

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR-GENERAL FOR 2008 ON THE ACCOUNTS OF PARASTATAL BODIES FOR THE FIFTH SESSION OF THE TENTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON 24 SEPTEMBER, 2010

Consisting of:

Mr E M Hachipuka, MP (Chairperson); Mr H H Hamududu, MP; Mr L M Mwenya, MP; Mr V Mwale, MP; Mr P Sichamba, MP; Mr B Y Mwila, MP; Mr E M Munaile, MP; Mrs A C K Mwamba, MP; and Mr C Mulenga, MP.

The Honourable Mr Speaker
National Assembly
Parliament buildings
LUSAKA

Sir,

Your Committee has the honour to present its First Report on the Report of the Auditor-General for 2008, on the Accounts for Parastatal Bodies.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held fourteen meetings to consider the Report of the Auditor-General for 2008, on the Accounts of Parastatal Bodies.

Procedure adopted by the Committee

4. With technical guidance from the Auditor-General and the Accountant-General, your Committee considered both oral and written submissions from Controlling Officers, Board Chairpersons and Chief Executives Officers of the twenty-two institutions that were reported on in the Audit Report. The Secretary to the Treasury was also requested to comment on all the twenty-two 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 of selected bodies for 2008, was submitted to the President for tabling in the National Assembly in accordance with the Constitution of the Republic of Zambia and the *Public Audit Act*, Cap 378 of the laws of Zambia.

Scope of Audit

i) The Report was a result of a programme of test checks and reviews of the audited accounts of selected organisations for the financial years up to 31st December, 2008. Due

to limited financial resources, the programme of work was restricted to twenty-two organisations.

- ii) In the course of preparing the Report, draft report paragraphs were sent to Controlling Officers of the organisations' parent ministries and Chief Executive Officers for confirmation of the correctness of the facts presented. Where the comments were received and varied materially with the facts presented, the relevant items were amended appropriately.
- iii) Specific mention was made of non preparation of financial statements, failure to remit statutory contributions, poor financial performance and weaknesses in procurement procedures in the respective organisations.

CONSIDERATION OF SUBMISSIONS

CHAMBESHI WATER AND SEWERAGE COMPANY LIMITED

Query

Paragraph 4

Review of Operations

6. A review of operations for the financial years ended 31st December 2005 to 2008, revealed the following:

a) Ownership of the Company

The Controlling Officer explained that the Board of Directors at the 1st Annual General Meeting held on 25th November, 2006, directed that the changes of ownership should be effected from individual names to Local Authorities. However, the directive was never acted upon and Management was, therefore, in the process of effecting the change of ownership. Further, the registration of the Company had been done and the Memorandum of Understanding between the Board of Directors and Management had been included in the Articles of Association.

Committee's Observations and Recommendations

Your Committee is concerned that the issues surrounding the ownership of the Company have taken too long to resolve and urges Company Management to attend to matters raised by the Auditor-General without fail. A progress report is awaited.

b) Strategic Plan

The Controlling Officer explained that a three year business plan covering the period 2008 to 2011, was approved by the Board on 21st April, 2009. The strategic plan was yet to be developed.

Committee's Observations and Recommendations

Your Committee is saddened to learn that the Company has continued to operate without a strategic plan to date. While appreciating the Company's efforts to come up with a business plan, your Committee recommends that the Company should develop a strategic plan which will provide adequate direction to the Company. A progress report is awaited on the development and adoption of a strategic plan for the Company.

c) Staff Establishment

(i) *Lack of Internal Audit Function*

The Controlling Officer informed the Committee that all vacancies had since been filled including that of the Internal Auditor.

Committee's Observations and Recommendations

Your Committee commends the Controlling Officer for attending to the audit query and resolves to close the matter.

(ii) *Staff Turnover*

The Controlling Officer submitted that following the improvement in the Conditions of Service for the workers, staff turnover had reduced.

Committee's Observations and Recommendations

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

d) Profitability

(i) *Turnover and Cost of Sales*

The Controlling Officer stated that the increase in turnover was partly attributed to the inclusion of three more districts namely Mbala, Luwingu and Chilubi to the list of those to be serviced, bringing the total number of districts to twelve. The additional number of customers from the three districts was about 1,400.

Committee's Observations and Recommendations

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

(ii) *Personal Emoluments*

The Controlling Officer explained that the increase in Personal Emoluments was attributed to a number of factors including salary harmonisation, inclusion of staff from additional districts, filling of vacancies and improvements in Conditions of Service.

Committee's Observations and Recommendations

Your Committee takes note of the response by the Controlling Officer and resolves to close the matter.

(iii) *Profit/Loss before Tax*

The Controlling Officer cited two reasons for the losses. Firstly, the grants received by the Company during the period under review were mainly targeted at the rehabilitation and upgrading of the dilapidated infrastructure and, therefore, had little bearing on the Company's profitability in the short term. Secondly, a tariff embargo imposed by National Water and Sanitation Council on three districts namely, Kasama, Mpika and Mungwi from November 2005, due to poor service delivery,

affected the income raised by the Company. Payment of dividends to shareholders was, therefore, not possible in the short to medium term due to losses that were recorded by the Company.

Committee's Observations and Recommendations

Your Committee takes note of the explanation by the Controlling Officer and resolves to close the matter.

e) Financial Position as at 31st March 2005 to 2008

(i) Non Current Assets

The Controlling Officer reported that the valuation of assets had been concluded and a Statutory Instrument had been issued to transfer the Local Authorities' assets to Chambeshi Water and Sewerage Company Limited.

Committee's Observations and Recommendations

Your Committee expresses concern that the transfer of assets in question has taken too long and urges the Controlling Officer to ensure the exercise is completed and avail documentary evidence to the Office of the Auditor-General after which the matter should close.

(ii) Liquidity Position

The Controlling Officer submitted that the increase in working capital for the Company was as a result of an increase in Government grants disbursed to the Company.

Committee's Observations and Recommendations

Your Committee takes note of the reasons advanced for the positive working capital and hopes that the Company will raise adequate working capital from its own resources rather than the Government grants, as it is more sustainable.

(iii) Failure to Collect Debt - Trade and other Receivables

The Controlling Officer reported that the Company has since engaged debtors with a view of coming up with debt swap arrangements.

Committee's Observations and Recommendations

Your Committee is greatly disappointed with the poor debt management strategy by the Company and advises that the Company works out a vigorous debt recovery strategy so as to bring the debt to sustainable levels. A progress report is awaited on the debt swap arrangements.

(iv) Failure to Meet Obligations - Trade and other Payables

The Controlling Officer informed your Committee that the Company had engaged the various institutions it owed money to arrange for flexible payment plans which included debt swaps with water bills. The Ministry has also been disbursing grants to the Company for operations so that income generated from water bills could be used to pay off other debts.

Committee's Observations and Recommendations

Your Committee notes with sadness the failure by the Company to meet its obligations and resolves to await a progress report on the specific measures being taken to resolve the matter. Evidence of payment arrangements with creditors should be availed to the Office of the Auditor-General for verification.

(v) Shareholders' Funds

The Controlling Officer conceded that it was true that the going concern of the Company in its infancy was bleak without Government support and the Company has developed a business plan as a way of forward thinking to achieve the going concern while the strategic plan was yet to be completed and adopted.

Committee's Observations and Recommendations

Your Committee observes that the Company's future would continue to be bleak due to the failure by the leadership of the Company to put in place a strategic plan. Your Committee emphasises that no company can succeed in the absence of such a plan and urges the Company to put in place a strategic plan without further delay and avail it to the Office of the Auditor-General for verification.

f) Failure to Follow Tender Procedures

(i) No records on tender process

The Controlling Officer explained that procurement procedures were not followed due to administrative lapses attributed to the fact that most staff were new and were not conversant with Government procurement procedures.

Committee's Observations and Recommendations

Your Committee does not find the explanation submitted by the Controlling Officer tenable nor convincing as Management should have ensured that the new staff were adequately inducted in their new roles before being tasked to work on their own. In order to be satisfied that the situation has improved, your Committee requests the Office of the Auditor General to undertake a verification exercise in relation to tender procedures of the Company.

(ii) Inadequately supported payment vouchers

The Controlling Officer submitted that the matter had been submitted to the Auditor-General's Office for verification.

Your Committee resolves to await a report from the Auditor-General's Office before the matter can be closed.

g) Lack of an Accurate Customer Database

The Controlling Officer reported that the customer database has since been updated and the new customer base stands at 11,190 customers.

Committee's Observations and Recommendations

Your Committee notes the efforts that have been put in place in order to have a more accurate database and resolves to close the matter, subject to audit verification.

h) Non Submission of Returns

The Controlling Officer submitted that the Company had been directed to issue strict instructions to all districts to return all finished receipt books to head office for safe custody and for the purpose of audit immediately all pages were used.

Committee's Observations and Recommendations

Your Committee regrets that the receipts books have not yet been returned to head office as expected and is inclined to believe that Management has not given the query adequate attention. The Auditor-General is urged to verify whether the situation has been normalised.

NATIONAL HOUSING AUTHORITY (NHA)

Query

Paragraph 11

7. In the report of the Auditor General for 2007, on the Accounts of Parastatal Bodies, mention was made of various accounting and other irregularities at the NHA. A review of operations for the year 2008, revealed the issues set out below.

a) Outstanding Rentals

The Controlling Officer reported that the NHA had conducted an exercise to distinguish uncollectible debts from collectable ones and an amount of K3.1 billion had been declared uncollectible and provided for in the financial statements as bad debts. The outstanding debt of K5,894,980,132 mentioned in the report included the K5.2 billion owed by the Nitrogen Chemicals of Zambia (NCZ) and negotiations were under way on the possibility of the Government taking over this debt.

Committee's Observations and Recommendations

Your Committee takes note of the submission by the Controlling Officer and resolves to await a progress report on the matter.

b) Uncollected Income from the sale of Kafue Estates Houses-K441,318,338

The Controlling Officer submitted that twenty-three out of sixty-eight housing units had been fully paid for leaving a balance of forty-five housing units still unpaid for. The balance of the unpaid housing units were occupied by former employees of NCZ who had not yet received their retirement benefits.

Committee's Observations and Recommendations

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

c) Non-Remittance of PAYE - K 8,709,384,073

The Controlling Officer informed your Committee that the Ministry of Local Government and Housing had directed NHA to develop a payment plan for the liquidation of the unpaid statutory obligations with concerned institutions.

Committee's Observations and Recommendations

Your Committee observes that the Company Management has not been proactive enough in engaging concerned organisations to come up with flexible plans to liquidate the outstanding obligations. A progress report on the measures being put in place to pay the statutory obligations in question should be submitted to the Office of the Auditor-General for verification.

d) Staff Establishment not Approved

The Controlling Officer explained that the NHA now had an approved staff establishment of 343 employees.

Committee's Observations and Recommendations

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

THE UNIVERSITY OF ZAMBIA (UNZA)

Query

Paragraph 17

8. A review of operations carried out in December, 2009, revealed the weaknesses set out hereunder.

a) Delays in Preparing Annual Reports

The Controlling Officer stated that the delays in the preparation of the annual reports for the University were due to a leadership vacuum that followed the removal of top Management in 1997 and the subsequent dissolution of the Council. However, the preparation of the 2008 annual report was in progress. The financial statements adopted by the University Council were also available for audit verification.

Committee's Observations and Recommendations

Your Committee notes that the University is not up to date in the preparation of annual reports and urges the Controlling Officer to ensure that the University meets all its reporting obligations without fail. Your Committee requests the Auditor-General to have the current status verified.

b) Staff Establishment

The Office of the Auditor-General advised your Committee that the matter had been cleared.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as it has been verified and cleared by the Auditor-General.

c) Lack of Segregation of Duties in Provincial Centres

The Controlling Officer submitted that the recruitment process for accounting officers in all provincial centres had commenced.

Committee's Observations and Recommendations

While noting the submission, your Committee wishes to know if the situation has been normalized. It awaits a progress report on the actual placement of staff in the centres. The Auditor-General is requested to undertake a verification of the situation.

d) Lack of Approved Financial Regulations

The Controlling Officer submitted that financial regulations were yet to be presented to the full University Council for approval.

Committee's Observations and Recommendations

Your Committee is concerned with the University's failure to have approved financial regulations as it exposed the institution to numerous financial and accounting irregularities. The Controlling Officer is urged to take this matter seriously and have the regulations approved and availed them to the Office of the Auditor-General for verification.

e) Non Implementation of Internal Audit Recommendations

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

f) Irregularities in the Student Records System

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

g) Delayed Banking-K1,069,604,237

The Controlling Officer submitted that a circular was issued instructing that funds collected were deposited within twenty-four hours of receipting. All the erring officers, who had failed to account for funds, had either been suspended and funds recovered from their salaries or prosecuted.

Committee's Observations and Recommendations

Your Committee commends Management for the corrective action taken, but resolves not to close the matter until a verification of the actions taken is conducted by the Auditor-General.

h) Underbanking-K198,432,340

The Controlling Officer stated that a total of K190,205,940 had since been recovered from the concerned officers, leaving a balance of K8,266,400.

Committee's Observations and Recommendations

Your Committee commends the Controlling Officer for the recoveries, but urges him to ensure that the balance of K8,226,400 is recovered, without further delay. In future all, cases of underbanking should be reported to the Police as it is tantamount to theft by public servant.

i) Unvouched Expenditure-K7,107,548,185

The Controlling Officer submitted that payments in amounts totalling K2,550,186,992.05 had been vouched leaving a balance of 417 payments in respect of amounts totalling K4,557,361,192.34, unvouched.

Committee's Observations and Recommendations

Your Committee is disappointed that the payment vouchers in question have not been traced due to poor record keeping and recommends that the Controlling Officer should:

- i) ensure that the remaining payment vouchers in respect of K4,425,998,272.34 are traced and provide documentary evidence to the Office of the Auditor-General before the matter can be closed; and
- ii) put in place measures to ensure that the anomaly does not reoccur.

j) Unretired Imprest-K462,509,699

The Controlling Officer submitted that imprest in amounts totalling K28,565,200 had been retired leaving a balance of K433,944,499 which was being recovered from the affected officers through the payroll.

Committee's Observations and Recommendations

Your Committee notes that little progress has been attained in resolving the matter and urges the Controlling Officer to provide documentary evidence of the recoveries to the Office of the Auditor-General.

k) Failure to Maintain an Assets Register

The Controlling Officer submitted that failure to maintain the said register was as a result of the removal of the Principal Officers and the dissolution of the University Council. Further, due to financial difficulties, the University was finding it difficult to engage evaluators to evaluate the assets. In the meantime, an inventory of all University assets had been done.

Committee's Observations and Recommendations

Your Committee commends the Controlling Officer for the inventory of assets that has been put in place, but urges him to ensure that a proper assets register is prepared and maintained at the University as required by regulations and provide a progress report on the matter.

l) Lack of Title Deeds – Two Properties

The Controlling Officer informed your Committee that the University had written to Zambia Consolidated Copper Mines ZCCM (IH) requesting for the title deeds for plot number 5765 Kalundu, Lusaka and House number 18, Fyakapale Road, Riverside Kitwe.

Committee's Observations and Recommendations

Your Committee observes that the University Management has not been proactive enough in trying to secure the title deeds for the properties in question and urges the Controlling Officer to monitor the progress the University will make on this matter.

m) Non-Remittance of Statutory Obligations-K211,128,083,467

The Controlling Officer submitted that the matter was due to the inadequate budgetary provision allocated to the University over a long time. The University had always been relying on the Government grant to subsidise the sub-economic fees charged.

Regarding pension contributions which had not been remitted to Zambia State Insurance Corporation (ZSIC) amounting to K20,179,853,430, Management had obtained a loan of K20,000,000,000 to clear the outstanding contribution with the ZSIC.

Committee's Observations and Recommendations

Your Committee considers this a very serious challenge, which needs to be addressed without further delay and recommends as set out below.

- i) The Controlling Officer should engage the Ministry of Finance and National Planning to come up a lasting solution to the problem.
- ii) The University Management should engage concerned institutions with the view of coming up with flexible payment arrangements to reduce outstanding balances.
- iii) The University Management should endeavour to make some payments from locally generated resources.
- iv) The Controlling Officer should avail your Committee a progress report on the matter.

n) Failure to Pay Terminal Benefits-K187,298,243,318

The Controlling Officer submitted that the University has been failing to raise funds from its core activity of teaching because of sub-economic fees paid by the students. However, the University has continued to pay these terminal benefits as and when funds were received from the Government.

