

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR- GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER, 2012 FOR THE FOURTH SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON FRIDAY, 26TH SEPTEMBER, 2014

Consisting of:

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

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report on the Report of the Auditor General on the Accounts of Parastatal Bodies for the financial year ended 31st December, 2012.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held fifteen (15) meetings to consider the Report of the Auditor General on the Accounts of Parastatal Bodies for the financial year ended 31st December, 2012.

Procedure adopted by the Committee

4. With technical guidance from the Auditor General, the Accountant-General and the Controller of Internal Audit, your Committee considered both oral and written submissions from Controlling Officers and Chief Executive Officers of the nineteen (19) institutions that were reported on in the Audit Report. The Secretary to the Treasury was also requested to comment on all the nineteen institutions.

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

Auditor General's Comments

5. The Auditor General reported that the Report on the accounts of selected parastatal bodies and other Government funded institutions for the financial year ended 31st December 2012 was submitted to the President for tabling in the National Assembly in accordance with the provisions of the Constitution of Zambia and the *Public Audit Act Cap 378 of the Laws of Zambia*.

Scope of Audit

The Report was a result of a programme of test checks and reviews of audited accounts of selected organisations for the financial years up to 31st December 2012.

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

Major Findings

Notable observations on these were the failure to comply with the International Standards on Information Technology (IT) and failure to adopt IT policies which could guide the operations of the institutions.

Some of the issues raised in the Report are:

- i. lack of strategic plans;
- ii. failure to produce financial statements;
- iii. poor management of contracts;
- iv. failure to constitute boards of directors;
- v. poor financial performance;
- vi. poor infrastructure management;
- vii. poor administration of loans and advances;
- viii. poor management of pension funds, and
- ix. questionable investments.

Other irregularities raised in the Report are as shown in the table below.

Summary of Findings	Amount K
Non Remittance of Statutory Contributions	595,156,096,900
Failure to Collect Revenue	635,738,140
Inadequately Supported Payments	493,669,962,004
Irregular Payments	2,336,181,232
Unaccounted for Funds	25,065,000
Unaccounted for Stores	524,225,487
Unretired Imprest	2,158,310,289
Missing Payment Vouchers	1,079,171,792
Delayed Bankings	480,775,175
Wasteful Expenditure	2,763,453,703
Over Payment to Contractors	44,474,122

Internal Control

Specific mention was made of non-preparation of financial statements, failure to remit statutory contributions, weaknesses in procurement procedures, unaccounted for funds, irregular payments and poor financial performance by the respective organisations. These were clear indicators of internal control lapses in most of the parastatal organisations and other Government funded institutions.

Statutory Bodies that have not submitted audited financial statements

There were twenty one (21) statutory and parastatal bodies that had not produced audited financial statements on the accounts for the financial year ended 31st December 2012.

Response by the Secretary to the Treasury

6. The Secretary to the Treasury acknowledged that the audit of accounts of the nineteen (19) parastatal bodies was done within the provisions of the Constitution of Zambia and the *Public Audit Act CAP 378 of the Laws of Zambia*. The Secretary to the Treasury then submitted as set out below.

a) Scope of Audit

The Secretary to Treasury stated that the Scope of audit used by the Auditor General was appreciated as she undertook test, checks and reviews of accounts of the year ending 31st December, 2012 of the nineteen (19) selected parastatal organisations.

b) Internal Controls

The Secretary to the Treasury reported that there had been a significant improvement in this area for a number of Parastatals since the 2012 Audit by the Auditor-General. The Secretary to the Treasury, however, noted that the specific weaknesses identified were a clear indication of lapses in internal controls in most of the State Owned Enterprises (SOEs) which was expected to be resolved with the establishment of the Industrial Development Corporation (IDC).

Committee's Observations and Recommendations

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

c) Failure to prepare Financial statements

The Secretary to the Treasury submitted on each one of the institutions that were cited for not preparing annual financial statements as set out below.

- **Cotton Board of Zambia**

The Secretary to the Treasury reported that audited financial statements for the Cotton Board of Zambia for the years ended 2012 and 2013 were ready.

Committee's Observations and Recommendations

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

- **Livestock Development Trust**

The Secretary to the Treasury submitted that the Institution had engaged Grant Thornton as its Auditor and was currently on site conducting the audit. It was expected that the draft financial reports would be ready for approval by the Board of Trustees during the month of December, 2014.

Committee's Observations and Recommendations

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

- **Zambia National Broadcasting Corporation**

The Secretary to the Treasury reported that the audited financial statements for the Zambia National Broadcasting Corporation for the years 2012 and 2013 were ready.

Committee's Observations and Recommendations

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

- **Zambia Postal Services Corporation**

The Secretary to the Treasury reported that the audited financial statements for the Zambia Postal Services Corporation for the year ended 31st March, 2012 were ready. In addition, the draft financial statements for 2013 and 2014 were ready and were currently being audited. It was projected that the Institution should be current by June 2015.

Committee's Observations and Recommendations

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

- **Lusaka Trust Hospital**

The Secretary to the Treasury reported that the audited financial statements for Lusaka Trust Hospital for the years 2012 and 2013 were ready.

Committee's Observations and Recommendations

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

- **Zambia Institute of Mass Communication Trust**

The Secretary to the Treasury reported that the 2012 draft audited accounts for the Zambia Institute of Mass Communication Education Trust (ZAMCOM) were ready and due for approval by the Board of Trustees in December, 2014.

Committee's Observations and Recommendations

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

- **Development Bank of Zambia**

The Secretary to the Treasury reported that the audited financial statements for the year ended 31st December, 2012 were approved by the Board in November, 2013 and signed off by the External Auditors in January, 2014.

Committee's Observations and Recommendations

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

- **Mukuba Hotel**

The Secretary to the Treasury submitted that the Hotel did not produce financial statements during the period under review due to negligence by management at the time. A new General Manager and Chief Accountant were appointed and financial statements were prepared and audited in June, 2014.

Committee's Observations and Recommendations

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

- **Coffee Board of Zambia**

The Secretary to the Treasury reported that the Coffee Board of Zambia had not produced audited financial statement due to cash flow problems from inception and the problem had worsened and the Board owed Auditors over K150, 000 in arrears as audit fees and it was for this reason that the financial audit was stalled. The supervising Ministry had budgeted funds in the 2015 National Budget to resolve the matter.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Secretary to the Treasury to ensure that the Coffee Board of Zambia was recapitalised to improve the current financial position of the Institution. Your Committee urged him to consider recapitalising the Institution and also address the issue of arrears owed to the Auditors. Your Committee awaits a progress report on the matter.

- **Food Reserve Agency**

The Secretary to the Treasury submitted that the delays in the production of the financial statements were caused by the failure of the newly appointed Board members to approve financial statements for a period prior to their appointments and the legal liabilities associated with such an action. However, progress had been made in that the 2007 and 2009 reports had been finalised and approved by the Board in May, 2014. Moores Rowland had since been engaged to undertake the audit for the financial years 2010 to 2014.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to ensure that the financial reports are produced timely. Your Committee is of the view that management must be sternly cautioned to ensure that cut-off dates for reports are strictly adhered to. The matter is, however, recommended for closure subject to audit verification.

- **Cotton Development Trust**

The Secretary to the Treasury reported that the Cotton Development Trust could not produce audited financial statements since 2007 due to limited resources and lack of a full management

team. The supervising Ministry had been tasked to resolve these short comings within the first quarter of 2015.

Committee's Observations and Recommendations

Your Committee notes the submission but, urges the Secretary to the Treasury to seriously look into recapitalising the Institution and also ensure that staff matters are addressed expeditiously. Your Committee awaits a progress report on the matter.

- **Nitrogen Chemicals of Zambia (NCZ)**

The Secretary to the Treasury reported that the audited financial statements for the financial years 1998 to 2004 were received by NCZ from Price Waterhouse Coopers on 10th November 2014 for consideration and approval by NCZ Board of Directors. As soon as the Board approved the audited accounts, the company would engage another firm to conduct the audit for 2005 to 2013.

Committee's Observations and Recommendations

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

- **Citizens Economic Empowerment Commission**

The Secretary to the Treasury submitted that the Commission recruited a new Director General who was tasked to redo the accounts and produce credible financial statements for the financial years 2010, 2011 and 2012. The Commission had since engaged an independent accounting firm to undertake the exercise after which the statements would be submitted for audit to the Office of the Auditor-General.

Committee's Observations and Recommendations

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

- **Zambia Environmental Management Agency**

The Secretary to the Treasury reported that the Agency did not produce audited financial statements for the years ended 31st December, 2012 and 2013 because of the migration from one accounting package to another which caused a challenge as accounting staff were required to learn the new accounting package and transfer data into it. The Agency had since produced the draft accounts for 2012 – 2013.

Committee's Observations and Recommendations

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

- **National Housing Authority**

The Secretary to the Treasury reported that finalisation of the financial statements up to 31st December, 2011 had been delayed because of the differences in the closing balances of 2010 and opening balances for 2011, which affected the preparation of the financial s for the year ending 2012. The draft unaudited financial statements for the year ending 31st December, 2012 were available and awaiting audit.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to ensure that the financial reports are produced timely. Your Committee is of view that management must be sternly cautioned to ensure that cut-off dates for reports are strictly adhered to. The matter is, however, recommended for closure subject to audit verification.

- **Times PrintPak Zambia Limited**

The Secretary to the Treasury reported that Times Printpak had just concluded the audit of the financial year ended 31st March, 2011 and the financial reports were waiting to be signed off by the Board. It was anticipated that the audit would be concluded by 31st December, 2014. It was further anticipated that the audits for 2013 and 2014 will be done by March, 2015. The Institution as at 2012 had a backlog of nine years of unaudited financial statements which it had in the last 2 years reduced to 3 years. This achievement was due to the contraction of new management which had put in significant efforts to improve operations of the parastatal.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to ensure that the financial reports are produced on time. Your Committee is of view that management must be sternly cautioned to ensure that cut-off dates for reports are strictly adhered to. The matter is, however, recommended for closure subject to audit verification.

- **Zambia Printing Company**

The Secretary to the Treasury reported that the Company has had no economic activity for over 10 years. There was no equipment at the site and the Company only had skeleton staff in place. There was no revenue generating activity in the Company. The Treasury would engage the Ministry of Information and Broadcasting Services to discuss the future options of the Company such as closure and transfer of staff to other parastatal bodies under the Ministry.

Committee's Observations and Recommendations

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

- **Hotel and Tourism Training Institute**

The Secretary to the Treasury reported that the Institute was unable to produce audited financial statements due to liquidity constraints and had relied on the services of the Auditor General. As a result the statements for 2011 and 2012 were yet to be submitted to the Auditor General.

Committee's Observations and Recommendations

Your Committee notes the submission. However, it urges the Secretary to the Treasury to seriously look find ways of recapitalising the Institution and also ensure that staff matters are addressed expeditiously. Your Committee awaits a progress report on the matter.

- **Zamcapitol Enterprises Limited**

The Secretary to the Treasury reported that the Company did not produce audited financial statements for the financial year ended 31st December, 2012 because of the delay to approve the

accounts for the financial year ended 31st December, 2011 by the Board of Directors. The Board of Directors had since approved the accounts for the financial year ended 31st December, 2011 and management had since commenced the consolidation of the accounts for the financial year ending 31st December, 2012.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to ensure that the financial reports are produced on time. Your Committee is of the view that both the Board and Management must be sternly cautioned to ensure that cut-off dates for reports are strictly adhered to. The matter is, however, recommended for closure subject to audit verification.

- **Mpulungu Harbour**

The Secretary to the Treasury reported that the Institution had just recruited a new management team, after the arrest of the previous management upon the conclusion of the forensic audit which revealed serious irregularities of financial mismanagement. The new management had been tasked to produce financial statements before the end of the year.

Committee's Observations and Recommendations

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

- **Zambia Education Publishing House**

The Secretary to the Treasury reported that the Company had been making losses for the last ten (10) years. In 2011, the Ministry of Finance provided recapitalisation fund amounting to K15 million. This significantly improved the operations of the Company and it was anticipated that the Company should record a profit of K5 Million for 2014. It was expected that the Company would be engaging Auditors to start the back log of audits and it was anticipated that the financial statement, for 2012 would be ready by the second quarter of 2015.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to ensure that the Company's financial reports are produced on time. Your Committee is of the view that both the Board and Management must be sternly cautioned to ensure that cut-off dates for reports are strictly adhered to. The Committee resolves to close the matter.

General Findings

i. Lack of Strategic Plans

The Secretary to the Treasury submitted that he would ensure through Board representation and close supervision that all parastatals draw up short to long term Strategic Plans.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to impress upon all Controlling Officers to ensure that all parastatal bodies under his jurisdiction draw up strategic plans to guide them in all policy directions they may wish to take.

ii. Poor management of contracts

The Secretary to the Treasury submitted that the Treasury took note of this matter and had proceeded to extend measures which had been introduced in Ministries and Provinces and others Spending Agencies (MPSAs) in project implementation to parastatal bodies. These measures included:

- the decentralisation of the procurement system through the issuance of Circular No.1 of 2013 issued by Zambia Public Procurement Authority (ZPPA) that was intended to enhance the speedy implementation of projects;
- ensuring that all parastatals adhered to the designed budget implementation plan framework that would enhance the speedy implementation and monitoring of projects. In this regard, the Boards of Director of respective institutions through their managements would be required to appropriately prepare Project Appraisals and Budget Implementation Plans before commencement of any project and submit to the line ministries and the Treasury; and
- the respective Boards of Directors had been directed to ensure that adequate funds were secured before any contract was signed for a project and a detailed financing schedule availed to the line Ministry and the Treasury.

Committee's Observations and Recommendations

Your Committee notes the submission and directs that cases bordering on abuse of office and corruption should be promptly reported to the investigative wings.

iii. Failure to constitute Board of Directors

The Secretary to the Treasury submitted that this matter would be addressed through the established Industrial Development Corporation (IDC) which had been created to be the holding company of all State Owned Enterprises (SOEs).

Committee's Observations and Recommendations

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

iv. Poor financial performance

The Secretary to the Treasury submitted that the Government, through the established Industrial Development Corporation (IDC), envisaged to improve the financial performance of State Owned Enterprises (SOEs) as it would be responsible for the supervision.

Committee's Observations and Recommendations

In noting the submission, the Secretary to the Treasury is urged to seriously and expeditiously address the matter.

v. Poor infrastructure management

The Secretary to the Treasury submitted that the Government intended to carry out a review and revaluation of all assets in parastatal bodies so that a comprehensive recapitalisation programme using the Industrial Development Corporation (IDC) can be undertaken.

Committee's Observations and Recommendations

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

vi. Poor management of loans and advances

The Secretary to the Treasury stated that this was clear case of mismanagement by the Boards of Directors who had been appointed to oversee the parastatals and could not be condoned. He had directed that the Board of Directors whose compositions included Controlling Officers should immediately take disciplinary action on all erring officers who had been cited in the Report.

Committee's Observations and Recommendations

Your Committee in noting response urges the Secretary to the Treasury to take drastic steps in ensuring that the practice is stopped without any further delay. Your Committee awaits a progress report on the matter.

vii. Poor management of pension funds

The Secretary to the Treasury submitted that parastatal bodies were expected to abide by the Pensions and Insurances Authority Act in the management of pension funds. In this regard, he had issued a directive to ensure that this was complied with.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Office of the Auditor General to take note of the matter in future audits.

viii. Questionable investments

The Secretary to the Treasury acknowledged that this was a serious omission on the part of management as all investment needed the authorisation of the respective Board of Directors and, therefore, any management team involved in the matter shall be sanctioned in line with the Public Finance Act and any other Government Regulations. In cases where the investments were seriously questionable, his office would involve Government investigative agencies. Furthermore, parastatal bodies should draw up investment policies which should be adopted by Boards to be used as guides for future investments.

Committee's Observations and Recommendations

Your Committee directs that all investment ventures should be approved by the Board of Directors. The Secretary to Treasury is urged to ensure that, at all times, investments are scrutinised to ensure that they are in the best interest of the institutions and the nation.

Other General Irregularities

i) Non remittance of statutory contributions

The Secretary to the Treasury submitted that the Treasury had instructed State Owned Enterprises (SOEs) to settle their statutory obligations using established legal means. In circumstances where some institutions had financial constraints, the Treasury was assisting in reviewing other options such as flexible payment plans and debt swaps.

Committee's Observations and Recommendations

In noting the submission, your Committee is of a view that there is need to find a more lasting solution to the problem. While debt swap is being used as one of the options, your Committee was of the view that recapitalisation is a better option to combat the problem completely. Your Committee awaits a progress report on the matter.

ii) Failure to collect revenue

The Secretary to the Treasury reported that, in order to curtail the vice, he had directed all parastatal companies to ensure that revenue was being collected. Henceforth, instructions were issued to all Controlling Officers to use the new systems of accounting for revenue that required clients to deposit directly into designated Parastatal Bank Accounts or the use of the point of sale machines. Further, parastatal companies under the Controlling Officers were expected to adhere to these financial regulations. In addition, State Owned Enterprises (SOEs) were encouraged to engage in robust revenue and debt collection measures.

Committee's Observations and Recommendations

Your Committee expresses concern that the same parastatal bodies that have been experiencing liquidity problems are the ones that have been failing to collect revenue. Your Committee urges the Secretary to the Treasury to work with these institutions to find a lasting solution to the matter. Your Committee awaits a progress report on the matter.

iii) Inadequately supported payments

The Secretary to the Treasury submitted that the Treasury had engaged the involved Parastatals to harmonise the parastatal Financial Regulations with the Government Financial Regulations of 2006 to avoid difference as to what documents were required to support a payment to avoid recurrences of the query. Further, disciplinary action would be instituted on all those responsible.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the Office of the Auditor General to take note of the matter in future audits.

iv) Irregular payments

The Secretary to the Treasury submitted that the Treasury would ensure that necessary disciplinary action was taken against officers involved to deter others from perpetuating such vices in future. Where the vices had continued, the Treasury would endeavor to engage the Boards of Directors to terminate the contract of employment for the Chief Executive Officers and any other Directors involved in the irregularities before referring the matters to investigative wings for further probe.

Committee's Observations and Recommendations

Your Committee notes the submission but is concerned that no action has been taken so far despite several promises made to your Committee in previous years. The Secretary to the Treasury is, therefore, urged to ensure that public funds are safeguarded. Your Committee awaits a progress report on the matter.

v) Unaccounted for Funds

The Secretary to the Treasury submitted that the Treasury had directed that necessary disciplinary action should be taken against erring officers in line with the provisions of the Public Finance Act in addition to the matters being reported to the law enforcement agencies.

Committee's Observations and Recommendations

Your Committee expresses concern that the irregularity had been going on for a long time. The Secretary to the Treasury is urged to ensure that drastic steps are taken to curb the irregularity. Your Committee awaits a progress report on the matter.

vi) Unaccounted for Stores

The Secretary to the Treasury submitted that the Chief Executive Officer of a statutory corporation was responsible for taking such steps as necessary to ensure that the assets of the corporation were protected against misuse or theft. The Treasury will ensure that all officers were involved should be disciplined in accordance with provisions of the relevant statutes.

Committee's Observations and Recommendations

In noting the submission, the Secretary to the Treasury is urged to ensure that practical steps are taken to improve the current status in most of the parastatal bodies regarding this irregularity. They also urge the Auditor-General to note the matter in future audits.

vii) Unretired imprest

The Secretary to the Treasury submitted that there was clear laxity by management of the parastatals as all imprest must be retired within the stipulated time of 48 hours and for any officer who fails to do so, immediate action should be taken to recover the outstanding balance of the imprest. Where the issuing officer fails to notify the Controlling Officer as stipulated under Regulation 96(4), action should be taken against that officer. The Secretary to the Treasury will endeavor to ensure that State Owned Enterprises harmonise Parastatal Financial Regulations with the Government Financial Regulations.

Committee's Observations and Recommendations

In noting the submission, your Committee encourages the Secretary to the Treasury to proceed with the harmonisation of parastatal bodies Financial Regulations and Government regulations to help standardise the systems. Your Committee awaits a progress report on the matter.

viii) Missing payment vouchers

The Secretary to the Treasury stated that this was clear laxity by management of parastatals as all payment vouchers should be secured in line with the Financial Regulations. Therefore, any officer responsible for failing to secure documents would be disciplined in accordance with the relevant Regulations.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to ensure that erring officers are disciplined. Your Committee awaits a progress report on the matter.

ix) Delayed banking

The Secretary to the Treasury reported that instructions were issued to all Controlling Officers to use the new systems of accounting for revenue that required clients to deposit direct into designated Parastatal Bank Accounts as well as the use of Point of Sale Machines. It was expected that the Controlling Officers shall ensure that these measures were implemented in parastatal bodies under their charge. The Treasury will be issuing further guidance on the management of funds specific to parastatals before the end of 2014.

Committee's Observations and Recommendations

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

x) Wasteful expenditure

The Secretary to the Treasury reported that, expenditure in parastatal bodies was guided and approved by the respective Boards of Directors. Controlling Officers or their representatives who sit on the Boards must scrutinise expenditures and provide the relevant guidance to the Boards.

Committee's Observations and Recommendations

Your Committee strongly urges the Secretary to the Treasury to ensure that stringent measures are put in place to curb the irregularity without any further delay. Your Committee awaits a progress report on the matter.

xi) Over payments to contractors

The Secretary to the Treasury submitted that these were serious omissions which should be reported to investigative agencies for further investigations since they border on cases of corrupt practices and fraud by officers involved in the payments.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to engage Boards for parastatal bodies in this matter and discuss the way forward in ensuring that the irregularity is curbed. Your Committee awaits a progress report on the matter.

CONSIDERATION OF SUBMISSIONS

CITIZENS ECONOMIC EMPOWERMENT COMMISSION

Query

Paragraph 5

7. An examination of financial, accounting, stores and other relevant records at the Citizens Economic Empowerment Commission (CEEC) Secretariat revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Secretariat/Operational Fund

i. Unretired Imprest - K142,794,991

The Controlling Officer acknowledged that there was unretired imprest amounting to K142,794,991 broken down as K134,698,355 for Head office and K7,411,258 for Provincial offices. The Controlling Officer submitted that for the head office, management had since retrieved retirements totalling K108,670,155 leaving a balance of K26,028,200 which was being recovered from the affected staff. The Controlling Officer also submitted that queries on unretired provincial imprest totalling K7,411,258 had not yet been addressed.

Committee's Observations and Recommendations

Your Committee expresses concern at the way management of imprest and urges the Controlling Officer to ensure that the imprest is managed in accordance with Financial Regulations. Your Committee further urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee also urges the Controlling Officer to ensure that the imprest is retired in full and documents availed for audit verification. Your Committee awaits a progress report on the matter.

ii. Inadequately supported payments - K212,794,991

The Controlling Officer acknowledged regarding the inadequately supported payments and explained that all the supporting documents for transactions amounting to K212,794,991 had since been traced.

Committee's Observations and Recommendations

Your Committee observes that the query was as a result of negligence and urges the Controlling Officer to take disciplinary action against the officers concerned. Your Committee awaits a progress report on the matter.

iii. Unacquitted payments - K49,554,160

The Controlling Officer submitted that amounts totalling K49,554,160, that were unacquitted at the time of audit had since been acquitted.

Committee's Observations and Recommendations

Your Committee expresses concern that payments totalling K49,554,160 were unacquitted for no valid reason and urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee awaits a progress report on the matter.

iv. Stores - Lack of receipt and disposal details - K26,260,000

The Controlling Officer acknowledged that disposal details for items costing K26,260,000 were missing at the time of audit.

Committee's Observations and Recommendations

Your Committee considers this a serious anomaly as in the absence of the receipt and disposal details, it is not possible for the Auditor General to ascertain whether the goods were received and whether they were used for the intended purposes. Your Committee, therefore, directs the Controlling Officer to ensure that management of CEEC finds the missing stores details without further delay. Your Committee further urges the Controlling Officer to ensure that there is strict adherence to the stores regulations at the Commission. Your Committee resolves not to close the matter until the missing stores details are found and availed for audit verification. Your Committee awaits a progress report on the matter.

v. Irregular payment of car maintenance allowance - K13,860,000

The Controlling Officer acknowledged the anomaly and informed your Committee that the irregular payment of motor vehicle maintenance allowance amounting to K13,860,000 had since been recovered from the officer's terminal benefits.

