discontinued. This unfortunate development was due to the fact that the feasibility study was not thoroughly done. Provincial Administration relied on the expert advice from the Provincial Water Officer especially that a similar project in Luwingu proved to be viable. However during the same time, the Provincial Water Officer started showing signs of mental disturbances that was later confirmed by doctors. At the time of submission, the officer had been retired in public interest.

ii) Kapata and Musa Water Wells Construction Projects

The wells were included in the budget for boreholes. The project was aimed at digging 47 wells for Henry Kapita Village in Milima area and 3 wells for Musa – framing area. However, funds were not adequate and the project was suspended while waiting for funds.

The project was viable and the Northern Province Budget Estimates for 2007 included a provision of K535, 183,500 under head 93/19 Programme 9 Activity 02 of which K335, 000,000 was for the completion of the project.

The 44 windlasses in store would be fitted to the wells once funds were released.

The K10, 940,000 owed to the supplier of the sixteen windlasses would also be paid when the K535, 183,500 was released.

The project was viable and would be completed. The expenditure incurred already was not wasteful.

iii) Kalupwa Dam Construction

The project was discontinued due to insufficient funds.

Though the annual report for the Department indicated that K1.2 billion was required to complete the works, a review of the project shows that a feasibility study was needed before the project could continue. The lack of such a study in the first place was attributed to the state of mind in which the Provincial Water Officer was. The feasibility study would cost about K40 million and was provided for in the 2007 Estimates of Expenditure for the Province.

If the project will be found to be viable, the cost of completing the project would be budgeted for in 2008.

iv) Luwingu Parish water Project

This project was aimed at constructing a water chamber, at the spring, where water could be trapped and then supplied to the Hospital and Parish. The chamber had been done and the connection to the Parish completed. The Parish was already receiving water from this project.

Additional work were yet to be done such as covering the chambers to prevent dirt from getting into the water and putting up the water pipe to the hospital.

The Ministry of Energy and Water Development had released K60 million towards the completion of this project and the procurement of materials was currently going on. The remaining works should be completed by the end of May 2007.

c) Other Irregularities

i) Unretired Imprest

Out of the transactions amounting to K83, 261,400, thirteen transactions amounting to K74, 921,400 had been retired while three imprest transactions amounting to K8, 340,000 have been retired. The unretired imprest would be recovered from the officer's salaries commencing in the month of May 2007. Retirement forms for the thirteen transactions were available for verification.

ii) *Un-acquitted Payments*

Acquittal sheets for the three un-acquitted payments amounting to K17, 596,673 have since been traced and were available for verifications.

iii) *Missing Payment Vouchers*

Out of the eight payment vouchers amounting to K13, 308,000, seven vouchers amounting to K10, 160,000 had been traced. One payment voucher was for a cancelled cheque number 000051 for K3, 148,000.

iv) *Stores*

The K72,843,136 was paid as imprest to an officer (K61,183,136) and to the supplier (K11,660,000).

Imprest amounting to K31, 183,136 had since been retired and verified by the Auditor-General. The balance of K30, 000,000 would be recovered from the officer's salary beginning August 2007. Materials worth K11, 600,000 that were purchased had been physically checked and recorded on the goods received voucher and verified by the Auditor-General.

Observations and Recommendations

Following the submission, your Committee observe the following:

- i) the Controlling Officer did not cooperate fully with the auditors, because the matter on the variance amounting to K35,000,000 could have been resolved at the time of audit;
- ii) the four water projects: Presidential Park Spring Water Development Project, Kapata and Musa Water Wells Construction Project, Kalupwa Dam Construction, and Luwingu Water Projects were poorly executed indicating that there was poor supervision. The absence of feasibility studies when planning the Presidential Park and Kalupwa Dam Projects resulted in wasteful expenditure totalling K73,013,497; and
- iii) delays in the retirement of imprest and missing accounting documents shows that there was a poor supervision and poor storage of accounting documents.

They, therefore, recommend that the Secretary to the Treasury should see to it that:

- a) a lot of care is exercised in the planning of public projects because failure to complete results in lost development opportunities; and
- b) Controlling Officers do not allow imprest to remain unretired longer than the period specified by Financial Regulations.

On the other issues, your Committee recommend as set out below.

a) ***Variance in Funding***

The Controlling Officer should submit the supporting documentation for the K35, 000,000 to the Auditor-General for verification.

b) ***Unauthorised Expenditure***

- (i) The matter on Kakwisha Dam, Mwandwizi Dam and Ikawa Dam should close subject to verification.
- (ii) The Controlling Officer should report progress on the following projects:

- Kapata and Musa Water Wells;
- Kalupwa Dam Construction; and
- Luwingu Parish water Project

c) Other Irregularities

(i) Unretired Imprest

The Controlling Officer should forward the retirement details for the imprest involving thirteen transactions to the Auditor-General for verification. He should also report progress on the recovery of the balance.