Comments by the Secretary to the Treasury

The Secretary to the Treasury conceded that the University was facing a very complex problem which needed boldness to resolve. He noted that the University had found itself in this state due to unsustainable Conditions of Service that had been approved by the University over the years.

He stated that under these circumstances the Government was reluctant to bail out the University until the Conditions of Service were reviewed to make them more sustainable. He reported that a committee had been formed to help resolve the problem and so far the University was only taking new employees on contract basis in order to lessen the burden of paying terminal benefits.

Committee's Observations and Recommendations

Your Committee notes the acknowledgement by the Government that the University is facing difficulties in paying terminal benefits because the bill for the terminal benefits has been allowed to grow to unsustainable levels. Your Committee also appreciates the position taken by the Government in trying to assist the University to resolve the situation and recommends that the University should take concrete steps to ensure that an appropriate and sustainable benefits structure is worked out. A progress report on the matter is awaited.

MULUNGUSHI UNIVERSITY

Query

Paragraph 8

Review of Operations

9. A review of ledgers and other accounting records revealed the matters set out below.

a) Failure to Prepare accounts

The Controlling Officer reported that the University's failure to prepare audited accounts was because during this period, the College was undergoing transformation into a University, which created anxiety in most of the employees at the time the contracts were coming to an end on 31st December, 2008. This resulted in a back log of work because of non performance by some of the workers. However, with the appointment of new staff, the financial statements for the years 2007 and 2008, had been prepared and would be tabled before the next sitting of the University Council before the end of 2010.

Committee's Observation and Recommendation

Your Committee resolves to await a progress report on the preparation of the financial statements under reference.

b) Income

i) *GRZ Grants-Funding of K2,968,721,445*

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

ii) *Failure to meet Income Target*

The Controlling Officer stated that the failure to meet the income target was as a result of low enrolment of forty-two students against the budgeted student level of 500 from degree programmes.

Committee's Observations and Recommendations

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

c) Irregular Appointment of Vice Chancellor and Deputy Vice Chancellor

The Controlling Officer submitted that the Chairman of the University Council had written to the Minister of Education requesting that a Search Committee for the formal recruitment of the Vice Chancellor and Deputy Vice Chancellor be constituted.

Committee's Observations and Recommendations

Your Committee notes that this matter has taken too long to resolve and strongly urges the Minister of Education to ensure that the matter is attended to expeditiously. A progress report is awaited.

d) Irregular Purchase of Furniture for Vice Chancellor

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

e) Irregular Payment of Repatriation Allowance- K462,000,000

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

f) Procurement of Goods, Works and Services

i) *Unvouched Expenditure-K1,765,292,611*

The Controlling Officer submitted that payments in amounts totalling K1,647,705,506 had been vouched leaving a balance of K117,587,105.

Committee's Observations and Recommendations

Your Committee notes the disquieting feature of poor record keeping and recommends as set out below.

- The Controlling Officer should ensure that supporting documents in respect of the balance of K117,587,105 are traced and avail them to the Office of the Auditor General for verification.
- The Controlling Officer should take appropriate disciplinary action against the officers concerned and provide a progress report on the matter.

ii) *Unretired Imprest-K265,703,069*

The Controlling Officer submitted that a total of K209,931,616 had been retired leaving a balance of K55,771,453.

Committee's Observations and Recommendations

Your Committee notes the submission and urges University Management to redouble their efforts to have the balance of K55,771,453 retired and avail documentary evidence to the Auditor-General after which the matter should close.

iii) *Failure to follow Tender Procedures-K1,036,949,152*

The Controlling Officer submitted that the three competitive quotations had been attached to payment vouchers in amounts totalling K894,441,152 leaving a balance of K142,508,000.

Committee's Observations and Recommendations

Your Committee expresses regret that Management at the University neglected to follow tender procedures and recommends that disciplinary action should be taken against officers who failed to follow tender procedures.

iv) *Construction of Resident Engineers Office*

The Controlling Officer explained to your Committee that the contract sum was varied to K626,414,865 with the completion period of thirty-one weeks following the inclusion of additional works, which meant that the University was not entitled to damages. The contract with Baluba Building Construction Limited did not include a liquidated damages clause.

The Controlling Officer also stated that it was unfortunate that the documents regarding the second variation of K7,257,540, paid to the Contractor, was not availed to the auditors for audit scrutiny. Tender approval was obtained for this variation and the matter was verified by the Auditors and was recommended for closure.

Committee's Observations and Recommendations

Upon advice of the Auditor-General's office, your Committee notes the submission and resolves to close the matter.

g) Failure to Carry Out Year End Stock Takes

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

h) Non Maintenance of Register of Accounting Documents

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

ZAMBIA EDUCATION PROJECTS IMPLEMENTATION UNIT (ZEPIU)

Query

Paragraph 21

10. An examination of financial, accounting, stores and other relevant documents revealed the weaknesses set out hereunder.

a) Failure to Maintain a Cash Book

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

b) Weaknesses in Handling Other Income

- *Irregular Issue of Receipts and Receipt Books*

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

- *Unaccounted for Revenue-K1,340,010,271*

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

c) Staff Related Issues.

- *Lack of Staff Establishment*

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

- *Failure to Remit Statutory Contributions- K7,886,682,479*

The Controlling Officer explained to your Committee that during the period under review ZEPIU received monthly grants, which were only enough to cover net pay of salaries.

Committee's Observations and Recommendations

Your Committee is saddened that ZEPIU Management has not demonstrated seriousness in addressing the issue and urges the Controlling Officer to help the Unit to come up with a payment plan to reduce the outstanding obligations to manageable levels. A progress report is awaited.

- *Irregular Payment of Production Bonus-K145,043,305*

The Controlling Officer conceded that it was regrettable that ZEPIU Management authorised the payment of bonuses to employees in amounts totalling K145,043,305 without obtaining authority from the Controlling Officer. The Institution had effected deductions from the affected officers' salaries.

Committee's Observations and Recommendations

In noting the measures taken to recover the money, your Committee cautions the Controlling Officer against engaging in irregular expenditures. Your Committee resolves to close the matter.

- *Irregular Engagement of Resident Engineers*

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

d) Procurement of Goods and Services

- *Lack of Receipt and Disposal Details-K441,703,399*

The Controlling Officer explained to your Committee that ZEPIU had started maintaining all the stores records such as goods received notes, requisition vouchers and fuel register. The institution had embarked on updating the fuel register for the period under review in order to normalise the utilisation of K441,703,399 worth of fuel.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter, subject to audit verification of the records being maintained.

- *Inadequately Supported Payments-K257,198,627*

The Controlling Officer submitted that payment vouchers in respect of K138,813,306 had since been adequately supported leaving a balance of K118,385,321.

Committee's Observations and Recommendations

Your Committee is disappointed that supporting documents in respect of amounts of K118,385,321 have not been found and urges the Controlling Officer to ensure that the documents in question are traced and availed for audit verification.

e) **Failure to Deliver Equipment - Ndola Girls Technical High School**

The Controlling Officer explained to your Committee that there were delays in the delivery of equipment costing K532,158,846.48(US\$132,606) because the initial machines, which were supposed to be shipped from India, did not meet the required specifications as prescribed in the bidding documents. The machines in question were subsequently sourced from China and were inspected and accepted in July, 2008 and were shipped to Durban in November, 2008.

However, on 14th January 2009, the transporter of the machines was involved in a road accident in South Africa enroute to Zambia. The supplier had since written to the Ministry of Education about the accident and the condition of the equipment that part of it was damaged and undergoing rehabilitation in South Africa. The Ministry had written to the supplier informing him that a pre-shipment inspection should be conducted in South Africa before delivering the equipment to the School. Further, the Institution had written to the supplier requesting for a police report in order to confirm details of the accident and make informed decision regarding the extension of the delivery period. ZEPIU had since withheld the balance of K532,158,486 (US\$132,606) for the equipment which was not delivered.

With regard to the supply of office furniture at the contract price of K1,447,457,093(US\$299,540.40), this was delivered in full in October, 2009 and was verified by the Auditors.

Committee's Observations and Recommendations

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

ZAMBIA NATIONAL BROADCASTING CORPORATION (ZNBC)

Query

Paragraph 23

Review of Operations

11. An examination of accounting records, management accounts, financial statements and other relevant record revealed the issues set out below.

a) **Board of Directors**

i) *Failure to Renew Board Mandate*

The Controlling Officer explained to your Committee that the mandate of the Board could not be renewed because the Media fraternity took the Attorney General to Court for failing to present the names to Parliament. The case was only disposed of in the Supreme Court in 2007. Following the conclusion of the Court process, the Minister of Information and Broadcasting Services decided to introduce an amendment to the *Zambia National Broadcasting Corporation Act*. The process to appoint new Directors to the Board, had started.

Committee's Observations and Recommendations

Your Committee is disappointed that this matter has remained unresolved for too long and urges the Minister of Information and Broadcasting Services to ensure that the

new Board is quickly appointed in order to create public confidence in the National Broadcaster.

ii) Irregular Appointment of a Board Member

The Controlling Officer explained that the premise for the appointment of a staff member to the Board was based on the understanding that the officer's expertise as Director of Finance was required by the Board, but the mistake was in paying him a sitting allowance. However, the situation had been corrected.

Committee's Observations and Recommendations

Your Committee welcomes the acknowledgement by the Controlling Officer that it was erroneous for the Director of Finance to sit on the Board as a full member and resolves to close the matter.

iii) Board Sub-committees

The Controlling Officer informed your Committee that the Chairperson would not be a member of any sub-committee in future, but only be in attendance only to give guidance when called upon, whenever need arose.

Committee's Observations and Recommendations

Your Committee views the action by the Board Chairperson to sit on a sub-committee of the Board as a clear case of poor corporate governance and urges the Controlling Officer to ensure that such a situation does not recur.

b) Lack of Strategic Direction

The Controlling Officer reported that the Corporation had developed and adopted a five year strategic plan for the period 2009-2014, which was already being implemented.

Committee's Observations and Recommendations

Your Committee finds it regrettable that ZNBC operated without a strategic plan for such a long time and cautions the Controlling Officer to guard against such occurrences in future.

c) Failure to Prepare Annual Reports.

The Controlling Officer explained to your Committee that the report for the financial year was not ready at the time of audit as it would only be presented to the Board in November, 2010.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by ZNBC to prepare annual reports as prescribed by regulations and urges the Controlling Officer to expedite the process of correcting the situation and to ensure that all outstanding annual reports are prepared as a matter of urgency. A progress report on the matter is awaited.

d) Financial Performance

(i) Profitability

The Controlling Officer explained that the financial performance of the Corporation was dictated by its mandate of delivering services throughout the country whether they had commercial value or not which reduced profitability of the Corporation.

Committee's Observations and Recommendations

Your Committee strongly urges ZNBC to find ways of becoming more competitive and notes that the Corporation should at least aim at breaking even if it cannot make a profit. Your Committee resolves to close the matter.

(ii) Staff Costs to Turnover Ratio

The Controlling Officer stated that ZNBC was running a national mandate that included operating services in the seven local languages which had to be transmitted to the whole country. Similarly, Radio Two, Radio Four and Television signals needed to reach every part of Zambia. This called for the need to install and maintain transmitters in remote parts of the country.

Committee's Observations and Recommendations

Your Committee acknowledges the role of ZNBC in providing a public service to the entire nation, but recommends that ZNBC should demonstrate commitment to improving efficiency in the long term.

(iii) Balance Sheet

- **Liquidity Position**

The Controlling Officer submitted that the mandate of the Corporation continued to constrain it from meeting statutory obligations because of the high staffing levels required to run the services. However, the National Pensions Scheme Authority obligations were now up to date. Zambia National Broadcasting Corporation had engaged Zambia Revenue Authority to work on modalities to pay monthly remittances to ZRA while facilitating the clearance of the debt. Further, the Corporation was increasing its advertising sales revenue and working with Zambia Electricity Supply Corporation to improve TV Levy compliance and collection catchments to include rural areas.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to continue finding ways of addressing this matter until a suitable solution is found. The matter is closed, but the Office of the Auditor General is requested to keep the matter in focus.

- **Receivables-Lack of Credit policy**

The Controlling Officer explained that the Corporation had adopted a credit policy to control and manage the debt system effectively.

Committee's Observations and Recommendations

Your Committee resolves to close the matter, subject to audit verification that the credit policy is being implemented effectively.

- Questionable Write Off of Debt-K438,344,643

The Controlling Officer explained that the officers involved were dismissed and efforts were being made to find the records for further action.

Committee's Observations and Recommendations

Your Committee welcomes the action taken by the Corporation on erring officers, but is concerned at the missing records and urges the Controlling Officer to report the matter to the Police so that comprehensive investigations can be carried out.

- Questionable Quarterly Adjustments to Clients Accounts-K787,867,391

The Controlling Officer submitted that the problem was as related to the response above, Officers involved were dismissed.

Committee's Observations and Recommendations

Your Committee requests the Controlling Officer to report the matter to the Police for further investigations and provide a progress report on the matter.

- *Payables*

The Controlling Officer informed your Committee that the increased staff costs arising out of the need to increase the staffing levels in order to execute its mandate eventually curtailed the ability of the Corporation to continue making payment towards the debts. ZNBC had initiated discussions with ZRA and the Government in order to plan and agree on means of payments of current dues and settlement of the debts.

Committee's Observations and Recommendations

Your Committee recommends that ZNBC Management redoubles its efforts in dealing with the challenges by coming up with flexible payment plans with the main creditors, if the debts are to be reduced to sustainable levels. A report on the outcome of the discussions with ZRA is awaited.

- *Changes in Equity- Erosion of share Holders' Funds*

The Controlling Officer explained that the Government as stakeholders had assisted in financing capital projects such as taking radio to rural areas through the purchase of equipment.

Committee's Observations and Recommendations

Your Committee requests the Controlling Officer to report progress on the matter.

e) Failure to Collect Television License Fees

The Controlling Officer informed your Committee that the collection of the TV Licence levy had been done through ZNBC Licence Inspectors, Zesco Agents and Resident Development Committees (RDCs) each of which had its own limitations. The number of Licence Inspectors had to be maintained to levels where the salary bill did not become uneconomical while Zesco had only been collecting levies along the line of rail because Government had directed that TV Licence collection should not be extended to the rural areas. The collection through agents, on the other hand, depended on the television owner going to pay voluntarily.

On the measures to correct the situation, the Controlling Officer explained that discussions were being held with Zesco to reinforce collections using the electricity billing system and the new prepaid mechanism. Secondly, the commissions paid to the agents were being reviewed in order to motivate them to work with ZNBC.

Committee's Observations and Recommendations

Your Committee acknowledges the various measures taken to improve the collection of TV levies, but recommends that continued emphasis should be put on developing activities and programmes meant to improve viewer satisfaction. A progress report is awaited.

f) Barter Transactions without Board Approval

The Controlling Officer submitted that the Board had adopted a barter policy to provide guidance on all barter transaction undertaken by ZNBC.

Committee's Observations and Recommendations

Your Committee is concerned that the barter system, if not well handled, can be used to flout tender procedures and recommends that ZNBC Management should ensure that tender procedures are strictly followed. The Auditor-General is requested to verify whether there have been any improvements following the adoption of the new policy.

g) ZNBC/ ZAAA Partnership

The Controlling Officer informed your Committee that taking into consideration the observation made by the Auditor-General, the agreement had since been changed to that of a business partnership.

Committee's Observations and Recommendations

Your Committees recommends as follows.

- i) the Controlling Officer should ensure that the redefined business partnership is strictly adhered to so that the Corporation is not disadvantaged;
- ii) the Controlling Officer should ensure that the Corporation implements the Auditor-General's recommendation on the need for Board members or staff to declare interest, whenever it was necessary to do so; and
- ii) the current situation should be verified by the Office of the Auditor-General after which the matter should close.

h) Sales Agencies and Commissions

The Controlling Officer reported that the sponsors contracted agents, who then brought business to ZNBC, but the mistake was made in paying them a commission as well. The Management had adopted a policy of working directly with Government and big companies to avoid agents and payments of commissions in these cases.

Committee's Observations and Recommendations

Your Committee finds that there is something wrong with the way the commission system is managed by ZNBC and recommends as follows:

- i) ZNBC Management should henceforth discontinue the practice of paying commissions to its salaried staff;
- ii) the Controlling Officer should carry out a review of the structure of the commissions being applied at ZNBC to prevent the institution from being defrauded; and
- ii) the Controlling Officer should provide a progress report on the matter to your Committee.

i) Subcontracting of Production of Programmes.