Committee's Observations and Recommendations

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

b) Empowerment Fund

i. Unreconciled loan recoveries - K4,814,314,396.66

The Controlling Officer acknowledged that there were un-reconciled loan recoveries amounting to the K4,814,314,396.66 at the time of audit. The Controlling Officer submitted that the Commission had engaged Messer CYMA Chartered Public Accountants and Management Consultants who were undertaking a valuation of the Commission's loan book. The Controlling Officer added that their scope of work included a full reconciliation of all loan accounts and the allocation of the unidentified deposits to their respective loan accounts. In addition, the Commission had engaged ZANACO Bank to work through its country-wide branch network to identify companies behind unidentified deposits.

Committee's Observations and Recommendations

Your Committee expresses concern that the Management of CEEC has not put in place measures to identify loan recovery deposits and wonders how the Commission is able to make follow ups on loan repayments. Your Committee strongly urges the Controlling Officer to ensure that the matter is resolved without further delay. Your Committee awaits a progress report on the matter.

ii. Site visits to CEEC sponsored business entities

The Controlling Officer acknowledged that there were a lot of weaknesses in the management of projects by the loanees. The Controlling Officer went on to explain that for loans which had collateral, the Commission was making recoveries through litigations in Courts of law while it had also engaged services of external debt collectors to pursue delinquent projects. Additionally,

the Commission was in the process of engaging corporate turnaround experts to help resuscitate some businesses that were experiencing operational challenges. Further, the Commission was working with financial institutions in order to use their expertise in credit and risk management. The Commission had also created a Credit Control and Risk Directorate which was operational.

Committee's Observations and Recommendations

Your Committee observes that the Fund is being poorly managed and expresses concern that if it is not addressed, it will fail to meet its intended purpose. Your Committee is particularly concerned that despite the Commission having qualified personnel in various fields, weaknesses have continued to manifest in the management of the Fund. Your Committee is of the view that the practice of relying on outside expertise is too costly to the Fund. Your Committee, therefore, strongly urges the Controlling Officer to implement measures aimed at addressing the situation. Your Committee awaits a progress report on the matter.

ELECTORAL COMMISSION OF ZAMBIA (ECZ)

Query

Paragraph 6

Review of the Management Information Systems

8. The audit revealed several accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Lack of ICT Strategic Plan

The Controlling Officer submitted that the Commission was currently implementing a five (5) year strategic plan covering the years 2010 to 2015. Under this framework, the IT Department prepared annual work- plans that were aligned to (and supported) the Commission's strategic plan. These were approved by Management and the Commission before execution. This mechanism ensured that all IT enabled investments were aligned to the Commission's strategic goals. However, in line with the audit recommendation, the development of the ECZ ICT Strategic plan was one of the activities of the IT Department to be completed by November, 2014. The ECZ 2014 work plan was available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to prepare IT Strategic plans. Your Committee observes that the overall work plan of the institution was not sufficient to cover the specialised operations in IT. The Controlling Officer is urged to ensure that the IT Strategic plan is operationalised without any further delay. Your Committee awaits a progress report on the matter.

b) Lack of IT Steering Committee

The Controlling Officer submitted that management had been providing oversight to the ICT projects within the Commission. However, the Commission approved the establishment of an IT Steering Committee which was made up of six (6) members. The Committee was composed of four internal members and two external members drawn from the Zambia Information & Communication Technology Authority (ZICTA) and the Zambia Institute of Chartered Accountants (ZICA). The Committee was scheduled to hold its first meeting in the third quarter of 2014.

Committee's Observations and Recommendations

Your Committee observes that there was laxity on the part of the Controlling Officer who had not followed up with the intended members of the IT Steering Committee. While it is appreciated that the letters were sent and responses were not yet received, your Committee is concerned that the Controlling Officer failed to convene meetings. Your Committee awaits a progress report on the matter.

c) Lack of change management procedures

The Controlling Officer submitted that Change Management Procedures to cover applications, procedures, systems and service parameters, and the underlying platforms had been incorporated into the ICT policy and were in use.

Committee's Observations and Recommendations

Your Committee is concerned at the failure by management to document the change management procedures in the IT policy early enough. The Controlling Officer is urged to ensure that all IT Systems are updated from time to time to meet emerging needs and that all such procedures were documented. The matter is, however, recommended for closure subject to audit verification.

d) Lack of Service Level Agreements (SLAs)

The Controlling Officer submitted that the ICT policy together with the IT performance scorecard was being used as a high level framework for service delivery to users, thereby preventing misuse of ICT resources as well as ensuring commitment to deliverables between IT and users. To this effect, a service desk system had been implemented for users to submit incidences and requests as well as IT staff to track and respond to the queries. All the users have been trained on the platform. A policy provision has been made in the ICT policy specifying the service levels and was available for verification.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to ensure that in future, Service Level Agreements are used in accordance with COBIT DS1.3. The matter is recommended for closure subject to audit verification.

e) Lack of System Owners and Data Classification Policy

The Controlling Officer submitted to your Committee that data and system ownership had been explicitly outlined in the ICT Policy. Systems related to financial management were currently owned by the Finance Department while those for electoral operations such as the Voter Registration System were owned by the Elections Department. The ICT policy was available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that Data and System Ownership and policies are put in place in accordance with CoBIT PO4.9. Your Committee resolves to close the matter subject to audit verification.

f) Lack of Back-Up Policy

The Controlling Officer submitted that the ICT Policy had been updated to specify backup policy provisions that outline frequency, mode of back-up, storage media and their location as well as the testing of the integrity of the back-ups. All back-up facilities were in use by the Commission.

Committee's Observations and Recommendations

The Controlling Officer is urged to ensure that the ICT policy is updated periodically and the matter is recommended for closure subject to audit verification.

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Headquarters and selected districts for the financial year ended 31st December 2012 carried out in October 2013 revealed the issues set out below.

a) Irregular disposal of motor vehicles

The Controlling Officer submitted that the Commission was an autonomous body administered according to the *Electoral Commission Act No. 24 of 1996*. This Act provides for the administration and operations of the Commission and also provides for the ownership of assets by the Commission. Arising from the enactment of the Act, the Commission owned two kinds of vehicles, namely vehicles with Government (GRZ) number plates and those in the name of the Commission with non-government number plates. The Controlling Officer submitted that upon being established all assets were transferred to the Commission in accordance with Section 17 of the Act.

In the case being referred to above, the Commission only declared to the Standing Board of Survey, the Government owned motor vehicles with GRZ number plates. The other motor vehicles were solely owned by the Commission in accordance with *Section 17 of the Electoral Commission Act No. 24 of 1996* which provides that:

“All property, assets, rights, liabilities and obligations of the Government attaching to or in possession of the department of Government dealing with elections, shall vest in the Commission.”

The Controlling Officer stated that the Commission, therefore, had its own assets which it could dispose of as an autonomous and independent body. All proceeds that were realised from the sale of the vehicles and motor bikes were used to purchase utility vehicles that the Commission required for the performance of its mandate. Therefore, the retention and use of these funds was within the mandate of the Commission as provided for by Section 13(4) of the Electoral Act which states that:

“The Commission may invest in such manner as it thinks fit such of its funds as it does not immediately require for the performance of its functions.”

The proceeds, therefore, cannot be deposited in the General Revenues as the Commission was not a Government department.

Committee's Observations and Recommendations

Your Committee resolves to seek a legal opinion from the Office of the Attorney General and a response is being awaited.

b) Irregular payment of both Non-Practice and Retention Allowance

The Controlling Officer contended that the Commission was empowered under *Section 12 of the Electoral Commission Act* to determine the Conditions of Service for its employees. Section 12(3) of the Act states that:

"The Director shall be assisted by such staff as the Commission may appoint, by statutory instrument, on such terms and conditions as the Commission may determine."

The Commission had determined the conditions of the service for the members of staff in accordance with the law and these conditions cannot be reduced to the disadvantage of the staff. The Commission's Conditions of Service cannot be compared to those of the Public Service but were based on the Commission's ability to pay in accordance with the existing laws. The Commission's overall position was that the provisions of the Electoral Commission Act were paramount and could not be subjected to periodic Government circulars.

Committee's Observations and Recommendations

Your Committee has sought a legal opinion from the Attorney General and a response is being awaited.

c) Failure to deduct tax on allowances

The Controlling Officer reported that the Commission resolved to tax all utility, educational and fuel allowances with effect from 1st January 2013. Subsequent review of the 2013 records could attest to this action.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that tax which was not paid by the employees is deducted and paid to correct the situation. Your Committee directs that all officers must be made aware of their tax obligations and that statutory obligations should not be treated with exemptions. Your Committee awaits a progress report on the matter.

d) Unacquitted funds

The Controlling Officer submitted that the acquittal forms were now available for verification. The forms were duly signed by the recipients of the funds but the auditors had not admitted the document as sufficient evidence.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all documents are available during audits and further that erring officers are disciplined in accordance with financial regulations to avoid recurrence. The matter is, however, recommended for closure subject to audit verification.

Local Authorities

a) Failure to provide records for audit

The Controlling Officer reported that items were all returned to the Commission and the stores records at the Commission's headquarters were updated with the quantities. However, the Districts in question did not fill out the required forms as evidence of return, which action had been corrected for any subsequent returns of election materials. This weakness was noted and controls on the use of the existing equipment issue forms at both the Councils and the ECZ headquarters had been enhanced.

Following an election, ballot papers in particular, were accounted for again during the verification of the ballot paper account prior to the return of the ballot papers to the ECZ headquarters.

Committee's Observations and Recommendations

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

b) Missing payment vouchers - K137,121,000

The Controlling Officer submitted that the payment vouchers and acquittal sheet had since been traced and were available for verification for both Mongu and Mufumbwe.

Committee's Observations and Recommendations

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

c) Unaccounted for fuel - K43,292,375

The Controlling Officer submitted that with regards to Mongu, Serenje and Kabwe District Councils, receipt, fuel coupons and disposal details had now been provided and were available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against erring officers but the matter is recommended for closure subject to audit verification.

d) Un-acquitted payments - K113,101,000

The Controlling Officer reported that payment vouchers and acquittal sheets in question had been acquitted and were available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against erring officers the matter is recommended for closure subject to audit verification.

THE JUDICIARY

Audit Query

Paragraph 7

Accounting and other irregularities

9. An examination of accounting and other records maintained at the Judiciary Headquarters and Provincial offices carried out in September, 2013 revealed several irregularities to which the Controlling Officer responded as set out below.

a) Failure to hold Audit Committee Meetings

The Controlling Officer submitted that notices to hold the meetings were circulated but the meetings did not take place since the members did not respond to the invitations. Further write ups were made to the Secretary to the Treasury to appoint a new audit committee whose action was still being awaited for.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against taking a casual approach to internal control matters and urges him to ensure that follow ups with the Secretary to the Treasury without any further delay. Your Committee awaits a progress report on the matter.

b) Unaccounted for fuel - K39,832,900

The Controlling Officer reported that disposal details had been traced and were ready for audit scrutiny.

Committee's Observations and Recommendations

Your Committee does not accept the response by the Controlling Officer and therefore cautions him to take matters of accountability seriously. He is urged to ensure that disciplinary action is instituted against erring officers. The matter is recommended for closure subject to audit verification.

c) Unacquitted overtime allowance payments - K 27,097,749

The Controlling Officer submitted that acquittal sheets had been traced and were ready for audit scrutiny.

Committee's Observations and Recommendations

Your Committee does not accept the response by the Controlling Officer and therefore cautions him to take matters of accountability seriously. He is urged to ensure that disciplinary action is instituted against erring officers. The matter is recommended for closure subject to audit verification.

d) Inadequately supported payments - K1,459,431,826

The Controlling Officer submitted that all supporting documents relating to the three centers had been traced and were ready for audit scrutiny.

Committee's Observations and Recommendations

Your Committee does not accept the response by the Controlling Officer and therefore cautions him to take matters of accountability seriously. He is urged to ensure that disciplinary action is instituted against erring officers. The matter is recommended for closure subject to audit verification.

e) Unretired imprest - K742,854,709

The Controlling Officer submitted that out of the total amount of K742,854,709, a total of K376,070,370 was actually retired leaving a balance of K366,784,340 as unretired imprest and that instructions had been given to commence deductions.

Committee's Observations and Recommendations

Your Committee sternly cautions the Controlling Officer for failure to adhere to Financial Regulations on retirement of imprest and is therefore urged to ensure that all erring officers are disciplined accordingly for the lapse to deter others. The matter is, however, recommended for closure subject to audit verification.

f) Irregular payment of salaries and allowances - K275,291,163 and K30,210,951, respectively

The Controlling Officer submitted that the Auditor General's findings emanated from the review of the management report which was compiled after carrying out a countrywide headcount and verification of the payroll in relation to what was obtaining on the ground in the respective provinces. In this regard, management had done the following:

- recoveries for the overpaid salaries had been effected from the terminal benefits for the affected seventeen (17) former employees. Computations had been done and funding was being awaited to effect recoveries; and
- deductions had since been effected on eleven (11) officers who were receiving housing allowances while staying in institutional houses. One (1) officer out of the twelve (12) appealed against the verification findings and it was established that he had never occupied an institutional house.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to strengthen internal controls and urges him to ensure that erring officers are disciplined for the lapse and that all recoveries are made without any further delay. Your Committee awaits a progress report on the matter.

g) Failure to deliver projects on time

The Controlling Officer submitted that delays were caused by financial constraints. The Judiciary was currently taking stock of all affected projects and shall put remedial measures where necessary.

Committee's Observations and Recommendations

Your Committee while noting the response does not accept the response by the Controlling Officer and, therefore, sternly cautions him to desist from taking a casual approach to dealing with matters of accountability. Your Committee awaits a progress report on the matter.

h) Failure to charge liquidated damages

The Controlling Officer stated that the Judiciary had challenges in invoking the provisions of the contracts on charging liquidated damages in that it also breached the same clause by its failure to pay the contractors on time due to erratic and insufficient funding as provided for in the budget.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that he liaises with the Secretary to the Treasury on matters of funding to avoid recurrence of the matter. The matter is recommended for closure subject to audit verification.

i) Over payments to contractors - K44,474,122

The Controlling Officer submitted that a further scrutiny of the records had revealed that there were no overpayments on the stated contracts. What appeared to be overpayments were payments based on contract variations that required more work to be done. Documents were availed for audit scrutiny and the query had since been dropped by the auditors.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

j) Poor workmanship

The Controlling Officer took remedial measures to address the defects, which among others included the strengthening of monitoring and evaluation of projects, extending the defect liability period and providing a budget line for rehabilitation and additional works in the future budgets was big. He stated that until 2013, all projects were managed by the Provincial Administration and this had resulted in many challenges identified in the Auditor-General's Report. The Judiciary had taken over the responsibility for management of all its construction projects in order to improve their execution.

Through a meeting with the Controlling Officers of the Judiciary and that of the Ministry of Transport, Works, Supply and Communication, your Committee was informed that the following were the factors responsible for unsatisfactorily workmanship:

- i. inconsistent funding, and in several cases the certified amounts were not honoured in full which has led to contractor demotivation, delayed completion of projects and eventual site abandonment and thus the delays in completion;
- ii. lack of proper maintenance plan since most defects were worked on during the defect liability period and the contractors were released; It's now the responsibility of Buildings Department and the user Department to plan for repair and maintenance;
- iii. the projects did not have a component of supervision which made site visits erratic and infrequent, thereby allowing for omissions and inadequate project supervision and made it difficult to monitor works in remote areas frequently as transport was not readily

available; Consequently, the Provincial Buildings Engineers (PBEs) could not effectively monitor works and therefore made it difficult to guarantee quality assurance; and

- iv. under-costing of projects resulted in poor finishing and in most cases supply of furniture suffered since it was at the end of the procurement process.

Committee's Observations and Recommendations

Your Committee recommends that:

- (i) client Ministries, Provinces and Spending Agencies (MPSAs) must ensure that funds meant for Monitoring and Evaluation (M&E) are spent on the intended purpose, and the two Controlling Officers are urged to work hand in hand in seeing to it that projects are monitored, supervised and evaluated accordingly to avoid recurrence;
- (ii) the MPSAs must ensure that all construction projects' budgets are sufficient and include a component of Monitoring and Evaluation (M&E) to ensure that projects are fully monitored;
- (iii) the office of the Provincial Buildings Engineer must be capacitated in order to equip them in ensuring that all projects under its supervision are supervised to avoid poor workmanship;
- (iv) the Controlling Officer of the Ministry of Transport Works Supply and Communication is specifically urged to ensure that his officers are disciplined for issuing certificates of completion of work that were questionable as the works were not thoroughly done in some cases in the construction of local and urban courts; and
- (v) the Controlling Officers must ensure that wherever possible, liquidated damages are claimed from the contractors.

Your Committee resolves to await a progress report on the outstanding works and claims.

k) Questionable payment of retention funds – Mulobezi Rural Local Court

The Controlling Officer submitted that the payments made by the Judiciary were made on the strength of the professional certification of works by Ministry of Transport, Works, Supply and Communication (MOTWSC). The Controlling Officer further submitted that he was taking remedial measures which included the review of the additional works that needed to be done, and strengthen security around premises to address the challenges.

Committee's Observations and Recommendations

Your Committee recommends that the matter should be reported to law enforcement agencies for further investigations. The Committee awaits a progress report on the matter.

MULUNGUSHI UNIVERSITY

Query

Paragraph 8

10. The audit revealed several accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Failure to submit Annual Reports

The Controlling Officer acknowledged that the University's annual report for 2012 was not ready by the time of the audit due to the accounting system used by the University had collapsed and the University which had been rebuilding it during the period of audit. The Controlling Officer stated

that the reports were prepared and were adopted by Council on December 20, 2013 and they had since been published.

Committee's Observations and Recommendations

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

b) Financial Performance - Statement of Comprehensive Income

The Controlling Officer acknowledged that the University had been posting deficits from 2010 to 2012 which was largely caused by the emolument finance gap. The annual salary grant which the University received from the Government was not gross thus making it insufficient to meet the University's total emoluments cost. Moreover, the funding to the University had not been in line with growth.

Committee's Observations and Recommendations

Your Committee expresses concern that the University's financial position is not sound and urges the Controlling Officer to work closely with the University management to address the situation. Your Committee awaits a progress report on the matter.

c) Financial Position - Statement of Financial Position

The Controlling Officer acknowledged that the University recorded deficits from 2010 to 2011 except for 2012 which recorded a surplus of K374,135 million compared to the previous years. The Controlling Officer stated that the staff costs increased from K26,587,122,000 in 2010 to K35,926,538,000 in 2012. The increase in staff costs was in line with the University's growth in terms of staff numbers with the view of meeting student needs. The Controlling Officer noted that Government's emoluments funding had not been growing in line with the University's growth which created a funding gap.

Committee's Observations and Recommendations

Your Committee expresses concern that the University's financial position is not sound and urges the Controlling Officer to work closely with the University management to address the situation. Your Committee awaits a progress report on the matter.

d) Non-Remittance of Statutory Contributions- K24,016,332,960

The Controlling Officer acknowledged that there was outstanding Pay As You Earn (PAYE) totalling K16 Billion as at December, 2012. This resulted from failure by the Government to fund 100% of the University's emoluments cost. The University Management and Council had been liaising with the Ministry of Education to increase the recurrent expenditure grant to enable the University to be current with PAYE.

The Controlling Officer further submitted that the outstanding fees amounting to K4.4 Billion to NAPSA were penalty fees which were levied on none remittance of employees contribution by the College before the University was established. The outstanding employees' contributions were paid by Government during the conversion of the College to the University. However, NAPSA served the University with penalties after the Government had liquidated the principal amount. The Controlling Officer explained that the penalties were halted and NAPSA Management was being engaged by the University so that the debt could be transferred to the

Ministry of Finance.

Committee's Observations and Recommendations

Your Committee observes that the current situation in respect of non-remittance of statutory contributions by the University is unacceptable as it will continue to suffer penalties from the concerned institutions. Your Committee urges the Controlling Officer to engage the Secretary to the Treasury in order to find a lasting solution to the matter. The University Management is also urged to engage the Zambia Revenue authority (ZRA) with a view of coming up with a flexible payment plan. Your Committee awaits a progress report on the matter.

e) Lack of title deeds for water works land

The Controlling Officer acknowledged that the University operated its water works plant valued at K8.8 Billion on a 40 hectares piece of untitled traditional lands. The Controlling Officer added that the University had engaged the Ministry of Land and the area Chief with the view of obtaining title to the land. The land had been already surveyed by the Ministry of lands and the University had since forwarded the survey report to its lawyer to facilitate the acquisition of the title deed.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that the title for the land in question is obtained without further delay in order to avert encroachment on the said land. Your Committee awaits a progress report on the matter.

f) Inadequately supported payments - K102,303,987

The Controlling acknowledged that payments amounting to K102,303,987 were inadequately supported mostly because most suppliers preferred to issue tax invoices instead of the receipts. The Controlling Officer stated that the schedule had been circularized back to the suppliers to either quote the cheques numbers or date stamp the documents for acknowledging receipt of the funds. The Controlling Officer added that as a result of this, out of the total amount of K102,303,987 inadequately supported, K87 Million had be on supported leaving a balance of K15 Million.

Committee's Observations and Recommendations

Your Committee expresses concern that the University Management failed to ensure that payments were adequately supported in accordance with Financial Regulations and urges the Controlling Officer to take disciplinary action against the officers responsible for the omission. Your Committee awaits a progress report on the matter.

g) Failure to carry out an Environmental Impact Assessment

The Controlling Officer acknowledged that the University had a diesel filling station in respect for which an operation certificate from the Zambia Environmental Management Agency (ZEMA) had not been obtained as required by law. The Controlling Officer assured your Committee that the process of obtaining certification for the operation of the filling station had been initiated.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

UNIVERSITY OF ZAMBIA

Audit Query

Paragraph 9

11. The audit revealed several accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Financial Performance - Statement of Comprehensive Income

The Controlling Officer acknowledged that staff costs for the two financial years 2011 and 2012 stood at 80% and 81% respectively. This trend continued in 2013 and was likely to continue in 2014 and other future years if the funding situation did not improve. He explained that the funds which the institution generated or received from the Government were not adequate to finance its operations and further improve on the infrastructure, teaching facilities and other core functions of the institution. The focus has remained on payment of salaries to staff which was also not adequate hence the accumulation of both statutory and contractual debt.

On the failure to charge non-cost reflective fees, the Controlling Officer submitted that it expected that a larger portion of the institution's income was generated from student fees. However, this had not been the case over the years as the tuitions fees were controlled by Government and were not cost reflective. This had resulted into the University failing to meet its operational and capital expenditure hence the accumulation of debt and deficits.

The Controlling Officer also submitted that the formulae used to calculate terminal benefits had contributed to the institution's weak financial position. He noted that the institution had continued to incur huge debts arising from the historical formulae used to compute benefits of staff. The terminal benefits provisions included in the Personal Emoluments were K231billion and K380 billion for 2012 and 2011 respectively. While K100million in 2011 related to prior year provisions.

On the way forward, the Controlling Officer submitted that since 2000, the institution had not been offering employment on permanent and pensionable terms but contract terms of employment where a gratuity of 25% on accrual basis is applied. This was a strategy to get rid of the formulae. He explained that at the moment, there were 377 out of the total actual staffing levels of 2014, about (19%) who were on Permanent and Pensionable terms of employment. The period estimated for the Permanent and Pensionable terms to lapse was the financial year 2033 with an estimated cost of terminal benefits amounting to K1.18 billion.