(ii) Unacquitted Payments

The matter should close subject to verification.

(iii) Missing Payment Vouchers

The matter should close subject to verification.

(iv) Stores

The Controlling Officer should report progress on the recovery of the imprest.

Audit Query

Paragraph 48

OFFICE OF THE PRESIDENT – EASTERN PROVINCE ADMINISTRATION

Personal Emoluments

Irregularities in the Management of Personal Emoluments

48. It was reported that during the financial year ended 31st December 2005, a provision of K6,551,974,484 was provided in the Estimates of Revenue and Expenditure to cater for personal emoluments out of which amounts totalling K6,042,160,831 were released.

An examination of the expenditure records carried out in March 2006 at the Provincial Accounting and Control Unit (PACU) revealed the following:

(a) Outstanding Bills-Staff Claims

In 2005, K1,282,418,962 was provided for in the Estimates of Revenue and Expenditure for other emoluments out of which only K200,000,000 was released representing 15.5 percent of the provision leaving a balance of K1,082,418,962. The provision was required to pay allowances, long service bonus and leave travel benefits to officers. It was however, observed that the amount released was not adequate to settle the claims which had accumulated to K1,125,027,046 as of December 2005.

(b) Delays in Remitting Statutory Contributions

According to the National Pensions Scheme Authority (NAPSA) Act, statutory contributions should be remitted to the Authority on the 10th of each month. However, a review of records at NAPSA revealed that, PACU delayed in remitting the employees contributions resulting in the Authority levying the Government penalties amounting to K67, 932,530, which remained unsettled as of March 2006.

(c) Payment of Housing Allowances

During the year 2005, the Provincial Administration received a total of K1,125,064,944 from the Treasury for payment of housing allowances to staff who were not accommodated by the Government. It was observed that:

- i) there were eighty-four payments in amounts totalling K33,915,000 that were not acquitted by the respective beneficiaries;
- ii) sixty-one employees who were to be paid housing allowances totalling K69,579,425 and were appearing on the original approved list from Ministry of Finance and National Planning, were deleted and another twenty one (21) officers not on the original list were added and paid housing allowances amounting to K18,872,066; however, there was no authority provided to support the changes and no explanation given; and
- iii) thirteen employees were paid amounts totalling K8,150,000 in housing allowances from Recurrent Departmental Charges (RDCs); however, no reimbursement was made to the RDCs account as of March 2006.

Controlling Officer's Submission

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

a) *Outstanding Bills – Staff Claims*

In the year 2006, the Ministry of Finance and National Planning released K1,000,767,321 to pay other personal emoluments. The release of these funds enabled the office to pay the staff claims.

b) *Delays in Remitting Statutory Contributions*

The Controlling Officer agreed with the comments and explained that the penalties were as a result of the delay in the release of funds by the Ministry of Finance and National Planning for payment of Personal Emoluments. However, with the improved funding on Personal Emoluments, statutory remittances had also improved.

c) *Payment of Housing Allowances*

(i) *Unacquited Amount - K33,915,000*

The eighty-four payments amounting to K33,915,000 were not acquitted by the respective beneficiaries because these officers were already paid from (RDCs). Payment of housing allowances at that time was made from RDCs before the Ministry of Finance and National Planning took over the exercise. When the Ministry of Finance funded the payment of housing allowances, the eighty-four officers had already been paid from RDCs and the money that was supposed to be paid to these officers was reallocated to the officers who were omitted. The money was used to pay newly appointed and transferred officers.

(ii) *Deletion of Ineligible Officers from the List of Housing Allowances*

Sixty-one officers were deleted from the list of housing allowances from the Ministry of Finance and National Planning because they were ineligible as they either died, retired, were transferred, dismissed, benefited from the sale of houses, or were staying in institutional houses.

The funds were reallocated to pay newly appointed, omitted and officers transferred to the Province.

(iii) *Housing Allowances Paid from Recurrent Departmental Charges*

The thirteen officers were paid housing allowances amounting to K8,150,000 from RDCs because at that time, the Province was paying housing allowances from RDCs before Ministry of Finance and National Planning took over the exercise by funding separately from RDCs. He could not reimburse the amount to RDCs because some officers were omitted from the list of housing allowances and therefore he had to use the same money.

Observations and Recommendations

Your Committee note that the Controlling Officer made the attempt to respond to the queries a bit too late. They urge him to take time and study the audit process.

They recommend that the matters on (a) outstanding bills, (b) delays in remitting statutory contributions and (c) payment of housing allowances should be verified.

Audit Query

Paragraph 49

OFFICE OF THE PRESIDENT – EASTERN PROVINCE ADMINISTRATION General Deposit Account

Irregularities in the Operations of the General Deposit Account

49. The Auditor-General reported that a General Deposit Account is an account into which third party funds are kept. The funding to the account includes amounts that the various departments under provincial administrations receive from their respective ministries for specific purposes or projects.