The Controlling Officer informed your Committee that the demands and inadequacies of facilities and manpower led to the subcontracting of some of the productions. All ZNBC programmes were, however, now produced internally.

Committee's Observations and Recommendations

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

j) Housing Allowance

The Controlling Officer explained to your Committee that the non-payment of tax on housing allowance for one category of staff and payment of tax by unionised staff had been resolved through the collapsing of the allowances into salaries for non-unionised staff whereby they were no longer paid housing allowance.

Committee's Observations and Recommendations

In noting the submission by the Controlling Officer, your Committee notes that there is no justification for Management to treat taxing of the said allowance differently. Your Committee, however, resolves to close the matter because the issues have been addressed.

k) Utility Allowance

The Controlling Officer explained to your Committee that in conformity with the last response, the allowances had been reviewed and harmonised.

Committee's Observations and Recommendations

Your Committee resolves to close the matter since the matter has been addressed.

l) Commuted Car Allowance

The Controlling Officer informed your Committee that the allowance was wrongly applied without due consideration of staff job description. This had since been withdrawn from non deserving officers.

Committee's Observations and Recommendations

Your Committee welcomes the admission by the Controlling Officer that the payment of the said allowance was erroneous and cautions that in future such an action should attract disciplinary action. Your Committee resolves to close the matter.

m) Irregular Increment of Salary Notches

The Controlling Officer informed your Committee that the position had been corrected.

Committee's Observations and Recommendations

Your Committee finds the failure by ZNBC Management to render a meaningful explanation for the irregular revision of salary notches very unfortunate. Your Committee, however, resolves to close the matter subject to verification.

n) Questionable Salary Structure

The Controlling Officer submitted to your Committee that a job evaluation was done resulting in the revision of the salary structure and reducing the scales from 23 to 12 scales.

Committee's Observations and Recommendations

Your Committee wonders how ZNBC was allowed to operate without an approved salary structure when the Corporation had a fully operational Board and a full complement of Management. Your Committee observes that as a result of this negligent attitude some staff in high grades were paid less than those in lower grade. Your Committee, however, resolves to close the matter subject to verification, since it has been addressed.

o) Comparison of Basic Salary and Allowances.

The Controlling Officer informed your Committee that the query had been addressed following a 2008 work study report which recommended, among many other issues, a restructuring and reduction of scales from 23 to 12 and streamlining and collapsing of allowances.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

p) Non payment of Tax on Gratuity

The Controlling Officer explained that the anomaly had since been corrected and the correct tax liability was being recorded in the Corporation's books and all contractual officers were paying their own tax.

Committee's Observations and Recommendations

Your Committee considers this a clear indication of a dysfunctional Board of Directors and Management as it is difficult to discern how such a situation was allowed to occur. Your Committee, however, resolves to close the matter subject to a verification by the Auditor-General's office.

q) Tax Evasion on Retirement and Gratuity

The Controlling Officer submitted that the anomaly was corrected and the journal entry has since been passed.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to a verification by the Auditor-General's office.

r) Selective Staff Housing

The Controlling Officer informed your Committee that the Corporation used the payment as an incentive to workers who were so lowly paid that finding suitable accommodation became a challenge. The payment of housing allowance, over and above an employee's entitlement had, however, been stopped.

Committee's Observations and Recommendations

Your Committee observes that this situation is highly anomalous and an unnecessary expense to the Corporation. The matter is, however, closed subject to verification by the Auditor-General's Office.

s) Pension Scheme

The Controlling Officer submitted to your Committee that failure by ZNBC to maintain a pension scheme was due to the poor liquidity position at the Corporation caused by the anomaly in relation to the contributions by employees. The Corporation was negotiating with ZSIC to reinstate the scheme, which was discontinued in the 1990s.

Committee's Observations and Recommendations

Your Committee expresses regret at the Corporation's failure to manage a sound pension scheme for its staff and directs that the matter be attended to expeditiously and provide a progress report on the matter.

t) Irregular Sale of Personal to Holder Vehicles

The Controlling Officer informed your Committee that the classification of the vehicle was wrongly based on the type as opposed to usage in accordance with the

usual practice. Management was now following the correct system of classifying the vehicles and computing prices.

Committee's Observations and Recommendations

Your Committee observes that this irregularity would not have occurred in the first place if officers did their jobs correctly and urges the Controlling Officer to ensure that officers in the Corporation are cautioned against failure to follow laid down procedures. Your Committee resolves to close the matter.

u) Undelivered Studio Equipment

The Controlling Officer explained to your Committee that the supplier was unable to deliver the equipment and offered to pay back the money. However, his terms were not acceptable to the Corporation and hence the matter had been taken to Court.

Committee's Observations and Recommendations

Your Committee is saddened that ZNBC failed to follow laid down tender procedures in the transaction. Your Committee is further disappointed that the Contractor had failed to fulfil the contract and recommends as follows:

- i) the Controlling Officer should institute disciplinary action against the officers who committed the Corporation to the transaction without following tender procedures;
- ii) the Controlling Officer should take measures to ensure that such a situation does not recur in future; and
- iii) your Committee should be updated on the outcome of the Court process.

TIMES PRINTPAK (Z) LIMITED

Query

Paragraph 16

Review of Operations

12. A review of audited and draft accounts and other relevant documents for the financial years ended 31st March, 2003, to 2009, carried out in September, 2009, revealed the issues set out below.

a) Lack of a Board of Directors

The Controlling Officer submitted to your Committee that the Company now had a Board in place appointed in 2007.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Minister of Information and Broadcasting Services to ensure that this situation does not recur in future, to avoid creating a leadership vacuum.

b) Failure to Produce Audited Financial Statements

The Controlling Officer submitted that failure to produce audited financial statements was as a result of lack of resources to engage external auditors. The audit of the financial year 2005 was being finalised by external auditors, Moores Rowland at the time. Books for 2006 and 2007, were also being audited and a financial statement preparation programme had been prepared to have the books for 2008, 2009 and 2010, ready for external auditing by the end 2010.

Committee's Observations and Recommendations

Your Committee observes that the failure to produce audited financial statements does not reflect well on the Board and Management of the Company. Your Committee urges the Minister of Information and Broadcasting Services to insist that all financial statements are produced on time and expedite the process of submitting those that are ready to the Auditor- General for verification.

c) Failure to Meet Targets – Revenue Collection

The Controlling Officer submitted to your Committee that a debt collection team had since been set up to help collect the debt. Secondly, representation had been made through the Ministry of Information and Broadcasting Services to have amounts owed by Government ministries paid at source by the Ministry of Finance and National Planning.

Committee's Observations and Recommendations

Your Committee notes the submission that a debt collection team has been set up and awaits a progress report on the collection of amounts owed.

d) Unretired imprest-K201,995,900

The Controlling Officer submitted to your Committee that staff were not required to complete travel retirement imprest forms upon return to station because stipulated travel allowances stated in the Conditions of Service were paid instead of travel imprest.

Committee's Observations and Recommendations

Your Committee wonders why this explanation was not rendered to the Office of the Auditor-General during the audit process and cautions the Controlling Officer against paying little attention to the process. The matter should be verified by the Auditor-General after which it should be closed.

e) Inadequately Supported Payments-K344,536,092

The Controlling Officer submitted to your Committee that the audit department had been strengthened with the appointment of the Chief Internal Auditor while the Financial Accountant had been assigned to check the adequacy of supporting documents.

Committee's Observations and Recommendations

Your Committee notes the submission that the Audit Department had been strengthened and proper procedures put in place. The Controlling Officer is,

however, urged to ensure that all the missing supporting documents are traced and availed to the Office of the Auditor-General for verification.

f) Non Remittance of Statutory Contributions and Taxes

The Controlling Officer submitted to your Committee that the Company had a very poor liquidity position for years such that remitting statutory contributions had become a challenge. Payment plans had been entered into with respective institutions.

Committee's Observations and Recommendations

Your Committee requests a progress report on the dismantling of the outstanding contributions and taxes in order to avoid being charged huge penalty fees. Payment agreements should be availed to the Office of the Auditor-General for verification.

g) Irregular Payment of Car Maintenance Allowances-K2,795,000,000

The Controlling Officer submitted to your Committee that the car maintenance allowance was not stated in the booklet of conditions of service although it was approved by the Ministry of Information and Broadcasting Services as per directive in the letter dated 7th December, 2001. The Conditions of Service booklet had accordingly been revised.

Committee's Observations and Recommendations

In closing the matter, your Committee wishes to record its disappointment that such an anomaly was allowed to go on for such a long period of time.

h) Failure to Recover Loans and Advances from Separated Employees

The Controlling Officer submitted that separated employees owed the Company more than the benefits accrued to them, but they had been asked to provide repayment plans.

Committee's Observations and Recommendations

Your Committee urges Times Printpak to pursue the debts until they are repaid and provide evidence of repayments to the Office of the Auditor-General after which the matter should close.

i) Irregular Purchase of Cell Phones-K45,543,490

The Controlling Officer submitted to your Committee that the twenty-three cell phones were bought for Company operations during the time ZAMTEL had disconnected land lines on account of non payment of bills. The Company had since stopped buying cell phones because Zamtel lines were operational.

Committee's Observations and Recommendations

While appreciating the explanation rendered by the Controlling Officer on the matter, your Committee wonders why this situation was allowed to continue for a long period of time. The matter will only be closed after confirmation by the Auditor-General that the practice has been discontinued and an analysis of the distribution list is done.

j) Engagement of a Debt Collector- No Record on collections

The Controlling Officer submitted to your Committee that the debt collector, EBM Chambers, handed over the eight debt collection cases files on 16th January 2008. Five cases were active while three were not. Of the five debtors, two paid K201 million directly to Times Printpak Zambia Limited and the other three debtors paid K181,500,000 to EBM Chambers on behalf of Times Printpak Zambia Limited. The amount of K181,500,000 has since been paid to Times Printpak Zambia Limited. EBM Chambers collected fees of K79, 446,802.

Committee's Observations and Recommendations

Your Committee finds the situation highly unacceptable and the response from the Controlling Officer unsatisfactory. No explanation was given to your Committee for Management's failure to provide records during audit. As regards collection of the debt, your Committee urges the Controlling Officer and Management to make more concerted efforts to collect the money.

k) Irregular Payments of Gratuity-K138,810,140

The Controlling Officer submitted to your Committee that gratuity for staff on contract was now paid based on the valid employment contract signed between the staff and the Company.

Committee's Observations and Recommendations

Your Committee observes that if indeed there was this authority, it could have been shown to the auditor to avert the query. Your Committee urges Controlling Officer to ensure that Management at Times Printpak is urged to adhere to Conditions of Service at all times and resolves to close the matter.

l) Irregular Salary Upgrade

The Controlling Officer submitted to your Committee that the officer in question was erroneously upgraded to a higher position. Recoveries from the concerned member of staff had commenced.

Committee's Observations and Recommendations

Your Committee is concerned that the erroneous upgrading of the salary and the subsequent recovery of the funds had greatly inconvenienced the officer concerned and the Controlling Officer is urged to ensure that disciplinary action is taken against the officer(s) who caused the error.

NITROGEN CHEMICALS OF ZAMBIA (NCZ)

Query

Paragraph 13

Review of Operations

13 A review of the operations of the company revealed the following:

a) Failure to Produce Financial Statements

The Controlling Officer explained to your Committee that due to the serious liquidity problems faced over the years, the Company had been unable to make payments to

external auditors to facilitate the timely undertaking of annual statutory audits as required. However, efforts were being made to ensure the Company was fully compliant with respect to its statutory audits by 2011.

Committee's Observations and Recommendations

In noting the explanation by the Controlling Officer, your Committee regrets that the Company is facing difficulties in paying audit fees thereby failing to produce audited financial statements. Your Committee urges the Controlling Officer to assist the NCZ Management to operate as required by law. The Committee will await a progress report.

b) Procurement of Goods and Services

i. Contract with Kasofred Distributors (Z) Limited

The Controlling Officer informed your Committee that the Company had terminated the employment contracts of the NCZ managers who were involved in the case. Further, the audit report omitted to mention the fact that an amount of R3 million was recovered through the High Court in South Africa to leave a balance of US\$1,607,410.98 which was still outstanding.

NCZ had continued to pursue the debt and the enforcement of the Court Judgement. Some of the efforts made included conducting searches at the Patents and Companies' Registration Agency (PACRA) to establish the status of Kasofred Distributors Limited and whether there were any properties under Kasofred or Mr Mwanza (Chief Executive Officer of Kasofred) against which the Court Judgement could be enforced. A legal opinion had also been sought on a proposal to institute bankruptcy proceedings against Mr Mwanza. However, the task of making further recoveries against Mr Mwanza had been made difficult by the failure to locate him.

Committee's Observations and Recommendations

Your Committee takes note of the measures being taken to recover the balance of US\$1,607,410.98 and resolves to await a progress report on the outcome of the current efforts.

ii. Contract for the Supply of D Compound Fertilizer for Fertilizer Support Programme (FSP)

The Controlling Officer submitted that NCZ always started soliciting for contracts very early at the beginning of the year although contracts had often been awarded towards the middle of the year, which did not favour NCZ because fertilizer delivery was normally required by September.

Committee's Observations and Recommendations

Your Committee is of the view that the solution to this problems resides in the need for proactive action from both the Company and the Ministry of Agriculture and Cooperative to ensure that contracts are finalised early to enable the Company to produce the fertilizer on schedule.

iii. *Inadequately Supported Payments K16,930,433,848*

The Controlling Officer explained to your Committee that the payments in respect of K16,930,433,848 had since been supported.

Committee's Observations and Recommendations

Your Committee takes note that the supporting documents in question have been traced, but wonders what disciplinary action has been taken against the officers that were involved. The Office of the Auditor-General is requested to verify the matter before it is closed.

c) **Failure to Follow Tender Procedure-K1,503,773,118**

The Controlling Officer informed your Committee that failure to follow tender procedures was mainly due to the difficulty of obtaining three quotations for some procurements, single sourcing for certain procurements and poor documentation.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Controlling Officer to closely monitor the Company's procurement systems in order to ensure compliance with laid down procedures even in the case of single sourcing.

d) **Unretired Imprest-K984,527,347**

The Controlling Officer submitted that out of the reported figure, K837,322,533, was not drawn as imprest, but as payments in respect of wages, terminal benefits, staff salaries, salary advances, director's fees and other disbursements. Acquittal sheets were available to confirm receipt of monies by beneficiaries. Further, investigations in the balance of K147.2 million unretired imprest was nearly complete and recoveries were expected to be made starting November, 2010.

Committee's Observations and Recommendations

Your Committee requests the office of the Auditor-General to have the matter verified and urges the Controlling Officer to ensure that the outstanding imprest is retired or recoveries effected without delay.

e) **Disposal of Motor Vehicles without Board Approval**

The Controlling Officer informed your Committee that the matter was tabled before the Board on 24th July, 2003, who, unfortunately, did not ratify the decision to sell the vehicles to staff as it was not comfortable with the manner the decision was made. Management was instead instructed to seek approval of the Zambia Development Agency Board.

Committee's Observations and Recommendations

Your Committee notes the resolution of the Board on this matter, but are of the view that the Board should have done much more to address the query. Your Committee wonders why the Board did not take disciplinary measures against the officers concerned or even to declare the sale of the motor vehicles null and void. Your Committee urges the Controlling Officer to help the Company to resolve the matter so that it can be closed.

f) Irregular Appointment of Chief Finance Officer (CFO)

The Controlling Officer explained that the Officer in question had never at any time performed the functions of the office of Chief Internal Auditor and Chief Finance Officer at the same time. The Board appointed the Officer to act in the office of Chief Finance Officer for administrative convenience in order to ensure continuity in this critical accounting function.

Committee's Observations and Recommendations

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

g) Unaccounted for Revenue - Staff Canteen

The Controlling Officer explained that the K75,000 per month meal allowances entitlement for unionised employees was currently only paid to staff working in sales depot outside Kafue where there were no canteen facilities. No allowance was paid to staff working at the plant in Kafue. Further, the Company had noted the low cost of meals and this was being reviewed for implementation in the next financial year.

Committee's Observations and Recommendations

Your Committee noted that no assurance was made to the effect that record keeping had improved at the staff canteen and therefore, the Office of the Auditor-General were urged to have the current position verified before the matter can be closed.

h) Medical Allowance and NCZ Clinic

The Controlling Officer informed your Committee that the decision to pay a medical allowance in addition to providing free medical services through the two clinics was in consideration of the low staff salaries prevailing.

