



REPUBLIC OF ZAMBIA

REPORT

OF THE

PUBLIC ACCOUNTS COMMITTEE

ON THE

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL
BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL
YEAR ENDED 31ST DECEMBER, 2014**

FOR THE

FIFTH SESSION OF THE ELEVENTH NATIONAL ASSEMBLY

Appointed by the Resolution of the House on Friday, 25th September, 2015

PRINTED BY THE NATIONAL ASSEMBLY

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REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER, 2014, FOR THE FIFTH SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED BY RESOLUTION OF THE HOUSE ON 25TH SEPTEMBER, 2015

Consisting of:

Ms M G M Imenda, MP (Chairperson); Mr V Mooya, MP; Mr J Zimba, MP; Mr A Milambo, MP; Mr M Mbulakulima, MP; Ms C Namugala, MP; Mr V Lombanya, MP; Brig Gen Dr B Chituwo, MP ; and Ms D Siliya, MP.

The membership of your Committee changed following the appointment of Ms D Siliya, MP, as Minister of Energy and Labour. She was replaced by Mr M Mumba, MP.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir,

Your Committee has the honour to present its Report on the Report of the Auditor-General on the Accounts of Parastatal Bodies and other Statutory Institutions for the Financial Year ended 31st December, 2014.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held eight meetings to consider the Report of the Auditor-General on the Accounts of Parastatal Bodies and other Statutory Institutions for the Financial Year Ended 31st December, 2014.

Procedure adopted by the Committee

4. With technical guidance from the Auditor-General, the Accountant-General and the Controller of Internal Audit, your Committee considered both oral and written submissions from Controlling Officers and Chief Executive Officers of the eighteen (18) institutions that were subject of the Audit Report. Additionally, the Secretary to the Treasury was requested to comment on all the eighteen institutions.

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

Auditor General's Comments

5. The Auditor General reported that the Report on the accounts of selected parastatal bodies and other statutory institutions for the periods up to the year ended 31st December, 2014 was

submitted to the President for tabling in the National Assembly in accordance with the provisions of the Constitution of Zambia and the Public Audit Act, Chapter 378 of the Laws of Zambia.

Scope of Audit

The Report was a result of a programme of test checks and reviews of audited accounts of selected organisations for the financial years up to 31st December, 2014.

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

Major Findings

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

Some of the issues raised in this Report are:

- i. weaknesses in corporate governance;
- ii. weaknesses in the implementation of Information Communication Technology (ICT) systems;
- iii. failure to produce financial statements;
- iv. poor financial and operational performance;
- v. lack of title deeds for properties that should be owned by various institutions; and
- vi. weaknesses in contract management.

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

Summary of Findings	Amount K
Non Remittance of Statutory Contributions	876,156,916
Inadequately Supported Payments	15,522,630
Irregular Payments	2,490,403
Unaccounted for Stores	358,398
Unretired Imprest	1,807,650
Missing Payment Vouchers	873,774
Wasteful Expenditure	396,275,835

Internal Control

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

Institutions that have not Submitted Audited Financial Statements

There were twenty six statutory and parastatal bodies that had not produced audited financial statements on the accounts for the financial years up to 31st December, 2014.

Responses by the Secretary to the Treasury

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

a) Scope of Audit

The Secretary to the Treasury stated that the scope of audit used by the Auditor General was appreciated as she undertook test checks and reviews of accounts of the financial year ending 31st December, 2014 for the eighteen selected Parastatal Bodies and other Statutory Institutions.

The Secretary to the Treasury submitted that the interaction of the Auditor General with Chief Executive Officers through their Controlling Officers upheld good corporate governance values in the management of parastatal bodies and other statutory institutions entrusted with the responsibility of managing public resources.

b) Internal Controls

The Secretary to the Treasury reported that the Controller of Internal Audit was assigned to review internal control systems in parastatal bodies and other statutory institutions. In addition, the Board of Directors and management had been engaged to enhance Internal Control Systems and adhere to the Public Finance Act No.15 of 2004 and the Financial Regulations of 2006 in the management of Public Funds.

Committee's Observations and Recommendations

While noting the response by the Secretary to the Treasury, your Committee expresses concern that this has been a perennial problem which has not been dealt with firmly by the Treasury. Your Committee observes that as long as the Treasury does not take concrete measures, internal control systems will continue to be weak, resulting in the massive abuse of public resources. In this regard, your Committee strongly urges the Secretary to the Treasury to take practical steps and strengthen the systems without any further delay.

c) Failure to Prepare Financial Statements

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

- **National Food & Nutrition Commission**

The Secretary to the Treasury reported that the auditing of this Institution was currently underway by the Office of the Auditor General. However, draft financial statements for the years 2009 to 2015 were available for verification.

Committee's Observations and Recommendations

Your Committee expresses concern that the Commission has not been able to honour its obligations and urges the Secretary to the Treasury to ensure that the matter is aggressively pursued to its logical conclusion. A progress report will be awaited by your Committee.

- **Zambia Medicines Regulatory Authority**

The Secretary to the Treasury submitted that the audit of financial statements for the Zambia Medicines Regulatory Authority was undertaken by the Auditor General. However, the Institution did not have a Board to approve the Accounts from 2008 to 2013. Nonetheless, the Board was constituted in 2015 and had since approved the Accounts for the period 2008 to 2010. Further, Grant Thornton, who audited the Accounts for 2008 to 2010, had been re-appointed to audit the 2011 to 2014 Accounts. The draft financial statements for the period 2011 to 2015 were available for verification.

Committee's Observations and Recommendations

Your Committee will await a progress report on the finalisation of the financial statements for the period under review.

- **General Nursing Council**

The Secretary to the Treasury informed your Committee that the Institution had submitted the audited Accounts up to 2013 and authority to procure services for the audit of 2014/2015 had been granted by the Office of the Auditor General. Further, the Ministry of Health was in the process of requesting for proposals from eligible audit firms to bid for auditing services.

Committee's Observations and Recommendations

Your Committee is concerned with the pace at which the audited financial statements at the Council are being prepared and, therefore, insists that eligible audit firms should be engaged without any further delay in order for the statements in question to be expeditiously completed and availed to the Office of the Auditor General for verification. Your Committee will await a progress report on the matter.

- **Hotel Tourism and Training Institute**

The Secretary to the Treasury reported that the Institute had been using the services of the Office of the Auditor General due to liquidity constraints to have previous accounts audited. However, the Institution was currently able to acquire the services of external auditors following the improvement of the liquidity position, therefore, in compliance with the provision of Article 211 of the Constitution of Zambia and the Public Finance Act, No.15 of 2004 and Public Audit Act, Chapter 378 of the Laws of Zambia, the Office of the Auditor General had been engaged in the process of engaging external audit services.