An examination of records relating to the General Deposit Account revealed that during the financial year ended 31st December 2005, a total amount of K1,337,842,280 was received by the Province for various activities such as rehabilitation of roads, construction of bridges and facilitation of the Presidential visits among others. In particular, the matters set out hereunder were observed.

(a) Unaccounted for Fuel

An amount of K94, 606,000 was received by the Province to cater for Presidential visits in June 2005. It was noted from expenditure details examined that:

- (i) an amount of K30,839,870 was paid to a filling station for the purchase of fuel for use by the Provincial Administration during the Presidential visit; but, fuel worth K20,000,000 could not be accounted for;
- (ii) a total amount of K23,930,000 was paid in allowances to Officers who worked during the presidential visit, but an amount of K3,700,000 was not acquitted and it was not on hand, in addition, in September 2005 amounts totalling K25, 000,000 paid to an Assistant Accountant during the Vice President's visit to Mambwe District were not acquitted;
- (iii) in June 2005 an amount of K3,000,000 was irregularly paid as an advance to a senior Government official. As of July 2006 the amount had not been recovered; and
- (iv) amounts totalling K116,360,000 involving thirty-eight transactions issued as imprest during the year under review had not been retired as of March 2006; and
- (v) *Payments not Supported by Funding*
In December 2005, payments in amounts totalling K31, 426,600 involving twelve transactions were made without corresponding funding, contrary to existing regulations governing the operations of the General Deposit Account.

(b) Rehabilitation of Roads

A total amount of K1,050,000,000 was released in November 2005 by Ministry of Works and Supply for the rehabilitation of four roads, Mtenguleni-Kasenengwa (K250,000,000), Lundazi-Mwase (K375,000,000), Nyimba-Luembe (K375,000,000) and Lundazi-Chama (K50,000,000).

As of November 2005, works had only commenced on two roads Mtenguleni- Kasenengwa and Lundazi- Chama roads. The Roads Department and the Zambia National Services were carrying

out the works and as of February 2006 a total amount of K65, 459,580 had been spent on the two roads. The works commenced on 4th November and were to take a month up to 4th December 2005. It was not clear as to why works had not commenced on the other two roads despite the availability of funds.

It was further noted that as of 19th March 2006 the works on the two roads were still going on and a physical inspection carried out on the Mtenguleni-Kasenengwa Road revealed that out of the planned activities the construction of three culverts and the repair of six headwalls and aprons had not yet been done.

Controlling Officer's Submission

The Controlling Officer in response stated as set out below.

a) *Unaccounted for Fuel*

Fuel worth K30, 839,870 was all used during the visits of the President. He submitted a statement of cost from the service station and on the related queries the Controlling Officer submitted as follows:

- (i) He had responded to the queries and submitted the answers to the Auditor-General;
- (ii) acquittal documents for the K3, 700,000 were submitted to the Office of the Auditor-General for scrutiny and verification; at the time of the audit, the officer was still paying the allowances to officers in the districts; the K25, 000,000 that was paid to an Assistant Accountant for officers' allowances during the Vice-President's visit to Mambwe District in September 2005 was acquitted;
- (iii) the K3,000,000 was refunded on 7th September 2005 by an online deposit into their Bank Account;
- (iv) items totalling K15,000,000 were repeated on the schedule, therefore, this left a balance of K101,360,000 which had been retired; and
- (iv) Payments not Supported by Funding amounting to K31,426,600 involving twelve transactions were infact supported by funding from the Ministry of Tourism, Environment and Natural Resources amounting to K60,561,539; the balance amounting to K29,134,939 was spent on Department of Forestry activities.

b) *Rehabilitation of Roads*

The Roads Department and the Zambia National Services were carrying out the works so that costs could be less and cover a long stretch. However, the work progress was slow because the machinery kept on breaking down due to old age.

Further, the works on the other two roads could not start because of the heavy rains during the period until early March 2006.

The works on the four roads were completed. The three culverts, the repair of six headwalls and aprons on the Mtenguleni – Kasenengwa Road had been done.

Observations and Recommendations

Your Committee after taking into account the verification report of the Auditor-General on the responses that the Controlling Officer had given, recommend as set out below.

a) Unaccounted for Fuel

All matters should close as they had been resolved. In doing so, your Committee advise the Controlling Officer to improve on record keeping and not to allow unretired imprest to accumulate.

b) Rehabilitation of Roads

All matters on the rehabilitation of roads should close.

Audit Query

Paragraph 50

OFFICE OF THE PRESIDENT – LUAPULA PROVINCE ADMINISTRATION

Improvement of Health Services – PRP

Delays in Completion of Rehabilitation Works

50. It was reported that during the financial years ended 31st December 2003, 2004 and 2005, provisions totalling K2,750,000,000 were made in the Estimates of Revenue and Expenditure under the Poverty Reduction Programme for the rehabilitation of infrastructure at Mansa General Hospital which included the kitchen, laundry and out patient building out of which an amount of K1,231,436,193 was released to the Provincial Administration leaving a balance of K1,518,563,807.