Committee's Observations and Recommendations

Your Committee notes the measures put in place by the Management of the University but is not convinced that these are enough to resolve the funding challenges which the University is facing. Your Committee therefore recommends that the Government should come to the aide of the institution in order to resolve the matter. Your Committee is of the view that the funding assumptions have failed and need to be reviewed to come up with a lasting solution to the matter. Your Committee awaits a progress report on the successful resolution matter.

b) Unaccounted for Income - K25,065,000

The Controlling Officer submitted that recoveries had commenced from affected employees. This was experienced during the period when both tuition (in provincial centers) and application forms fees were paid to financial officers but now students paid fees and application form fees direct into the institution's bank account.

Committee's Observations and Recommendations

Your Committee notes that the recoveries have commenced but urges the Controlling Officer to report the cases to the Law Enforcement Agencies as failure to account for revenue has a criminal element to it. Your Committee awaits a progress report on the matter.

c) Missing receipt books

The Controlling Officer acknowledged the omission and explained that the officer under the School of Law had since been dismissed. The Controlling Officer submitted further that for Provincial centres, books were misplaced because in the year 2011 to 2012, there were no Accounting officers. He noted that some books had since been traced and were available for inspection.

Committee's Observations and Recommendations

Your Committee observes that misplacement of receipt books had nothing to do with the availability or otherwise of accounting officers. Your Committee urges the Controlling Officer to take disciplinary action against the officers to whom the receipt books were issued. Your Committee awaits a progress report on the matter.

d) Delayed banking-K480,775,175

The Controlling Officer submitted that the major problem experienced in the affected areas was transport and the manager involved had been written to and cautioned.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

e) Missing payment vouchers-K214,791,32

The Controlling Officer acknowledged that the officers concerned were no longer with the institution.

Committee's Observations and Recommendations

Your Committee is concerned with the lack of seriousness exhibited by both the Controlling Officer and the University Management in addressing the matter. Your Committee is particularly concerned at the Controlling Officer's failure to explain what exactly transpired. Your Committee directs the Controlling Officer to ensure that the missing payment vouchers are traced and availed for audit verification. Your Committee resolves to await a progress report on the matter.

f) Inadequately supported payments-K855,299,149

The Controlling Officer acknowledged the anomaly and informed your Committee that supporting documents for a total amount of K283,829,329.31 had been traced while the system of having Goods Received Notes issued at Centrals stores had been implemented.

Committee's Observations and Recommendations

Your Committee expresses concern at the general poor management of accounting documents at the University despite having qualified Accounting staff. Your Committee urges the Controlling Officer to take disciplinary action against the Accounting officers responsible for the anomaly. Your Committee also urges the Controlling Officer to ensure that all the missing supporting documents are traced and availed for audit verification. Your Committee awaits a progress report on the matter.

g) Unretired imprest-K280,669,652

The Controlling Officer submitted that in Central Administration the imprest related to Student Research Funds (Staff Development Fellows) provided under the Staff Development Program. In future the guidelines on imprest would be followed. In respect of the imprest under the School of Education, the Controlling Officer submitted that the amount would be deducted from the terminal benefits since the person involved was no longer with the University. As regards imprest under the School of Agriculture, he explained that the financial officer was dismissed from the. In the School of Humanities and Social Sciences, the payments related to subsistence and overload allowances which were collected by staff.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the Controlling Officer to ensure that all the outstanding imprest is retired and the erring officers are disciplined in accordance with Financial Regulations. Your Committee awaits a progress report on the matter.

h) Used receipts without details - School of Law

The Controlling Officer submitted that the officer involved had been dismissed.

Committee's Observations and Recommendations

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

i) Irregular payment of allowances-K535,831,333

The Controlling Officer submitted that the payments had been discontinued and recoveries from the officers had not been effected considering that some had left the Institution and an appeal was made to have the loss written off by the University Council.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to avail the authority from the Council as proof that the payment of the allowances was authorised. In the absence of the authority, the allowances should be recovered from the officers concerned. Your Committee awaits a progress report on the matter.

j) Unaccounted for Stores - School of Medicine-K152,655,527

The Controlling Officer submitted that at that time, the School did not have a proper system of accounting for fuel but noted that receipt and disposal details for an amount of K108,697,500 had since been cleared by auditors.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against the officers responsible for the omission. Your Committee awaits a progress report on the matter.

k) Delayed completion of Student Hostels

The Controlling Officer submitted that due to cash flow problems, the Institution was not able to pay the certificates on time.

Committee's Observations and Recommendations

Your Committee expresses concern at the delays in completing the works and urges the Controlling Officer to ensure that measures are taken to correct the situation. Your Committee awaits a progress report.

ZAMNET COMMUNICATION SYSTEMS LTD

Query

Paragraph 10

12. The audit revealed several accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Financial Performance – Income Statement

(i) Decrease in revenues

The Controlling Officer acknowledged that there was a decrease of income by K4,803,492,000 mainly due to a line of business relating to ku-Band satellite internet provision – The iWay business – that was sold back to the owner – AFSAT Africa. The decision to sell the business back to AFSAT was as a result of the fact that AFSAT decided to set up operations in Zambia, in direct competition to ZAMNET. As a wholesaler, AFSAT would have undercut ZAMNET's prices (retailing) and won over ZAMNET's iWay customers. The iWay business constituted about one third of ZAMNET's business. ZAMNET had replaced AFSAT with another provider and was building up the ku-Band satellite business.

Committee's Observations and Recommendations

Your Committee takes note of the submission by the Controlling Officer and requests the Auditor General to take note of the matter in future audits.

(ii) Failure to make profits

The Controlling Officer submitted that the Company faced increased costs of bandwidth coupled with a high exchange rate. However, the Company had managed to source bandwidth from a cheaper source and various cost saving measures had also been put in place. Further, the Company was in the process of diversifying its operations and as a result of these, in the year 2012/13, ZAMNET managed to attain a break even position.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company has continued to be loss making despite the industry within which it operates being competitive. Your Committee however notes the assurances made by the Controlling Officer that measures have been put in place to make the Company profitable. Your Committee awaits a progress report on the matter.

(iii) Gross profit margins

The Controlling Officer submitted that bandwidth supply which was a major cost was being sourced from a cheaper but reliable supplier hence reducing the cost of sales. The Controlling Officer submitted that with reduced incomes facing the Company, Management kept a very tight control over expenditure. The Controlling Officer further submitted that the Company had reported a profit for the year ending 31 March, 2013 and it was hoped that the Company would continue to make profits.

Committee's Observations and Recommendations

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

b) Statements of Financial Position

i) Liquidity Analysis – Current Ratio

The Controlling Officer submitted that Management had been looking to increase the Company's revenue base as well as improve its debt collection while reducing liabilities, to improve all its ratios.

Committee's Observations and Recommendations

Your Committee urges the Management of the Company to continue implementing innovative measures to improve the general performance of the Company and the liquidity ratios in particular. Your Committee requests the Auditor General to note of the matter in future audits.

ii) Failure to collect recivables-K6,872,902,816

The Controlling Officer submitted that the Company was monitoring its debt collection period by ensuring that customers who were not paid up by the 1st of each month were disconnected. The Controlling Officer further submitted that the Company had employed debt collectors at all the branches to expedite debt collection. All debtors above twelve months had been fully provided for. The net effect of this was that the debtors did not add to the value of the assets held by

ZAMNET. The debtors were kept on the books to keep them in scope and for follow up purposes.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company is owed so much money despite facing financial constraints. Your Committee urges the Controlling Officer to ensure that the Management of Company devises and adopts more aggressive measures to collect the debt. Your Committee awaits a progress report on the matter.

iii) Increase in provisions for impairment losses of receivables-K933,391,000

The Controlling Officer submitted that the Company had introduced a system of only sending pro-forma invoices before tax invoices were raised to ensure that only customers willing to use the ZAMNET services were billed.

Committee's Observations and Recommendations

Your Committee expresses concern that the Company has preoccupied itself with making provisions for the impairments instead of coming up with the measures to collect the debt. Your Committee therefore, recommends that the Management should come up measures to collect the debt in order to improve the liquidity ratio of the Company. Your Committee awaits a progress report on the matter.

iv) Non remittance of Statutory obligations-K4,827,682,178

The Controlling Officer submitted that the actual debt relating to NAPSA contributions not made by ZAMNET relating to the years 2000 to 2002 was only communicated to Management by NAPSA in 2011. The amount was settled by ZAMNET during that same year. The Controlling Officer submitted however, that it was the penalties and interest arising therefrom which remained unpaid from 2011 to 2013 when the Company agreed on a payment plan with NAPSA. The Controlling Officer further submitted that when cash flows allowed, the Company remitted payments to ZRA for the taxes due.

Committee's Observations and Recommendations

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

c) Failure to implement Strategic Plan

The Controlling Officer acknowledged that the migration to the new technologies had not been attained mainly due to financial constraints but assured your Committee that efforts would continue to be made to raise finances for diversification as well as new technologies.

Committee's Observations and Recommendations

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

d) Loss of key customers

The Controlling Officer submitted that ZAMNET's key customers were previously the University of Zambia and the Copperbelt University. The Controlling Officer noted that the two were lost when they migrated to a new programme called ZAMREN, set up by Donors and the Government to provide subsidised bandwidth to educational institutions. The Controlling Officer, however, assured your Committee that efforts had been made to retain and ensure that existing customers were satisfied with the services being provided. To this end, the Sales and Marketing team had been equipped to ensure that they reached customers easily while the Technical Team had received project management training.

Committee's Observations and Recommendations

Your Committee notes the submission by the Controlling Officer and urges the Company Management to continue working on innovative ways of improving the service so as to retain customers. Your Committee resolves to close the matter but requests the Auditor General to note of the matter in future audits.

TIMES OF PRINTPAK ZAMBIA LIMITED

Query

Paragraph 11

Review of Operations

13. The accounting and other irregularities hereunder were observed and the Controlling Officer responded as set out below.

a) Missing receipts

The Controlling Officer submitted that of the missing forty-eight receipts, thirty-five related to the Kitwe offices and were cancelled on the Pastel accounting system and could not be retrieved because the computer had crashed. The Controlling Officer further submitted that at the time, the cashier only printed issued receipts while the cancelled ones remained on the system. The Controlling Officer explained that efforts to retrieve data from the crashed computer had failed but assured your Committee that no revenue had been lost through these cancelled receipts.

The Controlling Officer further submitted that the other thirteen receipts related to the Ndola office could also not be availed for audit because the receipt book was misplaced and efforts were being made to locate it. The Controlling Officer further submitted that the Company management had since introduced a dual filing system where one copy of the daily sales report was filed at the branch and another at the Head office. Further, all the cancelled receipts were being printed and attached to the Daily Sales Reports.

Committee's Observations and Recommendations

Your Committee observes that the anomaly in both cases was as a result of negligence on the part of the officers concerned and urges the Controlling Officer to take disciplinary action against them. Your Committee resolves to close the matter but requests the Auditor General to verify the corrective measures that have been put in place.

b) Non-remittance of Statutory Contributions

The Controlling Officer submitted that the total amount of unsettled statutory obligations was K221,043,200,610 (un-rebased) and not K291,796,608,628 (un-rebased). The difference of K70,753,408,018 (un-rebased) was arrived at following the reconciliation which was done with NAPSA on both the outstanding debt and the penalty fees. The Controlling Officer further submitted that the Company had agreed to a debt swap arrangement with the Zambia Revenue Authority (ZRA) as a result of which in 2013, the Company paid a total of KR616,845.39 while a debt of K774,959.89 was swapped in 2014. The remaining debt owed by Times Printpak was now KR442,785.50.

As regards outstanding statutory contributions to the National Pension Scheme Authority (NAPSA), the Controlling Officer submitted that an agreement had been entered into to pay monthly installments of K40,000 while NAPSA had also agreed to a debt swap agreement with the Company. The Workers Compensation Fund debt had been cleared as at 31st December, 2013.

Committee's Observations and Recommendations

Your Committee notes the measures put in place by the management of Times Printpak to address the matter and resolves to close it subject to audit verification.

c) Failure to remit loan scheme repayments deducted from employees

The Controlling Officer submitted that the delay in remitting employees' loan recoveries was due to liquidity problems faced by the Company. However, Times Printpak subsequently entered into an agreement with the National Savings and Credit Bank (NATSAVE) to pay a monthly sum of K50,000 towards the loan scheme and the debt had since been cleared. The Controlling Officer further submitted that Times Printpak had written to Zambia National Commercial Bank (ZANACO) several times proposing a debt swap regarding the amount of K640,123.92 that it owed them in loan repayments and unpaid advertising bills of K442,940.86 that they owe Times Printpak. Feedback was being awaited on the proposed debt swap of an amount of K442,940.86 and pay the balance of K197,183.10 over a period of ten (10) months. The Controlling Officer stated that in future, all loan repayments would be made through individual staff accounts for the banks to make recoveries from staff accounts immediately they were credited.

Committee's Observations and Recommendations

Your Committee observes that it was erroneous in the first place for the Management to assume responsibility of making recoveries of the said loans instead of doing so through the individual officers' accounts. Your Committee further expresses concern that despite making recoveries from the employees, these were not remitted to the Bank. Your Committee urges Management to urgently put in place measures to resolve the matter. Your Committee awaits a progress report on the matter.

d) Procurement of the Printing Machine Using a Loan

The Controlling Officer submitted that the decision to borrow was necessitated by the need to upgrade equipment and ensure the Company remained competitive. The Controlling Officer noted that the Goss printing machine which the Company had been using for over forty years to print the newspapers had become obsolete and was constantly breaking down, hence the need to procure a new printing machine. The Controlling Officer further submitted that to purchase such

a machine, the Company needed in excess of US\$2.3 million, which it did not have, hence the decision to borrow from Finance Bank Zambia at an interest rate of 24.5% as cost of financing.

The Controlling Officer went on to submit that despite signing the Loan Contract, in which it was agreed that Times Printpak would start making monthly installments towards the loan starting February, 2011, the installation of the machine only started in August, 2011 and was only commissioned in November, 2011. As a result of the delay, the cash position for the Company did not improve, hence the overdraft. He noted that the initial loan agreement was concluded on 2nd November, 2010 for K8,000,000 and was to expire on 31st January, 2015 with interest at 24.5%. The loan interest had since been restructured to 18.75% effective 1st November, 2013. This followed a request made on 23rd May, 2011 and the restructured loan was to expire on 31st May, 2016. The reason for the restructuring was to allow the machine to be installed and become operational by June, 2011 and match the cash inflows from the saving of the new machine to the loan repayments.

The Controlling Officer further submitted that in March, 2012, Times Printpak agreed with Finance Bank Zambia to have the loan restructured and undertook to be making payment of KR330,000 every month, which the Company had consistently done. The Controlling Officer stated that the loan principal of K8,000,000,000 now stood at K3,866,666.57 and was expected to be fully repaid by June, 2016. The overdraft had reduced from K3.820 million as at 2nd January, 2013 to K567,609.89 as at 6th May 2014. Further, the Company had continued to pay K330,000 towards the loan and negotiated for the loan interest to be reduced from 24.5 % to 18.75%.

Committee's Observations and Recommendations

Your Committee notes the measures put in place by the Management to clear the loan but urges the Controlling Officer to engage the Secretary to the Treasury regarding extra funding to repay the loans. Your Committee awaits a progress report on the matter.

e) Unretired imprest-K42,343,764

The Controlling Officer submitted that seventeen transactions totalling K42,343,764 were payments for travel allowances, staff welfare, road licenses and not imprest payments which needed to be retired. The documents were misplaced at the time of audit but had since been traced. The Company had centralised the filing system and employed a filing clerk to avoid misfiling.

Committee's Observations and Recommendations

Your Committee expresses concern that the documents were not availed to auditors at the time of audit due to the misplacement. Your Committee, therefore, urges the Controlling Officer to take appropriate disciplinary action against responsible officers. Your Committee resolves to close the matter subject to audit verification.

f) Missing payment vouchers-K206,136,685

The Controlling Officer submitted that out of the forty missing vouchers, twenty-nine vouchers totalling K169,263,165.04 had been found, leaving a balance of eleven vouchers amounting to K36,873,520. The vouchers were missing at the time of audit due to their misplacement arising from re-location of Accounts offices. The officer who was handling the vouchers had been reprimanded and the Company had introduced electronic and dual filing to avoid missing payment vouchers.

Committee's Observations and Recommendations

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

g) Inadequately supported payments-K193,217,999

The Controlling Officer submitted that all the relevant documents had been found and attached to the forty (40) payment vouchers. The responsible officer had been cautioned to ensure that all documents were supported accordingly.

Committee's Observations and Recommendations

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

EASTERN WATER AND SEWERAGE COMPANY (EWSC)

Audit Query

Paragraph 12

Review of the Management Information Systems

14. The audit revealed several accounting and other irregularities to which the Controlling Officer submitted as set out below.

a) Lack of an IT Strategic Plan

The Controlling Officer submitted that at the time of the audit, Eastern Water and Sewerage Company (EWSC) operated with a Corporate Business Plan 2014/2016 which incorporated the strategy for ICT. A review of CoBIT PO1.4 was done and the IT function and business stakeholders were responsible for ensuring that optimal value was realised from project and service portfolios. The strategic plan improves key stakeholders' understanding of IT opportunities and limitations, assesses current performance, identifies capacity and human resource requirements, and clarifies the level of investment required. The business strategy and priorities were to be reflected in portfolios and executed by the IT tactical plan(s) which specifies concise objectives, action plans and tasks that would be understood and accepted by both business and IT. The EWSC IT Strategic Plan was then developed and implemented with the guidance of the CoBIT 5 framework and approved by EWSC management. EWSC was now operating with an IT Strategic Plan for the horizon 2014 - 2016.

He also reported that the Company had continued annual reviews of IT Strategic Plan so that it was in line with current requirements.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer in that the business plan is merely a marketing document meant for marketing purposes whilst an IT strategic plan is an internal document specifically meant for internal controls in the IT Department. The Controlling Officer is cautioned against failure to adhere to good standard practices in the IT sector. The matter is, however, recommended for closure subject to audit verification.

b) Lack of System Owners and Data Classification Policy

The Controlling Officer submitted that a review of CoBIT PO 4.9 had been undertaken and was now embedded into an IT process framework that ensures transparency and control as well as the involvement of senior executives and business management. A strategy committee ensures board oversight of IT, and one or more steering committees in which business and IT participate determine the prioritisation of IT resources in line with business needs. Processes, administrative policies and procedures were in place for all functions, with specific attention to control, quality assurance, risk management, information security, data and systems ownership, and segregation of duties. To ensure timely support of business requirements, IT was now involved in relevant decision processes. The EWSC IT Policy had been revised to include the System Owners and Data Classification Policy.

He also submitted that EWSC now had specified system owners who were the departmental heads of the custodial department of the system and a data classification policy was in place to guide the grouping and protection of data.

Committee's Observations and Recommendations

Your Committee strongly cautions the Controlling Officer against failure to take interest in reviewing the performance and emerging needs in the parastatal bodies especially in specialised systems like IT. He is also urged to ensure that all such needs were met by ensuring that management in the parastatal bodies are made to review their systems from time to time in conformity with acceptable and laid down standards. Your Committee urges the Controlling Officer to keep the matter in view in future audits.

c) Lack or non-activation of the Audit Trail Function on the Systems

The Controlling Officer submitted that a review of CoBIT AI2.3 was undertaken whose process definition was made available in line with business requirements. This process covered the design of the applications, the proper inclusion of application controls and security requirements, and the development and configuration in line with standards. This allowed organisations to properly support business operations with the correct automated applications. The Asyst System Developer was engaged to re-design the system to include an Audit Trail. EWSC procured Sage Premier HR which had a more advanced Audit Trail to replace Dove Human Resources System. He also added that an Asyst Billing System and Sage Premier HR was activating audit trails and the Company was now monitoring the Audit Trails from the systems as per Security Policy to ensure that they were always active.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that audit trail functions are embedded in the IT systems and that they are made active at all times. Your Committee resolves to close the matter but requests the Auditor General to note the matter in future audits.

d) Lack of Support and Maintenance Agreements

The Controlling Officer reported that EWSC did not have Service Level Agreements with the suppliers of the Asyst Billing System, Dove Payroll and Pastel Evolution. He, however, reported that a review of CoBIT DS2 was undertaken and a Service Level Agreement had been prepared and signed between EWSC and the Suppliers (i.e. Liesel and Lincoln for Asyst Billing System,

Dove Computing Services Ltd for the Dove Payroll and Omni Africa for the Pastel Evolution). An Annual review of all Service Level Agreements was now in place.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to ensure that all third party service providers were made to sign contracts before commencement or execution of works. Your Committee urges the Controlling Officer to ensure that any payment made on third parties without any agreement would be rendered as unbudgeted for expenditure and should be avoided at all costs. The matter is, however, recommended for closure subject to audit verification.

e) Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)

The Controlling Officer submitted that the situation arose due to some challenges that the Company faced from inception. He, however, reported that a review of CoBIT DS4.2 was undertaken and EWSC had developed and implemented a Business Continuity Plan and Disaster Recovery Plan guided by the CoBIT 5 framework which had been approved by EWSC management. The Annual review of Business Continuity Plan and Disaster Recovery Plan was now in place.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to ensure that reviews are done on systems regularly to curb recurrence of the matter. Your Committee resolves to close the matter subject to audit verification.

f) Lack of Backup Policy

The Controlling Officer submitted that EWSC did not have a back-up policy at the time of audit due to some challenges that the company faced from inception but that a review of CoBIT DS 11 was undertaken and a back-up Policy was then developed and implemented with the guidance of the CoBIT 5 framework and approved by EWSC management. He further submitted that EWSC had developed and implemented a Back-up Policy guided by the CoBIT framework which had been approved by EWSC management. The Annual review of Back-up Policy was now in place.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to ensure that reviews are done on systems regularly to curb recurrence of the matter. Your Committee resolves to close the matter subject to audit verification.

g) Lack of Change Management Procedures

The Controlling Officer reported that a EWSC did not have formalised change management procedures due to some challenges that it faced from inception. He, however, said a review of CoBIT DS 9.2 was undertaken and the process included collecting initial configuration information, establishing baselines, verifying and auditing configuration information and updating the configuration repository as needed. Effective configuration management facilitated greater system availability; minimised production issues and resolves issues more quickly. The EWSC IT Policy was revised to include the Change Management Policy and the company had developed and implemented it as part of the IT Policy and an annual review was now in place.

Committee's Observations and Recommendations

Your Committee notes the submission. However, your Committee urges the Controlling Officer to ensure that reviews are done on systems regularly to curb recurrence of the matter. Your Committee resolves to close the matter subject to audit verification.

h) Irregularities in Asyst Billing System

i) Failure of System to carry out Integrity Checks

The Controlling Officer submitted that an Asyst Billing System was not able to carry out integrity checks as they were not included at system implementation. EWSC management had engaged the developer of the system to integrate integrity checks in the system as part of the requirements specification and a system was now able to carry out integrity check.

Committee's Observations and Recommendations

Your Committee strongly cautions the Controlling Officer against failure to review the performance and emerging needs in the parastatal bodies especially in specialised systems like IT. Your Committee resolves to close the matter subject to audit verification.

ii) Failure of the automate collection of connection fees and security deposits

The Controlling Officer submitted that the situation arose because an Asyst Billing System was not able to automate collection of connection fees and security deposits. EWSC engaged the developer of the system to automate collection of connection fees and security deposits in the system as part of the requirements specification and the system was now able to automate collection of connection fees and security deposits.

Committee's Observations and Recommendations

Your Committee strongly cautions the Controlling Officer against failure to review the performance and emerging needs in the water utility companies. The Committee resolves to close the matter subject to audit verification.

iii) Failure of the System to Generate Debt Age Analysis for prior years

The Controlling Officer submitted that an Asyst Billing System was not able to generate Debt Age Analysis for prior years as it was not activated at inception. EWSC engaged the developer of the System to activate generation of Debt Analysis for prior years in the system as part of the requirements specification and it was now able to generate.

Committee's Observations and Recommendations

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

iv) Failure to implement offline receipting

The Controlling Officer reported that EWSC engaged the developer of the System to integrate off-line receipting in the system as part of the requirements specification and that it was now able to work as required.