In this regard, the Institute had undertaken to compile a report on the financial statements for the years ending 31st December, 2012, 2013 and 2014 with the External Auditors.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Institute to prepare the financial statements in question as prescribed by regulations and urges the Secretary to the Treasury to ensure that the outstanding Financial Statements are prepared without any further delay. Your Committee, further, urges the Secretary to the Treasury to caution the Board and management of the Institute to avoid the recurrence of this serious breach of financial regulations. Your Committee awaits a progress report.

- **National Heritage Conservation Commission**

The Secretary to the Treasury submitted that the treasury had noted the failure to submit the audited financial statements for the years 2007 to 2014 by the above institution with regret. In light of the above, the treasury would ensure that the concerned Controlling Officer executed performance contracts with the Board of Directors of the above Institution with the production of audited financial statements as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee observes that the failure to produce financial statements at the Commission can be attributed to poor performance by management which is unacceptable. Your Committee therefore, urges the Secretary to the Treasury to work with the Board and institute disciplinary action against the erring officers. Your Committee further urges the Secretary to the Treasury to ensure that the Financial Statements are expeditiously completed and submitted to the Office of the Auditor General for verification. A progress report will be awaited by your Committee.

- **Citizenship Economic Empowerment Commission**

The Secretary to the Treasury informed your Committee that the treasury had noted the failure to submit the audited financial statements for the years 2013 to 2014 by the above Institution with regret. In light of the above, the treasury would ensure that the concerned Controlling Officer executed performance contracts with the Board of Directors of the Institution with the production of audited financial statements as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee observes that the failure to produce financial statements at the Commission can be attributed to poor performance by management which is unacceptable. Your Committee therefore, urges the Secretary to the Treasury to work with the Board and institute disciplinary action against the non performing officers. Your Committee, further, urges the Secretary to the Treasury to ensure that the statements are expeditiously completed and submitted to the Office of the Auditor General for verification. A progress report will be awaited by your Committee.

- **Zambia Public Procurement Authority**

The Secretary to the Treasury reported that the treasury had noted the failure to submit the audited financial statements for the years 2013 to 2014 by the Institution with regret. In light of the above, the Treasury would ensure that the concerned Controlling Officer executed Performance Contracts with the Board of Directors of the above institution with the production of audited financial statements as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee observes that the failure to produce financial statements at the Commission can be attributed to poor performance by management which is unacceptable. Your Committee therefore, urges the Secretary to the Treasury to work with the Board and institute disciplinary action against the non performing officers. Your Committee further urges the Secretary to the Treasury to ensure that the statements are expeditiously completed and submitted to the Office of the Auditor General for verification. A progress report will be awaited by your Committee.

- **State Lotteries Board**

The Secretary to the Treasury submitted that the above Institution became insolvent and had since been wound up.

Committee's Observations and Recommendations

Your Committee regrets that the State Lotteries Board is in receivership, thereby, failing to produce audited Financial Statements. Your Committee urges the Secretary to the Treasury to ensure that all necessary procedures for winding up are strictly adhered to. Your Committee will await a progress report on the winding up process.

- **Zambia Institute of Mass Communication (ZAMCOM)**

The Secretary to the Treasury informed your Committee that the Institution was lagging behind in producing audited Accounts, as far back as 2008. Therefore, on 27th March, 2015, ZAMCOM requested the Auditor General for authority to engage a private Auditor and on 8th April, 2015, the Auditor General guided ZAMCOM and authorised the Institute to engage a private Auditor.

Your Committee was informed that ZAMCOM submitted that, as directed by the Auditor General, ZAMCOM submitted both the engagement and management letters for the audit of 2013 and 2014 to the Auditor General. Further, ZAMCOM also submitted the audited Accounts for 2008 to 2012.

Committee's Observations and Recommendations

Your Committee resolves to keep the matter open until the all the audited financial statements for the period under review are submitted to the Officer of the Auditor General for verification. In this regard, a progress report will be awaited by your Committee.

- **Independent Broadcasting Authority**

The Secretary to the Treasury reported that the Authority was operationalised in 2013 and its operations were being facilitated by the Ministry of Information and Broadcasting until July 2013, hence, the Authority was audited under the auspices of the Ministry.

On 10th June, 2014, the Director General for Independent Broadcasting Authority requested the Auditor General for an audit. However, the Auditor General was currently auditing the Authority in 2016.

Committee's Observations and Recommendations

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

- **Food Reserve Agency**

The Secretary to the Treasury submitted that the treasury had noted the failure to submit the audited financial statements for the years 2009 to 2014 by the Agency with regret. In light of the above, the treasury would ensure that the concerned Controlling Officer executed performance contracts with the Board of Directors with the production of audited financial statements as one of the key performance indicators.

However, the Agency had engaged PKF Chartered Accountants as its Auditors. So far, the 2009 and 2010 financial statements had been prepared, while the statements for 2011 up to 2014 were currently being worked on.

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 Agency. Your Committee urges the Secretary to the treasury to insist that Financial Statements be produced on time and that the process of submitting those outstanding to the Office of the Auditor General for verification be expedited. A progress report will be awaited by your Committee.

- **Livestock Development Trust**

The Secretary to the Treasury informed your Committee that the Board of Trustees engaged a new Auditor after the first one's tenure of office went beyond five years. In this regard, the change of Auditors from Ernest and Young to Grant Thornton affected the production of the Audited Financial Statements because the new Auditor needed time to understand the type of institution to be audited.

Your Committee was further informed that the Livestock Development Trust was expected to receive the audited financial statements up to 31st December, 2015 by the end of May, 2016 when the External Auditor was expected to finalise the draft financial statements which would later be approved by the Board of Trustees.

In order to be current and comply with the requirements, the Livestock Development Trust management had extended the financial year to be audited to include 31st December 2015. Grant Thornton had been informed and had accepted the assignment, and the year was included in their work schedules.

Going forward, management had put in place plans to post accounting records for the year 2016 so that by September 2016, the Trust could conduct an interim audit which would help it conclude and produce audited financial statements for 2016 in good time. This would help the Trust to be current in order for them to prepare and implement the five year strategic plan.

Committee's Observations and Recommendations

Your Committee notes the efforts made by management at the Livestock Development Trust and urges the Secretary to the Treasury to ensure that the Trust is current with the preparation of the audited financial statements by the end of May, 2016, as assured. Your Committee will await a progress report on the matter.

- **Cotton Board of Zambia**

The Secretary to the Treasury reported that the Cotton Board of Zambia did not have an operational Board of Directors in place for the past three years to approve audited financial statements and assist in the authorisation or engagement of Auditors once tenure expired or when need arose. This led to delays in the engagement and approval of financial statements over the years.