In this regard, in December 2003, a local contractor was engaged to do the works at a contract price of K856,207,578 for a duration of twenty two weeks commencing December 2003. The estimated date of completion was May 2004.

An examination of financial and other records maintained at Mansa General Hospital revealed that although the contract stipulated a completion period of twenty two weeks ending May 2004, as of May 2006, the works had not been completed and the contractor had been paid amounts totalling K942,822,041. The amount paid to the contractor was K86,614,463 over the contract price.

Controlling Officer's Submission

The Deputy Permanent Secretary submitting on behalf of the Controlling Officer who was indisposed informed your Committee that in December 2003, the Ministry of Works and Supply in Lusaka engaged a contractor on behalf of Mansa General Hospital to undertake works at a contract price of K856,207,378 and the consultant for the project was the Director of Buildings at the same Ministry Headquarters in Lusaka.

On 5th November 2004, the Director – Buildings Department sought authority to incur additional expenditure on the project from the Ministry Tender Committee. The Ministry Tender Committee granted authority to incur additional expenditure in the sum of K80,687,764.65.

Observations and Recommendations

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

Audit Query

Paragraph 51

OFFICE OF THE PRESIDENT – NORTH-WESTERN PROVINCE ADMINISTRATION

Personal Emoluments

Misappropriation of Personal Emoluments and other Irregularities

51. In the Estimates of Revenue and Expenditure for the financial year ended 31st December, 2005, a total provision of K4, 960,665,942 was made to cater for Personal Emoluments. In this regard, amounts totalling K6,277,889,447 were released for personal emoluments (K4,960,665,942) and housing allowances (K1,317,223,505) in the Province as shown below.

Purpose	Amount Released
	K
Payroll	4,960,665,942
Housing Allowances	1,317,223,505
Other Emoluments	-
	<u>6,277,889,447</u>

An examination of records pertaining to the utilization of funds carried out between February and April 2006 revealed that there were weaknesses in the management of the Personal Emoluments account in that:

- internal controls were weak in that there was only one member of staff in the internal audit department out of the establishment of three;
- cash books for the year under review were not up to date and bank reconciliations were not correctly done;
- payment of unclaimed wages was done without a written request by the claimant. Furthermore payments were mostly made in the name of accounting officers instead of the claimants;
- the salary inputs were not scrutinised by senior officers;
- the housing allowance schedules were not regularly reviewed in order to introduce or delete staff who had qualified or no longer qualified to get housing allowance; and
- there were no regular checks on the accounting officers paying out housing allowances; paying officers were allowed to keep money and schedules for a period of up to twelve months without being checked.

As a result of the above weaknesses among others, the matters set out hereunder were observed.

(a) Bank Reconciliation

A test check of the January and February 2005 reconciliation statements revealed errors in that the opening balance for January 2005 was over stated by K176,285,785 and the reconciliation for January and February did not balance by K 44,282,818 and K 158,101,211 respectively.

(b) Misappropriated Unclaimed Salaries

A total amount of K8, 102,847 in respect of unclaimed salaries was misappropriated by an accounting officer during the period August to December 2005. As of August 2006, no disciplinary action had been taken.

(c) Un-authorized Salary Allowances

Three accounting officers paid themselves salary related allowances amounting to K10,165,130 during the period April 2004 to March 2005, without authority from Public Service Management Division (PSMD).

(d) Irregular Leave Commutation

Contrary to Terms and Condition of Service Number 106, which states that “A responsible officer may authorise an officer going on leave to commute up to one hundred and twenty days of his or her leave for cash”, a senior accountant was allowed to commute one hundred and sixty days, forty days in excess resulting in an over payment of K2,134,898.

(e) ***Non Remittance of Statutory Payments***

Contrary to the Income Tax Act Chapter 323 of the laws of Zambia, tax amounting to K16, 161,547 in respect of commuted leave totalling K55, 871,825 was not deducted and remitted to the Zambia Revenue Authority (ZRA).

In addition, pension contributions for the months of June, July, and September 2005 totalling K81, 797,851 had not been paid to National Pensions Scheme Authority (NAPSA) as at 31st March 2006.

(f) ***Misappropriated Housing Allowances***

Unclaimed housing allowances totalling K26, 693,447 were misappropriated by four accounting officers during the period April 2004 to March 2006.

In addition, it was observed that unclaimed housing allowances totalling K11, 490,000 were kept outside the safe in office cabinets.

(g) ***Un-acquitted Payments***

Nine transactions totalling K58, 279,803 paid during the period March to December 2005 relating to salaries and housing allowances were not supported by acquittal sheets.

(h) ***Misapplication of Funds***

According to government procedures in place, no salary advance can be paid from the salaries account. However, contrary to the procedure in place, salary advances amounting to K30, 600,000 were irregularly paid from the Salaries Account to officers during the period February 2005 to December 2005. As of March 2006, no recoveries had been instituted.