Committee's Observations and Recommendations

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

v) Failure of the System to send bills and reminders electronically

The Controlling Officer submitted that a Asyst Billing System could not send bills and reminders electronically as it was not integrated at implementation. He, however, reported that EWSC engaged the developer of the System to integrate sending bills and reminders in the system as part of the requirements specification. He also added that the System was now able to send bills and reminders in the system as part of the requirements specification.

Committee's Observations and Recommendations

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

vi) Failure to Generate Disconnection and Reconnection Customer List

The Controlling Officer submitted that an Asyst Billing System could not generate the disconnection and reconnection customer list as it was not activated at inception and for that reason, EWSC engaged the Developer of the System to activate it as part of the requirements specification. The System was now able to generate disconnection and reconnection List.

Committee's Observations and Recommendations

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

vii) Lack of Data Integrity

An analysis of data on the Asyst Billing System revealed the issues set out below.

○ **Failure to Capture Meter Numbers for Metered Customers(4,366)**

The Controlling Officer submitted that at the time of audit, some accounts had no meter numbers in the system due to omission at the time of creation of accounts. The Controlling Officer, however, added that all the accounts had been updated in the system except for a few accounts where the meters were too old and the serial numbers for the meters were not clear and that these would be replaced under phase 2.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all meter numbers are captured in the system for easy accountability. Your Committee resolves to close the matter subject to audit verification.

- **Customers with duplicate Meter Numbers(556) customers**

The Controlling Officer submitted that the accounts had duplicate account numbers from the inception of the Eastern Water and Sewerage Company. These duplications were caused by CWSC. He, however, reported that a verification of meter numbers on the ground was carried out to correct the situation and the system was now updated. The Controlling Officer further reported that the meter number field in the system had been made unique to avoid the duplications in future.

Committee's Observations and Recommendations

Your Committee is concerned at the failure by management at the water utility company to detect and rectify the anomaly owing to the fact that customers may have been made to pay inflated bills. The Controlling Officer is urged to undertake periodic review and monitoring of the utility companies. Your Committee, therefore, urges the Controlling Officer to caution the management against the lapse. The Committee resolves to close the matter subject to audit verification.

- **Customers with incomplete records on the system**

The Controlling Officer submitted that the gathering and capturing of customers' full details was done to help in the update of customers' addresses and regions and all customers under the category had been updated. The Controlling Officer also submitted that the fields in the system had been made mandatory.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to closely monitor the utility company operations in this regard. Your Committee resolves to close the matter subject to audit verification.

- i) **Financial Position-Statement of Income and Expenditure**

The Controlling Officer reported that the Company took over operations of eight districts from the local authorities with limited and dilapidated water infrastructure. This resulted in the high cost of maintenance against limited network coverage and revenue base. The takeover was aimed at improving water and sewerage service provision in the province. At the time of the audit, service provision had only improved in districts under phase 1 project as the negative results were mainly coming from phase 2 & 3 projects. The districts under phase 1 were Lundazi, Chama, Mambwe and Petauke. Phase 2 project was covering Nyimba and Chadiza, where as phase 3 covered Katete and Chipata emergency works. He, however, reported that management had put in place financial prudent measures such as mini projects that were internally financed to increase their customer base and revenue base by extending their networks in newly opened areas such as Chimutyulu in Lundazi district. These increased their customer base by 160 customers and billing increased by K10,000 per month in Lundazi, Eastrise, Magwero Road and Old Jim in Chipata where they increased by 400 customers and billing by K24,000. Eastern Water and Sewerage

Company had also embarked on cost control and reduction where necessary to improve in profitability.

The Controlling Officer added that the current position of Phases 2 and 3 projects was that they were under implementation and with these investments, the Company would start recording an increase in profitability by the 2016 financial year because the projects would be completed by November 2015. The level of completion of the project was at 22%.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that administrative expenses in water utility companies are monitored and that cost control measures are strengthened to curb such irregularities. The matter should be noted in future audits.

j) Statement of Financial Position

i) Liquidity

The Controlling Officer submitted that the Company took over operations of eight districts from the local authorities with limited and dilapidated water infrastructure. This resulted in the high cost of maintenance against limited network coverage and revenue base. The takeover was aimed at improving water and sewerage service provision in the province. At the time of the audit, service provision had only improved in districts under phase 1 of the project as the negative results were only coming from phase 2 & 3 projects. The districts under phase 1 were Lundazi, Chama, Mambwe and Petauke. Phase 2 projects covered Nyimba and Chadiza whereas phase 3 covered Katete and Chipata emergency works.

He also reported that the Company's Current Ratio of 1:1.2 from 1:0.7 was an improvement of 0.5. This emanated from an improved revenue base coming from Phase 1 districts. They expected to meet the normal industrial minimum current Ratio of 1.5 by December 2016 and the recommended ratio of 2 by 2017 at which point they expected their water tariff to cover 100% of the costs. Currently, their tariff only covered 85% of their costs.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all the plans to improve the company's liquidity are implemented accordingly. The Controlling Officers is also urged to ensure that he liaises with the Secretary to the Treasury to recapitalise the company. The matter is, however recommended for closure subject to audit verification.

ii) Weakness in Management of Receivables

The Controlling Officer reported that the debtors' figures increased due to increased billing as they supplied their service on credit. The increase in monthly revenues had also manifested in increased trade receivables which emanated from improved service coverage, hours of supply and capital investments in Phase 1 districts which saw billing figures for the four districts of Chama, Lundazi, Mambwe and Petauke tripling. Management had also instituted measures to improve its collection efficiencies such as announcements of new bills, disconnection reminders, disconnections and door to door visit of all strategic customers to improve on its collection efficiency which stood at 98% during the 2012/2013 financial year.

Management had also engaged the undersheriff to help in collecting the debt on all inactive accounts above 180 days. The exercise was underway in all districts.

Fifty five percent of the total debtor's position was owed by Government institutions and the Company was installing prepaid meters on the specific accounts as directed by Government in order to control its indebtedness.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that weaknesses in debt collection systems are addressed without any further delay. Your Committee awaits a progress report on the matter.

k) Statement of Cash flows

i) Negative Cash Flow from Operating Activities

The Controlling Officer submitted that the Company took over operations of eight districts from the local authorities with limited and dilapidated water infrastructure. This resulted in the high cost of maintenance against limited network coverage and revenue base. The takeover was aimed at improving water and sewerage service provision in the province. At the time of the audit, service provision had only improved in districts under phase 1 of the project as the negative results were only coming from phase 2 &3 projects.

The Controlling Officer further reported that the current position of Phases 2 and 3 projects was under implementation. It was expected that with the investments, the Company would start recording an increase in profitability by the 2016 financial year because the project would be completed by November 2015.

However, the National Water Supply and Sanitation Council (NWASCO) Management in consultation with water utility companies had developed a tariff model aimed at achieving 100% cost coverage by 2016 subject to approval by the Board. With the current developments, it was expected that the Company would breakeven and, subsequently, start recording profits by 2016. The project was currently under implementation with 22% level of completion.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to help the utility Company improve its income generating ventures and as much as possible reduce its administrative costs. Your Committee awaits a progress report.

ii) Overdependence on Grants

The Controlling Officer submitted that the Company took over operations of eight districts from the local authorities with limited and dilapidated water infrastructure. This resulted in the high cost of maintenance against limited network coverage and Revenue base. The takeover was aimed at improving water and sewerage service provision in the province. At the time of the audit, service provision had only improved in districts under phase 1 project as the negative results are only coming from phase 2 &3 projects. The districts under phase 1 were Lundazi, Chama, Mambwe and Petauke. Phase 2 project was covering Nyimba and Chadiza whereas phase 3 covers Katete and Chipata emergency works.

The Controlling Officer further submitted that operations grants were planned to support the Company during its initial stages by the financiers KfW and MLGH as start-up working capital. The Company's dependency on Grants would continue until all the capital investments projects had been undertaken and when the 100% cost coverage tariff was attained. Implementation of capital investments projects would be completed in November 2015 and the 100% cost covering tariff was expected to be attained by 2016.

Committee's Observations and Recommendations

Your Committee notes the submission. However, the Controlling Officer is urged to help the utility company to improve its income generating ventures and as much as possible reduce its administrative costs to relieve its overdependence on Government and grants donor aided grants. Your Committee awaits a progress report on the matter.

l) Unaccounted for Water

The Controlling Officer submitted that unaccounted for water was attributed to the old and dilapidated infrastructure in the phase 2 and phase 3 districts which were the highest contributors as they had not yet received any capital investment to replace the old and dilapidated infrastructures. The declining collection efficiency was caused by increased planned ZESCO load shedding during the period under review which rendered disconnections irrelevant when water supply was not constant throughout the week. He, however, reported that a Phase 2 & 3 capital investments projects implementation commenced in December 2013 and the Non Revenue Water for 2011 was 48%, 41% for 2012 and 39% for 2013 and this reflected the impact of capital investments project under phase 1 districts. It was expected to see a greater positive impact at the end of all projects in November 2015 which would manifest in 2016 onwards resulting in less than 30% as per target. He also reported that the approval of the new water tariffs for the period under review by the National Water Supply and Sanitation Council (NWASCO) was as a result of achievement of the set conditions on key performance Indicators as per Service Level Agreement.

The utility company had embarked on zero tolerance to leakages and replacement of old meters that were under-reading the consumption and had also reshuffled district managers to improve on efficiency. ZESCO management had been engaged to treat the utility company as a special customer by involving it when planning load shedding and come up with a solution on how to spare the power supply for water the treatment plant and was working well.

He further reported that management had developed a maintenance policy that would be presented to the Board of Directors for approval in July 2014 in order to safeguard the infrastructure and reduce water losses. They were also working hand in hand with ZESCO to protect the company and customers.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to consider recapitalising the infrastructure of the utility companies to reduce revenue losses in the water distribution system. The Controlling Officer is implored to use all available options to reduce unaccounted for water to less than 25% as per requirement. Your Committee awaits a progress report.

m) Failure to remit statutory contributions-K6,031,592,004

The Controlling Officer submitted that the prevailing non-cost recovery tariff and non payment of Government debt had severely affected the operations of the Company resulting in accumulation

of creditors including statutory obligations. The Controlling Officer added that when lump sum payments were received from the Government, the Company would endeavour to liquidate outstanding statutory obligations and other creditors. At the same time, the Company has put in place prudent financial regulations on the limited financial resources available. This had manifested itself through being current on NAPSA and payment of monthly LASF contributions.

The Company had also started paying K30, 000 towards its monthly PAYE obligations with the view of increasing the payments as it grew the business in line with Capital Investments and cost recovering tariffs.

The Controlling Officer further submitted that the Company only owed NAPSA in penalties charged under Chipata Water and Sewerage Company Limited amounting to K84,028, 334 which it took over in 2009. Payment of the amount and electricity bills for Lutembwe Dam 1 and 2 from Chipata Water and Sewerage Company Limited was supposed to be done by the Ministry of Local Government and Housing together with terminal benefits for former local authorities workers. He stated that the Government paid the terminal benefits amounting to K1,052,320,638 and appealed to the Government to pay NAPSA obligation and electricity bills for Lutembwe Dam 1 and 2. The total bill for electricity taken over was K594,172,280. The management had written to the Ministry and was awaiting a response.

The Controlling Officer further stated that all current statutory obligations were paid on time and did not accrue any penalties. All future payments were to be done according to statutory requirements. Growing the business would also stabilise the Company's cash flow and enhance payment of the obligations. Phase 2 and 3 projects would help in this area.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to consider a debt swap with the Government on the outstanding statutory obligations owed by the utility Company. Otherwise all arrears on statutory contributions must be paid without any further delay. Your Committee awaits a progress report.

n) Inadequately supported payments-K6,664,846

The Controlling Officer submitted that there were no receipts attached to the payment vouchers in question during audit verification. However, all the other documents such as invoices, Goods Received Note, Purchase Orders, delivery notes and quotations were now attached. He reported that the Company collected the receipts from the suppliers and they were now attached accordingly. Original receipts were also available for verification.

He also reported that management had instituted measures to withhold cheques if suppliers had come to collect without issuing receipts immediately. Suppliers were only given their cheques when they also provided receipts on exchange basis.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the Controlling Officer to institute disciplinary action on the erring officers and the matter is recommended for closure subject to audit verification.

LUKANGA WATER AND SEWERAGE COMPANY LIMITED

Audit Query

Paragraph 13

Review of Operations

15. An examination of accounting and other records for the years ended 31st December 2010 to 2012 revealed the issues set out hereunder.

a) **Company Performance**

i) **Unaccounted for Water (Non Revenue Water)-K44,941,000,000**

The Controlling Officer reported that the increase of Non-Revenue Water (NRW) was due to work in progress caused by various limitations such as inadequate literature and knowledge of the networks at takeover from councils. This was compounded by age of the networks thus making water accounting and loss controls a major challenge. The other reason was unreliable estimates in the absence of system water production meters at only 3% and 67% consumer metering ratio against the industrial average of 61%. Institutional capacity was still being developed towards comprehensive NRW. Ring fencing and commercial financing of NRW and other related interventions had been adopted and currently 4,000 consumer meters had been received for installation towards 100% consumer metering and universal metering by 31st December, 2014. NRW had been made a universal key performance indicator for every employee and monitored monthly through a performance management system.

The water demand management programme had been strengthened towards reduction of NRW from 42% in 2013 to 25% in 2016.

The Controlling Officer stated that there was now enhanced capturing and verification of the networks in the towns to enhance management of the same. The Commercial Department had been reorganised into the Commercial and Business Development Department with new Management effective 1st March 2014. Scrutiny of Billing Statistics and NRW had been enshrined in the Performance Management System. Enhanced network inspections and proactive leak detection had been introduced and capturing and mapping of the water distribution and sewer networks commenced in October 2013 towards enhanced network control and management by 31st December, 2014.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the utility Company to curb the increased losses year by year in the distribution system of water causing revenue losses. The Controlling Officer is urged to impress upon the Secretary to the Treasury to consider recapitalisation in the area of infrastructure at the utility company. Your Committee awaits a progress report on the matter.

ii) **Low Service Coverage**

The Controlling Officer informed your Committee that a combination of factors influenced performance of the coverage levels. He said approximately 60% of the population in the coverage area lived in the peri-urban areas where service provision was low due to the unplanned setup of the areas. New developments were not properly coordinated between the councils and the utility

company and that improvement of coverage remained work in progress and a number of projects were in progress at the time of the audit.

The Controlling Officer, however, reported that Memorandum of Understanding had been drafted and being finalised with councils to collaborate better on planning and growth of the towns through restoration of Integrated Development Planning (IDP) system. The utility company was working on deliberate marketing and mobilisation of investment resources to be able to service new areas and improve peri-urban service delivery. A Water and Sanitation Master Plan was at draft stage for each town arising from IDP interventions. The other intervention was to upgrade the peri-urban following the decision by local authorities to offer land records to settlers thereby paving way for construction of better structures and better planning of the areas.

The Controlling Officer stated that it was expected that by 31st December 2014, there would be water supply and sanitation plan for each town.

Committee's Observations and Recommendations

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

b) Financial Position - Statement of Financial Position

The issues set out below were observed:

i) Poor Liquidity

The Controlling Officer submitted that Government debt had continued to grow from K3,637,423.12 as at 31st December 2012 to K7,019,582.76 as at 30th April 2014 and approximately 50% of the debt was bad and was being verified for write-off. The amounts owed by customers accrued from fixed assessed billing against erratic or no services to the areas. The Company was still preparing a bad debt report for write-off consideration by the new Board on the affected customers to normalise the debtors' portfolio. He also reported that the billing efficiency was now being monitored as a key performance indicator and a Performance Management System had been introduced. Energy management had been introduced to mitigate the high energy cost impacting on the liquidity and general financial health of the Company.

As at 31st August 2013, the Year-to-Date (YTD) bottom-line loss had improved from a loss of K424, 033 as at 31st December 2012 to a profit of K89,793 signifying steady progress. The YTD energy cost was at 16% of the total operations and maintenance costs indicating further improvements in energy efficiency from an earlier 25% of the total cost. The reduction efforts had since been validated in the 2012/2013 Sector Report in which there was a 2% reduction in energy cost. The wage bill was still high at 50% mainly due to recruitment of key staff following the increased volume of activities. This was, however, considered an investment in the medium to long term as the dividends were already manifesting in cost optimisation and containment.

He added that the current ratio and quick ratio as at 30th April, 2014 were sustained at 0.92 and 0.80 respectively. Liquidity challenges remained work in progress as revenue streams were now being strengthened through customer service, universal metering and pre-paid metering. It was expected that by 31st December, 2014, the metering ratio would be at 100% while pre-paid metering would be at 30%. A request was made by Management for the Government debt to be audited by Ministry of Finance and was carried out to confirm that out of K4,617,193.98, 94% of the debt amounting K4,358,765.47 was good debt. The debt had not been liquidated to-date but had instead soured to K7,019,582.76 as at 30th April, 2014. High level proactive engagements

with Ministry of Finance for a liquidation plan had remained a priority for Management. The untimely payments by Government affected cash flow because Government constituted approximately 30% of the total sales.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to ensure that Government departments, which are the major debtors to the utility Company, liquidate their debts. Your Committee urges the Controlling Officer to consider upgrading all Government serviced meters to the prepaid system to avoid the losses incurred year after year by some Government institutions. Your Committee further urges the Controlling Officer to explore all available options to ensure that all debts are paid. Your Committee awaits a progress report on the matter.

ii) Collection of Trade Receivables

The Controlling Officer submitted that the receivables as at 30th April, 2014 stood at K18,759,437.53 while as at March, 2014, debtors stood at K18,551,398. Of this total, Government debt stood at K7,019,582.76 as at April, 2014. While overall debtors grew by 25% between March, 2013 and March, 2014, the growth in Government debtors figures was an astronomical 93% for the same period.

The Controlling Officer noted, however, that there was improved billing and collections through scrutinising the customer base. Billing efficiency was now being monitored as a key performance indicator. A Performance Management System had been introduced to monitor billing, collections, debt recovery and related commercial operations and the Government debt was audited up to 30th April, 2013 by the Ministry of Finance and confirmed as K4,358,765.47 out of a total of K4,617,193.98.

As at 31st August 2013, the Year to Date (YTD) bottom-line loss had improved from K424, 033 as at 31st December 2012 to K89, 793 signifying steady progress. The YTD energy cost was 16% of the total operations and maintenance costs indicating further improvements in energy efficiency. The reduction efforts had since been validated in the 2012/2013 sector report in which there was a 2% reduction in energy cost. The wage bill was still high at 50% mainly due to recruitment of key staff following increased volume of activities. This was, however, considered an investment in the medium to long term as the dividends were already manifesting in the cost optimisation and containment.

The Controlling Officer submitted further that customer service had been declared the pre-requisite priority to revenue collection. Pre-paid metering was planned within the period 2014 – 2016 for selected customers inclusive of Government institutions as a way to arrest the growth of the debt portfolio.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to ensure that Government departments, which are the major debtors to the utility Company liquidate their debts. Your Committee cautions the Controlling Officer to desist from advocating for debt write off and also urges him to consider upgrading all Government serviced meters to the prepaid system in order to avoid the incurred debts year after year by some Government institutions. Your Committee further urges the Controlling Officer to explore all available options to ensure that all debts are paid and awaits a progress report.

d) Non Payment of Statutory Obligations

The Controlling Officer submitted that poor cash inflows were compounded by untimely and erratic payments from Government institutions. The Government had been engaged with a view to settle the outstanding balances through payment plans and ring fencing of revenues from Government for water bills. The billing efficiency was introduced while various interventions to reduce NRW were commenced such as metering and Water Demand Management. Additionally, energy management had been introduced to ensure reduction of the bill through efficient operations and optimisation of costs while valuation of assets had been prioritised and expected to be completed and included in the subsequent 2012 audited accounts. Customer service had been prioritised and there were some progressive improvements observed as testimonies of dividends of interventions being undertaken.

He also stated that although the company's current and quick ratios improved from 0.63 and 0.58 to 1.17 and 1.2 respectively, they remained below the recommended ratio of 2:1. Consequently the current liabilities increased from K15,251,691,000.00 in 2011 to K17, 680, 727,000 in 2012. Payments for NAPSA were current while the liability had remained the same being the amount incurred historically as penalties for non-payments in earlier years of formation of the Company. PAYE obligation was still outstanding and increased as at 30th April, 2014 after the account was recently reconciled with Zambia Revenue Authority.

As regards the way forward, the Government was being engaged to consider revoking penalties which tend to exaggerate the obligations even for reasonable defaulting periods. A debt swap was being considered as a way to offset what the Company owes ZRA with what the Government owed the Company through unsettled debts. The status of the obligations as at March, 2014 was as presented in the table below.

		31.12.12	31.05.13	31.03.2014
		(K)	(K)	ZMW
Obligation				
PAYE		1 891 575 460	2 228 769 890	3 838 698.13
NAPSA Contribution		81 665 720	51 873 620	51 873.00
Total		1 973 241 180	2 280 643 510	3 890 571.13

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to consider a debt swap in order to offset the statutory obligations owed by the utility company. The Controlling Officer is also urged to liaise with the Secretary to the Treasury on how funding could be improved to help the utility company improve its liquidity. Your Committee awaits a progress report on the matter.

e) **Revenue**

i) **Cancelled receipts wrongly posted to customer statements**

The Controlling Officer submitted that an anomaly was earlier detected by Management through internal control systems and affected employees had been cited and others dismissed in September 2012. The matter was also reported to the Police and the Anti-Corruption Commission for further investigations. The matter was still under investigation and Management was awaiting the outcomes from the Zambia Police Anti-Fraud Unit for the way forward. The other problem was compounded by failure to follow established guidelines in not notifying the billing office to void the cancelled receipts. The amounts that were cancelled ended up on customer accounts. The 26 receipts had, however, since been reversed.

Going forward, internal controls had been enhanced by recruiting an Internal Auditor and changing senior management following observation of lapses and inadequacies well before the Auditor-General visited. The Finance Manager was redeployed and security features for access to receipting were changed with the help of the Billing System vendor. A number of fraudulent transactions had since been confirmed and await prosecution.

In the absence of the Board at the time, the matter was reported to the Ministry for guidance with a recommendation that the entire management be changed and cited for incompetence. This did not materialise and currently only investigations and court proceedings were being awaited.

Committee's Observations and Recommendations

Your Committee expresses concern at the rationale behind the reversal of the receipts and why some officers were dismissed even before the matter was concluded by both the law enforcement agencies and the courts. Your Committee observes with concern that the reversal could have been motivated by an attempt to cover up the matter. However, since the matter was in court, your Committee awaits a progress report on the matter.

ii) **Failure to avail cancelled receipts**

The Controlling Officer reported that fraud was committed due to poor controls and criminal minds. The cancelled receipts were posted to customer accounts by some employees who perpetrated fraudulent activities. There were also some weaknesses in the billing system and the vendor had since been requested to enhance security features. Detailed investigations were instituted and the extent of the anomaly was determined. Out of 69 receipts, a total of 44 payments amounting K22,096,887 (rebased) were verified to have been cancelled and fraudulently posted to customer accounts between 2010 and 2012. The balance of 25 receipts could not be traced even in the system suggesting that they were either destroyed or further obliterated in the system with a fraudulent intention. The matter had been reported to the Zambia Police Anti-Fraud Unit and the Anti Corruption Commission for further investigations. Expectations were that it would be completed by 30th June, 2014. Three employees who were cited for the offences were dismissed in September, 2012.