Committee's Observations and Recommendations

Your Committee finds the explanation rendered by the Controlling Officer unacceptable and urges him to urgently streamline the provision of medical services to the employees of the Company and provide a progress report on the matter.

i) Failure to Recover Staff Debts-K161,021,615

The Controlling Officer informed your Committee that the failure to recover the debts in question was due to the erratic payment of salaries in the last two years when the Company had depended solely on grants from Government to pay staff salaries. Salaries had often been paid late and at a time when most employees were already financially stressed. Management intended to start making recoveries when it started paying salaries from its own revenue before the end of 2010.

Committee's Observations and Recommendations

While appreciating the difficulties the Company is facing in paying salaries, your Committee is disappointed that no recoveries have been made since 2007, when the loans were disbursed. Your Committee observes that Management failed to anticipate repayment difficulties at the time of arriving at a decision to disburse these loans. The Controlling Officer is urged to ensure the matter is resolved and to provide a progress report.

j) Non-Remittance of Statutory Contributions-K123,404,577,864

The Controlling Officer submitted that these were accumulated at the time the Company was facing liquidity problems allowing the Company to only pay net salaries. However, since 2008, the Company had been remitting current contributions to ZRA and NAPSA monthly, with the exception of a few months when it had faced severe financial difficulties.

Committee's Observations and Recommendations

Your Committee notes the efforts being made by the Company to meet current obligations to ZRA and NAPSA, but urges the Controlling Officer to ensure that the Company takes concrete steps to dismantle the outstanding obligations to avoid paying heavy penalties. Your Committee will await a progress report.

k) Bank Overdraft

(i) Failure to liquidate overdraft

The Controlling Officer reported to your Committee that the failure by the Company to liquidate the overdraft on the due date of 30th November, 2007, was mainly due to the failure by the Government to pay for the additional 3,998 MT of fertilizer valued at K11.36 billion which was supplied by the Company in November, 2007. This debt was only fully cleared in October, 2008, despite repeated efforts to secure payment.

Committee's Observations and Recommendations

Your Committee takes note of the reasons advanced for the Company's failure to liquidate the overdraft by the due date and urges the Controlling Officer to proactively engage the Ministry of Finance and National Planning to avert funding delays in future contracts.

(ii) Failure to sign Contract with Collateral Manager

The Controlling Officer submitted that the Collateral Managers, were appointed by the Zambia National Commercial Bank (ZANACO) for whom they acted following the provision of credit facilities to NCZ for the production of fertilizer. However, NCZ was required to pay for their services in accordance with the terms and conditions of the credit facility. The failure to sign the contract was a lapse on the part of the Bank and NCZ. The contract was subsequently signed to regularise the payment.

Committee's Observations and Recommendations

Your Committee urges the Company Management to be more alert, in future, when dealing with issues of this nature and resolves to close the matter since corrective action has already been taken.

(iii) Use of Overdraft on Salary Arrears

The Controlling Officer reported that the overdraft facility was intended to meet local working capital requirements which included clearing salary arrears.

Committee's Observations and Recommendations

Your Committee resolves to close the matter, but are disappointed that this fact was not brought to the attention of the Auditor-General during the audit process.

(iv) *Payment Terminal Benefits*

The Controlling Officer informed your Committee that the additional K2 billion overdraft was approved by the Board at its 130th Meeting held on 8th March, 2007. The K1.5 billion overdraft enhancement was approved by the Board through a Circular Resolution dated 26th July, 2007.

Committee's Observations and Recommendations

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

l) Failure to Liquidate a Loan - K704,970,000

The Controlling Officer lamented to your Committee that the status of the loan was unclear as there was an undertaking by Government in 1997, to assume the long term loans owed by the Company. The Company was in the process of following up the matter with the Ministry of Finance and National Planning to ascertain the true status of the loan and all other long term loans.

Committee's Observations and Recommendations

Your Committee is disappointed that Management has not taken keen interest in establishing the status of this loan even after it was queried by the Office of the Auditor-General and requests the Controlling Officer to pursue the matter and provide a progress report.

m) Non-delivery of Raw Materials

i) *Di-Ammonium Phosphate*

The Controlling Officer reported that the orders for Di-Ammonium Phosphate for the year were 14,000 MT on two orders split as 9,000 MT and 5,000 MT respectively. Another order, which was for the supply of 7,015 MT of Di-Ammonium Phosphate and 5,020 MT of Ammonium Sulphate, was amended to cancel the 7,015MT of Di-Ammonium Phosphate. As a result, the total quantity delivered was 8, 844 .35 MT, leaving a shortfall of 155.65 MT while on order No. 06710, a total of 4,962.40 MT was received, leaving a balance of 37.60 MT. The shortfalls were due to spillages and losses.

ii) *Gypsum*

The Controlling Officer explained that although the amount specified in the Purchase Order was 10,610 MT, which was the originally estimated requirement for the year, this Order was on a call-off basis to be delivered on the specific periodic instructions of NCZ in accordance with actual requirements. Following a reduction in the volume of fertilizer to be produced, the actual amount 'called off' was also reduced. Consequently, only 5, 299.50 (not 2, 628MT as stated in the audit report) was delivered and invoiced to NCZ. This debt was only cleared in

2010, prior to the commencement of the 20, 000 MT of fertilizer supplied to Government under the 2010 Farmer Input Support Programme (FISP).

iii) *Coal*

The Controlling Officer informed your Committee that the amount actually delivered against the 5,000MT order was 5,002.42 MT and not 4,447, MT as stated in the Audit Report. This means there was a surplus of 2.43 MT delivered. The amount invoiced was 5, 000 MT.

Committee's Observations and Recommendations

Your Committee notes the explanation submitted by the Controlling Officer on the delivery of the three raw materials, but requests the Office of the Auditor-General to verify the responses provided before a decision can be made on the query.

n) **Irregular Payments**

(i) *Payment of Gratuity to Board Members-K45,000,000*

The Controlling Officer informed your Committee that the Board resolution to pay gratuity was based on the common practice in most organisations.

Committee's Observations and Recommendations

Your Committee finds the resolution by the Board to pay themselves gratuity unacceptable, given the weak financial position of the Company and the fact that it was not provided for in the articles of the Association for the Company. The Management of NCZ is cautioned against undertaking irregular expenditures.

(ii) *Engagement of ACE Audit Control & Expertise*

The Controlling Officer stated that the Company was engaged by Finance Bank to act on their behalf as Collateral Managers.

Committee's Observations and Recommendations

In closing the matter, your Committee wonders why this fact was not explained to the Auditor at the time of audit so that the query would have been cleared.

o. **Failure to Insure Assets-K59,869,000 (Buildings) K16,349,287,130 (Equipment)**

The Controlling Officer submitted that the failure to insure the assets was due to the Company's poor liquidity position arising from the lack of production over the years.

Committee's Observations and Recommendations

Your Committee notes that these are the issues with which the Board should have been preoccupied instead of paying themselves irregular gratuities. Your Committee urges the Controlling Officer to work with the Company to put in place measures to insure the said properties.

ELECTORAL COMMISSION OF ZAMBIA (ECZ)

Query

Paragraph 5

14. An examination of financial and accounting records carried out in June, 2009, revealed the weaknesses set out below.

Headquarters

a) GRZ Grants-over funding of K129,323,837

The Controlling Officer explained that the K129,323,837 overfunding in question was a net figure of the Treasury's overfunding on other emoluments by K678,835,833 netted off by underfunding on RDC's of K549,511,995, giving the net overfunding of K129,323,837. Ultimately there was no over-expenditure by the Commission arising from any over funding, as there was a carry-over of K18 billion.

Committee's Observations and Recommendations

Your Committee observes that this should have been explained to the Office of Auditor-General before the Report was finalised. The Office of the Auditor-General is requested to verify the matter before it can be closed.

b) Inadequately Supported Payment Vouchers - K403,129,050

The Controlling Officer informed your Committee that the K403,129,050 inadequately supported had been adequately retired as required by Financial Regulations.

Committee's Observations and Recommendations

As attachments were not availed to your Committee, the matter was referred to the Auditor-General for further verification. The Controlling Officer is cautioned against failure to provide evidence to substantiate his responses.

c) Unretired Imprest - K352,125,420

The Controlling Officer explained that recoveries had been effected from concerned officers' salaries effective September, 2010. The other individuals appearing on the list were employees from other government institutions, and the ECZ would liaise with Heads of these ministries to help with the recovery of these monies from concerned individuals.

Committee's Observations and Recommendations

In noting the response by the Controlling Officer, your Committee urges him to ensure that all the amounts are retired. Your Committee also requests the Auditor-General to verify whether the recoveries, in respect of the concerned officers have commenced as reported.

d) Overpayment of Transport Charges-K10,800,000

The Controlling Officer explained that the Commission could not recover from the transporters because the days in question pertained to the period between hiring the

vehicles, despatching the vehicles to the districts and closing mileage at the Commission. There was a lapse of between one to two days for the vehicles to travel back to the Commission during which period the vehicles were in ECZ's possession and had to be paid for to meet the contracted obligations. The lapse had been noted and would be avoided in future activities.

Committee's Observations and Recommendations

In noting the explanation rendered by the Controlling Officer, your Committee wonders why the same was not explained to the Auditors during the audit process so that the query could have been averted. Your Committee requests the Auditor-General to undertake a further verification before the matter can be closed.

e) Non-maintenance of Inventory Cards

The Controlling Officer explained to your Committee that the Commission had started maintaining inventory cards for office furniture and equipment.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Auditor-General since documentary evidence was not availed. In future, disciplinary action should be taken against the officers who fail to undertake their responsibilities.

f) Non-remittance of Statutory Deductions-K2,493,570,690

The Controlling Officer reported that the outstanding statutory contributions to ZRA and NAPSA related to the years 2004 and 2005 and arose due to underfunding. The Commission had made efforts to secure funding from the Treasury to clear these balances, and was up to date in remitting the outstanding deductions for the period under review.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the Controlling Officer to engage the Ministry of Finance and National Planning to seek funding to settle the outstanding obligations. The Controlling Officer is further urged to engage the institutions concerned so as to workout flexible payment plans. A progress report is awaited.

g) Disbursements to Districts –Presidential and Parliamentary By Elections

(i) Unaccounted for Funds-K263,042,782

The Controlling Officer informed your Committee that the concerned councils including Mumbwa, Chibombo, Kabwe, Kapiri Mposhi, Nchelege, and Mpika had been written to urging them to account for the funds.

(ii) Inadequately Supported Payments-K1,052,970,765

The Controlling Officer informed your Committee that the concerned councils that included Monze, Kaoma, Kapiri Mposhi had been written to on the need to provide supporting documents for the funds expended.

(iii) *Failure to Maintain Accounting Records*

The Controlling Officer informed your Committee that the concerned councils that included Kasama, Mansa, Ndola, Katete, Petauke, Mwinilunga, and Kasempa had been written to urging them to start maintaining appropriate records. As a way forward, ECZ planned to conduct a country-wide sensitisation exercise on the accounting procedures for the funds.

(iv) *Unaccounted for Fuel-K890,433,424*

The Controlling Officer informed your Committee that the concerned councils had been written to urging them to accounts for the fuel.

(v) *Unretired Imprest-K1,242,651,490*

The Controlling Officer informed your Committee that the concerned councils that included Kalabo, Kaoma, Choma, Monze, Chibombo and Chipata had been written to urging them to ensure the imprest is retired.

(vi) *Missing Payment Vouchers-Kapiri Mposhi District Council-K708,340,000*

The Controlling Officer informed Your Committee that the Council had been written to urging them to find the missing payment vouchers and account for the funds.

(vii) *Irregularities in the purchase of Alkaline Batteries-K96,200,000*

The Controlling Officer submitted that the ECZ had written to Kitwe City Council to seek an explanation on the matter.

Committee's Observations and Recommendations

Your Committee observes that there is urgent need to have the matter concerning the accountability of funds disbursed to local authorities by the ECZ addressed. Your Committee finds that there is a weak linkage between the users of the funds and the Controlling Officer at ECZ as they do not fall under his/her direct supervision.

Your Committee recommends as follows:

- i) the Controlling Officer should engage the Secretary to the Treasury and the Controlling Officer for the Ministry of Local Government and Housing to find ways of ensuring accountability of the funds disbursed to the councils; and
- ii) regarding the individual queries, the Controlling Officer should avail documentary evidence to the Office of the Auditor-General for verification.

ZAMBIA CONSOLIDATED COPPER MINE INVESTMENTS HOLDINGS PLC (ZCCM – IH)

Query

Paragraph 20

Review of Operations

15. A review of accounting and other records for the period July, 2005, to December, 2009, revealed the issues set out below.

a) Financial Statements

The Controlling Officer attributed the delay in the completion of the financial statements to the desire by Zambia Consolidated Copper Mine IH to present a more accurate reflection of the balance sheet. Following the change in the International Accounting Standards (IAS) regarding the investments in the financial statements ZCCM-IH, contracted Deloitte and Touche (D&T) to value the holdings of ZCCM-IH in all of its investee companies. Unfortunately the ZCCM-IH's external auditors, Price Water House Coopers (PWC), did not agree with the methodologies that D&T chose for the valuation. The auditors requested the Company to recommence the exercise using a valuation methodology acceptable to them. Specifically, the methodology of the valuation required had to incorporate the ore reserves of investee companies.

A further exercise was initiated to obtain this additional information from the investee companies, who, unfortunately, said the information was not maintained by them. The Board upon the advice of PWC, resolved to revert to reflecting the investments at costs rather than at fair value.

Notwithstanding the aforesaid, the Company through the Ministry of Mines and Minerals Development had requested the mining companies in which it had invested to start preparing this information so that it could be readily available.

Secondly, the audits for the three companies ZCCM-IH, Ndola Lime Company Limited (NLC) and Maamba Collieries Limited (MCL) were conducted separately. The audit by PWC for the holding company ZCCM-IH for example, was concluded in September, 2008. Delays in the preparations for the consolidation of the financial statements for the year ended 2008, were as a result of delays in the conclusion of the audits for the other subsidiary companies, namely NLC and MCL.

However, all the Companies in the group had since presented the information requested by the external auditors and the group was currently waiting for PWC to complete the financial statements. Further, delays by PWC had prompted ZCCM-IH to involve Zambia Institute of Chartered Accountants (ZICA) the regulators of the profession to compel the auditors to complete the exercise.

Committee's Observations and Recommendations

Your Committee notes with regret ZCCM IH's failure to produce financial statements as prescribed in the Memorandum of Association and Articles of Association of the Company. While noting the explanation submitted by the Controlling Officer for the state of affairs, your Committee notes that with greater determination, the Company could have resolved the query. Your Committee urges the Controlling Officer to ensure that the statements in question are completed without further delay and avail

them to the Office of the Auditor-General for verification after which the matter should close.

b) Income from Investments (Dividends Receivable)

The Controlling Officer explained that ZCCM IH did not receive any dividend from Mamba Collieries, Mopani Copper Mines, Luanshya Copper Mines, Lumwana Mine and Albidon Mines Limited, during the period under review because according to Section 84 of the *Company's Act* no dividend shall be payable to the shareholders of a company except out of the profits arising or cumulated from the business of the company. As at 28th January, 2010, ZCCM-IH had accumulated negative reserves, and could not legally declare a dividend to GRZ or other minority shareholders.

Committee's Observations and Recommendations

In noting the response by the Controlling Officer, your Committee resolves to close the matter subject to verification by the Office of the Auditor-General.

c) Recapitalisation and Rehabilitation Loans –Maamba Collieries

The Controlling Officer informed your Committee that production of coal was delayed due to the numerous challenges faced by the contract miner. Further, processed coal could not find a ready market as the targeted customers had long term import supply contracts thus adversely affecting the Company's liquid position which necessitated the continued provision of funding towards administrative expenses including salaries.

The loans obtained by Maamba Collieries Limited (MCL) were approved by both Boards of ZCCM-IH and MCL. At the time of the audit all were still outstanding, but a request to expedite repayments had been forwarded to the new management, under Nava Bharat (Singapore) Pte Lit, the majority shareholders.

Committee's Observations and Recommendations

Your Committee while noting the explanation submitted by the Controlling Officer resolves to await a progress report from the Controlling Officer on the status of the loans given that the Mine is now under the new management.