(i) ***Outstanding Personal Emoluments***

Amounts totalling K 1,437,612,606 in respect of long service bonus, leave travel benefit, leave terminal benefits and commutation, some dating as far back as 2001, were outstanding as of March 2006.

Controlling Officer's Submission

In his response to the queries, the Controlling Officer responded as set out below.

a) ***Bank Reconciliation***

The cashbook and bank reconciliation statement were submitted to the Office of the Auditor-General, Solwezi Office and a follow up was made on 15 March 2007.

b) ***Misappropriated Unclaimed Salaries***

Disciplinary action had already been taken and the officer was on suspension and recommendations had been made to Public Service Management Division to finalise action. At the time of appearing before your Committee, he informed your Committee that the officer had since been dismissed.

c) ***Un-authorized Salary Allowances***

The said salary allowances were wrongly computed and had since been recovered from the officers' salaries.

d) ***Irregular Leave Commutation***

Recoveries had been effected for over-payment of K2,134,898.00 for Leave Commutation.

e) ***Non-remittance of Statutory Payments***

All statutory payments for the months of June, July and September 2005 were remitted to ZRA and NAPSA respectively.

f) ***Misappropriated Housing Allowance***

Officers were immediately requested to refund the misappropriated housing allowances. Measures had been put in place to ensure that only the cashier handled the payments of the said allowances on a monthly basis.

g) ***Un-acquitted Payments***

All payments had been acquitted and where these were not fully acquitted, funds were re-deposited.

h) ***Misappropriation of Funds***

The payments of salary advances from the Salaries Account were made to officers on first appointment from the restructured Ministries of Community Development and Social Services; and Energy and Water Development due to inadequate funds on the Loans and Advances Account. However, the trend had been stopped and recoveries were made.

i) ***Outstanding Personal Emoluments***

The Ministry of Finance and National Planning released funds for Other Personal Emoluments as follows:

26 th May, 2006	-	K 277,391,463
8 th November, 2006	-	K 364,931,512
22 nd December, 2006	-	<u>K 189,851,414</u>
Total		<u>K832,174,389</u>

The balance outstanding on other Personal Emoluments as at 31st December, 2006 was K605,438,217.00.

The figure was likely to increase as officers qualified for long service bonus, leave Travel benefits and terminal benefits on a daily basis.

Therefore, reduction of outstanding Personal Emoluments depended on the funding released.

When asked to elaborate on measures that had been put in place to minimise irregularities, the Controlling Officer responded that he had made it a point that:

- no cheque above K5,000,000 went through any provincial bank account without him being alerted;
- all backing sheets are dispatched by 0900 hours every day;
- bank balances are checked on a weekly basis; and

- changes at staff level, had been made but expressed concern on the high turnover of accounting officers in the Province.

Observations and Recommendations

Your Committee commend the Controlling Officer for the actions he had taken after the audit. They, therefore, expect that when the Province is next audited, there will be an improvement.

On the specific queries, the Committee recommend as set out hereunder.

a) *Bank Reconciliation*

The matter should close subject to verification.

b) *Misappropriated Unclaimed Salaries*

They note that the officer was dismissed, however, they urge the Controlling Officer to recover the K8, 102,847.

c) *Unauthorised Salary Allowances*

The matter should close subject to verification.

d) *Irregular Leave Commutation*

The matter should close subject to verification.

e) *Non- Remittance of Statutory Payments*

The matter should close subject to verification. In doing so, they caution the Controlling Officer not to delay the remittance of all statutory payments.

f) *Misappropriated Housing Allowances*

Whilst appreciating the action taken, your Committee wonder why the other officer who misappropriated unclaimed salaries was dismissed and the others were merely asked to refund the money. They, therefore, urge the Controlling Officer to ensure that similar action is taken against the other officers.

g) *Unacquitted Payments*

The matter should close subject to verification.

h) *Misapplication of Funds*

The matter should close subject to verification.

i) *Outstanding Personal Emoluments*

The matter should close subject to verification.

**OFFICE OF THE PRESIDENT–NORTH-WESTERN PROVINCE ADMINISTRATION
General Administration**

Accounting and Other Irregularities

52. It was reported that in the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, a provision of K2,153,070,598 was made and K2,217,820,623 was released resulting in excess funding of K64,750,025.

An examination of records carried out in March 2006 at the provincial headquarters revealed the matters set out below.

(a) Weaknesses in Procurement and Stores Management

There were weaknesses in procurement and stores management in that:

- staff manning the Department were not trained in procurement and stores management; and
- there was no segregation of duties, among others.

(b) Unaccounted for Stores

There were no disposal details for stores items costing K 117,264,418 procured during the period under review.

(c) Disposal of Unserviceable Stores

Various stores items valued at K34, 204,000 auctioned in 2004 though collected had not been paid for as of March 2006.