The Cotton Board wrote to the Auditor General to assist in the appointing of an external auditor to carry out the audit of the year ended 31st December, 2014. The Auditor General's Office in February, 2015 responded to the request and provided a list of six audit firms that the Board could contact to submit proposals for the vetting process. In view of the delays regarding this procedure, the Cotton Board sought authority from the Auditor General to

engage the previous auditor to carry out the audit for the period ended 31st December, 2014. Approval was only given in October, 2015 and the process of re-engagement started. The Board went through the planning and commencement stage of the audit and due to the industrial break in December, 2015, further work only begun in January, 2016.

Your Committee was informed that the audit was currently underway and yet to be completed. The Board was working on the audit and any adjustments recommended on the 2014 Trial Balance to ensure that the smooth transition of the audit was finalised.

Committee's Observations and Recommendations

Your Committee, while appreciating the submission by the Secretary to the Treasury, finds it unacceptable for the Cotton Board of Zambia to operate without a Board, thereby affecting its operations. Your Committee, therefore, urges the Secretary to the Treasury to impress upon the appointing authorities the need for all State owned enterprises and statutory bodies to have functional boards in place to not only assure good corporate governance but also guarantee the effective operations of these institutions. Your Committee further urges the Secretary to the Treasury to ensure that the audited financial statements for the period under review are expeditiously prepared and availed to the Office of the Auditor General for verification. A progress report will be awaited by your Committee.

- **Tobacco Board of Zambia**

The Secretary to the Treasury submitted that the delay in the submission of audited Financial Statements had been due to manpower related challenges. The Accountant passed away towards the end of 2014 and the Board only managed to replace him towards the end of 2015.

Going forward, the accounting team had started working on the Financial Statements for the years ended 2014 and 2015. The procurement process was currently in motion to identify Auditors for the task. These would be engaged to audit both the 2014 and 2015 financial statements.

Committee's Observations and Recommendations

Your Committee questions the commitment of the management of the Tobacco Board of Zambia towards the preparation of financial statements as another qualified Accountant should have been appointed immediately following the demise of the previous office holder to avert this serious breach of audit requirements. Your Committee urges the Secretary to the Treasury to closely monitor the situation in order to avert a recurrence of such a lapse and ensure that the Tobacco Board of Zambia is up to date with the audited financial statements. Your Committee resolves to await a progress report on the matter.

- **Cotton Development Trust**

The Secretary to the Treasury informed your Committee that due to limited resources and inadequate funding, the Cotton Development Trust had been experiencing financial challenges since 2008 which almost led to the collapse of the Institution in 2011/12 and 2013 as a result of the accumulated bills and statutory obligations. A particular case was cited where the Institution was unable to pay its staff salaries and wages for the period May 2011 to April 2012. This led to high staff turnover.

In addressing the above challenges, the Institution had registered and protected all its three cotton varieties so that users could pay seed royalties to the Trust. With added income from royalties, it was envisaged that the Trust would be able to sort out most of its above stated challenges. The Trust had also scaled up in the commercial production of maize, cotton and

soya beans to supplement the inadequate funding and its limited resources. With these measures in place, the Institution was currently able to pay salaries and wages as they fell due every month and on time. The staff salary and wage arrears had also been addressed.

Your Committee was informed that the Cotton Development Trust management made an assurance that it remained committed to submitting the audited financial statements within the second quarter of 2016 (April and May) as the expected harvest and picking up of crop would enable the Trust raise more income to pay the Auditors.

Committee's Observations and Recommendations

Your Committee notes the efforts that are being made to bring the institution up to date with the preparation of the audited financial statements but is concerned that the Financial Statements in question will not be prepared on time given the unreliable revenue base of the Institution and consequently its inability to raise enough income to engage the External Auditors. In this regard, your Committee strongly urges the Secretary to the Treasury to assist the Institution to resolve the matter. A progress report will be awaited by your Committee.

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

The Secretary to the Treasury reported that the treasury regretted the failure to submit the audited financial statements for the years 2009 to 2014 by NCZ with regret. In light of the above, the treasury would ensure that the Industrial Development Corporation (IDC) executed performance contracts with the Board of Directors of the above Institution with the production of audited financial statements as one of the key performance indicators.

Nonetheless, the financial statements were submitted to Price Water House Coopers on 18th February, 2016 for audit and Price water house coopers had indicated that audited financial statements would be produced by the end of March, 2016.

Committee's Observations and Recommendations

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

- **Chambeshi Water and Sewerage Company**

The Secretary to the Treasury submitted that the treasury regretted the failure by the Company to submit the audited financial statements for the years 2012 to 2014. In light of the above, the treasury would ensure that the concerned Controlling Officer executed performance contracts with the Board of Directors of the above Institution with the production of audited financial statements as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee observes that the failure to produce financial statements at the Company can be attributed to poor performance by management, which is unacceptable. Your Committee, therefore, urges the Secretary to the Treasury to work with the Board and institute disciplinary action against the all non performing officers. Your Committee further urges the Secretary to the Treasury to ensure that the financial statements are expeditiously finalised and submitted to the Office of the Auditor General for verification. A progress report will be awaited by your Committee.

- **Luapula Water and Sewerage Company**

The Secretary to the Treasury informed your Committee that the Luapula Water and Sewerage Company had prepared the financial statements for the period 2008 to 2011. However, these statements had not yet been audited due to the Company's inability to raise the necessary audit fees. Preparation of the statements for the period 2012 to 2014 was in progress. The delay for the completion of the 2012 to 2014 financial statements had been due to high turnover in the Finance Department. During that period, three Finance Directors had left the company and this negatively affected the process of preparing the financial statements.

As a way forward, the Treasury would ensure that the concerned Controlling Officer executed performance contracts with the Board of Directors, with the production of audited financial statements as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee finds the Company's failure to pay its auditors unacceptable and urges the Secretary to the Treasury to prevail upon the management of the Company to regularise the financial operations of the Company without further delay. The Secretary to the Treasury is further urged to ensure that qualified accounting personnel are employed in order to expedite the process of preparing the financial statements. In this regard, your Committee will await a progress report on the finalisation of all the necessary reports for the period under review.

- **North-Western Water and Sewerage Company**

The Secretary to the Treasury reported that the audited financial statements for North Western Water and Sewerage Company were ready and available for audit verification.

Committee's Observations and Recommendations

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

- **Western Water and Sewerage Company**

The Secretary to the Treasury submitted that the audited Financial Statements for Western Water and Sewerage Company for the financial years 2012 and 2013 were ready and available for audit verification. The Financial Statements for the year 2014 were audited and were awaiting Board approval.

Committee's Observations and Recommendations

Your Committee will keep the matter open until all the audited financial statements for the period under review are submitted to the Officer of the Auditor General for verification. A progress report will be awaited by your Committee.