THE UNIVERSITY TEACHING HOSPITAL (UTH)

Query

Paragraph 18

16. An examination of financial, accounting, and other relevant documents revealed the weaknesses set out below.

a) Staffing

i) Doctors and nurses

The Controlling Officer submitted that there had been some improvements in the staffing levels of professionals (doctors, nurses and paramedics) in the health sector. As of December, 2009, the staff levels in terms of doctors and nurses were as presented in the table below.

Doctors, Nurses and Paramedics

	Authorized Establishment	Actual Strength	Variance
2007			
Doctors	373	287	86
Nurses	1,367	674	693
2008			
Doctors	373	314	59
Nurses	1,367	696	671
2009			
Doctors	373	305	68
Nurses	1,367	758	609
Paramedics	284	192	92

Committee's Observations and Recommendations

Your Committee acknowledges the efforts that have been put in place to improve and keep staffing levels at UTH at acceptable levels and urges the Controlling Officer to ensure the deficit is not allowed to grow to unacceptable levels. Your Committee resolves to close the matter.

ii) *Internal Audit Unit*

The Controlling Officer informed your Committee that the Hospital through the Ministry of Health, was undergoing a restructuring process and recommendations had been made to the Public Service Management Division, to fill the vacant positions.

Committee's Observations and Recommendations

Your Committee reiterates the importance of having an effective internal audit function and urges the Controlling Officer to actively pursue the matter until the vacancies are filled. They await a progress report.

b) **Irregular Payments-K4,545,711,360**

The Controlling Officer submitted that these payments were made to various UTH staff whose contracts at that time were being processed for renewal by the Public Service, Management Division. Due to the shortage of staff, the Hospital could not release these twenty officers concerned.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter. The Controlling Officer is, however, urged to always act proactively in having the contracts of officers still required by the Hospital attended to in a timely manner.

c) Unpaid Staff Benefits-K26,069,982,749

The Controlling Officer submitted that the institution had continued accumulating staff debt due to a number of factors, including inadequate funding from the Treasury for other emoluments. UTH Management had also put in place a debt servicing plan and had so far managed to pay K16,548,474,094.90 towards staff benefits.

Committee's Observations and Recommendations

Your Committee acknowledges the efforts made by the Hospital to continue reducing the debt as this will ensure that it does not grow to unsustainable levels. They will await a progress report on the balance.

d) Inadequately Supported Payments-K17,470,000

The Controlling Officer submitted that the UTH Management had managed to find all the supporting documents in respect of the K17,470,000.

Committee's Observations and Recommendations

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

e) Unretired Imprest-K5,500,000

The Controlling Officer reported that imprest of K5,500,000 had since been retired.

Committee's Observations and Recommendations

Your Committee takes note of the submission and resolves that the matter be verified by the office of the Auditor-General before it can be closed.

f) Non-Refund of Rentals by the Ministry of Health-K3,876,545,325

The Controlling Officer informed your Committee that the Ministry had started refunding the Hospital and had so far refunded a sum of K2,143,500,000.

Committee's Observations and Recommendations

The Controlling Officer is urged to ensure that the remaining amount of K1,733,045,325 is refunded to the Hospital without further delay and provide a progress report.

g) Unsettled Salary Advances-K454,400,000

The Controlling Officer explained that the Ministry of Health, had started reimbursing the unsettled salary advances to the Hospital while at the same time remitting the current monthly recoveries.

Committee's Observations and Recommendations

Your Committee resolves to await the verification exercise by the Auditor-General's office to ascertain progress made before the matter can be considered for closure.

h) Unremitted Statutory Contributions-K1,244,761,045

The Controlling Officer reported that the Hospital had as of May, 2009, remitted all the mentioned statutory contributions to the institutions concerned.

Committee's Observations and Recommendations

Your Committee commends the Controlling Officer for remitting all the outstanding statutory obligations, but resolves to wait until the office of the Auditor-General has verified the reimbursements before the query can be closed.

TASK FORCE ON CORRUPTION

Query

Paragraph 14

17. An examination of financial, accounting, stores and other relevant documents revealed the weaknesses set out below.

a) Bank Balances

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

b) Failure to Comply with Donor Conditions

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

c) Procurement of Legal Services

Upon the advice of the Office of the Auditor-General that the matter had been resolved and cleared, your Committee resolves to close the matter.

d) Failure to Dispose of Forfeited Assets

The Controlling Officer informed your Committee that all assets handed over to Cabinet Office were disposed of during an auction sale conducted in April, 2009.

Committee's Observations and Recommendations

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

e) Failure to Remit Disposal Proceeds

The Controlling Officer informed your Committee that the transaction had now been concluded with the balance of K66,000,000 being settled.

Committee's Observations and Recommendations

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

f. Physical Inspection of Forfeited Assets

i. Assorted Equipment and Machinery

The Controlling Officer informed your Committee that all the seized equipment in Lusaka and Kitwe was disposed of during the public auction sale of April, 2009.

Committee's Observations and Recommendations

Your Committee observes that the issue was not whether or not the assets were disposed of but that this was done after they had lost so much value, resulting in the Government incurring losses.

In resolving to close the matter, the Committee cautions the Controlling Officer to ensure that this does not recur.

ii. Real Estate-Properties

- DGH Poly Products

The Controlling Officer submitted that this was a going concern which was handed over to the Zambia Development Agency (ZDA) for disposal and Cabinet approval was being awaited.

Committee's Observations and Recommendations

Your Committee is disappointed that it has taken so long to secure Cabinet approval and will await a report on the disposal of the property.

- Motor City - Stand No 5091, Lumumba Road Lusaka.

The Controlling Officer submitted that this was a going concern which was handed over to ZDA for disposal on which Cabinet approval was awaited.

Committee's Observations and Recommendations

Your Committee wonders why Cabinet approval has taken so long to secure and resolves to await an update on the matter.

- Former UBZ Premises - Stand No 4083/12, Twalumba Close Ndola

The Controlling Officer told your Committee that the property was in the process of being disposed of, through the NHA.

Committee's Observations and Recommendations

Your Committee resolves to await an update on the current status of the property.

- Ndola Trust School-Stand No. 587/C, Ndola

The Controlling Officer submitted that this was a going concern which was handed over to ZDA for disposal and Cabinet approval was awaited.

Committee's Observations and Recommendations

Your Committee resolves to await an update on the disposal of the assets in question.

- Stand No.515, Siavonga

The Controlling Officer submitted that the property was in the process of being disposed of through the National Housing Authority.

Committee's Observations and Recommendations

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

JUDICIARY

Query

Paragraph 7

18. An examination of financial, accounting, stores and other relevant documents revealed the weaknesses set out below.

a) Failure to Prepare Financial Statements

The Controlling Officer informed your Committee that the Judiciary's failure to prepare financial statements was due to the challenges faced in migrating from the current cash accounting system to accruals accounting. The major hitch was that the assets register for buildings needed to be put in place. Currently the buildings belonged to the Ministry of Works and Supply, who had not valued them.

Committee's Observations and Recommendations

Your Committee expresses disappointment that the Judiciary, who are custodians of the law, are not leading by example. While appreciating the fact that buildings occupied by the Judiciary are under the Ministry of Works and Supply, your Committee contends that it is still possible to produce partial statements and, therefore, insist that the statements should be completed without delay. They await a progress report on the matter.

b) Under Funding-K17,754,180,758

The Controlling Officer informed your Committee that the underfunding was beyond the Judiciary's control, as funding was done by the Ministry of Finance and National Planning.

Committee's Observations and Recommendations

Your Committee does not agree with the position taken by the Controlling Officer as it is his responsibility to make consistent follow ups with the Ministry of Finance and National Planning to ensure that appropriated funds for the Judiciary are released. They urged the Controlling Officer to actively pursue the matter and report progress.

c) Unvouched Expenditure

(i) Missing Payment Vouchers-K2,069,462,293

The Controlling Officer submitted that only one payment voucher, out of seventy-eight had been found as other missing payment vouchers were a subject of the cases before the courts of law and were in the custody of investigative agencies.

Committee's Observations and Recommendations

Your Committee resolves to uphold this query until the missing vouchers are availed for audit verification. Your Committee question the rationale behind not having the documents signed for by the officers that obtained them.

(ii) Inadequately Supported Payment Vouchers-K2,774,772,243

The Controlling Officer stated that the Judiciary had only managed to find supporting documents in respect of K610,387,343.

Committee's Observations and Recommendations

The Controlling Officer is urged to find supporting document in respect of the balance of K2,164,384,900 and have them verified by the Auditor-General. The Controlling Officer is further urged to take steps to improve record keeping at the Judiciary. They await a progress report on the matter.

d) Unretired Imprest-K1,213,502,273

The Controlling Officer submitted before your Committee that out of the amount of K1,213,502,273 unretired, K719,105,354 was spent as RDCs on goods and services and not as imprest. Further, K374,749,029 was retired as imprest while K73,322,890 was the amount which was not retired as at 31st December, 2008.

Committee's Observations and Recommendations

In noting the submission, your Committee requests the Office of the Auditor-General to have the actual amount of unretired imprest established. The Controlling Officer is also urged to take appropriate disciplinary action against the erring officers.

e) Cancelled Cheques not Presented for Audit

The Controlling Officer informed your Committee that out of the total of fifteen cheques, nine transactions had been traced in the cash books for salaries and expenditure Mirror Bank Accounts, maintained at ZANACO. Nine cheques were payments to members of staff and suppliers. The remaining six cancelled cheques were collected by the Police as part of evidence in a case before the Courts of Law.

Committee's Observations and Recommendations

Your Committee are extremely concerned that the Police can collect

such documents without signing for them. Your Committee resolves to uphold the query until the cancelled cheques are availed for verification by the Auditor-General.

f) Purchase of Payroll System-K65,000,000

The Controlling Officer submitted that Dove Computing Company which supplied the system which failed to work had only refunded a total K25,000,000 leaving a balance of K40,000,000 over which the Judiciary had taken legal action.

Committee's Observations and Recommendations

Your Committee resolves to await an update on the outcome of the Court process.

g) Civil Works-K2,472,841,688

The Controlling Officer explained that the works in question were supervised by the Ministry of Works and Supply, which was required to sign an interim payment certificate or a completion certificate for the works done, before any payment could be made. In this case payments were made against completion certificates of works issued by the Provincial Buildings Engineers. Concerned about the defects, the Judiciary had written to the Provincial Permanent Secretaries and the Permanent Secretary of the Ministry of Works and Supply for corrective measures.

Committee's Observations and Recommendations

Your Committee is of the view that this situation could have been averted if the Judiciary had taken keen interest in monitoring the quality of the works during the construction period. They await a progress report on the corrective measures being put in place.

h. Non-Current Assets

i) Non maintenance of Fixed Asset Register

The Controlling Officer submitted that the fixed assets register had been put in place and was being maintained.

Committee's Observations and Recommendations

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

ii) Property Owned by the Judiciary

The Controlling Officer stated that all the rentals amounting K60,668,100 had since been paid by the tenants. As regards non-availability of title deeds for some properties, the Controlling Officer stated that the process of obtaining title had began.

Committee's Observations and Recommendations

Your Committee takes note of the submission, but resolves to await a progress report on acquisition of title deeds.

TAZAMA PIPELINES LIMITED

Query

Paragraph 15

Review of Operations

19. An examination of financial, accounting, stores and other relevant documents revealed the weaknesses set out below.

a) Capital Structure

Your Committee takes note of the submission by the Controlling Officer that the share structure has remained the same.

b) Failure to Increase Share Capital

The Controlling Officer informed your Committee that the proposal to use revaluation reserves to increase share capital was rejected by the Company's external auditors, who advised that, according to the *Company Act* of 1995, redistribution of revaluation reserves was not allowed.

Committee's Observations and Recommendations

Your Committee notes the explanation submitted but is disappointed that this matter has not been tabled before the Board for further deliberation following the auditors' advice. Your Committee will await a progress report on measures that will be taken to increase share capital.

c) Failure to Convert Government Loans into Equity

The Controlling Officer informed your Committee that the Ministry of Energy and Water Development would actively continue pursuing this matter.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to liaise with the Secretary to the Treasury so that the issue of having the unserviced long term GRZ loans amounting to K263,592,685,503, converted to equity is actively pursued. They will await a progress report on the matter.

d) Financial Performance

Profitability

The Controlling Officer explained that the Company's profitability was affected by reduced income as a result of the closure of the INDENI Refinery, which was gutted by fire in 1999, and the erratic feedstock supply by the defunct Zambia National Oil Company (ZNOC).

Secondly, while turnover reduced, some costs were fixed in nature and could not be reduced due to the reduction of turnover and the major jump was attributed to exchange losses and provision for retirement. The losses were attributable to the exchange losses of K47.833 billion in 2007 and K14 billion provision for retirement benefits in 2008. The failure to declare dividends was as a result of a convention signed by the shareholder Governments stipulating that the Company was supposed to plough back the profits in the form of reduced tariff.

Committee's Observations and Recommendations

Your Committee notes the submission rendered by the Controlling Officer and resolves to close the matter.

e) Financial Position

The Controlling Officer submitted as set out below.

(i) Liquidity

The liquidity was weak as a result of the weak profitability due to long term loans. This would improve with the conversion of long term loans into equity. An increase in the pumping tariff, which had always not matched requirements, would also assist.

(ii) Debt to Total Asset

The Shareholders of the Company were working on turning all long term loans into equity.

(iii) Interest Cover

This would be enhanced with improved revenue and profits given the actions being taken as discussed above.

(iv) Gearing

High gearing was attributed to a high proportion of long term loans.

(v) Movement in General Reserves

The diminishing of reserves was due to losses the Company had suffered in 2007 and 2008, due to exchange losses and provision for retirement benefits.

Committee's Observations and Recommendations

Your Committee sadly notes that the future of the Company has continued to be bleak as it has persistently been exposed to the risk of insolvency. Your Committee was made to understand that the real solution for the Company to come out of the current predicament was for its long term loans to be converted into equity in order to boost the

Company's capital base. In this regard your Committee resolves as follows:

- i) the Controlling Officer should engage the Ministry of Finance and National Planning to find ways to augment the Company's capital base; and
- ii) the Controlling Officer and Tazama Management should find ways of making the Company's operations competitive.

Your Committee will await progress report on the measures being undertaken to boost the Company's finances.

f) Other Irregularities

(i) Non-Remittance of Statutory Obligations-K16,142,157,799

The Controlling Officer submitted that failure to remit statutory obligations was as a result of the closure of INDENI Refinery after it was gutted by fire and, therefore, TAZAMA was not operational for at least two years.

Committee's Observations and Recommendations

The Controlling Officer is urged to ensure that the Company comes up with a plan to liquidate the outstanding amounts in order to avoid paying huge penalties. They await a progress report.

(ii) Capital Projects

- Failure to comply with the provisions of the Constitution in the award of contracts

The Controlling Officer submitted that the fact that the Company was owned by the two Governments made it difficult for the Board of Directors to collectively answer to one Government. However, all contracts were now scrutinised by the Company's Legal Department and approved by the Board of Directors which had lawyers from 'A' and 'B' shareholders sitting on the Board.

Committee's Observations and Recommendations

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

- Missing Materials – Construction of the Oil Tank-K1,28,814,190

The Controlling Officer explained that the said materials were actually stolen and that although the case was reported to both the security firm providing security services at the time and the Zambia Police Force, nothing had been concluded.

Committee's Observations and Recommendations

The Controlling Officer should not relent, but pursue the matter to its logical conclusion. They await a progress report on the matter.

NATIONAL SPORTS COUNCIL OF ZAMBIA (NSCZ)

Query

Paragraph 12

Review of Operations

20. A review of the of financial, accounting and other relevant documents for the financial years ended 31st December, 2003 to 2008, carried out in August, 2009, revealed the issues set out below.

a) Income

(i) *Grants-Excess funding of K116,737,952*

The Controlling Officer informed your Committee that the excess funding of K116,737,952 was meant for the Zambia Basketball Association for hosting Zone games and to finance a planning workshop held in Lusaka.

Committee's Observations and Recommendations

The Controlling Officer is cautioned against undertaking unauthorised expenditure and advised to seek authority from Treasury to normalise it.

(ii) *Other Income- Poor Record Keeping*

The Controlling Officer conceded that due to poor record keeping it was difficult to ascertain how much was received as affiliation fees from member bodies. However, part of the records pertaining to the financial year 2008, had been traced.