(d) Un-retired Imprest

Imprest in amounts totalling K610, 225,991 involving one hundred thirteen transactions issued during the year under review had not been retired as of March 2006.

Controlling Officer's Submission

a) Weaknesses in Procurement and Stores Management

At the time of the audit, the Procurement Unit was headed by an Executive Officer. However, in September 2006, the Zambia National Tender Board seconded a Principal Procurement Officer.

b) Un-accounted for Stores

The lack of disposal details was as a result of the Unit being manned by untrained staff. With the secondment of an officer from the Zambia National Tender Board, measures had been taken to ensure that stores were accounted for.

c) Disposal of Unserviceable Stores

The Board of Survey Committee acted contrary to Public Stores Regulations. To recover the sum of K34, 204,000, the Controlling Officer had effected recoveries from the officers' salaries over a period of six months only. He had equally served notices to officers who were not on the payroll.

d) *Un-retired Imprest*

As per reconciled FMS report of December 31, 2005 a total of K129,301,239.09 was retired leaving a balance of K480,924,751,91. At the time of appearing before your Committee, the outstanding balance had reduced to K276, 000,000. The officers concerned were reminded to retire imprest for the period under review. The imprest had been captured in the FMS 2006 data.

Observations and Recommendations

Your Committee note the submission and recommend as set out below.

a) *Weaknesses in Procurement and Stores Management*

The matter should close subject to confirmation that a qualified procurement officer has been seconded.

b) *Unaccounted for Stores*

The matter should close subject to verification of disposal details for items costing K117,264,418 that were queried.

c) *Disposal of Unserviceable Stores*

The Controlling Officer should submit documents to the Auditor-General to confirm that recoveries are in progress. In addition, he is requested to report progress on officers who were not on the Government payroll. Furthermore, your Committee urge the Controlling Officer to ensure that officers that allowed this situation to occur are disciplined.

d) *Unretired Imprest*

The Controlling Officer should submit the imprest retirement documents to the Office of the Auditor-General for verification. They further request him to report progress on the balance and to ensure that any supervising officer that allows unretired imprest to accumulate is disciplined.

Audit Query

Paragraph 53

**OFFICE OF THE PRESIDENT–NORTH-WESTERN PROVINCE ADMINISTRATION
Rehabilitation of Roads – PRP**

Rehabilitation of Roads – North Western Province

53. The Auditor-General reported that in the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, a provision of K2,656,856,376 was made and released in full to cater for rehabilitation of roads in the province.

An examination of financial and other records maintained at the provincial accounting unit revealed the matters as set out below.

(a) *Zambezi District*

(i) *Construction of Kalwilo Road Culvert*

A contract was awarded to Roads Department in May 2005 for the construction of Kalwilo road culvert at a contract price of K50,000,000 for a period of two months. As of February 2006 the contractor had been paid in full. Although the progress report on the works by the Provincial Roads Engineer indicated that the works were completed, a physical inspection revealed that one head wall of the culvert had not been constructed.

It was further observed that ten casual workers who worked on Kalwilo culvert were owed an amount of K1,970,000 for the months of August, October and November 2005 as of February 2006.

(ii) *Construction of Lutadi Mukenge Bridge*

A contract was awarded to a local company in October 2005 for the construction of Lutadi Mukenge Bridge at a contract price of K172,811,362. However, the contract period was not specified and as of March, 2006 the contractor had been paid an amount of K172,695,635 and the progress report on the works by the Provincial Roads Engineer indicated that the works were completed.

A physical inspection carried out in March 2006 revealed that though the bridge was less than one year old it was being washed away on both sides.

(b) *Mufumbwe District*

(i) *Tunga West Road - Construction of Culverts and Embankment*

In the year 2005 a contract was awarded to a local contractor for the construction of six culverts and embankment on Tunga West Road at a contract sum of K91, 926,713. However, the contract period was not specified and as of February 2006 the contractor had been paid a total of K76, 492,500 leaving a balance of K15, 434,213.

Furthermore, a physical inspection carried out in March 2006, revealed that the gravel had been washed away at three points along the 500-metre stretch worked on by the contractor. This was attributed to none compacting of the gravel on the stretch according to the contract specifications i.e. (150mm thick). The contractor had since abandoned the site.

(ii) *Kalengwa Mine Road - D773*

In December 2004, a contractor was awarded a contract to maintain Kalengwa Mine Road at a contract sum of K688, 521,330 to do 30 kilometres of heavy grading, gravelling, vegetation control and drainage works for a period of Nine months. The work was done and paid for at K687, 553,600.

A physical inspection carried out in March 2006 revealed that overloaded trucks carrying copper ore from the Kalengwa Mine to the Copperbelt had damaged the road. There is need to upgrade the road to be in line with the mining activities in the area.

(c) *Kasempa District*

Kabele Culvert Constructions

In 2005, a contract was awarded to a local contractor for the installation of 1 x 900mm culvert to reinforce the existing one (1 x 600mm) at a contract sum of K32, 000,000. However, the contract period was not specified and as of February 2006 the contractor had been paid a total of K32, 000,000.