- **National Housing Authority**

The Secretary to the Treasury informed your Committee that the financial statements for National Housing Authority (NHA) for the years 2012, 2013 and 2014, were currently being audited by the Office of the Auditor General and would be submitted as soon as the process was completed.

Committee's Observations and Recommendations

Your Committee notes the response, and resolves to close the matter following audit verification.

- **Zambia Education Publishing House (ZEPH)**

The Secretary to the Treasury regretted the failure by ZEPH to submit the audited financial statements for the years 2009 to 2014. In light of the above, the treasury would ensure that the Industrial Development Corporation (IDC) executed performance contracts with the Board of Directors of the above institution with the production of audited financial statements as one of the key performance indicators.

Committee's Observations and Recommendations

Your Committee strongly urges the Secretary to the Treasury to ensure that performance contracts through the Industrial Development Corporation are put in place without further delay and that the Financial Statements under review, for the Zambia Education Publishing House are expeditiously completed and submitted to the Office of the Auditor General for verification. A progress report will be awaited by your Committee.

- **National Youth Development Council (NYDC)**

The Secretary to the Treasury submitted that the financial statements for the years ended 2006 to 2014 were prepared. However, they could not be submitted to the Minister because the financial statements for 2006 and 2007, were not signed due to the non-existence of the Board. Further, the draft financial statements were presented to the Auditors but were not accepted on grounds that they were not signed. However, the NYDC Council had since submitted the financial statements and books of accounts.

Committee's Observations and Recommendations

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

- **Zambia Railways**

The Secretary to the Treasury submitted that the audited financial statements for the years 2012, 2013, 2014 and 2015 were, currently completed and were awaiting adoption by the ZRL Board which would sit on 23rd March, 2016. However, the Board had already approved the 2012 and 2013 financial statements. Further, the management letter for the above accounts from External Auditors would be availed after approval by the Board.

Committee's Observations and Recommendations

Your Committee notes the response, but resolves to await a progress report on the finalisation and verification of all the audited financial statements.

- **TAZAMA**

The Secretary to the Treasury informed your Committee that the delay in the preparation of the financial statements was as a result of the loss of valuable documents due to an exceptional flood incidence that occurred at the Tanzania Regional Offices in March, 2014. All the documents and assets were submerged in water and a lot of effort and time

was spent to recover data and information, required to prepare final accounts. The Company has put in place the following remedial measures:

- i. move in phases its Tanzania Regional Office from where it was currently situated in an area susceptible to flooding to higher ground at its Kigamboni Pump Station; and
- ii. put in systems to reduce time for production of financial statements to three months. The interim audit for the financial year ended 31 March, 2014 had been concluded with final audit ending June, 2015. Approved financial statements were expected to be ready by August, 2015.

Committee's Observations and Recommendations

Your Committee is disappointed that the Company does not have a back up information system and is very vulnerable to loss of its critical information. Your Committee strongly urge the Secretary to the Treasury to work closely with the Board and management of the Company to resolve this issue. Your Committee will await a progress report on the preparation and verification of the accounts.

General Findings

The Secretary to the Treasury responded to the salient issues that were highlighted across the eighteen selected parastatal bodies and other statutory institutions as set out below.

i. Weaknesses in Corporate Governance

This matter was being addressed through the establishment of the Industrial Development Cooperation (IDC). In order to address weaknesses in corporate governance, the Industrial Development Corporation (IDC) had a mandate to ensure that the Boards of Directors for all the State Owned Enterprises (SOEs) under them were put in place. IDC was currently reviewing the current Boards of Directors in all the SOEs under them to ensure that effective Boards were put in place. Further, for all SOEs and statutory bodies that were not under the IDC, the Secretary to the Treasury had requested all Controlling Officers to submit the status of the Board of Directors under their jurisdiction to ensure that the Boards were immediately put in place in all the institutions where there were no effective and functional Boards. This would promote good corporate governance in the management of SOEs and other statutory institutions.

Committee's Observations and Recommendations

Your Committee appreciates the efforts made by the treasury to the SOEs and statutory institutions in the quest to ensure good corporate governance. Your Committee however, notes that no time frame has been given for compliance with the directive. In light of this, your Committee recommends that the Government must ensure that all SOEs and statutory institutions conclude the establishment of the Boards by the end of the second quarter of 2016. This will enhance good corporate governance, which in turn will result in enhanced efficiency and accountability. Your Committee will await a progress report.

ii. Weaknesses in the implementation of Information Communication Technology (ICT) Systems

The Secretary to the Treasury informed your Committee that the Auditors' comments regarding the above matter were noted. In order to correct the issues raised in the report, the Government had established a division called Centre of Excellence under the

Office of the President which would address all Information Communication Technology (ICT) policies in the Government institutions.

Committee's Observations and Recommendations

Your Committee strongly urges the Government to ensure that the newly established division expedites the process of ensuring that ICT problems are eradicated in all the Government institutions. A progress report will be awaited by your Committee.

iii. Failure to Produce Financial Statements

The Secretary to the Treasury submitted that the Treasury was concerned with the above trend as the number of Parastatal Bodies who failed to produce financial statements slightly went up from 20 in 2013 to 25 in 2014. As explained above, the establishment of IDC would help to ensure that all the SOEs under them were given performance contracts with the production of financial statements as one of the key performance indicators. Furthermore, for statutory bodies and SOEs under line Ministries, their Controlling Officers would enter into performance contracts with the Boards of Directors.

The Secretary to the Treasury further reiterated that the Government appreciated the importance of Financial Statements as it was one of the ways the shareholders and stakeholders would know about the performance and profitability of the company.

Committee's Observations and Recommendations

Your Committee observes that by and large, the failure by the parastatal bodies and other state owned enterprises to prepare financial statements is attributed to the laxity of the accountants employed in these institutions. Your Committee further observes that the failure to prepare these statements is also an indication that the Boards appointed to oversee the operations of these institutions are failing in their duties. In this regard, your Committee strongly urges the Secretary to the Treasury through the Industrial Development Corporation to ensure that performance contracts are put in place in an effort to curb this weakness. The matter will be kept in view in future audits.

iv. Poor Financial and Operational Performance

The Secretary to the Treasury submitted that this had been an area of great concern to the Government as most of parastatal bodies and other statutory institutions did not declare dividends to the treasury despite being funded. Therefore, the treasury through the Industrial Development Cooperation (IDC), intended to include performance indicators for management teams, which would address matters of poor financial performance.