Committee's Observations and Recommendations

Your Committee finds the confirmation of poor record keeping at the Council by the Controlling Officer unfortunate and cautions him to take concrete steps to ensure the situation is corrected. The office of the Auditor-General is requested to verify the current situation regarding record keeping and provide a report.

b) Staffing-Twelve Vacancies

The Controlling Officer informed your Committee that the Council was in the process of employing a General Secretary and an Accountant. The other vacant positions for permanent staff would be filled when funds were available.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that all key positions are filled to avoid affecting the implementation of the Council's mandate. A report is awaited on the actual placement of the new staff.

c) Lack of Segregation of Duties

The Controlling Officer informed your Committee that the matter had been addressed with the secondment of officers from the Ministry of Defence although the Council was in the process of employing a General Secretary and an Accountant.

Committee's Observations and Recommendations

In noting the submission by the Controlling Officer, your Committee is concerned that the employment of the two officers may not adequately address the Auditor General's concern. The Auditor-General is requested to assess the current status before the matter can be closed.

d) Poor Record Keeping

The Controlling Officer informed your Committee that the Council currently had qualified and adequate staff and the issue of poor record keeping was being addressed.

Committee's Observations and Recommendations

In noting the submission by the Controlling Officer, your Committee requests the Auditor-General to assess the current status before the matter can be closed.

e) Failure to Prepare Annual Work and Strategic Plans

The Controlling Officer informed your Committee that the Council had developed and adopted a strategic plan which was being implemented.

Committee's Observations and Recommendations

Your Committee takes note of the submission and urges the Controlling Officer to ensure that such documents are always in place.

f) Failure to produce annual reports

The Controlling Officer informed your Committee that the draft reports had not been finalised due to the failure by the Council to settle the audit fee of K150 million to obtain the audited financial reports from external auditors.

Committee's Observations and Recommendations

Your Committee finds the Council's failure to pay its auditors regrettable and unacceptable and urges the Controlling Officer to find a way of paying the audit fees so that the annual reports can be finalised.

g) Failure to establish provincial and district sports committees

The Controlling Officer informed your Committee that all provinces had since established district sports committees.

Committee's Observations and Recommendations

Your Committee commends the Controlling Officer for the measures taken to correct the situation and resolves to close the matter.

h) Creditors - K1,481,219,438

The Controlling Officer informed your Committee that all retired employees had since been paid their dues while other creditors were still owed an amount of K391,000,686.

Committee's Observations and Recommendations

Your Committee notes the submission by the Controlling Officer and urges him to ensure that other debts amounting to K391,000,686 are cleared so that the query can be closed.

i) Unvouched Expenditure-K2,241,435,522

The Controlling Officer informed your Committee that payment vouchers totalling K211,892,681 had been traced while payments, vouchers in respect of K67,347,626 that were unacquitted were prepared and approved. However, 248 inadequately supported payment vouchers in respect of amounts totalling K700,378,679 had not been supported.

Committee's Observations and Recommendations

Your Committee deplore the large number of unvouched payments and urges the Controlling Officer to ensure that the remaining unvouched expenditures, in respect of K700,378,679, are actively attended to so that the matter can be closed.

NATIONAL HERITAGE CONSERVATION COMMISSION

Query

Paragraph 10

Review of Operations

21. An examination of the accounting, stores and other relevant records carried out in December, 2009, revealed the issues set out hereunder.

a) Income-Entry fees at Victoria Falls

The Controlling Officer submitted to your Committee that the Ministry had since proposed to the Secretary to the Treasury to review the agreement with the Sun Hotels International so that the verification of the accuracy of visitation records used by the Hotel could be made possible.

Committee's Observations and Recommendations

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

b) Staffing Levels- 122 Vacant Positions

The Controlling Officer explained to your Committee that the Commission could not employ according to the establishment due to inadequate resources.

Committee's Observations and Recommendations

Your Committee wonders how the Commission is carrying out its mandate with a skeleton staff and urges the Controlling Officer to urgently bring the matter to the attention of the Secretary to the Treasury with a view of requesting for additional funding.

c) Wage Bill against Monthly Funding.

The Controlling Officer informed your Committee that the shortfall of K136,992,145 was adequately covered from the internally generated funds following the revision of fees and all monthly salaries were currently paid at once.

Committee's Observations and Recommendations

Your Committee resolves that the matter should be closed subject to verification.

d) Non-Remittance of Statutory Obligations-K7,458,879,241

The Controlling Officer explained that the Commission had started paying the bills from the revenues collected internally.

Committee's Observations and Recommendations

Your Committee observes that the Commission has no payment plan explaining how the outstanding amounts will be dismantled despite claiming that the Commission had started remitting the statutory contributions. Your Committee, therefore, recommends that the Controlling Officer should avail to the office of the Auditor-General figures to ascertain how much of the queried amounts are still pending and the payment plan.

e) Outstanding Gratuity-K3,205,550,516

The Controlling Officer informed your Committee that the Commission had started clearing the outstanding gratuities from the internally generated funds.

Committee's Observations and Recommendations

Your Committee requests the Controlling officer to avail information to the auditors on how much had been cleared so far. The Controlling Officer is also urged to provide a progress report on the matter.

f) Fixed assets-questionable ownership of buildings in Livingstone

The Controlling Officer submitted on three properties as set out below.

- i) Stand No. 2188, Mosi-O-Tunya Road - title deeds for the property were released to the Commission.*

- ii) *Stand No. 456, Mukambo Road* – The Title deeds have not been released to the Commission because the property had an outstanding mortgage obtained by the vendor from African Commercial Bank, in liquidation. Title deeds were being pursued with the Bank of Zambia, who were handling the matter of the African Commercial Bank in liquidation. Further, the Commission had written to the Ministry of Justice to seek guidance.
- iii) *Stand No. 727, Airport Road*- Title deeds for the property were released to the Commission.

Committee’s Observations and Recommendations

Your Committee notes the difficulties the Commission is facing in obtaining title deeds for Stand No. 456 and resolves to await a progress report on the actions being taken. On Stand No. 727, your Committee notes that although the title deeds were released to the Commission at the time of the transaction, the audit found that these had not been transferred to the Commission and directs that this should be done without further delay. They will await a progress report on the matter.

g) Rehabilitation of the Kalomo administrator’s house: poor workmanship

The Controlling Officer conceded that there were a lot of defects on the construction works in question. He explained that in order to address the defects, the Commission had put the building on lease and the leaseholder had agreed to carry out all minor outstanding works such as leakages on plumbing works while the Commission would complete outstanding major rehabilitation works from the project such as leaking roof, fitting of the bathtub in the common bathroom, replacing of deteriorated wooden unit in the kitchen and general external works.

Committee’s Observations and Recommendations

Your Committee expresses disappointment at the way the contract was administered and observes that no proof was availed to support the Controlling Officer’s oral submission that disciplinary action was taken against the erring officers, who could not effectively supervise the rehabilitation works. The Controlling Officer is, therefore, urged to provide proof of disciplinary measures instituted in writing and to have the works completed inspected by the Office of the Auditor-General. They await a progress report.

h) Unaccounted for Funds - NORMFA Support-K116,022,700

The Controlling Officer explained to your Committee that the Commission had since managed to pay back K118,165,000 in respect of which supporting documents were provided to your Committee.

Committee’s Observations and Recommendations

Your Committee notes that there is a disparity between the figure said to have been misapplied and what the Commission reported to have reimbursed and requests the Controlling Officer to have the documents verified by the Auditor-General.

THE HOTEL AND TOURISM TRAINING INSTITUTE TRUST (HTTI)

Query

Paragraph 6

22. An examination of financial, accounting, stores and other relevant documents revealed the weaknesses set out below.

a) Income

The Controlling Officer agreed with the Auditor General's statement on sources of income of the Institute of Hotel and Tourism Training (HTTI) and your Committee takes note of the position.

b) Misapplication of Funds-K588,194,787

The Controlling Officer stated that Management decided to use the money to meet its salary obligations to avoid a possible disruption of studies. However, a total of K250,334,150 was deposited into the Grant account during the period 26th June, 2009 to 15th July, 2010, while payments for capital items amounting to K392,471,600 were processed from non capital accounts.

Committee's Observations and Recommendations

Your Committee wishes to satisfy itself that capital items, for which funds were released, have been procured and requests the Auditor-General to have the expenditure of the K250,334,150, which was reportedly deposited into the Grant account and payments for capital items amounting to K392,471,600 verified.

c) Staff Related Costs: K30,964,300 Christmas Bonus

The Controlling Officer submitted that the decision to pay the bonus was made because employees had worked extremely hard under difficult conditions and had gone for three years without a pay increase due to the operational difficulties and inadequate resource.

Committee's Observations and Recommendations

Your Committee does not appreciate the reasoning by the Controlling Officer, but resolves to close the matter on condition that this will not be repeated.

d) Inadequately Supported Payments-K75,841,387

The Controlling Officer stated that the documents to support the sixteen payments in amounts totalling K75,841,387 had been found.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to the Auditor-General verifying the documents in question.

e) Failure to Follow Tender Procedures-K137,493,495

The Controlling Officer stated that it was not possible for the College to go through the tender process for certain items, such as dry fish, game meat, beans and vegetables as the suppliers of such items were mostly marketers. However, the

College applied alternative methods of ensuring transparency and competitive prices. The Director had since been directed to ensure that the tender procedures were followed and adhered to at all times.

Committee's Observations and Recommendations

Your Committee finds the reason advanced by the College unacceptable as all the items cited can be purchased from established dealers including supermarkets. Further, most marketers are also in a position to issue quotations for their goods and therefore this could not be an accepted excuse. The Committee resolves to close the matter.

f) Failure to prepare financial statements and annual report

The Controlling Officer explained that financial statements and annual reports had been prepared and copies were provided.

Committee's Observations and Recommendations

Your Committee recommends that the matter should be closed and advises the Controlling Officer to ensure that future annual financial statements are prepared in line with financial and accounting procedures.

ZAMBIA FORESTRY COLLEGE

Query

Paragraph 7

Review of Operations

23. An examination of financial, accounting and other relevant records for the financial years ended 31st December, 2004 to 2008, revealed the following:

a) GRZ Funding

The Controlling Officer submitted that the safe was opened by the Ministry of Finance and National Planning on 15th March, 2010 and the receipt books for the period under review that could not be availed at the time of audit amounting to K483,881,265 were found.

Committee's Observations and Recommendations

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

b) Delayed Bankings-K73,322,051

The Controlling Officer stated that due to rampant banking delays lasting up to 575 days, in some instances, the College had instructed all students to deposit the tuition fees directly into the College account.

Committee's Observations and Recommendations

Your Committee wishes to remind the Controlling Officer of the importance of following laid down financial and accounting procedures in matters related to

banking and resolves to close the matter as soon as the current status is verified by the office of the Auditor-General.

c) Underbanking - K38,896,450

The Controlling Officer informed your Committee that of the queried amount, K20,020,000 was inadvertently not audited by the office of the Auditor-General as at the time of audit, copies of deposit slips were provided. The difference of K18,876,450 was underbanked by various officers. Efforts were being made to recover the money from the concerned officers.

Committee's Observations and Recommendations

Your Committee notes that the officers concerned should have been reported to Police as underbanking is tantamount to theft. The Controlling Officer is urged to ensure that K18,876,450 is recovered while the office of the Auditor-General is requested to verify deposit details for the K20,020,000 reported to have been banked.

d) Unaccounted for Revenue-K176,283,750

The Controlling Officer submitted that the expected revenue was K314,330,000 and not K326,845,000 reflected in the Report of the Auditor-General. The disparity was because some documents could not be accessed due to the loss of keys to the safe and failure to account for students who dropped out.

The College collected K205,302,000 from the students enrolled in that academic year resulting into unaccounted for revenue amounting to K109,028,000 contrary to the K176,283,250 reflected in the Report of the Auditor-General. The disparity in the figures was due to the receipt books that were not verified by the office of the Auditor-General at the time of audit because the safe keys were lost. From the collected amount of K205,030,200, K150,740,750 was deposited in the Revolving Fund Account leaving a balance of K54,740,750, which was as a result of under banking by a former Assistant Bursar, who had since been dismissed from the Civil Service.

Therefore, the unaccounted for revenue of K109, 028,000 was attributed to in-service students from Forestry Department and other defaulting students. The Forestry Department had since paid the outstanding amount of K39,160,000. The College had made arrangements aimed at ensuring that recoveries were made from defaulting students as they collected their certificates. All the defaulting students were written to, urging them to pay the outstanding bills. The amount still outstanding was K69, 868,000. The office of the Principal of the College was directed to ensure that payments were made prior to commencement of any semester.

Committee's Observations and Recommendations

In noting the explanation submitted by the Controlling Officer, your Committee requests the Auditor-General to have the matter verified as the College had disputed figures quoted by the Auditor-General.

e) Inadequate Staffing Levels

The Controlling Officer stated that the Ministry had written to the Public Service Management Division (PSMD) seeking authority to fill the twenty-one vacant positions and a response was being awaited.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to pursue the matter aggressively so that the performance of the key mandate of the College is not negatively affected.

f) Failure to deduct PAYE tax from part-time employees-K38,064,950

The Controlling Officer stated that the College could not deduct PAYE in respect of salaries in question due to the fact that some employees were exempted from paying tax in line with the tax bands. The amount payable as tax was K9,902,888 and to this effect the Principal had been cautioned to ensure that tax was always deducted from the wages.

Committee's Observations and Recommendations

Your Committee caution the Controlling Officer to ensure that taxes are deducted as required by law. Your Committee requests the Auditor-General to verify the matter before it can be closed.

g) Failure to Prepare Financial Statements

The Controlling Officer explained that the financial statements and the cash books for the years under review had been prepared and were available at the College for verification.

Committee's Observations and Recommendations

Your Committee recommends that the matter should be closed subject to verification by the Office of the Auditor-General.

h) Missing Bank Statements

The Controlling Officer stated that the statements for 2005 and 2007, had been located while those for the year 2004, could not be located and the College had since written to Zambia National Commercial Bank, Head Office in Lusaka requesting for the same.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to improve record keeping at the College and ensure that the statements for the year 2004, that are still missing are found without further delay.

i) Failure to Prepare Bank Reconciliation Statements

The Controlling Officer noted that the bank reconciliation statements for the period February, 2005 to 31st December, 2008, had been prepared and were available for verification. The bank reconciliations for the year 2004, had not yet been prepared because of non-availability of bank statements as these were being awaited from the Bank. The cashbook for the year 2004, had already been done.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the bank reconciliation statements for the year 2004, are prepared and presented for audit verification.

j) Overdrawn Bank Account: K1,121,678 and K6,266,152

The Controlling Officer explained that the Principal of the College had been cautioned not to issue cheques on accounts without sufficient funds.

Committee's Observations and Recommendations

Your Committee considers this occurrence very unfortunate and urges the Controlling Officer to ensure that this comes to an end.

k) Missing Payment Vouchers-K209,134,052

The Controlling Officer informed your Committee that of the missing payment vouchers, forty-five payment vouchers in amounts totalling K89,982,276 were located while efforts were continuing to locate the remaining forty-one vouchers with amounts totalling K121,151,776.

Committee's Observations and Recommendations

Your Committee observes that this was a symptom of poor record keeping at the College and urges the Controlling Officer to ensure that the situation is urgently normalised. A progress report on the remaining forty-one vouchers with amounts totalling K121,151,776, is awaited. The Auditor-General is requested to verify the traced payment vouchers.

l) Inadequately Supported Payment Vouchers:K471,498,514

The Controlling Officer stated that the correct number for the missing payment vouchers was 120 with amounts totalling K440,041,631 as one cheque was recorded twice. Further, fifty-five payment vouchers amounting to K303,091,091.37 had since been supported leaving a balance of seventy-five missing payment vouchers in amounts totalling K39,950, 574.63.

Committee's Observations and Recommendations

Your Committee finds this to be further evidence of poor record keeping at the College and urges the Controlling Officer to ensure the situation is corrected, without further delay. Your Committee will await a progress report on the seventy-five payment vouchers

m) Unretired Imprest-K195,181,970

The Controlling Officer informed your Committee that out of the K195,181,970 unretired imprest, K86,334,470 had been retired leaving a balance of K110,847,500 to be recovered from the officers' salaries. Further, K87,499,000 would be recovered from the terminal benefits of the officers who were dismissed or deceased.

Committee's Observations and Recommendations

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

n) Failure to Follow Tender Procedures-K55,350,010

The Controlling Officer explained that the Ministry had instructed the Principal to strictly follow the laid down tender procedures to avert the loss of monies through uncompetitive procurement of goods and services.