A physical inspection carried out in March 2006 revealed that the two culverts were fitted on different ground levels resulting in water washing away the apron foundation on the eastern wing of the culvert.

Controlling Officer's Submission

The Controlling Officer in response submitted as set out below.

a) *Zambezi District*

(i) *Construction of Kalwilo Culverts*

Construction of the Kalwilo Culvert had been satisfactorily completed. The confirmation report from the Office of the Provincial Roads Engineer was submitted to the Office of the Auditor-General, Solwezi.

Their records indicated that as at 31st December 2005, all casual workers had been paid.

(ii) Construction of Lwitadi Mukenge Bridge had also been satisfactorily completed and a progress report was submitted to the Office of the Auditor-General, Solwezi.

b) *Mufumbwe District*

(i) *Tunga West Road Construction of Culverts and Embankment*

The progress report that was submitted to the Office of the Auditor-General, Solwezi by the Regional Engineer indicated that culverts were properly constructed.

(ii) *Kalengwa Mine Road – D773*

The contract for the Road was awarded to the contractor at the bid sum of K688,521,330 to undertake the following works:

- vegetation control;
- drainage works;
- heavy grading; and
- gravelling some selected sections of the road

The amount paid to the contractor was K687, 553,600 for the maintenance of a 30 km section.

The contractor carried out the works according to the prescribed specifications in the contract document.

The maintenance of the road attracted mineral exploration in Kalengwa Mine and as a result of high and heavy volume of traffic, the road got damaged.

The road was carrying undesignated and impermissible weights not meant for its design standard. Therefore, the road required full upgrading and regular maintenance.

c) *Kasempa District*

(ii) *Kabele Culvert Construction*

Contrary to what was indicated in the Audit Report, the installation works were carried out by the Roads Department on force account not by a contractor.

An assessment conducted on 10 March 2007, indicated that the structure including the apron on the eastern side was intact and in a good state.

Observations and Recommendations

Your Committee note the submission and recommend as set out below.

a) *Zambezi District*

The matters on the Kalwilo culverts and Lwitadi Mukenge Bridge should close subject to verification.

b) *Mufumbwe District*

i) *Tunga West Road – Culverts and Embankment*

The matter should close subject to verification. The Controlling Officer is urged to ensure that all contract documents have a period specified otherwise Government will not be in a position to claim liquidated damages for any delays in the completion of the projects as well as determine the defects liability period.

ii) *Kalengwa Mine Road*

The matter should close.

c) *Kasempa District*

The matter on Kabele culverts should close subject to verification.

Audit Query

Paragraph 54

OFFICE OF THE PRESIDENT – SOUTHERN PROVINCE ADMINISTRATION

Livestock Restocking – (PRP)

Irregularities in the Procurement of Cattle

54. It was reported that in Paragraph 37 of the Auditor General's Report for the financial year ended 31 December 2004, mention was made of the irregularities in the procurement of cattle. In particular, mention was made of the failure to supply and account for animals paid for.

A follow up made in April 2006 revealed that the situation had not improved in that 722 herds of cattle distributed to Sinazongwe (402) and Siavonga (320), costing K466,200,000 could not be accounted for due to lack of receipts and disposal details.

During the financial year ended 31st December 2005, a provision of K1,900,000,000 was made in the Estimates of Revenue and Expenditure for cattle restocking, out of which amounts totalling K1,784,635,245 were released leaving a balance of K115,364,755.

An examination of records pertaining to cattle restocking carried out in April 2006 revealed that:

- (a)** in November 2005, an amount of K114,400,000 was paid to Magoye Small Holder Dairy Farm for the supply of eighty eight Heifers for Mazabuka District; however, as of April 2006, seventy five heifers had been supplied leaving a balance of thirteen heifers costing K15,600,000; and
- (b)** out of the total amount of K1,784,635,245 released during the year under review, K1,670,235,245 was misapplied by the Provincial Administration on activities not related to the programme, such as payment of telephone bills and subsistence allowances.

Controlling Officer's Submission

The Controlling Officer in his response informed your Committee that all the duly-signed schedules for Sinazongwe and Siavonga were submitted in the progress report dated 21st April, 2006.

a) Mazabuka District – Failure to Supply 13 Heifers

Five heifers costing K5, 600,000 had been procured out of the balance of thirteen. The District Restocking Committee had been tasked to obtain the dully-signed schedules for the five heifers. This left a balance of K10, 000,000 which was broken down as shown below;

	ZK
Hire of transport	3,600,000
Allowances	5,710,000
Fuel & Lubricants	617,000
Refreshments	288,000
Stationery	40,200
Telephones	<u>4,000</u>
Total	<u>10,000,000</u>

The District concerned did not receive operational funds, hence the Cattle Restocking Committee approved the use of K10,000,000 under the charge of the District Commissioner.