Committee's Observations and Recommendations

Your Committee observes that poor leadership often results in poor financial results and these poor financial results can threaten the existence of the state owned enterprises. In this regard, your Committee encourages the inclusion of performance indicators for management teams and urges the Secretary to the Treasury to expedite this process in an effort to improve the poor financial and operational performance in the parastatal bodies and other statutory institutions. The Secretary to the Treasury is also urged to ensure that there is transparency in the appointment of management in these institutions in order to guarantee the effectiveness of the management teams. Your Committee will await a progress report on the implementation of performance indicators for management teams

v. Lack of Title Deeds for Properties that should be Owned by various Institutions

The Secretary to the Treasury informed your Committee that the Report of Auditor General correctly stated that some statutory bodies did not have title deeds. As a corrective measure the concerned institutions had since engaged the Ministry of Lands, Natural Resources and Environmental Protection to process the title deeds.

Committee's Observations and Recommendations

Your Committee observes with concern that most of the parastatal bodies cited in the Auditor General's Report under review, do not have legal title to the properties under their custody. In this regard, your Committee strongly urges the Secretary to the Treasury and the Commissioner of Lands to coordinate and ensure that all the properties in question are issued with title deeds without further delay. Your Committee resolve to await a progress report on the matter.

vi. Weaknesses in Contract Management

The Secretary to the Treasury reported that the Treasury noted the above matter and would ensure that all statutory institutions and SOEs adhered to the provisions of the Public Procurement Act. Further, the management of contracts would be part of the key performance indicators in the performance contracts. Further, the decentralisation of the procurement system through the issuance of circular No.1 of 2013 by the Zambia Public Procurement Authority (ZPPA) was part of the measures to ensure the speedy implementation of projects.

Committee's Observations and Recommendations

Your Committee expresses concern that the Auditor General has continued to report weaknesses in contract management which, in most cases, facilitates abuse of office and corruption in these institutions. Your Committee is particularly concerned with the loss of public resources in the process. In this regard, the Secretary to the Treasury is strongly urged to ensure that Controlling Officers and management in statutory and state owned enterprises are oriented with the Zambia Public Procurement Act and Regulations. Your Committee will await a progress report on the matter

vii. Failure to Remit Statutory Contributions

The Secretary to the Treasury submitted that the treasury noted the above matter and would ensure that the performance contracts that Controlling Officers would execute with the various Boards falling under them included adherence to all statutory obligations as part of the key performance indicators.

Committee's Observations and Recommendations

Your Committee observes with concern that the failure by the institutions to remit the statutory contributions as required by law denies organisations such as the Zambia Revenue Authority and the National Pension Scheme Authority the opportunity to invest the contributions as well as discharge their mandates. In this regard, your Committee sternly urges the Secretary to the Treasury to ensure that statutory obligations are honoured on time by all statutory institutions and state owned enterprises.

viii. Irregular Payments

The Secretary to the Treasury informed your Committee that the above matter had been noted and the Controlling Officers would be encouraged to ensure that the Boards of Directors under their portfolios signed performance contracts which would incorporate financial management as one of the key performance indicators.

In addition, the payment procedures should be adhered to as per provisions of the Financial Regulations. In this regard, necessary disciplinary action would be taken against officers involved in irregular payments to deter others from perpetuating such vices in future.

Committee's Observations and Recommendations

Your Committee expresses concern that this matter has remained unresolved for too long and that the Government has continued to lose colossal sums of money as a result of these irregular payments. Your Committee urges the Secretary to the Treasury to take concrete and firm steps to stem this weakness. A progress report will be awaited by your Committee.

CONSIDERATION OF SUBMISSIONS FROM VARIOUS CONTROLLING OFFICERS

THE COPPERBELT UNIVERSITY

Query Accounting and Other Irregularities

Paragraph 6

7. An examination of accounting and other relevant records maintained at the Copperbelt University revealed accounting and other irregularities, to which the Controlling Officer responded as set out below.

a) Financial Performance – Statements of Comprehensive Income

i. Losses - K163,593,000

The Controlling Officer responded that the state of affairs had been and continued to be a result of underfunding which in turn had given rise to negative financial results. Your Committee was informed that management expected that once the funding challenges already explained to the Government were addressed, the institution would report positive subsequent financial results.

In addition, management was currently implementing various measures aimed at turning the situation around. One of the measures being implemented was the enhancement of student numbers in evening and distance programmes for both undergraduate and postgraduates.

Additionally, CBU had also embarked on robust cost reduction strategies to save costs in some identified areas.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to work closely with the University in urgently developing a robust survival strategy as a long term solution for the funding challenges affecting the Institution. The Controlling Officer is further urged to ensure that the measures that have been put in place to enhance the profitability of the University yield actual

results in order to avert a situation where the University becomes insolvent and fails to deliver the service for which it is created. Your Committee will await a progress report on the matter.

ii. Staff Costs to Income Ratio

The Controlling Officer explained that the high staff costs incurred during the period under review were primarily due to the implementation of the new Government Pay Policy in 2012.

He explained that the new Government Pay Policy provided for the harmonisation of salaries and conditions of service commencing in 2012. The process involved determining levels of vertical and horizontal harmonisation of salaries and conditions of service. In addition, identified remunerative allowances were collapsed in the basic pay. The new Policy provided for payment of housing allowance at twenty percent and transport allowance at ten percent across the board. Effectively, staff cost went up by thirty percent. Prior to this development, these allowances were not earned by all employees.

Your Committee was further informed that institutions were advised that the Government would fund the resultant cost of the harmonisation. In this regard, the Government funded the Institution K44 million Kwacha for Phase 1 in 2012. Unfortunately, no funding towards the cost of the harmonisation was availed for subsequent years, whereas salaries remained at the harmonised levels. This resulted in a higher deficit for the institution as salaries and conditions implemented in 2012 could not be reviewed downwards.

The institution had been pursuing the issue of funding from 2013 with relevant ministries in conjunction with the University of Zambia and Mulungushi University would be determined soon.

On the other hand, staff costs reported during the period under review included provisions towards retirees' benefits which automatically went up following the harmonisation process, as well as accrued interest and penalties for statutory debt. Consequently, more representative ratios would be cash cost as opposed to accrued costs. This was calculated in the table below.