Committee's Observations and Recommendations

While noting the explanation from the Controlling Officer, your Committee urges him to take disciplinary action against the officer(s) who ignored the requirements to obtain three competitive quotations.

o) Rehabilitation of staff house and construction of kitchen canopy

The Controlling Officer submitted that the completion certificates had since been issued.

Committee's Observations and Recommendations

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

p) Rehabilitation of laboratory, septic tank and soak away

The Controlling Officer informed your Committee that the Ministry of Tourism, Environment and Natural Resources had written to the Ministry of Works and Supply, requesting for an explanation as to why the contractor had not completed the septic tanks and soak away for the Laboratory and a response was being awaited.

Committee's Observations and Recommendations

Your Committee finds the abandoning of the works, by the Contractor unfortunate and urges the Controlling Officer to be resolute in pursuing the completion of the works. It awaits a progress report on the matter.

q) Illegal settlement and encroachment of the college land

The Controlling Officer explained that the Ministry in collaboration with the Copperbelt Provincial Administration was pursuing the issue with a view to reclaiming the forestry area.

Committee's Observations and Recommendations

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

r) Failure to Maintain Fixed Asset Register

The Controlling Officer stated that the College had opened a stores register and all the assets that were procured had been recorded. The Principal of the College had been directed to work with officers from the Ministry of Works and Supply in the Province in order to ensure that all the assets were given a GRZ number for ease of identification and accountability.

Committee's Observations and Recommendations

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

s) **Failure to follow laid down accident procedures**

The Controlling Officer informed your Committee that the officer involved had since been written to and the amount of K7,632,800 used to repair the car would be recovered from his terminal benefits. The Principal had further been directed to ensure that all accidents that occurred were reported to the Police and the Standing Accidents Board.

Committee's Observations and Recommendations

Your Committee is disappointed that College Management failed to provide appropriate guidance to the concerned officer on the matter. A report was awaited on the recovery of the funds used to repair the damaged car.

t) **Wasteful Expenditure**

The Controlling Officer submitted that although the Company was paid K58,491,261 leaving a balance of K18,922,339.96 as retention fee, the boreholes stopped functioning due to siltation. The Ministry wrote the Company, but it was demanding payments of mobilisation fees and the retention fee to be paid before moving on site. In view of the above, legal advice on the issue was sought from the Ministry of Justice and feedback was awaited.

Committee's Observations and Recommendations

Your Committee resolves to await a report on the matter.

u) **Failure to Maintain Records of Plantations**

The Controlling Officer explained that the College had since started maintaining records for the two plantations.

Committee's Observations and Recommendations

Your Committee finds it disquieting that the College has not been keeping records on the number of trees that they had in the two plantations. In order to be satisfied that records are now being kept, your Committee requests the Auditor-General to have the current position verified.

NATIONAL AIRPORTS CORPORATION LIMITED

Query

paragraph 9

24. An examination of financial, accounting, stores and other relevant documents revealed the weaknesses set out below.

(a) **Financial Performance**

The Controlling Officer submitted that the Corporation's financial performance was negatively impacted in 2009 by the global financial crisis and the loss of US\$2 million through the demise of the Zambian Airways. In 2007, the net exchange loss of K18 billion resulted from the strengthening of the Kwacha, and was incurred in spite of the Corporation's foreign exchange hedging operations. The Controlling Officer stated that the Corporation had continued to improve its hedging operations to ensure that the effects of exchange movements were mitigated. This involved forward

sale of foreign exchange revenues. He added that the *Zambian Airways* case was decided in the Corporation's favour, but the *Zambian Airways* had since appealed to the Supreme Court. While the Corporation had fully provided for the *Zambian Airways* debt, they had not written it off and some of the assets of *Zambian Airways* had been attached as security for the judgment debt.

Committee's Observations and Recommendations

Your Committee notes the response and directs that all necessary documentation be presented to the Office of the Auditor-General for verification, after which the matter should close.

(b) Profitability

The Controlling Officer submitted that the Corporation's profitability in 2009, was negatively impacted by the reduction in travellers due to the global financial crisis and the debt provision US\$ amounting to a sum of 2.0 million as a result of the *Zambian Airways* case. He further explained that personnel costs also went up by 28% during 2008, due to the change in accounting for pension costs. He reported that the financial performance of the Corporation had since improved considerably with a profit of K3.5 billion posted for the year ended March, 2010. The *Zambian Airways* case was still subject to litigation.

The Controlling Officer also submitted that in order to enhance income, the Corporation had embarked on targeted marketing of airline services and handling services; investment in infrastructure to increase lettable space and improvement of service delivery. The Corporation was also strengthening its credit policy to ensure that no revenue was lost through non payment by airlines or other clients. The Corporation had restructured the pension scheme to make it cost effective and sustainable.

Committee's Observations and Recommendations

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

(c) Interest Cover

The Controlling Officer submitted that the interest cover calculated included non-cash items such as depreciation and amortisation, which had no impact on the interest payment capability. In 2009, the Corporation made full provision for the K13 billion *Zambian Airways* debt and depreciation increased by K9 billion due to the revaluation of the Corporation's assets. The Corporation was mindful of the level of borrowings and would not over borrow to the point of failing to repay. In this regard, the Corporation had strict borrowing policies to adhere to. Further, as indicated earlier improvement in profitability would improve the interest cover.

Committee's Observations and Recommendations

Your Committee notes the submission, but advises the Corporation to avoid using a non-standard formula for calculating the interest cover henceforth. They, however, closed the matter.

(d) **Statement of Financial Position as of 31 March, 2009**

(i) Ownership of International Airports

The Controlling Officer submitted that the issue of title to the four airports was being dealt with by the Director of Civil Aviation and the Commissioner of Lands, as the current status was at variance with the existing legal provisions. He explained that a search at the Ministry of Lands on 8th October, 2010, revealed the following:

	Property No	Title Holder	Title No
1	NDO/2965	National Airports Corporation Ltd	L2738
2	L/947/M	Department of Civil Aviation	L7286
3	LIV/2121	National Airports Corporation Ltd	L5868
4	Mfuwe	GRZ (Traditional Land)	N/A

The Controlling Officer stated that the existing title deeds were in the custody of the Department of Civil Aviation, which Department was trying to resolve the issue.

Committee's Observations and Recommendations

Your Committee notes the submission, but calls upon all the institutions involved to expedite resolution of these issues. They await a progress report on the matter.

(ii) Trade and Other Receivables

The Controlling Officer submitted that the Corporation's debtor position was to a greater extent determined by the credit policy and collection system. The bulk of the Corporation's income was aviation income (85%) which was collected through the International Air Travel Association (IATA). The IATA collection system invariably took between thirty to sixty days. Consequently, the collection period was usually above sixty days. The increase from 2006 to 2009, was mainly due to increase in aviation income over the period. The Corporation had, however, set up a credit committee which met monthly and its mandate was to ensure that clients adhered to the Corporation's terms of credit. In this regard, the Corporation took the following action against defaulting clients: closure of business premises, use of debt collectors and/or suspension of credit facilities. Additionally, the Corporation was rigorously pursuing the Zambian Airways debt within the confines of the law as reported earlier in this matter.

Committee's Observations and Recommendations

Your Committee notes the response and requests to be availed a progress report on the recovery of the Zambian Airways debt.

(iii) Gearing

The Controlling Officer submitted that the Corporation's gearing calculation should take into account capital grants as this formed part of shareholder funds.

	2009	2008	2007	2006
	K' Billion	K' Billion	K' Billion	K' Billion
Debt	23.9	21.8	62.6	43.9
Debt plus shareholder's funds	441.4	462.2	94.9	58.2
% of Debt Capital	5%	5%	66%	75%

He added that the Corporation undertook a revaluation of its leasehold assets and also requested Government to convert the state loan into equity in order to address the debt ratio, which was now down to 5% of the total of debt and shareholders funds. The Corporation was monitoring the debt ratio by ensuring that borrowings were within the dictates of the Board and the shareholder, GRZ. The Corporation was also soliciting for shareholder funds and assistance from co-operating partners. In addition, Build, Operate and Transfer (BOT) or Private Public Partnerships (PPPs) were being encouraged. He explained that written authority had been obtained from the Ministry of Finance and National Planning to convert capital grants into equity.

Committee's Observations and Recommendations

Your Committee notes the submission and directs that the letter of authority from the Ministry of Finance and National Planning be submitted to the Office of the Auditor-General for verification, subsequent to which the matter should be closed.

(e) Procurement of goods, services and civil works

(i) *Remodelling and Construction of the Proposed Control Tower at Livingstone International Airport*

The Controlling Officer submitted that the project was admittedly behind schedule as it had initially been expected to be completed within twelve weeks, but it had delayed. Nevertheless, the works were substantially complete and materials worth K40 million had since been purchased to complete the project and the contractor was on site. Handover was scheduled for the third week of October, 2010. He added that the Corporation had invoked damages for the delayed completion at the rate of K1,149,641.59 VAT exclusive per day through the letter dated 29th March, 2010, a copy of which was available for verification.

Committee's Observations and Recommendations

Your Committee notes the submissions and directs that all relevant documentation be presented to the Office of the Auditor-General for verification, subsequent to which the matter should close.

(ii) *Generator Set at Lusaka International Airport*

The Controlling Officer admitted that the project had delayed, but was expected to be commissioned in November, 2010. He reported that the standby generator set had since been installed and the Genset house construction completed. The Generator set was currently being tested. The only works remaining were those relating to the interlinking of the Genset and the terminal building, which the contractor was actively pursuing. In light of the delay in completing the project, the Corporation had since invoked damages at the rate of K1,215,953.74 (VAT exclusive) per day through the letter dated 26th February, 2010, a copy of which was available for verification.

Committee's Observations and Recommendations

Your Committee notes the submissions and directs that all relevant documentation be presented to the Office of the Auditor-General for verification, and that a report be submitted to them, in due course, on the

completion of works relating to the interlinking of the Genset and the terminal building.

(f) Inadequately Supported Payments

The Controlling Officer stated that all payments are supported by one or more of the following documents: Order, Contract, Duly approved quotation (to be followed by an invoice or receipt) and Invoice (duly approved). He had since requested accounting staff to pull out all the relevant documents relating to the samples selected. To date, out of K241,442,834 selected vouchers relating to the whole amount had been pulled out.

Committee's Observations and Recommendations

Your Committee strongly recommends that all the supporting documents be located and presented to the Office of the Auditor-General for verification. They await a progress report on the matter.

(g) Unretired Imprest

The Controlling Officer submitted that the Corporation's policy was to have all imprest retired within forty-eight hours unless there were reasons for failure to do so. In cases where imprest was not retired and no acceptable reason was given, the amount was deducted from the employee's salary. However, he noted that the retirement documents were not filed together upon retirement, with the documents on which the funds were originally requested. The relevant staff had been requested to locate these documents and have them matched. To date, out of the K95,993,560 selected vouchers, K52,873,500 had since been pulled out.

Committee's Observations and Recommendations

Your Committee directs that all the documents be correctly matched and presented to the Auditor-General for verification. Further, all outstanding imprest should be recovered from the officers concerned without further delay.

(h) Crushed Aid Clinic - Ndola and Livingstone

The Controlling Officer submitted that the Corporation appreciated the observation made by the Auditor-General and would endeavour to establish these critical facilities at the respective Airports. However, provisional arrangements had been made with the respective Central Hospitals in the Airport vicinity to take-up casualties from emergencies and/or accidents.

Committee's Observations and Recommendations

Your Committee notes the submission and closes the matter.

(i) Failure to Install Constant Current Regulators

The Controlling Officer submitted that constant current regulators could not be installed immediately into existing lighting circuit fixtures (cables, transformer and light fittings) due to the age of these fixtures as doing so presented a possibility of destroying the regulators due to their sensitivity. He reported that the Corporation was sourcing K8.5 billion to overhaul the entire airfield ground lighting system. However, management had initiated the purchase of primary cables for the runway

edge circuits which would utilise the new constant current regulators. Purchase requests and delivery notes were available for verification.

Committee's Observations and Recommendations

Your Committee notes the response and resolves to await a progress report on the overhaul of the entire airfield.

ZAMBIA POSTAL SERVICES CORPORATION (ZAMPOST)

25. An examination of financial, accounting, and other relevant documents revealed the weaknesses set out hereunder.

Query

Paragraph 22

a) Failure to constitute a full Board of Directors

The Controlling Officer acknowledged the absence of a full Board of Directors at the Zambia Postal Services Corporation (ZAMPOST). He explained that during the period under review, the Ministry could not constitute a full Board for the Corporation due to high staff turnover both at Ministerial and Permanent Secretary levels. However, the Ministry was currently in the process of putting a full Board in place. The process had already commenced, and as soon as Cabinet approved the request, the identified members would be written to.

Committee's Observations and Recommendations

Your Committee expresses serious concern over the fact that ZAMPOST has been allowed to operate without a Board for so long and call upon the Minister of Communications and Transport to urgently follow up this matter and ensure its speedy finalisation at Cabinet level. A progress report on the matter is awaited.

b) Failure to Prepare Annual Reports

The Controlling Officer acknowledged the Corporation's failure to produce annual reports as prescribed by the Act, for the period under review. Signed audit reports were available for the year ending March, 2006 and the year ending March, 2007. He also confirmed that external auditors were paid K97,000,000. The audit of the 2007/2008 financial statements was currently underway and the annual report would be prepared and submitted in accordance with the Act as soon as the audit was completed. Board approval had since been given to engage new external auditors and tender procedures had already been initiated.

Committee's Observations and Recommendations

Your Committee expresses concern that ZAMPOST could operate in such a manner for such a lengthy period and strongly urges the Minister of Transport and Communications to prevail upon the Management of the Corporation to regularise the financial operations of the Corporation forthwith. Your Committee awaits a progress report on the finalisation of all the necessary reports for the period under review.

(c) Termination of Contract - Postmaster General

The Controlling Officer submitted that this was an administrative oversight, but the matter has since been resolved.

Committee's Observations and Recommendations

Your Committee notes the response and directs that all necessary documentation be availed to the Auditor-General for verification, thereafter the matter should close.

d) Contract of Employment - Postmaster General

The Controlling Officer submitted that the Postmaster-General was recruited via head hunting. The outstanding advances formed part of the Conditions of Service in the formalised contract for the Chief Executive Officer. The current position was that the Corporation owed the Postmaster-General money. Necessary Board approvals were obtained for all salary advances and other payments, which had been made so far. The salary advances in question covered upkeep expenses, some education expenses for school children and wages for domestic workers, which were supposed to be borne by the Corporation.

Committee's Observations and Recommendations

Your Committee expresses concern at the fact that the Postmaster-General was given a retrospective contract and strongly advises that this should not be repeated in future. All relevant documents should be presented to the Auditor-General for verification thereafter, the matter should close.

(e) Irregular payments of funeral and other advances

The Controlling Officer submitted that the sum of US\$3,500 was obtained as an advance to be recovered when Conditions of Service for the Postmaster-General were finalised. Included in the funeral advance was expenditure for accommodation and airfare and all were at the expense of the Postmaster General and not the Corporation. The education payment was also taken on the same basis. Board approvals for these transactions were available for verification.

Committee's Observations and Recommendations

Your Committee notes the response and directs that the documents be presented to the Auditor-General for verification, and thereafter the matter be closed.

(f) Non-payment of Terminal Benefits

The Controlling Officer submitted that the problem of failure to pay terminal benefits was historical and was a consequence of the poor financial position of the Corporation. The Board was aware of this unfortunate situation. As a stop gap measure, management had dedicated revenue from box rentals, which averaged K6 billion per year, towards settlement of terminal benefits. Retirees were paid a lump sum of about K50 million on retirement and a monthly sum of K10 million to cushion them. As a result of this arrangement currently the Corporation had reduced the outstanding terminal benefits in settlement of K2,240,202,320.12 leaving a balance of K6,407,620,443.27.

Committee's Observations and Recommendations

Your Committee notes the matter and requests that the submission be verified. They await a progress report on the liquidation of the outstanding terminal benefits.

(g) Procurement of Software

Regarding clause 2.5 of the Agreement between the private company and ZAMPOST, the Controlling Officer stated that it was important to note that the Corporation accessed the internet for a lot more services than the Cash4Africa platform. Therefore, it would be very difficult to split the cost between other web services and the private company's Cash4Africa service accessed through the internet. Because of this, the sum of K516,844,553.58 was not accurate on that account. Furthermore, earnings from this business exceeded the internet costs by far. He added that the issues of security had been discussed with the private company on many occasions and they had upgraded the software with several features which had addressed the issue of a secure platform. The Corporation had not experienced any other fraudulent activity after the fraud which took place in March, 2007.