Management of all accountable documents had now been elevated to senior management in the Finance Manager's office. Additionally, controls that involve daily checking of collections against deposits had been strengthened to ensure that such lapses did not

occur in future. Theft would be made criminal as opposed to the administrative dispensation. The vendor would now manage security features for the billing system remotely and report on intruder cases.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to detect the lapses promptly and only waited for auditors to unearth them. He is directed to avail documentary evidence to auditors on the matter claimed to have been reported to the Police. Your Committee awaits a progress report on the matter.

g) Un-acquitted funds K83,97,769

The Controlling Officer submitted that there were some lapses in record keeping and that payment of allowances to directors was delegated to administration instead of being owned by the Finance Department. The Controlling Officer, further, submitted that the acquittals for the payments had been located and attached to the payment vouchers while acquittals for two directors on the Board could not be concluded because the directors had passed on. He also added that there was now strict adherence to basic accounting procedures and policy provisions and monthly review of payments would be an integral part of financial performance reviews. Depositing of cheques on behalf of suppliers would be enhanced to ensure close-out of every such transaction through receipting as per basic accounting principle.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against erring officers for the lapse. The matter is, however, recommended for closure subject to audit verification.

h) Inadequately supported payments-K671,015,441

The Controlling Officer submitted that lapses in adhering to procedure were due to poor record keeping leading to misfiling of receipts and other supporting documentation received from customers that were negligently not attached to payment vouchers. Other lapses were observed in some instances where cheques were deposited on behalf of suppliers without obtaining receipts. The Controlling Officer, further, submitted that the supporting documents had been traced and attached to respective payment vouchers.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against erring officers for this lapse. The matter is, however, recommended for closure subject to audit verification.

i) Missing payment vouchers-K290,528,265

The Controlling Officer submitted that the lapses arose due to poor record keeping leading to misfiling of documents. He, however, reported that the supporting documents i.e. bank transfer letters and vouchers, had been traced. He stated that a detailed review of payment vouchers was being conducted monthly to ensure that relevant documentation was in place. The practice would eliminate the recurrence of such queries. Officers were cautioned of disciplinary measures in future.

Committee's Observations and Recommendations

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

SOUTHERN WATER AND SEWERAGE COMPANY LIMITED (SWSC)

Audit Query

Paragraph 14

Review of Operations

16. A review of accounting and other records for the financial years ended 31st March 2010 to 2012, carried out in March 2013 revealed the issues set out below.

a) Financial Performance – Statement of Comprehensive Income

The Controlling Officer reported that the losses were as a result of external environmental factors such as price per unit of produce which did not immediately respond to increase of input costs. For example, the cost of electricity, fuel, water treatment chemicals and other input materials were increased while the water and sewerage tariff had not been increased for a long time.

In order to curb these losses, SWSC was widening its coverage through connections (increased coverage) and ensure that all customers were metered.

He also reported that SWSC was developing an energy efficiency strategy to reduce on the electricity consumption in its plants and stations. The Company was also procuring chemical dosing equipment to replace the old ones in an effort to efficiently use the water treatment chemicals. This aspect had been enhanced by employing qualified Chemists in all its three regions. Another measure was the separation of procurement and stores functions, so that they achieve effective and economic procurement of goods and services.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor financial performance of the Company and urges the Controlling Officer to ensure that there is enhanced revenue collection while at the same time reduce production costs which are administrative by nature. The matter should be noted in future audits.

b) Financial Position - Statement of Financial Position

From the statement of financial position, the issues set out hereunder were observed:

i) Liquidity

The Controlling Officer submitted that the current liabilities in all the years under review included the non-current liabilities (historical, from the time the company started operations in the year 2000). The liabilities like ZESCO bills, ZRA-PAYE, NAPSA and Staff accrued liabilities over the years. The net current liabilities were as follows; (2012) K7,636,582, (2011) K4,730,665; and (2010) K3,557,999. The Company was solvent as it had a positive working capital.

The Non-Current Liabilities came as a result of the company not being in a position to meet its entire obligations at the time (from inception in the year 2000) because of very low billing and revenue collection until the year 2005. However, following the update of customer data base, billing and revenue collection increased. He also reported that the company started paying the obligations from 2005, but the liabilities had continued to grow because the revenue was still not enough to meet all the current obligations in full.

He, further, reported that the outstanding obligations to ZESCO, NAPSA and ZRA were now being paid through the payment plan management had put in place where all current bills were paid in full and a fixed amount had been allocated towards liquidation of arrears.

After further probe by your Committee, the Controlling Officer stated that if tariffs remained static, it may take over ten (10) years to liquidate the outstanding obligations. He added that there was need to persuade National Water and Sanitation Council (NWASCO) to consider allowing an upward increment on tariffs to help the company increase its revenue collection. He added that the company was considering debt swap on most of its debts.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor financial performance of the company and cautions the Controlling Officer that if left unattended to, the parastatal company may not continue to exist in the foreseeable future. He is urged to ensure that there is enhanced revenue collection using any available options while at the same time reduce production costs which are administrative by nature. Your Committee further urges the Controlling Officer to consider liaising with NWASCO to revisit the water tariffs.

The matter should be noted in future audits.

i. Trade and other Receivables

The Controlling Officer reported that SWSC had a fragmented customer base with 90% being the domestic customers. Although the Company was a commercial service provider, the product was of a social nature bordering on life support. Every citizen should access clean and safe drinking water; as such the company had not taken a radical stance to disconnect these customers to recover the debt. The huge part of the debt was actually sitting with domestic customers who were not all metered. Once disconnected, they accessed the service from the neighbours who were not metered and did not see the need to settle their individual bills.

The Controlling Officer also submitted that the Company was looking for funds to ensure that this category of customers was metered. As a current immediate measure, Management was now ring fencing the service charge for water meter procurement to meter the customers so that they would be prompted to pay for the service and the debt.

This had seen some of the consumers of the services to pay on time or reduce the amounts owing to the company. The policy had helped the Company raise and maintain the collection efficiency that enabled the company to start meeting the current obligations and arrears.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to ensure that there is radical and enhanced revenue collection and not lament on tariffs. He is urged to liaise with NWASCO to ensure that tariffs are feasible for the company to operate efficiently and also with

the Secretary to the Treasury on the need to recapitalise the Company especially in the area of infrastructure. Your Committee awaits a progress report on the matter.

c) Unaccounted for water (UFW)-K43,113,000,000

The Controlling Officer reported that the year 2012 saw a rise in unaccounted for water as a result of the change in the billing system. Another contributing factor was the fall in the metering ratio (the number of metered connections against the total connections). He, further, reported that management had now stabilised the integrated accounting and billing system that was able to communicate to each other. Secondly, the company had so far secured 11,900 meters out of 14,590 unmetered connections. The service charge was also being ring fenced to provide a sustainable procurement of water meters so that the metering ratio, which was one of the critical measure in the control of unaccounted for water, did not drop.

In order to counteract the loss of water, the company had ensured that all connections were being metered and the company had also introduced Water Audit Teams in all regions. Additionally, the Company had strengthened the billing system and created awareness among the employees on how to effectively compute UFW and surveillance of all aspects that lead to unaccounted for water.

Committee's Observations and Recommendations

Your Committee expresses concern at the increased losses of revenue as a result of water being lost in the distribution network. The Controlling Officer is urged to seriously take the matter of recapitalisation of the water distribution systems in the utility companies and also ensure that management in the company is impressed upon to ensure improved quality and hours of water supply. Your Committee awaits a progress report on the matter.

d) Un-vouched Expenditure

i) Missing payment vouchers - K230,594,710

The Controlling Officer submitted that the company was unable to avail all the documents at the time of audit due to misfiling. He, however, reported that management had since traced the documents and the same were ready for verification. To mitigate this problem, management had assigned an officer to specifically be dealing with issues of proper filling of documents for all company transactions. Secondly, the internal audit department, whose main function was to ensure all procedures and internal support systems were adhered to, was now fully functional.

Committee's Observations and Recommendations

Your Committee notes the response and urges him to ensure that disciplinary action is taken against the erring officers. The matter is, however, recommended for closure subject to audit verification.

ii) Inadequately supported payments

The Controlling Officer reported that the inadequately supported payments happened due to the situations where funds were transferred to the suppliers through the banking system, resulting in receipts not being obtained in good time. He, however, reported that management had assigned staff to collect the receipts which were not obtained and were

now all available for audit verification. As a way forward, the Controlling Officer reported that payments were done on invoiced amounts and not orders only. With this system, receipts were now being obtained from suppliers at the time of payment.

Committee's Observations and Recommendations

Your Committee notes the response and urges him to ensure that disciplinary action is taken against the erring officers. The matter is, however, recommended for closure subject to audit verification.

e) **Unretired imprest - K370,368,488 (and additional K10,885,014 and K20,413,900 former Directors)**

The Controlling Officer reported that the Company system which was such that the retirements were filed separately in box files and not attached to the travel advance payment vouchers. At the time of audit, some box files for retirements were mistakably not availed to auditors due to misfiling. Secondly, some officers had not yet retired the imprest they obtained for various company activities at the time and letters were written to them to exculpate themselves. Except for those employees who had left the company, all officers had now retired their imprest and management was pursuing them to retire or pay back. Going forward, the company had re-enforced the financial policy on retirement, where an employee was supposed to retire within seven days failure to which the company automatically starts recovering the imprest amounts as an advance. All employees had been sensitised of this measure.

Committee's Observations and Recommendations

Your Committee is concerned with the manner the Controlling Officer left the matters unresolved for so long which is serious laxity on his part. He is urged to take matters of financial accountability seriously and also directed to provide evidence that the former employees are being pursued to pay back. Your Committee further directs the Controlling Officer to ensure that all unretired imprest is retired without any further delay and that disciplinary action is taken against the erring officers. Your Committee awaits a progress report on the matter.

f) **Failure to remit Statutory Contributions - K4,988,595,627 and K2,725,972,737 as penalties for NAPSA)**

The Controlling Officer submitted that the position detailed in the years under review was due to historical transactions. The company was not able to meet of its operational expenditure due to low collection efficiency at the time which was around 45%. This resulted in not paying obligations such as ZESCO bills, PAYE, NAPSA etc. until 2005 when the situation started to improve. He, however, reported that the Company was, currently, reducing its indebtedness of statutory obligations. The Company was paying K10,000 in arrears every month towards Zambia Revenue Authority while ensuring the current PAYE was paid in full. Similarly, current ZESCO bills were being paid in full.

He also reported that the Company had put in place measures to continue paying the current obligations while servicing the arrears. The updated situation was that the Company had since cleared NAPSA principal amount arrears and what was outstanding was only the interest and penalties, which were slapped on the company sometime in 2004 and not for the year ended 31st March 2012. The Company was yet to pay the arrears of withholding tax outstanding before end of the year 2014.

Committee's Observations and Recommendations

Your Committee notes the efforts being made to dismantle statutory obligations and urges the Controlling Officer to ensure that there is avoidance of future penalties and interest charges. He is also directed to ensure that documentary evidence is availed to auditors for verification and your Committee awaits a progress report.

g) Non Taxation of Gratuity Payments - K193,618,569 in Gross Gratuity

The Controlling Officer reported that the Company had no proper policy on the gratuity payments which resulted in paying gratuity net of tax. This was as a result of misinterpretation of the conditions of service and the tax regime. Management had, however, corrected the situation and now followed the correct tax policy on gratuity computations. For the purpose of clarity, the Company had ensured that the tax on gratuity was clearly shown when payment was being computed and attached to payment vouchers. Tax was paid to ZRA at the same time gratuity was paid to deserving officers. Management had obtained tax guidelines from the tax authority and all relevant accounts staff had been educated about it.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that all documents are availed to auditors for verification. The matter is recommended for closure subject to audit verification.

h) Unaccounted for Stores - Choma Regional Office - K70,159,685

The Controlling Officer reported that the Company had no separate functions for stores and the purchasing office which resulted in most Goods Received Notes and Goods Issued Notes not being raised as per procedure. Management had since separated the functions of purchasing and supply from stores and all documents had been raised accordingly to correct the situation. As one of the mitigation measures, the company employed qualified stores officers in all regional offices and the head office under the overall supervision of the Finance Manager. All goods received and issued were now appropriately entered into the Goods Received Note and Goods Issued Notes, respectively.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that stores and purchasing officers adhere to SWSC purchasing procedures and that all stores items are recorded accordingly in the books for control purposes. The matter is recommended for closure subject to audit verification.

INDENI PETROLEUM REFINERY COMPANY LIMITED

Query

Paragraph 15

Review of Operations

An examination of accounting and other records at Indeni Petroleum Refinery Company Limited carried out in June, 2013 revealed accounting weaknesses to which the Controlling Officer responded as set out below.

a) Irregularities in the Management of Information Communication Technology

The observations set out hereunder were made on the management of the Company's Management Information Systems:

i) Lack of ICT Strategic Plan

The Controlling Officer acknowledged that at the time of audit, there was no IT Strategy Plan in place at Indeni and in order to address the matter, Indeni had developed a draft Plan which was awaiting Board approval.

Committee's Observations and Recommendations

Your Committee awaits a progress report on the matter.

ii) Lack of IT Representation at the Policy Making Level

The Controlling Officer acknowledged that there was no IT Representation at Senior Management level stated that the institution was undergoing a Job Evaluation Exercise where the issue was being addressed.

Committee's Observations and Recommendations

Your Committee observes that this was a serious omission which may have been the main cause to most of the IT related queries that were raised by the Auditor General. Your Committee, however, notes the measures being taken by the Management and awaits a progress report on the matter.

iii) Poor Network Administration

• Inadequate Security on the Wireless Networks

The Controlling Officer acknowledged that there was inadequate security on the wireless networks at Indeni and stated that Indeni had put in place dynamic Wired Equivalent Privacy (WEP) which generated passwords randomly.

Committee's Observations and Recommendations

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

• Lack of control over Firewall

The Controlling Officer acknowledged the lack of control over the firewall and explained that Indeni had since replaced it with a new firewall (Cyberoam) which was internally managed by Indeni IT Staff.

Committee's Observations and Recommendations

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

iv) Lack of Business Continuity Plan (BCP) and Disaster Recovery Site (DRS)

The Controlling Officer acknowledged that as of December, 2013, the Company had not set up a Disaster Recovery Site (DRS) to be used in case of a disaster and stated that the institution was in the process of reviewing the Indeni Emergency Procedure Manual which would include IT recovery procedures. The review of the Emergency Procedure Manual would depend on the backup of information that had been put in place in case of emergency or disaster occurring for recovery. On the lack of Disaster Recovery Site (DRS), the Controlling Officer submitted that the institution had ensured that automated backups were created on a daily basis while weekly backups were kept in a fireproof safe. Further, Indeni had since identified a permanent recovery site at the transit house.

Committee's Observations and Recommendations

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

b) Undelivered Stores Items-K204,599,129

- ***C.E.M Logistics***

The Controlling Officer acknowledged that materials on order No. Pro-2011-00507 were undelivered but the Institution managed to recover the funds through credit note 032 dated 20/09/2013.

Committee's Observations and Recommendations

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

- ***KSB Pumps (SA) (Pty) Limited***

The Controlling Officer submitted that KSB Pumps had erroneously allocated the payment to another order No. Pro-2011-00450 instead of Pro-2012-00487. Materials on order No.2011-00450 had already been received under - GRN 2014-000281. Payments in the sum of US\$ 33,941.98 had since been made as at 12th June, 2014 for order No. 2012-00487. Materials on the same order would be manufactured in readiness for shipment.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification

- ***Nuovo Pignone Spa***

The Controlling Officer submitted that materials were received on 20th November, 2013 under - GRN 2013-01203. The delay was due to Indeni paying late for the materials. The payment terms were 50% on order and 50% when materials were ready. Indeni paid half (24,154.00 Euros) of the initial amount only on 14th March, 2013 while the balance (48,308.00 Euros) was paid on 4th November, 2013. The delivery period was twenty-four weeks from date of payment. At the time of payment, the delivery period of twenty-four weeks was not achieved as the supplier had other orders in the production line hence the delay in receipt of materials. The expected delivery period was September, 2013.

Committee's Observations and Recommendations

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

c) Undelivered Equipment - Fired Heater Refurbishment

The Controlling Officer submitted that in 2006, Management, then under Total, embarked on a project to install a convection unit in order to reduce the losses because the current allowance of total losses of 10% of the crude processed was considered too high. The project was contracted to Heurtey Petrochemicals South Africa in 2006. The Controlling Officer submitted further that between 2006 and 2008, some specific portions of the scope of work were executed by Heurtey and corresponding payments made. The works undertaken included engineering design of the convection, procurement of materials for convection which included pipes and pipe fittings, refractory construction steel. Also undertaken were selected shutdown scope executed during the shutdown in 2006, 2007 and 2008.

The Controlling Officer informed your Committee that in 2008, Indeni put the contract on hold due to financial constraints. In the same year, Heurtey submitted to Indeni claims arising out of contract delays. However, there was no immediate response. The Controlling Officer further explained that in 2009 while in the hold state, Total surrendered shares to the Zambian Government and the management of Indeni was taken over by a Zambian management team.

The Controlling Officer also submitted that in 2010, Indeni resolved to revive the relationship with Heurtey with a view to map out the future of the project and entered into negotiations with Heurtey over the contract delay claims. The Controlling Officer explained that after negotiations, Indeni and Heurtey resolved that the outstanding works proceed as per original scope. Any escalation and additional costs arising from delays in the execution of the contract would be mutually agreed upon by the two parties before any amendment to the contract was done. The Controlling Officer stated that Heurtey and Indeni had reached an agreement which would be submitted to the Attorney General for an opinion before the project could resume.

Committee's Observations and Recommendations

Your Committee expresses concern at the long time it has taken to have the equipment in question delivered. Your Committee, however, takes note of the latest attempts by management of Indeni to conclude the project and to avoid incurring wasteful expenditure. Your Committee, therefore urges the Controlling Officer to ensure that the matter is expeditiously addressed. Your Committee awaits a progress report on the matter.

NITROGEN CHEMICALS OF ZAMBIA LIMITED

Query

Paragraph 16

Review of Operations

18. A review of accounting and other records for the financial years ended 31st March, 2009 to 2012 carried out in April, 2013 revealed the issues set out below.

a) Weaknesses in the collection of receivables-K5,444,695,552

The Controlling Officer acknowledged the weaknesses in the collection of receivables and explained that K3,115,756,368 of the K5,444,695,552 queried by the Auditor-General was a bad

debt which would be presented to the Board to be written off after the audited financial statements were out. These were debts which were transferred from NAMBOARD to NCZ Commercial Division. The Controlling Officer further submitted that the outstanding amount not received or not collected as earlier reported was K2,328,930,175 although an amount of K288,847,162.08 had been collected leaving a balance of K2,040,083,012.92. The Controlling Officer added that of the amount, K1,691,883,327.29 was an amount which the Ministry of Agriculture and Livestock stated to have paid through the K20,000,000,000 grant in the year 2002/03. On the matter relating to credit policy, consultations with other institutions and law firms were being done so as to come up with a good credit policy by December, 2014.

Committee's Observations and Recommendations

Your Committee expresses concern that the institution has been operating without a credit policy which has resulted in huge sums of money not being collected. Your Committee finds this unacceptable because the Company was facing financial constraints. Your Committee, therefore, urges the Controlling Officer to ensure that a credit policy is immediately put in place at the Company. Your Committee also urges the Controlling Officer to ensure that all receivables that are still outstanding are collected without further delay. Your Committee awaits a progress report on the matter.

b) Failure to settle Account Payables-K8,856,279,552

The Controlling Officer acknowledged that as at 31st December, 2013, the Company owed amounts totalling K8,856,279,552, to various suppliers. The Controlling Officer, however, explained that having gone into a debt swap agreement and a monthly payment scheme with National Housing Authority (NHA), the Company had paid NHA a total of K523,163,060. The Company had also paid a total K688,772,666.98 to other creditors leaving a total outstanding balance of K7,487,714,442.72 as at 30th September, 2014. Efforts were still being made to settle all accounts payable.

Committee's Observations and Recommendations

Your Committee notes the efforts being made by the Management of the Company and urges them not to relent but to continue exploring more innovative ways of offsetting the debt. Your Committee awaits a progress report on the matter.

c) Outstanding litigations in favour of NCZ for years 2009-2012 - K1,392,100,488

The Controlling Officer acknowledged that K1,392,100,488 was still uncollected as of 31st December, 2013 and NCZ was still making follow ups with the concerned law firms and suppliers to ensure the settlement of the debts. The Controlling Officer stated that the exercise would be done before the end of the year.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by management to collect the funds in question and urges the Controlling Officer to ensure that all amounts outstanding from litigation are collected without further delay. Your Committee awaits a progress report on the matter.

d) Terminal Benefits Liabilities - K8,715,750,170

The Controlling Officer acknowledged that there was an outstanding amount in terminal benefits

of K8,715,750,170 as at 31st December, 2013. The Controlling Officer stated, however, that all the retirees had since been paid.

Committee's Observations and Recommendations

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

d) Non remittance of statutory obligations - K217,285,155,255

The Controlling Officer acknowledged that a total amount of K217,285,155,255 was owed to statutory bodies and explained that payment agreements had been entered into with the bodies and the following payments had been made between 1st May, 2014 and 31st October, 2014:

• NAPSA	K1,077,264,300
• Workers Compensation	K300,000,000
Total	K1,377,264,300

In this regard, the balance was further brought down from the reported K217,285,155,255 to K215,036,532,375 inclusive of K172,502,955 penalty fees to NAPSA.

Committee's Observations and Recommendations

Your Committee while noting the measures put in place by the management of NCZ resolves not to close the matter until there is a significant reduction in the amounts outstanding. Your Committee awaits a progress reports on the matter.

e) Failure to recover loans and advances

i. Advances- K4,000,000

The Controlling Officer acknowledged that amounts totalling K4,000,000 were not recovered from three officers at the time of the audit but all the K4,000,000 had since been recovered.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that measures are put in place to avoid recurrence of the anomaly and resolves to close the matter subject to audit verification.

ii. Loans- K62,000,000

The Controlling Officer submitted that out of a total of K62,000,000 reported as unrecovered fertilizer loans to various officers, K60,450,000 had since been recovered through terminal benefits leaving a balance of K1,550,000.

Committee's Observations and Recommendations

Your Committee expresses concern that the loans could not be collected from the staff in time which would have easily been done using the payroll. Your Committee urges the Controlling Officer to ensure that the officers who caused the anomaly are disciplined. Your Committee awaits a progress report on the recovery of outstanding loans.

f) **Unretired imprest-K345,133,755**

The Controlling Officer acknowledged that a total amount of K345,133,743.75 was unretired. However, most of the outstanding amounts related to fertilizer distribution expenses had since been reconciled by relevant officers and accounting entries corrected. The Controlling Officer further submitted that in situations where responsible officers had failed to reconcile, deductions through the payroll had been effected to recover the amounts. In this regard, the outstanding amount recoverable is K32,561,960 which was being recovered through the payroll.

Committee's Observations and Recommendations

Your Committee finds the failure to retire imprest in accordance with Financial Regulations unacceptable and urges the Controlling Officer to ensure disciplinary action is taken against the officers responsible for the omission. The Controlling Officer is also urged to ensure that all the imprest is retired and documents availed to the Auditor General for verification. Your Committee awaits a progress report on the matter.

g) **Unsupported payments- K679,184,167**

The Controlling Officer submitted that out of amounts totalling K679,184,167, documentation supporting an amount of K575,334,167.52 had been received leaving a balance of K103,849,999.48.

Committee's Observations and Recommendations

Your Committee observes that failure to avail supporting documents for payments is a very serious omission on which officers responsible should face disciplinary action. The Controlling Officer is urged to ensure that the traced supporting documents are availed to the Auditor General for verification while the missing ones amounting to K103,849,999.48 should be found without further delay. Your Committee awaits a progress report on the matter.

NATIONAL AIRPORTS CORPORATION LIMITED

Query

Paragraph 17

19. The audit revealed several accounting and other irregularities to which the Controlling Officer responded as set out below.

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

The Controlling Officer reported that the loss situation was attributable to an increase in:

- finance charges of 85% from K2.276 billion in 2010 to K4.225 billion in 2012 due to increased borrowings to finance projects such as capital works at Harry Mwaanga Nkumbula International Airport and the supply, delivery, installation and commissioning of the Aeronautical Information Management System (AIMS) at Kenneth Kaunda International Airport;
- bad debts provision of over 400% from K2.001 billion in 2010 to K10.189 billion in 2012 due to exchange rate revaluation on Zambian Airways debt which was USD denominated as well as Zambezi Airlines totaling K22,993 million; and
- operating costs of 79% from K25.240 billion in 2010 to K45.190 billion in 2012.