	Yr to Dec 2014	Yr to Dec 2013	Yr to 31/03/2012
Income(K'000)	234,945	238,353	210,587
Total Staff costs(K'000)	285,460	234,443	182,957
Provisions/Penalties	(89,043)	(73,391)	(52,797)
Total Staff costs(K'000)	196,417	161,052	130,160
Staff Cost as % of Revenue	84%	68%	62%

Committee's Observations and Recommendations

Your Committee observes that the vertical and horizontal harmonisation of salaries by the Government did not take into account the financial ramifications on the affected institutions. This has resulted in a rapid increase of financial obligations of these institutions. Your Committee, therefore, recommends that, in future, such undertakings must only be implemented after thorough scrutiny of the financial implications. In addition, the budgets of

the various institutions must be commensurate with anticipated financial outcomes in order to reduce the misapplication of funds by Government spending agencies. Your Committee awaits a progress report on the matter.

b) Financial Performance – Statements of Financial Position

i. Liquidity - Negative Working Capital

The Controlling Officer responded that it was a fact that the institution had a negative working capital as reported in the financial statements. This implied that the institution was not able to pay its current liabilities from its current assets. It was also worth noting that included in the current liabilities were accrued statutory obligations including penalties and interest which had remained unpaid overtime, with Zambia Revenue Authority (PAYE) being owed since 2004, as could be seen from the table below:

	Principal	Penalty/ Interest	Total K'000
Year 2012			
ZRA PAYE	179,344	131,638	310,982
NAPSA	6,872	11,479	18,352
Superannuation	513		513
Total	186,730	143,117	329,848
Year 2013			
ZRA PAYE	235,341	146,952	382,294
NAPSA	8,477	17,941	26,418
Superannuation	92		92
Total	243,910	164,894	408,804
Year 2014			
ZRA PAYE	296,279	171,329	467,609
NAPSA	17,398	29,578	46,977
Superannuation	574		574
Total	314,252	200,908	515,160

In addition, the current liabilities included provisions for the retirement benefit gratuities for employees who had reached their normal retirement age as could be seen from the table below, but unfortunately could not be paid off due to funding challenges:

	2014	2013	2012
Current assets			
Inventories	2,196	2,576	1,511
Trade and other receivables	87,575	79,395	50,700
Held to maturity financial assets	10,239	-	20,000
Cash and cash equivalents	11,937	13,981	9,008
	<u>111,947</u>	<u>95,952</u>	<u>81,219</u>
Current liabilities			
Short term portion interest bearing loan	4,588	1,135	-
Bank overdrafts	-	2,550	429
Trade and other payables	44,058	14,780	10,906
Statutory deductions	515,160	408,804	329,848
Provision for contract gratuity and litigation	<u>200,070</u>	<u>151,356</u>	<u>109,380</u>
	<u>763,876</u>	<u>578,625</u>	<u>450,563</u>

Your Committee was informed that this state of affairs had been and continued to be a result of underfunding, which in turn had given rise to the ever growing indebtedness to statutory institutions, in particular ZRA. The Controlling Officer submitted that this situation would only be resolved if the institutions were funded gross personal emoluments. He informed your Committee that the three public universities in conjunction with the line Ministry had submitted recommendations to the Government on the possible remedial measures to address the funding constraints and indebtedness. It was envisaged that once implemented, these measures would give relief to the University's financial challenges and address the question of indebtedness to ZRA as well as enabling the institution to service its trade payables.

Committee's Observations and Recommendations

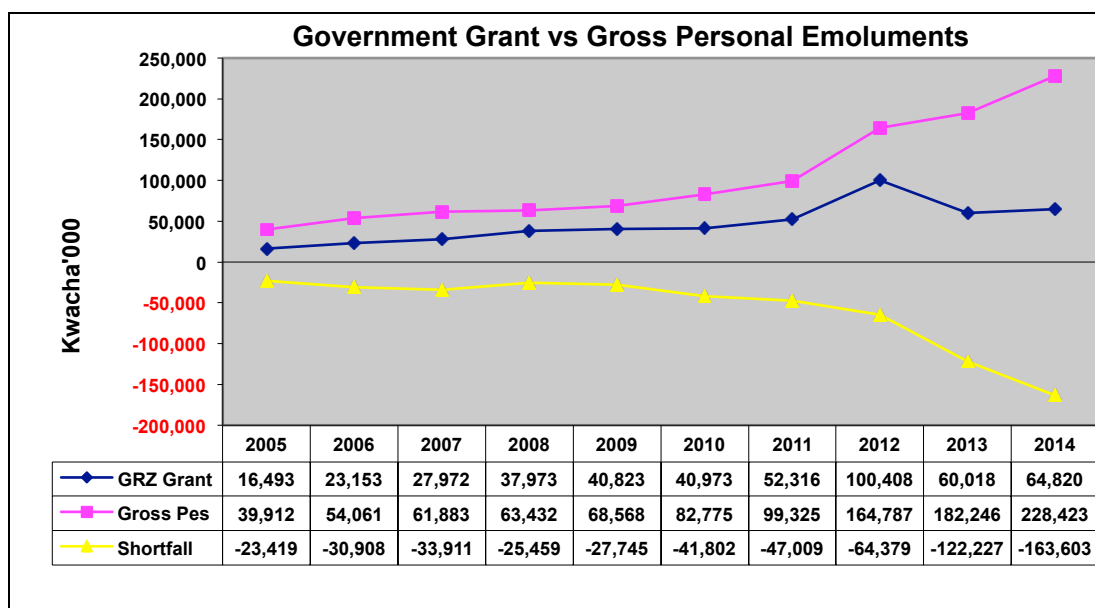
Your Committee observes that the indebtedness of the public universities has been existent for far too long. It observes that this status has contributed to the continued disruptions to the university calendar caused by both staff and students. In view of this serious concern, your Committee strongly recommends that the Government must initiate and implement a robust bail-out plan for the public universities in order to facilitate a self sustaining model that will enable the public universities to not only be self reliant but also self accounting. Your Committee will await a progress report.

ii. Failure to Meet Statutory Obligations

The Controlling Officer responded that it was true that the Institution did not remit statutory contributions to the Zambia Revenue Authority (ZRA) during the period under review.

However, commencing January, 2016, management had been remitting contributions to the National Pensions Scheme Authority (NAPSA) together with monthly net salaries, except for arrears of K16.5 million which had been frozen up to 31st December, 2014. Efforts to dismantle the said arrears commenced in February 2016, with an initial payment of K406, 174.45.

Your Committee was further informed that the failure to meet the statutory obligations had been and continued to be on account of under-funding. The Controlling Officer further submitted that management expected gross funding towards personal emoluments (PEs) as per Government White Paper of 1989. Unfortunately, this had not been the case as demonstrated for a ten year period, in the graph he submitted below.



Your Committee further learnt that management was committed to ensuring that statutory obligations were remitted in full once the institution was funded gross amounts to meet personal emoluments.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer and the Secretary to the Treasury to work together with the University management to find a lasting solution to the matter. A progress report will be awaited by your Committee.

c) Weaknesses in Managing Procurement of Works, Goods and Services

i. Failure to Produce a Procurement Plan

The Controlling Officer acknowledged the need for an annual procurement plan and responded that the Procurement Unit had been directed to institute measures to ensure that an annual procurement plan was available commencing with the financial year 2016. Your Committee was further informed that the procurements for the institution were currently processed through the Procurement Committee.