When asked how many animals had been distributed since the commencement of the restocking programme, the Controlling Officer said about 3,000 animals had been purchased for distribution so far.

On the K10,000,000, the Controlling Officer admitted that the money was borrowed from the suppliers to facilitate the transportation of the seventy-five animals. The K10 million had since been paid back. The five animals worth K5, 600,000 had not yet been distributed because of the restriction on cattle movement as a disease control measure.

b) Provincial Administration

The Controlling Officer acknowledged that K1, 670,235,245 was used by the Provincial Administration on administrative matters. They used the K1, 670,235,245 because:

- (i) the Treasury did not fund the Province for three months in the stated year;
- (ii) when Treasury released the funding, these were not adequate to meet all the administrative requirements; and
- (iii) the Province had to meet some payments for District Commissioner's offices which were poorly funded.

The Provincial Administration had reimbursed the Poverty Reduction Programme K451, 309,769. This was an on going programme to clear the amount in question and a programme had been put in place where K50, 000,000 would be reimbursed from the component of office administration from every funding release.

Observations and Recommendations

Your Committee observe that the Provincial Administration was utilising funds without due regard to Financial Regulations. This was indiscipline. They, therefore, urge the Secretary to the Treasury to:

- (i) follow up the matter on how the Provincial Administration permitted the District Commissioner to borrow K10,000,000 from the heifers supplier, thereby reducing the

- number of animals that were to be purchased; disciplinary action should be taken against all erring officers; and
- (ii) Establish how 94 percent of the Poverty Reduction Funds released for cattle restocking in 2005 were used on administrative matters clearly against the guidelines on the utilisation of Poverty Reduction Programmes Funds; erring officers should be disciplined for throwing the programme off-course.

To the Controlling Officer, they recommend as set out below.

(i) ***Unsupplied Heifers***

Following the paying back of the K10, 000,000, the Controlling Officer should ensure that all the eighty-eight animals are delivered.

(ii) ***Provincial Administration***

All reimbursed funds should be used to purchase animals for restocking. Your Committee urge the Controlling Officer to submit an update on the above.

PART 11

CONSIDERATION OF MATTERS ARISING FROM LOCAL TOURS

Your Committee during their verification tours also visited projects and offices that were not mentioned in the Audit Report on the 2005 Accounts.

Kapiri Mposhi Weigh Bridge – Ministry of Works and Supply

55. Your Committee undertook a spot check on the operations of the Kapiri Mposhi Electronic Weigh Bridge in the presence of the Controlling Officer, Ministry of Works and Supply and supporting staff, the contractor and consultants. During the check, they were informed that the bridge was constructed at a cost of K2.8 billion under the Axle Load Control Programme. There were some defects, but these would be rectified as the Defect Liability Period was still running.

The available statistics showed that compliance had improved with less than 5% of trucks being impounded for being over weight. In terms of revenue, there has been a drop. The bridge was constructed not for revenue collections, but to ensure that road carriers complied with the law on loading.

The District Commissioner also informed your Committee that the construction of the weigh bridge was a welcome development in the District. He, however, appealed to the Ministry of Works and Supply to consider constructing filter lanes to avoid traffic congestion on the main road.

Observations and Recommendations

Your Committee appreciate the project but express concern on the resultant damage to roads due to static checkpoints mounted by the Police and other law enforcement agencies.

They, therefore, advise the Controlling Officer to:

- i) ensure that a filter lane at Kapiri Mposhi and other weigh bridges are constructed to avoid traffic congestions;
- ii) come up with measures that will lessen road damages caused by mounting of check-points; and
- iii) ensure that all penalty fees are properly accounted for.

Passport and Citizenship Kabwe Office – Ministry of Home Affairs

56. The Provincial Passport Officer informed your Committee that the issues of delayed banking that had been reported in earlier audit reports had been addressed. When asked how often banking was done, he replied that the office was banking collections on a weekly basis i.e. every Friday. This was as per advice of the auditors. The Office was also saving on stationery through the once per week banking. He further informed your Committee that weekly collections averaged K1.5 million and a safe was available at the Office.

Observations and Recommendations

Your Committee did not accept the explanation that the weekly banking was a way of saving on stationery and make the following observations:

- i) your Committee re-emphasise the need for strengthened internal controls and the secondment of more accounting staff to the office; and
- ii) on average, K300,000 is collected daily, this amount is adequate to be banked on a daily basis considering that banking facilities in Kabwe are near the Passport Offices. They, therefore, request the Controlling Officer to advise the Office in Kabwe to be banking collections on a daily basis.

Conclusion

57. Your Committee wish to express their gratitude to you, Mr Speaker, and the Office of the Clerk for the support rendered to them throughout their deliberations. They further thank all the Controlling Officers who appeared before them 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 the Office of the Accountant-General throughout their deliberations.

C L Milupi, MP
CHAIRPERSON

AUGUST 2007
LUSAKA