The Controlling Officer confirmed that both Zambezi Airlines and Zambian Airways, were in court and efforts were being made to recover the debts despite them being provided for as bad debt. The Controlling Officer added that all the current airlines operating in Zambia were on

IATA system and that allowed for prompt transactions which would be tax inclusive on a one-stop system.

Committee's Observations and Recommendations

Your Committee expresses concern at the continued losses before tax casting doubts on the ability of the Institution to continue as a going concern. Your Committee notes that it is not prudent to borrow while other options could have been explored and urges the Controlling Officer to help management come up with strategies to revamp the company's profitability. Further, the Controlling Officer is urged to ensure that all the debts highlighted are recovered without any further delay. Your Committee awaits a progress report on the matter.

b) Statement of Financial Position

(i) Debt Collection Period

The Controlling Officer stated that the bad debt position with Zambezi Airlines and Zambian Airways worsened the reporting position. In 2012, over K5 billion was provided for as bad debts on this customer. Management had since put in place a policy compelling all local airlines to be on cash basis or to graduate to International Air Transport Association (IATA) Clearing House.

Further, the thirty (30) days credit period in the policy document applied to local and other non-prescribed credit sales. Furthermore, transactions with IATA, were contractual such that the 30 days credit period may not apply. Airline operators registered with IATA were billed on the 10th of the month following the month of transacting. When IATA received the invoices, they were submitted to airline operators for verification and once that was done the, agreed invoices were re-submitted to IATA for payment.

The whole process took a minimum of sixty (60) days. Therefore, the credit period for such transactions would be determined on a case by case basis by contractual terms contained in signed agreements.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to help management come up with strategies to revamp the company's profitability including an option of compelling all airlines to be on the IATA system. Further, your Committee urges him to ensure that all the debts highlighted are recovered without any further delay. Your Committee awaits a progress report.

Abandoned Aircraft – MKK Airlines

The Controlling Officer submitted that a claim for parking fees was made by National Airports Corporation Limited to the liquidator CBW Chartered Accountants as at 28th July, 2011. The claim was available for scrutiny. The Aircraft, DC8-9J MKK which was locally registered and operated by Stabo Air Limited (a local company) accrued parking charges at a rate of K312,000 per day and at the time of the audit, had accrued charges amounting to K713,544,000 (\$ 137,220). Therefore any purchaser of this aircraft was expected to pay these parking charges before towing it off. As the asset was subject to a liquidation order, the Company could not lawfully dispose of it on its own.

Committee's Observations and Recommendations

Your Committee is concerned with the time that has passed without the Aircraft, DC8-9J MKK being moved from the airport. Your Committee is of the view that measures to resolve the matter proposing to dispose it off would have been a better option so as to recover some charges accrued on it. Your Committee resolves to await a progress report on the matter.

a) Lack of Report – Benchmarking Exercises K861,778,366

The Controlling Officer stated that the matter was closed as indicated in the Auditor General's Status Report dated 26th December 2013.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

b) Questionable payment of sitting allowances K152, 500,000

The Controlling Officer reported that the matter was closed as indicated in the Auditor General's Status Report dated 26th December 2013.

Committee's Observations and Recommendations

Your Committee resolves to close that matter.

c) Unsupported payments K 416,973,589

The Controlling Officer stated that the Corporation concurred with the Auditor's apparent reference to the financial regulation No's 45 and 52 requiring supporting documentation such as receipts, invoices and acquittal sheets among others to be attached to payment vouchers. The Corporation confirmed that the regulation was strictly adhered to. Transactions in the sum of K300,958,589 believed to be outstanding by the Auditors related to payments of supplies of goods and services. suppliers or their representatives collecting cheques from the Corporation acknowledged receipt by indicating their name, signature and date on the payment voucher filed together with relevant supporting documents.

The cheque collection register was also available for recording all cheque payments. The documents were reviewed by the auditors and were still available for scrutiny. In case of prepayments, it was incumbent upon the Corporation to ensure that control or suspense accounts were established to manage such advance payments. The pre-paid amounts would not be expensed until confirmation was made that goods had been received or a service certified satisfactory by the requisitioner.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against the erring officers. The matter is, however recommended for closure subject to audit verification.

d) Unretired imprest K64, 112,000

The Controlling Officer stated that retirements for cheque numbers 145636, 141888 and 148251 were available for scrutiny. However, for amounts on cheque numbers 144688 and 141813 not

retired. Recoveries had been effected through the payroll until the amounts were fully recovered or the employees provided evidence that retirements were made and submitted. Payroll journals, payslips and the letter to the Auditor General's Office were available for scrutiny at the Corporation's office. A total sum of K39, 000,000 paid on cheque numbers 141777, 141839 and 141917 to the three ex-officials related to fringe benefits, accrued to them due to contractual terms. The contracts expired in 2010 and were not renewed.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all erring officers are disciplined in accordance with the financial regulations. Your Committee, however, resolves to close the matter subject to audit verification.

e) **Non Performing Contract – UBITECH SYSTEM INC. K2, 412,242,700 (CAD\$549,500)**

The Controlling Officer submitted that UBITECH System was an Automated Information Management System (AIMS) whose objectives were useful for the organisation. The billing component of air navigation services was currently being upgraded under the maintenance contract to address the identified deficiencies and be completed by mid September 2014.

Committee's Observations and Recommendations

Your Committee is concerned that the contract period was stretched thereby delaying its completion. The Controlling Officer is cautioned to ensure that the contract is completed without any further delay. Your Committee awaits a progress report on the matter.

f) **Irregular Contract Variation – Construction of New Terminal Building At Harry Mwaanga Nkumbula International Airport (HMNIA) K32,880,342,950**

The Controlling Officer stated that full compliance with the Corporations procurement procedures was adhered to and all variations prior to 31st January, 2013 were adequately approved by the Zambia Public Procurement Authority (ZPPA).

On 1st January ,2013, ZPPA Circular No. 1 of 2013 was issued amending the requirement of handling procurements on behalf of Procuring Entities (PE's). PE's with capacity, like NACL, were then expected to undertake all procurements within their respective institutions. The additional works highlighted related to the period when NACL handled the variations within its own procurement structures and this was adequately done as all reports of the tender committee meetings were available at NACL for review. The Controlling Officer added that the variations were due to phased Bills of Quantities (BOQs) and that a no objection was issued by the ZPPA to allow for single sourcing. He also added that the same contractor was already on site and it was for continuity purposes that he was selected to continue with the other works.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to advertise the works. It is of the view that the contractor's presence on site would not guarantee that he was the best to carry out further works. The Controlling Officer is strongly cautioned to desist from single sourcing which, in many cases, is a recipe for fraudulent activities. Your Committee resolves to close the matter but requests the Auditor-General to keep the matter in view in future.

ZAMBIA RAILWAYS LIMITED

Query

Paragraph 18

Review of Operations

19. A review of the operations of Zambia Railways Limited (ZRL) for the financial years ended 31st December 2009 to 31st December 2012 revealed the following:

a) **Statement of Comprehensive Income for the years Ended 31st December, 2009 to 2012**

The Controlling Officer submitted that this represented the operational position of the company during the period under review was that, the Freight and Passenger Assets of the company were “Concessioned” to the Zambia Railways Systems Ltd, whereby, the Railways of Zambia Ltd was only left with minimal revenues generated from rentals of leased land and buildings.

Committee’s Observations and Recommendations

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

b) **Statement of Financial Position**

An analysis of the Statement of the Financial Position revealed the following:

i) **Liquidity of the Company**

The Controlling Officer stated that the liquidity position for the years 2009 to 2011 drastically contracted and became unsustainable because this was the period that most assets of Zambia Railways Limited were “Concessioned” and, therefore, were not performing for Zambia Railways Limited, no revenue accrued to Zambia Railways Limited (ZRL) from the same assets, despite ZRL carrying the loans from the World Bank and ADB which were guaranteed by the Government of the Republic of Zambia in 2000. The same loans were appearing on the ZRL balance sheet. The scenario led to the deterioration in the liquidity of the company.

Committee’s Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to consider recapitalising ZRL to improve its liquidity. While it is appreciated that USD120 million was released to ZRL by Government from the Euro Bond earlier for infrastructure, there is need to recapitalise the entire operations of the railway company to strengthen its liquidity and, consequently, revamp the railway sector. Your Committee awaits a progress report on the matter.

ii) **Trade and other receivables - K126,574,000,000**

The Controlling Officer reported that from the outstanding trade and other receivables as at 31st December, 2012, Government indebtedness to Zambia Railways Limited stood at K114, 970, 292,423.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the ZRL management to collect receivables and thus weakening the financial position of the company. The Controlling Officer is, particularly, urged to ensure that he liaises with the Secretary to the Treasury regarding the Government debt owed to the company. Your Committee awaits a progress report on the matter.

iii) Gearing Ratio

The Controlling Officer stated that the company was highly geared as a result of maintaining the World Bank and ADB loans on its books. The loans were guaranteed by the Government of the Republic of Zambia in 2000 from the African Development Bank (US\$ 873, 207) and World Bank (US\$22,756,799.91) for the purpose of overhauling GE locomotives and payment of terminal benefits to retrenched employees as well as undertaking rehabilitation, respectively.

However, after carrying out the works in February, 2003, the assets of ZRL were concessioned to Railway Systems of Zambia thereby leaving the company in a tight liquidity position leading to the company failing to repay the loan and hence the high gearing.

Committee's Observations and Recommendations

Your Committee notes the submission and urged the Controlling Officer to consider recapitalising ZRL to improve its gearing ratio. While it is appreciated that USD120 million is released to ZRL by the Government from the Euro Bond earlier for infrastructure, there is a great need to recapitalise the entire operations of the railway company to lower the gearing ratio and, consequently, revamp the railway sector. Your Committee awaits a progress report on the matter.

iv) Interest cover

The Controlling Officer submitted that as a result of concessioning the assets (passenger and freight), ZRL was only left with one revenue stream in rentals from its estates. In other words, the assets for which the loans were borrowed were detached from the company through the concession thus leaving it in a position where it was earning less revenue to adequately cover the repayment of interest.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to consider recapitalising the entire operations in order to improve its revenue base. Your Committee awaits a progress report on the matter.

c) Irregularities in Staff payments

i. Non remittance of statutory obligations - (ZRA K73,037,560,852, and K64,422,883,763 in penalties, and (NAPSA) K8,614,677,098)

The Controlling Officer submitted to that Zambia Railways Limited owed colossal sums of money to ZRA – in outstanding PAYE and penalties, and National Pension Scheme Authority (NAPSA) – in outstanding pension contributions because during the period of concession. The Government had been receiving and utilising all the money earned by the company from its concessioned assets. As a result, the Company was not left with any funds to meet the obligations when fell due. In order to deal with the matter exhaustively, there was need to engage

Government through the ministries of Transport, Works, Supply and Communication and Finance.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to help the Company resolve all outstanding statutory obligations. Your Committee awaits a progress report on the matter.

ii. Irregular payment of tax on gratuity-K841,852,380

The Controlling Officer reported that, according to the labour laws, 25% was the minimum rate the employer should pay as gratuity. After carrying out a survey with other organisations, including some parastatals and other quasi- government institutions, it was established that there were two options being exercised. The Controlling Officer submitted that the first option was to pay the minimum rate of 25% as net and leave it constant while tax was borne by the Company irrespective of changes in tax on gratuity from different annual tax regimes. The second option was to adjust the gratuity rate higher than 25% in response to tax changes in every budget year to protect the 25% threshold as net to the employee affected and allow the tax to be borne by the employee.

ZRL, therefore, opted for option one where the rate was left constant at a minimum of 25% and allow the employer to meet the tax burden so as to avoid making adjustments or enter into fresh negotiations whenever the tax regime on gratuity changed in each budget year since the contracts of employment subsist for more than a year. In so doing, both the 25% threshold due to the employee and tax collectable by Zambia Revenue Authority (ZRA) were protected.

Committee's Observations and Recommendations

Your Committee does not accept the reasons given by the Controlling Officer and cautions him that heavy penalties and fines due to default are to be imposed on them if they continue with the stated scenario. He is cautioned to desist from defying compliance to the Income Tax Act which is a serious offence. The Controlling Officer is directed to ensure that the situation is corrected without any further delay. Your Committee awaits a progress report on the matter.

d) Deterioration of Infrastructure during Concession Period

i) Dilapidated Workshop Buildings

The Controlling Officer submitted that ZRL would seek to restore the Black Smith Shop. ZRL stopped using cast brake blocks which were manufactured in the Foundry Shop but now used the more efficient composite brake blocks. Restoration of the Foundry Shop would not be economical. ZRL was currently refurbishing some of its infrastructure. However, due to the amount of money required, the company needed support from the shareholders.

Committee's Observations and Recommendations

Your Committee notes the submission. However, the Controlling Officer is urged to consider recapitalising the workshops and thus create more jobs for the Zambian citizens while at the same time, ensure value for money is harnessed from the workshops. Your Committee awaits a progress report on the matter.

ii. Vandalised Heavy Duty Equipment

The Controlling Officer reported that until the repossession of Zambia Railways by the Government in September 2012, the heavy duty equipment was part of the assets under Railway Systems of Zambia (RSZ) who were responsible for its care and maintenance. There was inadequate care, at least in terms of security leading to thefts of components. The components observed as missing at the Flush Butt Welding plant were control panels and mortars, which components would find ready application elsewhere. Similarly, tamping equipments were left unattended to and without adequate security, which left them vulnerable to thefts of some components. At Chisamba, one tamping machine was gutted by a bush fire as it had been left in overgrown grass.

Committee's Observations and Recommendations

Your Committee is concerned that the equipment in question was not kept in safe custody. Your Committee urges the Controlling Officer to set up a team of officials to review what exactly transpired and report the matter to investigative agencies if necessary. Your Committee resolves to await a progress report on the matter.

iii. Vandalised Level Crossings

The Controlling Officer submitted that signaling installations at stations and sidings and also at level crossings had been completely vandalised. RSZ had no intentions of repairing any installations when they were vandalised, nor was there any substantial progress towards replacement of susceptible equipment. Efforts were made to provide some alternative solutions but implementation did not proceed beyond trials. It was Zambia Railways' position that the deterioration, other than through normal wear and tear, can be determined through a status report of assets at the time of concessioning and after take-over of operations by Zambia Railways. RSZ could be held accountable for the deterioration determined to have taken place during their tenure.

Committee's Observations and Recommendations

Your Committee cautions ZRL management for the laxity in repairing the level crossings which have compromised safety in the areas they are located. The Controlling Officer is urged to ensure that repairs are done without any further delay and your Committee awaits a progress report on the matter.

iii. Uprooted Sidings

The Controlling Officer stated that irregularity of uprooted sidings cited by the audit report also related to assets that were under the concessionaire for the period in question. It was probable the uprooted sidings provided materials for some maintenance programmes, if this was permissible under the concession terms. Some permanent way materials may have been lost through thefts. RSZ should be made accountable for any loss through negligence or misuse. However, this can only be done after ascertaining positions at time of handover to RSZ and at time of takeover by Zambia Railways. When it comes to settlement between the Government and Railway Systems of Zambia, this matter upon verification can also form part of the compensation to be made to Government by RSZ.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all useful sidings are opened and further implores him to follow up with the Secretary to the Treasury on the settlement between the Government and Railway Systems of Zambia without any further delay. Your Committee awaits a progress report on the matter.

e) Irregularities in accounting for locomotives and wagons

i. Failure to account for Traction Motors and Compressor Exhauster K1,848,101,400 (US\$540,000)

The Controlling Officer submitted that all property and equipment that was vandalised, was taken over by Zambia Railways without taking any specific actions apart from securing the assets that were now under its care. This was because matters of litigation or for reconciling with Railway Systems of Zambia would not be under the direct purview of Zambia Railways but that of the Government. It was the understanding of Zambia Railways that the audit was related to the verification process that was necessary for final settlement between Railway Systems of Zambia and the Government of the Republic of Zambia, and not an ordinary institution audit (Since Zambia Railways was in operation for only 3 months of the period covered by the audit).

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to follow up with the Secretary to the Treasury on the settlement between the Government and Railway Systems of Zambia without any further delay. Your Committee also expresses concern that the information about the exports which was not available and therefore recommends the matter to law enforcement agencies for further probe. Your Committee awaits a progress report.

ii. Unaccounted for wagons - K31,408,000,000 (US\$6,040,000)

The Controlling officer submitted that RSZ was the custodian of all the 5685 wagons handed over to them on 14th February, 2003 and was responsible for their security. The physically verified wagons now stood at 2,096 from the earlier figure of 1,605, bringing the total unaccounted for wagons by RSZ to 1,019 and not 1,510 ZRL had continued to search for the unaccounted for wagons on a continuous basis. Looking at the value and the number of wagons involved, 1019 (US \$4.07 million), it was necessary to still verify further and seek to trace the whereabouts of the wagons, both on the Company's lines and on the contingent railway administration.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to ensure that all wagons are accounted for as they are in the country as per records. The Controlling Officer is urged to report the matter to law enforcement agencies for further probe into the matter. Your Committee would awaits a progress report.

iii. Fifty-nine (59) Coaches – Missing

The Controlling Officer reported that the audit report had correctly observed the missing fifty-nine coaches. The fifty-nine were neglected and all the good wheels were removed

to repair wagons. Furthermore, the 59 coaches were never handed back officially as they were scrap.

Committee's Observations and Recommendations

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

iv. Irregular hire of locomotives to SNCC

The Controlling Officer submitted that hire of locomotives to SNCC of DRC was done during the concession. This arose from the fact that the mineral rich Katanga Province of Democratic Republic of Congo (DRC) had the potential of generating about 1million tons of traffic annually, comprising mainly of copper/cobalt ores, concentrates and metals for out-side markets. The imported chemicals and fuel in-puts required in the generation of the traffic (mainly from South Africa and Dar es Salaam Port) amounted to about 500,000 tons annually. However, the National Railways of Congo, SNCC, had serious motive-power deficiencies to provide sufficient railway transport logistical support for handling the mining firms' in-puts and out-puts. Realising and recognising this business opportunity, not only for RSZ, but the entire North-South Corridor and also for promoting mutual cooperation and assistance amongst contiguous railways, a decision was made to lease out three (3) locomotives to SNCC for the purpose of facilitating traffic movements within the Katanga Province at a monthly rental fee of US\$1,500 each. At this stage, the Mining Firm Glencore Concentrates' Out-puts had shot to about 8,000 tons per month. RSZ had further entered into a bilateral agreement with SNCC and an interchanged agreement which covered the hire of equipment, including locomotives, and was signed, in order to promote resource sharing for the mutual benefit of the two parties. On its part, ZRL recalled all the five locomotives by 31st December, 2013.

Committee's Observations and Recommendations

Your Committee notes the submission. However, the Controlling Officer should provide documentary evidence of the monthly rentals by SNCC. Your Committee was of the view that there was no full disclosure at the time of audit which made the transactions questionable. Your Committee recommends the matter for closure subject to audit verification.

v. Irregular exchange of locomotives engines

The Controlling Officer reported that during the concession, original engines of the four (4) GT 36 CU Locomotives namely 611, 603, 604 and 614 were replaced with smaller version engines. The original engines 645 F3B class were replaced with the smaller 645E class that could only build power up to 3000 HP with a trailing load of 1400 tonnes instead of 3,600 HP with a trailing load of 1,800 tonnes. There was a matter for the Inter-Ministerial Committee to finalise with RSZ.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer on the loss caused by irregularly exchanging big engines with smaller ones. Your Committee urges the Controlling Officer to follow up with the Secretary to the Treasury on the settlement between the Government and Railway Systems of Zambia without any further delay in

order to see a possibility of compensation for the exchange loss. Your Committee awaits a progress report on the matter.

vi. Failure to insure assets

The Controlling Officer stated that Zambia Railways Limited had always recognised the need to insure all its major assets, but did not have the money required because the assets involved were of very high value. However, management would insure selected major assets based on risk assessment when the cash flow improved.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against failure to insure the assets and directs him to ensure that all assets are insured without further delay. Your Committee awaits a progress report on the matter.

f) Irregularities in the sale of properties

The Controlling Officer stated that a valuation report was not provided due to the circumstances surrounding the sale which was done by the appointed agent, Messrs Bristol Realtors, as depicted in the letter of appointment to the agent to sale the said properties on behalf of the Company. The Company Secretary of ZRL then engaged Bristol Realtors to secure the land in Ndola and to ensure that no squatters occupied it. This was in response to information that unscrupulous individuals were duping people and obtaining money by pretending that they had authority from Zambia Railways Limited to sell the land. As a result of this information, the Agents were asked to advertise and sell the land on behalf of Zambia Railways Limited. A valuation provided a guide as to realisable prices on the open market, but the realisable prices could only be ascertained by exposing/advertising in the press.

The Agent advertised the plots for sale in the Times of Zambia editions of 12th April 2012 and 1st June, 2012. The proceeds of the sale were received and acknowledged by the Zambia Railways Limited Accounts Department. Going forward, ZRL management had since banned the sale of land and properties until further notice.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to simply avail documentary evidence on the valuation and agreement between the two parties. He is cautioned to desist from misleading your Committee as circumstances were not clear as to why the contract and record of valuation were not availed to auditors at the time of audit. The matter remains open until the said documents are availed to auditors for verification.

g) Failure to avail Lease Agreements

The Controlling Officer reported that most of the ZRL tenants had no lease agreements and were operating on the basis of lease offers. This was as a result of delays to sign lease agreements by the authorised persons during the period under review. The absence of lease agreement did not make an entity, an illegal tenant. The leases were self-renewing, entailing that for as long as the conditions agreed between the Zambia Railways Limited and tenants were performed by either party, binding contracts were assumed and enforceable. However, management had since processed lease agreements for all tenants.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that all tenants signed the correct lease agreements with the ZRL in retrospect. The matter is recommended for closure subject to audit verification.

h) Irregular sale of land

The Controlling Officer reported that allocation of plots to senior Government officials and Board members was a directive by the Board which was in power at that material time. The directive which included reserve prices was communicated through management. The subject plots could not be advertised as they were already reserved.

Committee's Observations and Recommendations

Your Committee expresses concern as to how the Board members and management at ZRL could not declare interest into the sale of land but instead offered themselves land without competition. The matter is recommended for investigation by law enforcement agencies as it is felt that the cost was equally compromised. Your Committee awaits a progress report on the matter.

ZAMBIA BUREAU OF STANDARDS (ZABS)

Query

Paragraph 19

Review of Operations

21. A review of accounting and other records at the ZABS for the financial years ended 31st December, 2009 to 2012 revealed the following weaknesses to which the Controlling Officer responded as set out below.

a) Statement of Financial Position

The Controlling Officer submitted that management was working on strong turnaround strategies aimed at improving the financial performance of the Bureau. Further, management was working towards improving revenue collection by introducing targets for all offices across its operations. The Bureau had also introduced performance based bonuses to motivate members of staff in different units to attain the given targets. This had resulted in the Bureau attaining collections above the budgeted targets.

Committee's Observations and Recommendations

Your Committee notes the steps that are being taken the management to improve the performance of the Bureau. Your Committee requests the Auditor General to note the matter in future audits.

Income Statement and Balance Sheet Performance Ratios

The Controlling Officer acknowledged that the performance of the Bureau had improved, resulting in good performance ratios.

Committee's Observations and Recommendations

Your Committee notes the positive outlook of the Bureau's performance and urges management of the Bureau not to relent but to continue putting in place measures to improve the performance of the Bureau. Your Committee requests the Auditor-General to note the matter in future audits.

b) Lack of title deed-US\$470,000 (K2, 270,100,000)

The Controlling Officer submitted that the delay in securing the title deed was caused by the lawyer for the vendor but management had since engaged lawyers in order to have the titles. The Controlling Officer further explained that the challenge that existed in the conveyance process for the property No: 4526, was locating and tracing the receipt for payment of property transfer tax which was made in 2007, which had since been resolved.