Committee's Observations and Recommendations

Your Committee observes that while it is appreciated that the establishment of the annual procurement plan is a positive move in fostering accountability, there is need to actualise this document by ensuring that every objective is implemented to the letter. Your Committee, therefore, implores the Institution to ensure that the annual procurement plan to be initiated is fully implemented in order to make the procurement process to be as transparent as possible

ii. Installation of the Multi-Purpose Marquee and Associated Works

• Failure to Prepare a Project Procurement Plan

The Controlling Officer informed your Committee that management acknowledged the need for individual procurement plans, particularly for high value capital items. He further informed your Committee that approval was granted by the Procurement Committee.

Consequently, the Procurement Unit had been mandated to ensure that individual procurement plans were prepared for each individual capital procurement requirement in accordance with Regulation 36 of the Public Procurement Regulations of 2011.

Committee's Observations and Recommendations

Your Committee expresses concern that the Public Procurement Regulation No. 36 (1) was ignored and urges the Controlling Officer to institute disciplinary action against all erring officers immediately. Your Committee awaits a progress report on the matter.

Questionable Use of Limited Bidding

The Controlling Officer informed your Committee that the multi-purpose marquee was procured through the limited bidding procurement method, which was a competitive method considering that more than one bidder was evaluated, pursuant to Regulation 14(a) and (c) of the Public Procurement Regulations of 2011, which stipulated that this method may be used where “ the goods, works or services are only available from a limited number of suppliers” and “ the requirement is of a specialised nature ”.

In this regard, the marquee under reference, in dimensions of 50m x 80m, with a seating capacity of 4,000, was of a specialised nature. After undertaking an analysis of the supply market, the University concluded that the item was only available from the manufacturers, and that it was prudent to avoid an escalation of costs by eliminating middlemen from the process. The Controlling Officer further submitted that three quotations were obtained from three manufacturers from China, hence satisfying the conditions for limited bidding. He further explained that the use of Limited Bidding in selecting the contractor to undertake site preparatory works at the marquee site was based on Regulation 14(b) of the Public Procurement Regulations of 2011, which stipulated that this method could be used where “there is an urgent need for the goods, works or services and engaging in open bidding would be impractical”.

In this regard, the works under reference were urgent, given that it was prudent to install the marquee immediately upon delivery, particularly considering that the item was ready for dispatch from China at the time of going to tender, leaving very little time for site preparation, thereby rendering the use of open bidding impractical, and, as a consequence, satisfying the conditions for limited bidding.

In the case of the air conditioners, the use of limited bidding was also based on Regulation 14(a) of the Public Procurement Regulations of 2011, considering that the compatible units for the non-block work structure were only available from a limited number of suppliers and manufacturers, hence satisfying the conditions for limited bidding.

Furthermore, the use of limited bidding in the procurement of the chairs for the multi-purpose marquee was based on Regulation 14(b) of the Public Procurement Regulations of 2011, given that the items were urgently required. Your Committee was informed that the facility was urgently required to meet the following needs:

- i) to be used as reading space for over 6,000 students as the library could only accommodate 314 student. Previously, most students would use the University grounds and study under the trees until two students were bitten by snakes;
- ii) to be used for early and scheduled sessional examinations, especially for bigger first year classes that needed to write examinations at the same time under same conditions; and

- iii) to be used for graduation ceremonies in view of the increased number of grandaunds over the years, to cater for the graduating students, and the invited guests especially that the facility could seat 4,000 people.

Committee's Observations and Recommendations

Your Committee is not satisfied that the marquee under question was of such a specialised nature as to justify the use of limited bidding and the cost incurred. Your Committee wonders why the University did not consider using the resources to construct a more permanent multipurpose hall as opposed to erecting a marquee. In this regard, your Committee strongly urges the Controlling Officer to sternly caution management against such bad decisions and urge them to be more prudent in their approach to financial management. The matter was, however, recommended for closure subject to audit verification.

Failure to State Specifications for the Marquee

The Controlling Officer submitted that Management acknowledged the need for detailed specifications. He, however, informed your Committee that, in view of the specialised nature of the item, the early supplier involvement approach was adopted for this particular procurement, and the resultant specifications provided by the supplier met the University's expectations. Your Committee was informed that this formed the basis to proceed with the procurement.

Committee's Observations and Recommendations

Your Committee is concerned that the University management flouted public procurement guidelines by using specifications provided by the supplier and not the purchase requisition. In this regard, your Committee urges the Controlling Officer to initiate disciplinary action against all officers responsible for this blatant disregard of the law. Your Committee will await a progress report on the matter.

iii. Consultancy Contract for the Construction of the School of Medicine

The Controlling Officer responded that the contract for the consultancy services for the construction of the School of Medicine was awarded to the Institution's Practice Office. The Practice Office was established to undertake external consultancies and was a registered office with the Zambia Institute of Architects and was, therefore, allowed to carry out consultancy works.

Your Committee was informed that the Office was supposed to charge professional fees as prescribed by the Institute. However, the Institution used the services of the Practice Office primarily to cut down on the cost as fees charged were negotiated. The Controlling Officer further submitted that the consultancy services provided by the Architects, Quantity Surveyors and Engineers were dictated by the regulatory authority. He explained that a project of this magnitude would attract the follows fees:

- Architectural works , six percent;
- Quantity Surveying Services – three percent; and
- Engineering Services (civil mechanical and electrical) –five percent

Effectively, the consultancy fees would have been fourteen percent of the contract sum, amounting to K5, 086,987.47. However, the Practice Office being an entity within the University agreed to charge ten percent instead of the prescribed fourteen

percent. Further, management negotiated with the Practice Office that only thirty percent of the total fees would be paid to the resource persons. The Controlling Officer further informed your Committee that management acknowledged members of staff. To this effect, policies relating to the matter under review would be drawn within the second quarter of 2016.

Committee's Observations and Recommendations

Your Committee cautions the Copperbelt University which is a leading business University in the country, to be exemplary in such corporate governance matters. Your Committee further urges the Controlling Officer to ensure that the draft procedures are submitted to the Office of the Auditor General not later than August, 2016 and requests the Ministry of Higher Education to ensure that such procedures are put in place in all public universities and are consistent with public procurement procedures.

iv. Unsupported Payments K1,400,181

The Controlling Officer submitted before your Committee that the payments should have been supported in particular with invoices; goods received notes and local purchase orders as necessary, in compliance with the Institution's Financial Regulation No 6.5.7 which provides that:

'The procedures for making all payments shall be in a form specified by the Bursar. The Bursar is responsible for deciding the most appropriate method of payment. Suppliers should be instructed to submit invoices for goods or services to the Bursars' Department. Where approved for payment, invoices must be passed to the Accounts Payable department as soon as they have been authorised and input in the finance system. Payments will only be made by the Bursar against invoices that have been approved for payment by the appropriate procedures.

Payment in advance of the receipt of goods or services shall not be made except with the prior approval of the Bursar.