Committee's Observations and Recommendations

Your Committee notes the submission and directs that the documents be presented to the Auditor-General for verification, subsequent to which the matter should be closed.

(h) Procurement of Wide Area Network (WAN)

The Controlling Officer submitted that the agreement between ZAMPOST and ZAMTEL was signed in October, 2008, after protracted negotiations. However, the payment for Phase 1 was made on 18 February, 2008. He explained that it was not correct that the Legal Counsel did not advise Management on the issue of the effective date. The auditors were availed with all documents including the legal file, which had correspondence between the parties wherein the effective date was agreed to be 18th February, 2008. The original agreement had no effective date because the parties only concluded the matter on 7 January, 2009. The fact that the agreement was not endorsed with the agreed date had since been addressed by the correspondence referred to above which served as addenda to the agreement. To this effect, correspondence between the Legal Counsel of ZAMPOST and the Company Secretary, ZAMTEL was available for verification.

The Board approved the installation of WAN, as evidenced by Board reports, which were available for verification. With regard to single sourcing, the Corporation was advised by the Zambia National Tender Board that as the amount involved was within the allowed threshold (K2 billion) the Internal Management Tender Committee could approve single sourcing and this approval was available for verification. The Corporation was concerned over delays in project implementation by ZAMTEL, which they attributed to lengthy tender procedures for procurement of equipment and the industrial unrest, which took place during the implementation programme. ZAMTEL had undertaken to speed up installation work so that Phase 2 could be completed by the end of June, 2010. The difference on the actual amount paid of K265,922,900 was VAT and the amount for contingencies, which were not included in the original bill.

Committee's Observations and Recommendations

Your Committee notes the submissions and directs that all documents be presented to the Auditor-General for verification. It resolves to await a progress report on the completion of installation of the WAN.

ZAMBIA RAILWAYS LIMITED (ZRL)

Query

Paragraph 24

26. A review of the operations of the Zambia Railways Limited(ZRL) for the financial years ended 31 December, 2002 to 2008, revealed the weaknesses set out below.

(a) Board of Directors

The Controlling Officer confirmed that ZRL operated without a Board from 2004 to 2006. He emphasised that the Ministry of Communication and Transport appreciated the importance of a Board and explained that a Board was now in place. He undertook to ensure that there was a Board of Directors at all times to oversee the operations of the company.

Committee's Observations and Recommendations

Your Committee notes with concern that the Company has been allowed to operate without a Board for a considerable period of time and reiterates the need for the Government to observe the tenets of good corporate governance in the operations of parastatal companies. They, however, closed the matter.

(b) Organisation Structure

The Controlling Officer stated that the Ministry of Communications and Transport was in the process of finalising discussions with the concessionaire in order to resolve the various problems of effective monitoring of the concession. Once the way forward was charted, the Ministry would impress on ZRL to fill the position of Director (Technical) and all other relevant positions that may be vacant at the time.

Committee's Observations and Recommendations

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

(c) Statement of income and expenditure for the year ended 31st December, 2002 to 2008

(i) Profitability

The Controlling Officer noted the concern raised in the report on accumulated losses and pointed out their historical nature, which in fact led to the Government's decision to concession the operations of the Company to the private sector. He also noted that income was very low compared to that envisaged in the concession agreement. He stated that the Government hoped to see an improvement emanating from increased national economic activities, especially in the mining sector.

Committee's Observations and Recommendations

Your Committee notes and closes the matter, but urges the Controlling Officers to put measures in place to improve the profitability of the Company.

(ii) *Revenue*

The Controlling Officer further stated that in conjunction with the Board, the Ministry of Communications and Transport was in discussions with the Ministry of Finance and National Planning in order to route the concession fee through ZRL. In this way, the revenue of the Company would improve and also enable planned capital replacement of rolling stock and possibly contribute to the funding of new railway projects in the country.

Committee's Observations and Recommendations

Your Committee notes the response and requests that a progress report on the discussions with the Ministry of Communications and Transport and the Ministry of Finance and National Planning be submitted to it as soon as possible.

(d) Financial position - balance sheet for the year ended 31st December 2002 to 2008

(i) *Fixed Assets - Investment Property*

The Controlling Officer noted the recommendation to separate investment property from the rest of the assets. He reported the recommendation was currently being implemented.

Committee's Observations and Recommendations

Your Committee directs that a progress report be submitted to them on the separation of investment property from the rest of the assets.

(ii) – (iii) Debtors and Liquidity

The Controlling Officer reported that, in order to clean up the balance sheet, the Ministry of Communications and Transport had requested the Ministry of Finance and National Planning to allow them to swap Government and Government related debtors with the Company's statutory obligations, which also accumulated in the period prior to the concession in 2003. He added that the Company was up to date with its statutory obligations for the period after concessioning.

Committee's Observations and Recommendations

Your Committee notes the submission and directs that all relevant documentation be presented to the Auditor-General for verification and directs that it be availed a progress report on the discussions with the Ministry of Finance and National Planning with regard to the proposed debt swap.

(iv) *Long Term Liabilities*

The Controlling Officer reported that the Ministry of Communications and Transport would take steps to assist management of the Company to normalise the allocation of the K1,063,000,000 received from the Government of Zambia. This process would involve the Ministry of Finance and National Planning. The balance of the amount was chiefly made up of a World Bank loan used to prepare the Company for privatisation of its

operations. It was used to pay retrenchment packages and overhaul of the rolling stock. Long term liabilities were also a subject of discussion with the Ministry of Finance and National Planning since the concession fees, which would have been used to pay back the loan, were paid directly to the treasury.

Committee's Observations and Recommendations

Your Committee directs that it be availed a progress report on the allocation of the amount of K1,063,000,000 received from the Government and on the consultations between the Ministry of Communications and Transport and the Ministry of Finance and National Planning with regard to the settlement of the World Bank loan.

(v) *Capital Structure*

The Controlling Officer submitted that financial constraints were the major factor in the delay of allotting the K2, 317,648,000 into shares, the amount required to register the shares was too large given the poor financial state of ZRL at the time. The Ministry of Communications and Transport would, however, try to normalise this issue with the Patents and Companies Registration Agency.

Committee's Observations and Recommendations

Your Committee directs that the allotment of the amount of K2,317,648,000 into shares be prioritised and that it be availed a progress report on the matter.

(e) **Failure to Rotate Auditors**

The Controlling Officer stated that Management and the Board had been instructed to ensure that new auditors were appointed at the next Annual General Meeting set for December, 2010.

Committee's Observations and Recommendations

Your Committee will await a progress report on the appointment of new auditors.

(f) **Non-Remittance of Statutory Obligations**

The Controlling Officer submitted that this poor past performance was part of the reason that led the Government to concession the operations to the private sector. However, the Ministry of Communications and Transport was in discussion with the Ministry of Finance and National Planning to debt swap as stated above.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the debt swap arrangement that will be put in place

(g) **Land Encroachment**

The Ministry of Communications and Transport had granted authority to ZRL to dispose of residential plots and other land not linked to railway operations and this process was in progress. However, there was a problem with encroachment in the railway reserve especially in Lusaka.

The railway reserve, is fifty yards on either side of the main railway line running from Livingstone to the Copperbelt.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to quickly resolve the issue of land encroachment on all railway reserves in accordance with the law. It awaits a progress report on the matter.

(h) Review of Concession Agreement

(i) *Investment Plan*

The Controlling Officer submitted that the Ministry reached an agreement with the concessionaire to raise the level of investment by a further US\$30 million above that contained in the agreement. He admitted that even this was not sufficient given the condition of the railway infrastructure. To this effect, the Ministry, with help of the World Bank and agreement of the concessionaire, had engaged consultants from Canada to help recommend the best way forward.

Committee's Observations and Recommendations

Your Committee notes the response and urges that the issue of the investment plan be treated as a matter of urgency. They await a progress report on the matter.

(ii) *Track Rehabilitation of the mainline from Livingstone to Kitwe; and Rolling Stock*

The Controlling Officer submitted that in an effort to find a lasting solution to these problems, the Ministry setup an Inter-Ministerial committee to examine the concession agreement and advise the Government on options available to it. This work took a year to complete and the report stated that investment in the region of US\$85 million was required. It was out of this report that the Ministry managed to get the concessionaire to commit to invest an additional \$30 million. As earlier stated, the Ministry had again engaged the concessionaire in discussions (with the involvement of a consultant) to find ways of improving the infrastructure despite the signed agreement. The inadequacy of the agreement became evident soon after the commencement of the concession, but the Ministry had to tread with care due to the conditions of the signed agreement that included heavy penalties and/or default amounts for termination on the part of the Government.

Committee's Observations and Recommendations

Your Committee expresses serious concern over the state of the track and the rolling stock and urges the Controlling Officer to urgently ensure

rehabilitation of the mainline from Kitwe to Livingstone in order to avert possible accidents on the line. A progress report on the outcome of the discussions with the concessionaire regarding the investment in the rehabilitation works is awaited.

(iv) *Condition of the Railway infrastructure*

The Controlling Officer submitted that issues of the maintenance of the railway line, bridges and flashlights at class A level crossings were all being covered by the work of the consultants engaged from Canada with assistance from the World Bank. With regard to passenger coaches, he stated that the Ministry would shortly be looking for another concessionaire to take over passenger operations from the current concessionaire since the passenger agreement would be expiring in December, 2011. He added that the Ministry would ensure that the new agreement would avoid all the shortfalls of the current agreement.

Committee's Observations and Recommendations

Your Committee expresses concern over the condition of the railway line, bridges and flashlights at class A level crossings and awaits a progress report on these issues following the engagement of the consultants. Your Committee, further, stresses the need to carefully avoid the pitfalls noted in the current concession agreement as the Ministry negotiates the new passenger service agreement.

(v) *Change in Asset assignment*

The Controlling Officer submitted that the concessionaire had since started handing back assets excess to train operations. A number of out of commission scrap wagons had since been handed back. They would shortly be handing back the Head Office buildings in Kabwe as they had set up their own in Lusaka.

Committee's Observations and Recommendations

Your Committee directs that the submission be verified, subsequent to which the matter should close.

(vi) *Concession Fees*

- Fixed Concession Fees

The Controlling Officer submitted that the Ministry had sought legal advice from the Attorney General on the possibility of revisiting the agreement despite the concessionaire's objection. He agreed with the report that it was highly unlikely that the attractive fixed fee would ever be paid for the remainder of the concession period in light of the declining tonnages hauled by the concessionaire. The Attorney General had since advised the Ministry to find other means of resolving the anomalies in the agreement since the concessionaire objected to reviewing the signed agreement. This is led to the engagement of the Canadian Consultants whose report was expected by the end of 2010.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on this matter once the consultants have submitted their report.

- **Contradictory Clauses in Passenger Agreement**

The Controlling Officer submitted that the two clauses made it difficult to force the operator to run a daily service seeing that they were not in default by running a lower number of trains (default only kicked in if no train was run in ninety consecutive days). He undertook to ensure that these clauses were put right in the next agreement set for 2011 in December and would most likely be signed with a new operator.

Committee's Observations and Recommendations

Your Committee notes the submission and directs that the matter be closed.

- **Variable Concession Fees**

The Controlling Officer submitted that the Ministry was currently awaiting a response from the Ministry of Finance and National Planning on a proposal it had submitted for the concession fees and supporting documents to be channelled through ZRL for proper verification and accountability. The Inter-Ministerial Committee strongly recommended this course of action.

Committee's Observations and Recommendations

Your Committee will await a progress report on the consultations with the Ministry of Finance and National Planning over this matter.

SUBMISSION BY THE SECRETARY TO THE TREASURY

27. Your Committee requested the Secretary to the Treasury to make a submission on accounting and financial irregularities that were common to most institutions that were subject of the audit. Below is the Secretary to the Treasury's responses and your Committee's observations and recommendations.

a) Introduction

In his introduction remarks, the Secretary to the Treasury thanked the Auditor-General for fulfilling her statutory obligation as provided for under the *Public Finance Act* No. 15 of 2004 Part 6 Sections 44 and 45, by carrying out a thorough review of Parastatal Bodies and bringing out all the short comings as indicated in her report.

In response to the issues raised in the report, the Secretary to the Treasury commented on the common issues appearing in the report as set out below.

b) Non Preparation of annual financial statements and reports

The Secretary to the Treasury submitted to your Committee that this was a serious omission by the Chief Executive Officers charged with the responsibility of overseeing such organisations as not doing so was against the provisions of the *Public Finance Act No. 15 of 2004 Part V 34 (2)* which states that the Board of Directors of any Statutory Corporation shall furnish the Secretary to the Treasury at the end of every financial year with reports covering the operations of such statutory corporations and the corporation's financial affairs. It was, therefore, clear that the Board of Directors of such corporations who did not prepare and submit annual financial statements and reports were failing to abide by the *Public Finance Act*.

He observed that through the proposed *State Owned Enterprise Act* and Policy, parastatal bodies would be properly monitored.

He noted that other measures would include:

- i. restructuring of some parastatal bodies to improve operations;
- ii. non-capitalisation of such companies until financial statements were released; and
- iii. encouraging parastatal bodies to implement good corporate governance practices such as composition of professional Boards of Directors, legislative reforms and strengthening of internal controls.

He noted that these measures were necessary because failure to prepare these statements was a sign of poor corporate governance, lack of supervision and laxity.

Committee's observations and Recommendations

Your Committee welcomes the acknowledgement by the Secretary to the Treasury that most parastatal bodies are having difficulties in meeting their reporting obligations as prescribed by the *Public Finance Act No. 15 of 2004*. Your Committee further notes the measures that the Government has proposed to take in order to correct the situation. Your Committee recommends that this should be made a key performance indicator and a major factor in the selection of boards and appointment of managers to lead parastatal bodies. They await a progress report on the implementation of the measures proposed by the Secretary to the Treasury.

c) Non-Remittance of Statutory Obligations

The Secretary to the Treasury expressed disappointment at the non-remittance of these statutory obligations as failure to do so affected the general performance of the Treasury in that the tax collection targets budgeted for in a particular year were not met and thereby affected the provisions of funds for national projects.

In addition, he noted that the non payments of pension contributions to NAPSA also affected the economy as social security organisations contributed to the general performance of financial markets in the country. In order to address this, the Government would take several measures, which included debt-swaps, adequate provision in the budget and ensuring that payments for the statutory obligations were current.

Committee's observations and Recommendations

Your Committee takes note of the measures that the Government has proposed to take in order to correct the situation and recommends that the Treasury should take concrete steps to assist parastatal bodies to clear the huge backlog while the institutions concerned should endeavour to remain current with remittances. They await a progress report on the matter.

d) Poor Financial Performance

The Secretary to the Treasury lamented the poor financial performance of some parastatal bodies. He noted that this would be addressed through, among other measures, the restructuring of companies, changing of Boards of Directors, encouraging parastatal bodies to strengthen internal control and privatisation of loss making companies.

Committee's Observations and Recommendations

Your Committee welcomes the acknowledgement by the Secretary to the Treasury of poor financial performance by some parastatal bodies. Your Committee further notes the measures that the Government has proposed to take in order to correct the situation. Your Committee wishes to encourage the Secretary to the Treasury to seriously implement his own proposal to consider privatising all loss making companies as they are a drain on public resources. They await a progress report on the actual action that will be taken to address the situation of loss making parastatal bodies.

e) Poor Record Keeping

Regarding rampant poor record keeping in most companies, the Secretary to the Treasury submitted that the Government considered this as an indicator of poor corporate governance and supervision. He noted that having effective boards in place was key to resolving most governance issues in parastatal bodies.

Committee's Observations and Recommendations

Your Committee notes that this is an area that has not been given adequate attention and fears that it could be used to disguise malpractices. Your Committee recommends that Controlling Officers and managers who fail to ensure proper record keeping in their institutions should be sanctioned.

CONCLUSION

28. Your Committee wishes to express its gratitude to you Mr Speaker and the Office of the Clerk for the support rendered to it when considering the Report of the Auditor-General for 2008, on the Accounts of Parastatal Bodies. Your Committee further wishes to thank the Secretary to the Treasury, Controlling Officers, Chairpersons and other members of the Boards of Directors, and management teams of the institutions that were audited for their cooperation.

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

E M Hachipuka, MP
CHAIRPERSON

May 2011
LUSAKA