Committee's Observations and Recommendations

Your Committee observes that the delay in obtaining title for the building in question was highly unacceptable as it had taken too long. Your Committee observes further that if the matter is not resolved soon, the Bureau stands a risk of losing the building to other people. Your Committee, therefore, directs management of the Bureau to urgently acquire the title to the buildings. Your Committee awaits a progress report on the matter.

c) Receivables

Pre-export inspection for used motor vehicles - JEVIC Contract

The Controlling Officer submitted that the contract with JEVIC came to an end in June, 2014, and the Bureau was in the process of procuring a new contract for the services. The Controlling Officer also submitted that management would also act on the other recommendations concerning inspection and audit of accounts and records pertaining to the services rendered by JEVIC or any other institution that would be contracted. Further, ZABS would undertake to include clauses in the new agreement that would help to have access to the financial records kept by the Agent that would be engaged since the JEVIC contract was coming to an end in 2014. The Controlling Officer further stated that the bid documents had been improved on to include requirement for international bidders to enter into joint ventures with local firms for them to qualify and for the successful bidder to set up testing facilities and offices locally. This would improve the interface and access to records of the successful contracted firm by ZABS.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the Bureau entered into an agreement with an agent without ensuring that measures were in place for verifying the business that was conducted on their behalf. Your Committee urges the Controlling Officer to ensure that the Bureau takes full advantage of the expiry of the contract with the agent to put in place adequate control measures in the next contract. Your Committee awaits a progress report on the matter.

ZAMBIA DEVELOPMENT AGENCY (ZDA)

Query

Paragraph 20

22. The audit revealed several accounting and other irregularities to which the Controlling Officer responded as set out below.

Funding

The Controlling Officer submitted that the funds received for the financial years ended 31st December, 2010, 2011 and 2012 totalled K30,168,981,333 against the total provision of K30,750,000,000 as indicated in the audit report. This was as a result of fiscal constraints at the Treasury. The Controlling Officer further submitted that revenue targets were based on estimates made regarding the number of investors that were anticipated to register with ZDA in a given year. However, the responsiveness of investors was influenced by global, regional and national factors which in turn impacted on revenue targets by ZDA. The Controlling Officer stated that management was reviewing assumptions used in determining annual revenue targets.

Committee's Observations and Recommendations

Your Committee notes the response by the Controlling Officer and requests the Auditor General to keep the matter in view in future audits.

a) **Unreimbursed borrowings from the Escrow Account-K2,360,015,175 (US\$ 506,985)**

The Controlling Officer submitted that the funds in question were utilised according to *Section 53(2) F of the Zambia Development Agency (ZDA) Act no. 11 of 2006*, and the requisite approvals were being sought. Further, the Ministry was engaging the Ministry of Finance to facilitate the reimbursement of the payment that was made to Kulim High Technology Park. The Controlling Officer further informed your Committee that one of the ways to address the matter was through the regularisation of the payment in line with *Section 53(2)(f) of the ZDA Act No. 11 of 2006* which allowed for the use of privatisation proceeds towards new capital investments. The second option was for the Treasury to release funds amounting to US\$506,985 in three equal tranches each quarter from the fourth quarter of 2014 to the second quarter of 2015. The Controlling Officer submitted that this would amount to releases of US\$168,995. The management would ensure that prior approvals were sought in accordance with the provisions of the ZDA Act.

Committee's Observations and Recommendations

Your Committee expresses concern that the Controlling Officer had not done much to have the matter resolved. Your Committee observes that instead of availing your Committee with options available, the Controlling Officer should have taken action on the matter. Your Committee cautions the Controlling Officer against taking the work of your Committee lightly. Your Committee awaits a progress report on the matter.

b) **Wasteful expenditure due to delays in the settlement of payment of Terminal Benefits- Eric Nawa and 780 Other Vs ZDA-K2,021,174,446**

The Controlling Officer acknowledged that there was a wasteful expenditure of K2,021,174,446 paid as interest for delayed payments. The Controlling Officer submitted that this was because funds for settlement of the legal debt were disbursed late by the Ministry of Finance.

Committee's Observations and Recommendations

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

Staff Costs

i. Failure to deduct tax and irregular payment of salary from GRZ Funding

The Controlling Officer submitted that the terms and conditions of the Director General's contract that included the payment of US\$2,000 net of tax from donor sources was approved by the Board at its sitting held on 17th March 2008. The Controlling Officer further explained that the Director General's contract came into effect before donor funds could be secured and management was instructed by the Board to pay from its funds the monthly sum of US\$2,000 net of tax as provided for in the contract until the Ministry concluded the financing arrangements of the additional income with the European Union and other possible donors. The Ministry, however, was unable to secure a donor to finance the US\$2000 and as a result, this had to be financed from ZDA as the employer.

The Controlling Officer stated that the practice had been done away with in the contract for the new Director-General.

Committee's Observations and Recommendations

Your Committee observes that the Agency was wrong to engage the Director General on such conditions before funding for the contract was secured. Your Committee further observes that payment of salaries using donor funds is unsustainable and should, therefore, be discouraged. Your Committee resolves to close the matter subject to audit verification that the practice has been stopped.

ii. Non-remittance of statutory contributions-K11,866,417,469

The Controlling Officer submitted that the NAPSA obligations totalling K48,576,199 were in respect of ZDA forerunner institutions' unpaid obligations. The outstanding obligations with respect to forerunner institutions were budgeted for directly by Ministry of Finance under Head 21 but due to fiscal constraints, the Treasury had not been able to release funds. The Controlling Officer further submitted that the Agency had made efforts to reduce the outstanding PAYE obligations with respect to ZDA starting with the most current. The Agency through the Ministry was following up with the Treasury to ensure that the outstanding amounts were budgeted for and released. The Controlling Officer also stated that the Agency was not able to meet its PAYE obligations due to inadequate budgetary allocations and was engaging the Zambia Revenue Authority to work out a payment plan to settle the outstanding PAYE obligations.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer and the Secretary to the Treasury to work together to find a lasting solution to the matter. Your Committee awaits a progress report on the matter.

iii. Inadequately supported payments-K749,400,135

The Controlling Officer submitted that this was as a result of the institution's failure to obtain receipts from suppliers. The Controlling Officer noted, however that receipts totalling

K557,144,023 had been obtained while receipts for the balance amounting to K192,256,112 had not yet been obtained from the suppliers. Efforts were being made to ensure that all the receipts were obtained.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that such a huge amount had no supporting documents. Your Committee observes that this anomaly was a direct result of negligence on the part of the officers who issued the cheques. Your Committee, therefore urges the Controlling Officer to take disciplinary action against the officers involved. Your Committee also urges the Controlling Officer to ensure that all the payments are adequately supported and availed to the Auditor-General for verification. Your Committee awaits a progress report on the matter.

e) Unretired imprests - K52,550,080 and US\$9,000

The Controlling Officer submitted that of the K52,550,080 that was outstanding as unretired imprest, documentation for amounts totalling K37,245,000 and US\$9,000 had been traced while the balance amounting to K15,305,080 was yet to be retrieved from the archive as all the stated imprest are retired as at 31st December, 2013. Efforts were being made to ensure the documents were traced.

Committee's Observations and Recommendations

Your Committee is of the view that until the documents on the retirement of imprest are availed for audit verification, the imprest will be considered as not having been retired. Your Committee urges the Controlling Officer to ensure that the imprest is retired and take disciplinary action against the officers who failed to ensure safe custody of the documents.

f) Fixed assets without title-K15,026,076,842

The Controlling Officer submitted that in order to address the matter relating to certificates of title, relevant documentation was being gathered to ensure that all certificates of title were obtained. Where the certificates of title were in the names of fore runner institutions, the properties had since been registered in the name of the Agency. The Controlling Officer explained that in this regard, certificates of title for eight properties had been obtained while seven properties were still registered in the name of SIDO. Further, six of the seven properties were mortgaged to African Commercial Bank which had since fore closed on them. The Agency did not have title for the remaining properties because they were either un-surveyed or there was no documentation on them.

As regards lease agreements, the Controlling Officer submitted that the demand notices for rental arrears were issued and responses were being addressed on a case by case basis with a view of arriving at an arrangement for settlement of rental arrears before the execution of lease agreements. As regards the rehabilitation of properties, the Controlling Officer explained that an increased funding ceiling was being sought from the Ministry of Finance in order to rehabilitate the properties.

Committee's Observations and Recommendations

Your Committee observes that the Controlling Officer and the ZDA management have not attached great importance to the matter involving the properties in question. Your Committee,

therefore, urges the Controlling Officer ensure that all properties had title. Your Committee awaits a progress report on the matter.

NATIONAL PENSION SCHEME AUTHORITY

Query

Paragraph 21

23. The audit revealed several accounting and other irregularities to which the Controlling Officer responded as set out below.

a) **Weaknesses in the Management Information Systems (MIS)**
i. **Failure to Activate User Log Management Accounts**

The Controlling Officer submitted that the short-comings had been noted and addressed by recruitment of a dedicated network administrator in March 2014, whose key roles included user account management, system monitoring and associated security and user access rights and the Authority had since codified a detailed exit management process for all separating employees. This process would among other things, trigger off user account de-activation and/or deletion by Information Technology department.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to be proactive in rectifying the irregularities. The matter is recommended for closure subject to audit verification.

ii. **Failure to service Fire Extinguishers**

The Controlling Officer submitted that management was in the process of procuring new fire extinguishers for Lusaka house because the old ones were not serviceable. Furthermore, the Authority had scaled down operations at Lusaka house having moved its core business operations to Levy Business Park. Fire extinguishers at Levy Business Park were now serviced every six months.

The Controlling Officer also stated that all the centers now had service providers who were tasked to service equipment regularly.

Committee's Observations and Recommendations

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

iii. **Failure to test the Business Continuity Plan (BCP)**

The Controlling Officer stated that the BCP which was developed in 2009 focused mainly on IT systems and did not have corresponding risk and assurance guidelines. The BCP had not been tested. However, the organisation-wide business continuity plan was under review with the Board of Trustees having approved it in the last quarter of 2013. The risk and assurance unit had been mandated to review overall organisational risk and recommend measures for implementation. They had since prepared an action plan for 2014 that involved:

- review of the existing Business Continuity Plan;

- carrying out a Business Impact Analysis which will form a basis for review of the Business Continuity Plan; and
- facilitating the training of relevant staff to enable them review and enhance the existing Business Continuity Plan.

Furthermore, ZICTA had independently reviewed the Authority systems and the main finding was that the Authority's systems were robust enough to withstand external intrusion except in collusion with staff and had made recommendations that were being followed through.

The Controlling Officer added that he was yet to recruit specialised staff to be able to handle the IT systems.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to expedite the recruitment of staff in order to correct the current situation. He is also urged to ensure that systems trainings are conducted regularly for all staff dealing with IT to curb the irregularity. The matter is recommended for closure subject to audit verification.

b. Outstanding contribution payments - K1,314,564,810,070

i) Arrears

The Controlling Officer reported that the Authority had an Inspectorate wing which on a continuous basis ensured that outstanding contributions and penalties were collected. Through these efforts, employers were expected to ensure that they were paying correct amounts of contributions. Demand letters were also issued to employers with outstanding contribution arrears and penalties and those who did not comply with the requirements of the demand letters were prosecuted through the courts of law by the Authority's in-house prosecutors in order to recover the unpaid contributions. Court bailiffs were also used to enforce compliance where the employers did not comply with court orders. Samples of consent agreements, summons and other court documents relating to some of the defaulting employers were available for verification. Employers who had financial challenges were allowed to enter into payment plans or agreements to ensure that the outstanding contributions and penalties were paid in instalments. Samples of payment agreements that the Authority had entered into were available for verification.

For the debt relating to Government Grant Aided Institutions and Councils, the Authority signed an agreement with the Government in 2012, of which a copy was available for verification. However, despite the agreement, the Government had only paid K123 million (Rebased) leaving a balance of K73 million (Rebased) still outstanding beyond the agreement deadline of December, 2013. Management was, however, following up with the office of the Secretary to the Treasury.

In order to effectively manage the debt relating to statutory pension contributions, the Board of Trustees of the Authority recently approved a debt policy which was currently under implementation.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to use all the available options to recover the debt without further delay. He is also urged to ensure that he liaises with the Secretary to the Treasury

on the Government debt and probably consider a debt swap to offset part of the debt. Your Committee awaits a progress report.

ii) **Employers who ceased operations**

The Controlling Officer stated that when employers cease to operate, there was always a recovery process in place. In case of limited companies, they go through a process of liquidation and the Authority deals with the liquidators to ensure that the unpaid contributions and penalties are paid. However, for companies or employers who are not limited companies, it was expected that the Directors would inform the Authority of their company's closure and NAPSA would send Inspectors to assess the outstanding contributions. The Directors of the affected companies or employers were then required to settle the amounts owing. The challenges faced in this respect would shortly be addressed by the introduction of the collection system (currently under pilot), that would provide an electronic alert as soon as the employer defaults on one payment.

For the cases cited by the Auditors, only two (2) ceased operations while the 6 were still operational.

Committee's Observations and Recommendations

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

iii) **Employers who changed locations**

The Controlling Officer stated that when employers changed physical locations, they were required to inform the Authority. However, the process took long as some of them did not do that immediately, thereby creating a challenge in locating such employers. This was made worse by the lack of a national physical address system especially for employers relocating from the Central Business District to residential areas. The process of updating the physical addresses of employers is a continuous process. Of the 48 cases cited by the Auditors, a sample of 19 Employers whose addresses had been located were updated in the system and schedules were available for verification.

The Controlling Officer added that such irregularities would not arise anymore as Zambia Revenue Authority and PACRA had now been fully integrated in order to use a one stop system. This would aid in fast locating the changes in locations of businesses.

Committee's Observations and Recommendations

Your Committee notes the response and urges the Controlling Officer ensure that relocating employees are located immediately.

c. **Management of Levy Business Park**

(i) **No contract was entered into with the Liberty Properties Limited**

The Controlling Officer submitted that subsequent to the MOU, the Authority signed a Service Level Agreement which governed the relationship of the parties and copy of the Service Level Agreement was available for verification.

In its further probe, your Committee observes that the Service Level Agreements were not sent to the Office of the Attorney-General for scrutiny. Your Committee sternly cautions the

Controlling Officer to desist from using short cuts in dealing with contracts defying the laid down procedures. The matter is, however, recommended for closure subject to audit verification.

(ii) Questionable Payment (K8,526,101,801 maintenance expenditure and K2,056,364,260 wages on behalf of Liberty Properties)

The Controlling Officer submitted that the amounts paid during the period 28th December, 2011 to 28th December, 2012 covered wages for the staff managing the centre and maintenance costs as operating costs for running the centre. These expenses would have been incurred even if the contract had been signed.

He also added that management fees were only paid after the contract was signed. A copy of the Management Agreement was available for verification. Liberty Properties was no longer the Property Manager and the Authority had since appointed JHI – Anderson a joint venture between a South African company and a Zambian firm as the new Managers for the centre. A contract was duly executed before JHI – Anderson could commence its duties. He also stated that a forensic audit would be carried out on the management of the property and its construction a report will be available shortly.

Your Committee notes the submission and urges the Controlling Officer to expedite the process of a forensic audit for both construction and management of the centre. Your Committee awaits a progress report on the matter.

(iii) Unremitted funds

The Controlling Officer reported that Liberty Properties had since remitted all the rental income to the Authority relating to the period from 4th December, 2011 to 28th December, 2012. The last instalment was remitted in September, 2013. This matter was in the courts of law as tenants who were not paying were served with notice to terminate leases but had, however, challenged the action taken by the Authority.

As the matter was in court, your Committee expresses concern on the criterion used to select the tenants. The Controlling Officer is urged to expedite the process of a forensic audit for both construction and management of the centre. Your Committee awaits a progress report.

d) Undischarged Guarantee

The Controlling Officer submitted that the guarantee was issued by the Authority to Stanbic Bank to guarantee the borrowing by Phantom Exchange Limited, which company needed to buy 25,312,500 shares that represented 45% shareholding in Coppernet Solutions Limited and not 15% as indicated in the report. Phantom Exchange Limited failed to honour its obligations with the bank resulting in the Authority being required to settle the exposure. It was agreed by the parties to convert the debt into a loan with the 45% shares in Coppernet Solutions Limited as collateral. Phantom Exchange Limited failed to honour the agreement. At this point, a decision was taken by the Board to transfer the pledged shares in Coppernet Solutions Limited.

After failing to secure the transfer of shares into the Authority's name from Phantom Exchange Limited, the Authority decided to commence action in court for the repayment of funds paid by the Authority as guarantor on behalf of Phantom; damages for breach of contract; and interest. The action was commenced in the High Court of Zambia on 11th February 2013 and was at the stage of being set down for trial.

The Controlling Officer added that officers from the Authority failed to secure and perfect the documents that were needed by the courts and that exposed the Authority (NAPSA).

Committee's Observations and Recommendations

Your Committee expresses concern at the numerous laxities by officers and the Controlling Officer is urged to ensure that disciplinary action is taken against all erring officers to improve the situation. Further, it expresses concern as to why Phantom Exchange Solutions is being pursued and not the end user owing to the fact that they failed to pay. As the matter is in court, your Committee awaits a progress report on the matter.

e) Outstanding rent debtors- K15,666,759,182

The Controlling Officer reported that NAPSA had a record of historical debts that related to rental income and was attached for review purposes. However, there was a small difference between the sub-ledger and the sun system which was being reconciled.

Another challenge with the rental debtors related to the old debts where debtors could not be traced and the property which they once occupied had now been sold. An exercise to review the position on recoverability of the debt was underway.

He stated that a number of improvements had been made with regard to rental debtor management. These include:

- i) a Debt Policy had been developed;
- ii) enhancements had been made to the property management portfolio that include a requirement for new tenants to pay three months security deposit, enforcement of warrants of distress and evictions and credit reference reporting etc; and
- iii) use of the third parties such as property managers in selected locations.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all the available options are used to expeditiously recover the debts from all rental debtors. Your Committee awaits a progress report on the matter.

ZSIC GROUP OF COMPANIES

Query

Paragraph 22

Review of Operations

24. A review of audited accounts for the financial years ended 31st December, 2010 and 2011 and an examination of the management information systems (MIS) at the Headquarters in Lusaka and regional offices carried out in September, 2013 revealed the matters set out below.

a) Management Information Systems (MIS)

The MISs for the Group operated centrally through the ZSIC Limited. The following were observed regarding the MIS:

i) Expired Fire Fighting Equipment

The Controlling Officer acknowledged that the old units were unserviceable and had since been replaced with new ones which were installed at Head Office on 11th March 2013.

Committee's Observations and Recommendations

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

ii) Inadequate Business Continuity Plan (BCP) and Recovery Solutions

The Controlling Officer acknowledged that the Business Impact Analysis (BIA) was not done prior to developing the BCP. To address the matter, management had in February, 2014 established the office of the Risk Manager to co-ordinate and lead all risk management activities including ICT Risks. Furthermore, the questionnaire for data collection had been developed. The actual data collection and analysis for the BIA would be executed in November, 2014.

Committee's Observations and Recommendations

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

iii) Delayed Project Implementation

The Controlling Officer submitted that to prevent data migration errors, data conversion/ migration guidelines had been developed, and for the future, all data migration activities would be documented and properly filed. The Controlling Officer further submitted that the system went live but crashed in 2010 leading to loss of some functionality. This caused a disruption in the program of spreading the system to other branches. The Controlling Officer also explained that ZISC had differences with the software providers on the way forward and payments of annual maintenance fees were suspended for two years while the software providers withdrew support. The Controlling Officer stated that an agreement had been reached with the supplier to redevelop the systems that were not working according to specifications.

Committee's Observations and Recommendations

Your Committee expresses concern that the project has been delayed and urges the Controlling Officer to ensure that it is completed and operational in all branches. Your Committee awaits a progress report on the matter.

iv) Wasteful expenditure of antivirus-K17,382,600

The Controlling Officer submitted that connection to the network was at that time limited by the availability, capacity and cost of network infrastructure and end-user equipment as a result not all branches and districts could access the centrally managed anti-virus installed at the Head Office Server. The balance of 208 computers was available for use as stand-alone computers and installations were independently managed. Currently the computers that were accessing the antivirus via the network were 269.

Committee's Observations and Recommendations

Your Committee is of the view that this is wasteful expenditure as only a smaller number of computers were installed with the anti-virus. Your Committee also observes that the anti-virus was bought based on wrong technical advice by staff and urges the Controlling Officer to take disciplinary action against the responsible officers. Your Committee resolves to await a progress report on the matter.

b) Review of Accounting Records

i) Government indebtedness to ZSIC-K105,429,372,350

The Controlling Officer acknowledged that the Government owed the ZISC General Insurance Limited an amount of K105,429,372,350. In order to address the matter, the Ministry of Finance, through the Internal Audit was verifying the debt and so far an amount of K49.6 million had been verified. The company had further made a formal request to have the balance of K55.4 million verified to facilitate payment. The Controlling Officer further explained that ZSIC General Insurance had written several letters to Government ministries demanding payment of outstanding premiums particularly the debt so far verified by Ministry of Finance.

Committee's Observations and Recommendations

Your Committee notes the steps that are being taken by management to resolve the matter but urges the Controlling Officer to ensure that the verification of the debt by the Controller of Internal Audit is completed in order to pave way for the clearance of the debt by the Government. Your Committee awaits a progress report on the matter.

ii) Irregular payment of Board Members' Allowances-K51,850,000

The Controlling Officer acknowledged the lapse and confirmed that management was enforcing consistent signing of the attendance register for all Board and Board committee meetings. With regards to the sum of ZMK29,200,000 paid as Board allowances but for which there was no evidence of attendance, it was admitted that attendance registers were not available then. The practice of signing the attendance register was further supplemented by Board minutes confirmed at the next meeting. The Controlling Officer further submitted that the amount of ZMK22,650,000 paid for matters referred to as non-Board matters, related to payments for trips undertaken by Board Members to attend to duties on behalf of the Company. Such trips included attendance of traditional ceremonies, among others. In future, the Company intended to develop policies to govern payments to directors for any essential activities that were of value to the Company.

Committee's Observations and Recommendations

Your Committee expresses concern that the ZISC management failed to ensure that Board members who attended and received allowances accordingly signed for them. Your Committee is of the view that this was caused by negligence on the part of the paying officers. Your Committee, therefore, urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee further expresses concern over the apparent lack of policy guidelines on what constitutes a proper Board activity. Your Committee resolves to close the matter subject to verification.

iii) Non-remittance of statutory contributions-K41,408,000

The Controlling Officer submitted that it was due to liquidity constraints caused by customers not paying their debts on time. The Controlling Officer further submitted that despite this scenario ZSIC GI and ZSIC LTD was going to pay K156,000 (rebased) towards the settlement of the debt.

Committee's Observations and Recommendations

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

ZSIC Life- K 3,811,901,403-Unremitted PAYE

The Controlling Officer submitted that a payment plan concerning the unremitted PAYE of K3.8 billion had since been effected and so far ZSIC Life Ltd had made three payments totalling K1,962,155,000. The outstanding amount of K1,849,745,860 would be liquidated according to the payment plan.

Committee's Observations and Recommendations

Your Committee notes the steps taken by management to address the matter and awaits a progress report on the remittance of the outstanding amount of K1,849,745,860.

iv) Inadequately supported payments-K441,062,300

The Controlling Officer submitted that documentation for K121,365,290 which was misplaced at the time of audit had now been traced.

Committee's Observations and Recommendations

Your Committee expresses concern that supporting documents in respect of such a huge amount could be misplaced and urges the Controlling Officer to ensure that steps are taken to avoid misplacement of accountable documents. Your Committee urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee resolves to close the matter subject to audit verification.

v) Unretired imprest-K23,901,666

The Controlling Officer submitted that out of the K23,901,666 unretired imprest, K20,301,666 had been retired while K3,600,000 imprest had been recovered from the members of staff.

Committee's Observations and Recommendations

Your Committee notes that the imprest has since been retired but urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee awaits a progress report on the matter.

vi) Poor Administration of Claims

• Irregular settlement of claims

The Controlling Officer acknowledged that two (2) claims amounting to ZMK46,075,632 were processed despite the clients owing the Company a sum of ZMK73,626,788 in terms of outstanding premiums. The Controlling Officer

submitte, however, that this was because under the Pensions and Insurance Authority (PIA), revised Credit Policy Guidelines issued pursuant to *Section 99 of the Insurance Act no 27 of 1997 Act*, insurance could be concluded under credit terms as long as the premium was paid within 30 days after the due date of the premium payable, or such period as the contract may stipulate.

In this regard, the Controlling Officer submitted that the claim under Transtra International was under a fleet policy, where premium paid towards the debited amount was not necessarily on individual vehicle basis. The claim was, therefore, authorised for settlement as a substantial amount of K30,000,00 had been paid by the insured. As regards the second claim, the Controlling Officer submitted that by the time the claim was being settled, the total premium due of K 6,940,000 had been paid in full.

Committee's Observations and Recommendations

Your Committee expresses concern that the Controlling Officer did not take advantage of the audit process to clear the matter which is unacceptable. Your Committee resolves to close the matter subject to audit verification but urges the Controlling Officer to always take the audit process seriously.

- **Unsupported Claim Payments-K766,257,697**

(a) Inadequate supporting documents

The Controlling Officer submitted that although claims were settled with full documentation, some of the claim documents were not on claim files at the time of the audit. The Controlling Officer also submitted that the reasons for missing documents on claim files was because some of the documents were on the underwriting files while some were moving between departments. The Controlling Officer further submitted that to address the concerns raised by the auditors, a dedicated claims department had been established separate from the underwriting functions and a claims procedures manual had been introduced. Further, computerisation of claims handling process had commenced.

Committee's Observations and Recommendations

Your Committee finds the response by the Controlling Officer unacceptable because if the documents were within the Institution at the time of audit, they could have been availed for audit during the audit process. Your Committee urges the Controlling Officer to ensure that all the missing supporting documents are traced and availed to the Auditor General for verification. Your Committee will await a progress report on the matter.

(b) Claims notified beyond the stipulated fourteen (14) days limit

The Controlling Officer acknowledged that the four cases below were settled beyond the fourteen (14) days claims notification period but explained each case as set out hereunder.

1. Benson Kalunga

This was a third party injury claim where the claims were not bound by the 14 days notification condition. The date of accident was 17th February 2009 and the claim was notified on 18th March, 2010.

2. Joseph Sichivula

This was a third party death claim where the claims were not bound by the 14 days notification condition. The date of accident was 17th July, 2009 and claim was notified on 24th August, 2009

The above claims were notified within the provisions of *Part VII Section 90 ii and iii of the Road Traffic Act Number 11 of 2002* and General condition number 12 of the Motor Insurance Policy document. The former allowed the third party injury/death claim to be notified within three(3) years while the latter provides for twelve(12) months.

3. Judith Nankamba

This claim was notified within the stipulated period of 14 days. The date of accident was on 31st July, 2010 while date of notification was on 13th August, 2010. Premium was paid in full at the time of notification.

4. Joseph Chona

This claim was reported to the police the same day by the insured and was given the claim form to complete which he later submitted after obtaining the police report.

Committee's Observations and Recommendations

Your Committee observes that this query was another demonstration that the Controlling Officer and the management at ZISC did not pay serious attention to the audit process. Your Committee is of the view that if the explanations were given to auditors, the matters could have been cleared during the audit process. Your Committee, therefore, urges the Controlling Officer to ensure that ZISC management effectively uses the audit process to address matters raised by the auditors instead of waiting to give elaborate responses to your Committee. Your Committee resolves to close the matter subject audit verification.

• **Failure to follow procurement procedures – repair services**

The Controlling Officer acknowledged that three competitive repair estimates were not obtained from the approved garages prior to processing of claims except from one supplier. The Controlling Officer added that currently, three competitive repair estimates were being obtained before claims were processed.

Committee's Observations and Recommendations

Your Committee expresses concern that procurement procedures were not followed and urges the Controlling Officer to take disciplinary action against the officers responsible for the anomaly. Your Committee resolves to close the matter subject to audit verification.

vii **Contract signed without consulting Attorney-General**

The Controlling Officer submitted that at the time management believed that local contracts did not require the approval of the Attorney-General especially since ZSIC Limited had separate and independent legal personality. The Attorney-General had, however, advised that the position was erroneous.

Committee's Observations and Recommendations

Your Committee notes that the Attorney General has clarified the issue and resolves to close the matter.

viii Review of Internal Audit Reports on Investments

The Group runs the Zambia State Insurance Trust Fund (ZSITF) on behalf of the employees of ZSIC, public and other private institutions. The nature of services provided by ZSIC comprises of custody of assets owned by the Fund, administration of pension (membership record and contribution) and managing funds and investments. The group undertakes various investments in order to grow the fund. A review of the Internal Audit Reports and other records covering the period January to December 2010 revealed the following irregularities with regard to investments.

- ***Irregular Investments In Pelton Finance Limited***

- (a) Failure to undertake due diligence**

The Controlling Officer submitted that Pelton Limited was a microfinance entity regulated by the Bank of Zambia and therefore management gave out K1.5 billion on the basis that it was a licenced institution.

Committee's Observations and Recommendations

Your Committee finds that the management of ZISC acted irresponsibly when it decided not to undertake a due diligence as being registered with the Bank of Zambia was no guarantee that the entity was economically viable. Your Committee, therefore, urges the Controlling Officer to ensure that the officers responsible for the irregularity are disciplined. Further, the matter should be reported to investigative agencies for further investigations. Your Committee awaits a progress report on the matter.

- (b) Failure to conduct Risk Assessment**

The Controlling Officer acknowledged that the process was flawed as a risk assessment was not done properly on issuance of the credit guarantee bond. The Controlling Officer further explained that attempts were made to recover the amounts lent through placing the borrower under receivership although this was challenged by the Bank of Zambia. The Bank of Zambia contended that it was the only body empowered by law to place an entity licensed under the Banking and Financial Services Act under receivership. The parties opted to resolve the same amicably and discontinued court proceedings. Part of the discussion had been a proposal by Pelton for ZSIC to consider converting part of the debt into equity to clean up the Pelton balance sheet to allow it to attract new capital. While the discussions were going on, the Bank of Zambia revoked Pelton's license and the discussions collapsed. Thus far, there had been no recovery made. Issuance of Credit Guarantee bonds had been suspended while roll over of fixed term short deposits required the client to send back actual cash repayment before another term is extended.

Committee's Observations and Recommendations

Your Committee expresses concern that the management of ZISC again acted irresponsibly when it did not undertake a proper risk assessment to limit exposure. Your Committee, therefore urges the Controlling Officer to ensure that the officers responsible for the omission are disciplined.

(c) Failure to monitor investment

The Controlling Officer acknowledged that monitoring was not properly done. The matter was being investigated by the Government Joint Investigation Task Force.

Committee's Observations and Recommendations

Your Committee notes that the matter is being investigated by investigative agencies and awaits a progress report on the matter.

- **Investments in Circle Pharmaceuticals Africa-US\$700,000**

The Controlling Officer submitted that there was an overly high dependence on the investment broker, Lloyds Financial s Limited which was thought to have done necessary due diligence. The Controlling Officer noted that learning from the experience, management had suspended the investment in Unlisted Corporate bonds (Private Debt). Investments were only made in Listed Corporate bonds where the Companies had under gone the rigorous vetting process of the Securities and Exchange Commission registration. Further to this, investments were appraised by management (despite the investment broker's advice using resources from the Investments Department, Legal and Risk Departments to assess investment proposals.

As regards the action that had been taken to recover debt, the Controlling Officer submitted that Circle Pharmaceuticals was placed under liquidation by the Development Bank of South Africa. ZSIC joined the proceedings as a creditor but dropped its claims when it became clear that the entity subject of the court proceedings was different from the one money was lent to. As it had all along been assumed that the company in Ndola had been the borrower the recovery effort thereafter stalled. The matter was also being investigated by the by security wing.

Committee's Observations and Recommendations

Your Committee notes that the matter is being investigated by security wings and awaits a progress report on the matter.

- **Investment in Freshpikt-K12.9 billion (US\$3.2 million)**

The Controlling Officer submitted that it was decided that the facility for Freshpikt be structured as follows:

- a. US\$1.2 million be paid toward working capital; and
- b. US\$600 thousand be dispersed only after Freshpikt management had worked out a structured exit agreement by the existing shareholders.

However, the assumption of 51% shareholding rights were based on the earlier offer made by another company that had wanted to invest the same amount of \$600,000. Three years earlier at the time the pension funds made its investments, the trustees knew that a new valuation needed to be carried out in order to ascertain the status of the funds investments in Freshpikt. However, the exercise was not carried out. Freshpikt Limited coincidentally failed to produce a valuation of its business and so the shareholder's agreement could not be finalised as it could not be ascertained as to the level of shareholding the US\$600,000 would translate to. Consequently, the shareholder agreement was not signed. Eventually the trustees placed the company under receivership and the funds invested had been recovered.

The Controlling Officer submitted further that under the receivership, the amount owed to the ZSIPTF was treated as part of the total indebtedness of Freshpikt Limited. The total collectable amount on the receivership was thus US\$3,800,000 (where interest was forgone and the principal amount include the US\$600,000).

The matter was also being investigated by the Government Joint Investigation Task Force. The Receiver had subsequently been paying towards the indebtedness.

Committee's Observations and Recommendations

Your Committee notes that the matter is also under investigation and awaits a progress report.

- **Investment in non-performing project – Kitwe Development Limited- K21,120,000,000 (US\$4,000,000)**

The Controlling Officer submitted that the Agreement between KDL would, in the event of its failure to complete the development of the Freedom Park Shopping Mall, transfer all its developmental rights therein to the ZSIPTF. Should KDL fail to secure adequate financing by 31st October, 2011 to complete Freedom Park Shopping Mall, all development rights of KDL would revert to ZSIPTF. Prior to development rights for the Freedom Park Shopping Mall reverting from KDL to ZSIPTF, all tranches in the agreement would have been dispersed by ZSIPTF to KDL (a total of US\$ 4 Million).

The Controlling Officer informed your Committee that the Agreement also provided that should for whatsoever reason KDL fail to complete the project, the developmental rights for Freedom Park Shopping Mall would be transferred to ZSIPTF.

The Controlling Officer further submitted that provision in the Agreement could not be invoked because PGE did not default its obligations in this regard. The development partner in Freedom Park Mall PGE had by December, 2010 secured a loan facility of US\$10 million from Barclays Bank Zambia (BBZ) Limited. After the termination of the contractor (Pouwels Construction), BBZ called in this facility in 2012 before completion of the project. In April, 2012, PGE secured private (shareholder) funding to continue the development and pay the BBZ facility. On 25th April, 2013, PGE signed a Long Term Loan Facility for ZMW 37.1 million with the Development Bank of Zambia.

Committee's Observations and Recommendations

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

Zambia Wildlife Authority

Query

Paragraph 23

Review of Operations

25. An examination of accounting and other records for the financial years ended 31st December 2009 to 2012 carried out in October 2013 revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Failure to submit Annual Reports to the Minister

The Controlling Officer submitted that the failure to prepare audited accounts was caused by frequent changes at both top management level and of the Board. The Controlling Officer further stated that the 2009 and 2010 financial statements had since been audited and submitted to the Ministry of Tourism and Arts and Ministry of Finance. Further, the draft financial statements for the years 2011 and 2012 were ready and would be audited by CYMA and PricewaterhouseCoopers respectively.

Committee's Observations and Recommendations

Your Committee finds the explanation by the Controlling Officer unacceptable as it is his responsibility to ensure that financial provisions of the Act are adhered to on the preparation of financial reports. The Controlling Officer is therefore urged not to make excuses but to ensure that the regulations and procedures are followed by all entities under his portfolio. Your Committee further urges the ZAWA management to ensure that the Institution's financial statements are prepared and published. Your Committee awaits a progress report on the matter.

b) Wasteful expenditure –SMS Competition-K730,227,321.37

The Controlling Officer submitted that the business venture between ZAWA and Zain (currently operating as Airtel) failed as a result of the creation of a parallel promotion campaign by the same partner Zain who not only lowered their SMS rates but also offered superior prizes. This was unfair competition as ZAWA failed to match up with the resources Zain had put up.

He informed your Committee that Zain took advantage of the lack of the protective clause that could have prevented it from running a parallel promotion. An amount of K202,331,552 was spent on prizes which included a vehicle, laptops, bicycles, and TV screens some of which were not given out and were available at ZAWA headquarters. The SMS competition was thought of as a means to diversify the revenue base for ZAWA to mitigate the chronic funding inadequacies. However, it could not work out as anticipated.

Committee's Observations and Recommendations

Your Committee notes that the K730,227,321.37 spent by the Authority on the sms competition amounted to wasteful expenditure as the intended purpose was not attained. Your Committee observes that the wasteful expenditure was due to failure by management of ZAWA to put a protective clause in the contract to prevent Zain from introducing a similar competition during the life of the ZAWA competition. Your Committee urges the Controlling Officer to take disciplinary action against the officers involved for their failure to advise management properly on the matter. Your Committee also urges the Controlling Officer to seek guidance from the Attorney General on the remedies that may be available to ZAWA. Your Committee would await a progress report on the matter.

c) Unvouched expenditure-K611, 227,374

The Controlling Officer acknowledged the anomaly and submitted that the vouchers concerned related to disbursements made to Community Resources Boards (CRBs) over which Zambia Wildlife Authority had limited control. The Controlling Officer submitted that the ZAWA management wrote to CRBs to provide the payment vouchers and acquittals and had managed to have supporting documents for K596,352,374 leaving a balance of K14,875.000 in respect of a missing voucher at Kakumbi Community Resource Board.

Committee's Observations and Recommendations

Your Committee observes that the anomaly was as a result of laxity on the part of accounting officers at ZAWA who failed to make necessary follow ups with the Community Based Boards. Your Committee, therefore, urges the Controlling Officer to ensure that the missing supporting documents are found and availed to the Auditor-General for verification. Your Committee awaits a progress report on the matter.

d) Unretired imprest-K94, 266,562

The Controlling Officer submitted that the unretired imprest was in respect of CRBs activities over which the Authority had limited control. The imprest amounting to K50,655,700 had been retired leaving a balance of K43,610,862 unretired.

Committee's Observations and Recommendations

Your Committee observes that the anomaly was as a result of laxity on the part of accounting officers at ZAWA who failed to ensure that the members of the Community Based Boards retired the imprest in accordance with Financial Regulations. Your Committee, therefore, urges the Controlling Officer to ensure that the remaining imprest is retired and documents availed to the Auditor General for verification. Your Committee awaits a progress report on the matter.

e) Unaccounted for stores - K192,025,000

The Controlling Officer submitted that the unaccounted for stores were for Community Based Boards and the Authority had so far received all the receipts and disposal details.

Committee's Observations and Recommendations

Your Committee observes that the anomaly was as a result of laxity on the part of accounting officers at ZAWA who failed to ensure that the members of the Community Based Boards accounted for the stores obtained. Your Committee resolves to close the matter subject to audit verification.

f) Failure to collect revenue from Masebe Game Ranch

The Controlling Officer submitted that Masebe Game Ranch was invoiced K635,738,140 for the animals found resident on the property on 2nd October, 2008 by Zambia Wildlife Authority. Masebe Game Ranch opted for a barter system to settle the invoiced amount with 150 sable antelope. The Authority had collected sixty-three sable animals from Masebe Game Ranch of which thirty-three were taken to Lusaka Park while the thirty were auctioned. The remaining balance of eighty-seven was yet to be collected pending availability of funds to facilitate the capture and translocation to a suitable wildlife estate.

Committee's Observations and Recommendations

Your Committee expresses regret that the ZAWA management entered into such a agreement contrary to clear guidelines and procedures. Your Committee is of the view that up until animals found at a location where a ranch was to be established were paid for, such animals remained a property of the Government. By agreeing to do a barter system before any payment was made by the client meant that such a client paid nothing to ZAWA as the animals in question were still a property of Government. In this regard, your Committee urges the Controlling Officer to report

the matter to investigative agencies for further investigations. Your Committee awaits a progress report on the matter.

h) Payables

i) Failure to remit loan recoveries to Financial Institutions

The Controlling Officer acknowledged that the outstanding amounts had been increasing from K2, 214,778,714.96 in 2009 to K12,820,898,785.67 in 2012. The Controlling Officer submitted that although recoveries were made on employees salaries, ZAWA's monthly income levels could only cover net salaries. To address the matter, management and the affected financial institutions, had agreed on a debt repayment plan and the debt amounting to K7,026,763.46 had since been liquidated.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until all the outstanding amounts were collected. Your Committee awaits a progress report on the matter.

ii) Failure to remit statutory contributions-K13,959,505.18

The Controlling Officer submitted that ZAWA had been facing financial challenges since inception but with support from the Treasury, the Authority had been remitting all statutory contributions since January, 2013, as shown in the table below:

Details	Amount
NAPSA	3,695,343.29
ZRA(PAYE)	5,113,447.72
Pension Contribution	3,812,714.17
Workers Compensation	1,338,000.00
Total	13,959,505.18

The Controlling Officer further submitted that that management had requested, through the Ministry of Tourism and Arts, the Treasury to assist with liquidation of the accumulated debt stock as at 31st December, 2012.

Committee's Observations and Recommendations

Your Committee notes the steps taken to address the matter but resolves not to close the matter until the entire debt stock was settled. Your Committee awaits a progress report on the matter.

i) Contract for translocation of assorted species of wildlife

i. Questionable Issuance of Local Purchase Order (LPO)

The Controlling Officer submitted that the query was as a result of the error made by the officer who raised the LPO in September 2012 by indicating the July date. The offer letter was issued on 31st July, 2012 while the contract was signed on 7th August, 2012. Further, the LPO in question was actually raised in September, 2012 after completing all tender procedures.

The Controlling Officer added that the matter was before the investigative wings.

Committee's Observations and Recommendations

Your Committee is reluctant to accept the explanation by the Controlling Officer that the query was as a result of a human error by an officer. Your Committee's view is based on the numerous implementation challenges which the contract later encountered. Your Committee therefore, urges the investigative agencies dealing with this matter to expeditiously come up with its findings. Your Committee awaits a progress report on the matter.

ii. Failure to execute contract in full

The Controlling Officer acknowledged that only 280 animal species had been translocated leaving a balance of 170. The Controlling Officer informed Your Committee that the translocation of the animal species was done in lots. Each lot was priced according to the number and animal species to be translocated. The animal species that were translocated were for three lots whose total value was ZMK1,963,500,000 as shown below:

Animals Type	Number of Animals	Amount(ZMK)
Wildebeest	200	1,122,000,000
Nyala	30	459,000,000
Blesbok	50	382,500,000
Total	280	1,963,500,000

However, due to limited funding received for the exercise amounting to ZMK1,450,000,000 in 2012, the contract was proposed to be executed in two phases. The first phase of the contract was restricted to the available funding of ZMK1,450,000,000. Therefore, the contractor was only paid ZMK1,450,000,000 for the 280 animal species delivered at a total cost of K1,963,500,000 leaving a balance of K513,500,000.

Committee's Observations and Recommendations

Your Committee expresses concern that what was intended to be achieved by ZAWA has not been attained. Your Committee observes that this could be attributed to the way the contract was handled from inception as it lacked transparency. Your Committee is of the view that the matter should be thoroughly investigated by investigative agencies in order to help clear the matter. Your Committee awaits a progress report on the matter.

iii. Failure to declare Interest

The Controlling Officer submitted that although one of the Directors of Muchinga Wild Game Capture Services Ltd was once an employee of ZAWA, at the time of the tender in May 2012, he had left ZAWA.

Committee's Observations and Recommendations

Your Committee recommends that the matter should also be subjected to investigations by investigative agencies. Your Committee awaits a progress report on the matter.

i. Lack of proper Armoury building in Lunga, Kafue flats and Mosi O Tunya

The Controlling Officer acknowledged the lack of proper armoury buildings in the four management regions and explained that this was due to inadequate financial resources. The Controlling Officer submitted, however, that ZAWA would make a provision in the 2015 budget to undertake construction and rehabilitation of armouries especially the Mosi O Tunya National Park armoury.

Committee's Observations and Recommendations

Your Committee observes that the failure to have proper armoury buildings in areas under ZAWA is mainly due to lack of commitment on the part of management. Your Committee urges the Controlling Officer to ensure that ZAWA management addresses the matter without further delay. Your Committee awaits a progress report on the matter.

j) National Parks, Game Management Areas and Lodges

i. Encroachment in the Game Management Areas-Mumbwa East/Lower Zambezi National Park

The Controlling Officer submitted that the ZAWA management had been facing the challenge of implementing General Management Plans due to lack of funds and court injunctions. The Controlling Officer submitted that in Mumbwa East, a court order had been granted to relocate the illegal settlers as soon as possible and the process to formalise the acquisition of the land was underway. With regard to the Lower Zambezi, the Controlling Officer submitted that the process to remove the illegal settlers was underway.

Committee's Observations and Recommendations

Your Committee observes that the failure by ZAWA to manage the areas concerned in the national parks is a serious omission as it is undermining the intention of the law on the establishment of Game Management Areas. Your Committee, therefore urges the Controlling Officer to take urgent steps to correct the situation. Your Committee awaits a progress report on the matter.

ii. Companies operating without Tourism Concession Agreements

The Controlling Officer submitted that ZAWA had instituted discussions with the concerned parties in order to ensure that it formalised all its business activities. The Authority had equally come up with Statutory Instruments which would be passed to back the law and compel the affected parties to establish formal relationships with ZAWA by signing Tourism Concession Agreements (TCAs). Apart from having TCAs, the companies in question would equally pay fees for adventure activities enjoyed by tourists in the National Parks.

Committee's Observations and Recommendations

Your Committee is concerned that the Controlling Officer and ZAWA management have failed to ensure that all operators sign concession agreements in line with the policy of ZAWA. Your Committee finds such laxity unacceptable as it puts the integrity of the organisation at stake. Your Committee awaits a progress report on the matter.

iii. **Failure to collect debt related to fixed lease and variable fees-K4,296,395,930**

The Controlling Officer submitted that ZAWA had taken action and put in place stringent measures to correct the situation. One of the measures was that no Tour Operator with outstanding debts would be allowed to renew TCAs with the Authority before settling them. Secondly, ZAWA has since cancelled TCAs with defaulting operators and was in the course of instituting legal action to recover the outstanding debts. Thirdly, ZAWA had included a clause in the TCAs, to be backed by the issuance of a Statutory Instrument (SI) by the Minister of Tourism and Arts, to restrain actions that would result in unnecessary accrual of debts on the part of the Authority in future.

Committee's Observations and Recommendations

Your Committee expresses concern that despite complaining of financial constraints, management of ZAWA had not been proactive in pursuing institutions that owed it funds. Your Committee urges the Controlling Officer to ensure that ZAWA management takes urgent measures to collective the funds owed to it. Your Committee awaits a progress report on the matter.

CONCLUSION

26. Your Committee wishes to express its gratitude to you Mr Speaker and the Office of the Clerk for the support rendered to it when considering the Report of the Auditor-General on the Accounts of Parastatal Bodies for Financial year Ended 2012. Your Committee further wishes to thank the Secretary to the Treasury, Controlling Officers, Chairpersons and other members of the Boards of Directors, and management teams of the institutions that were audited for their cooperation.

Finally, your Committee acknowledges the valuable input from the Office of the Auditor-General, the Accountant-General and that of the Controller of Internal Audit when considering submissions from the witnesses.

V Mwale, MP
CHAIRPERSON

DECEMBER 2014
LUSAKA

APPENDIX I

List of Officials

National Assembly

Mr S Kawimbe, Principal Clerk of Committees

Mr F Nabulyato, Committee Clerk (FC)

Mr S Chiwota, Assistant Committee Clerk

Mr A Chilambwe, Assistant Committee Clerk

Mrs G M C Kakoma, Stenographer

Ms C Mtonga, Stenographer

Mr R Mumba, Committee Assistant

Mr C Bulaya, Committee Assistant