Use of copy invoices for payment should be avoided wherever possible. Where this is not possible copy invoices should be boldly marked 'COPY' and checked to ensure they have not already been passed for payment by matching against official order. Once verified, copy invoices will be authorised by the Bursar.

Approval of an invoice for payment will ensure that:

- 1) the goods have been received, examined and approved with regard to quality and quantity, or that service rendered or work done is satisfactory;*
- 2) where appropriate, the invoice is matched to the order;*
- 3) invoice details (quantity, price discount) are correct;*
- 4) the invoice is arithmetically correct; and*
- 5) the invoice has not previously been passed for payment.*

The Controlling Officer submitted that a scrutiny of the schedule provided by the Auditors showed that the bulk of the supporting documents referred to related to "sales receipts". It should, therefore, be noted that the University Financial Regulations recognised supplier or service provider invoices as the basis for payment as opposed to "sales receipts". In this regard, invoices, delivery notes and goods received vouchers in the case of the goods were submitted to the Auditors. Therefore all the necessary supporting documents as per the University Financial Regulation 6.5.7 were availed for scrutiny.

The Controlling Officer further informed your Committee that it seemed that the observation was in respect to the confirmation of the receipt of the payment by the beneficiary. That being the case, it should have then read as: “*Unconfirmed Receipt of payment*”. Your Committee was informed that the confirmation of receipt of the payment could be achieved by “*Creditors’ Circularisation*” as per normal audit procedure.

Committee’s Observations and Recommendations

Your Committee finds it unacceptable that evidence was not provided to the Auditors during the time of audit and urges the Controlling officer to institute disciplinary action against the responsible officers for this lapse. Your Committee further cautions the Controlling Officer to desist from providing evidence in retrospect. The matter is, however, recommended for closure subject to audit verification.

d) Irregular Implementation of New Conditions of Service

The Controlling Officer submitted before your Committee that management acknowledged that the Ministry of Labour and Social Security did not approve negotiated salaries and conditions of service for 2014, mainly due to conditions of service relating to internal retirement benefits. He explained to your Committee that the response from the Ministry of Labour and Social Security was as a result of consultative meetings on the matter. However, the negotiated salaries and conditions of service were approved by the Council as part of its mandate. In addition, the failure to implement the negotiated salaries and conditions of service resulted in industrial disharmony and the disruption of academic activities and the calendar. It was also worth noting that following the decision not to approve the 2014 collective agreements, both management and the unions consulted the Minister of Labour and Social Security on the implication for future negotiations. The Ministry guided that both parties could proceed with the 2015 negotiations even though the previous collective agreements were not approved.

The Controlling Officer further informed your Committee that at the time these conditions were agreed and implemented, salaries were low. However, over the years, the salaries had been improved, which in turn had and continued to impact on the accrued retirement benefits. Your Committee learnt that the situation had been compounded by the implementation of the vertical harmonisation of salaries and conditions of service in June 2012 as per revised Government Pay Policy. This was evidenced by the Ministerial Statement of 27 June, 2012.

In order to mitigate the ever growing indebtedness to members of staff, the public universities held several tripartite meetings in an effort to find a solution to the funding challenges and the ever increasing staff indebtedness. Further, a workshop to review pension schemes and internal retirement schemes was held at Ibis Gardens, Chisamba from 9th to 17th September 2012. Consequently, management was pursuing the possibility of converting the internal retirement scheme into a formal pension scheme for staff on permanent and pensionable terms of employment and arrange for an external gratuity scheme for staff on a fixed term contract.

Committee’s Observations and Recommendations

Your Committee expresses dissatisfaction at the University’s decision to proceed with implementing the conditions of service without the approval of the Ministry of Labour and Social Security.. In this regard, the Controlling Officer is sternly cautioned to always obtain authority on such matters to avoid unnecessary queries. Your Committee will await a progress report on the matter.

COMPETITION AND CONSUMER PROTECTION COMMISSION (CCPC)

Query Accounting and Other Irregularities

Paragraph 7

8. A review of accounting and other records for the Competition and Consumer Protection Commission (CCPC) carried out in October, 2015, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) **Non Remittance of Funds Held in Short Term Investment Accounts**

The Controlling Officer explained that the K11, 000,000 held in the investment account of the CCPC was for the construction of a new office complex for the Commission. The Commission was renting office accommodation at the Lusaka Main Post Office and this accommodation was insufficient and inappropriate. The Ministry of Commerce, Trade and Industry, therefore, wrote to the Secretary to the Treasury for authority to retain the funds for the construction of the CCPC offices. Taking into account that the issue of limited office accommodation was common to various statutory bodies, the Ministry was working towards the construction of an office complex for all statutory bodies. Your Committee was informed that the plans had been slowed down because of fiscal constraints. The Commission was, therefore, requested to hold on to the funds until such a time when the project could proceed. The Controlling Officer further submitted that the Ministry had engaged the Office of the Secretary to the Treasury on this matter.

Committee's Observations and Recommendations

Your Committee notes that the Secretary to the Treasury has on numerous occasions submitted to it on cash flow management measures which include discouraging institutions from holding on to funds that they have no immediate use of. Your Committee, therefore, requests the Controlling Officer to avail the letter from the Secretary to the Treasury authorising the Commission to retain the funds. A progress report will be awaited by your Committee.

b) **Unsupported Board Allowances**

The Controlling Officer submitted that the payments were made to the Board Members for the official engagements that they had performed on behalf of the Commission and not for the Board meetings. He explained that the Board members were paid 50 percent of the approved sitting allowance when undertaking approved assignments on behalf of the Commission.

Your Committee was informed that this was consistent with the section 10 (3) (c) of the First Schedule of the Competition and Consumer Protection Act, No. 24 of 2010, which empowered the Minister to determine allowances payable to Members of the Commission and was also specified in paragraph 5.20 (iii) of the Board Charter.

Committee's Observations and Recommendations

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

c) **Failure to Engage ZRA on Payment of Tax on Gratuity on behalf of Directors**

The Controlling Officer acknowledged that the Auditor's observation was correct. She informed the Committee that the Commission had since engaged the Zambia Revenue Authority and had paid part of the outstanding gratuity amounting to K129, 461.71 as at 4th

February, 2016. Your Committee was informed that the balance would be paid in the 2016 financial year.

Committee's Observations and Recommendations

Your Committee is dismayed at the violation of the provisions of the *Income Tax Act* by the Commission. It cautions the Controlling Officer that heavy penalties and fines due to default could be imposed on the Commission if this state of affairs continues and urges her to institute disciplinary action against all officers who are responsible for the breach.. In this regard, the Controlling Officer is cautioned to desist from contravening the *Income Tax Act*, which is a serious offence. She is further directed to ensure that the outstanding balance is settled without further delay. Your Committee will await a progress a report on the matter.

d) Unapproved Increase of Professional Allowance

The Controlling Officer informed your Committee that from January, 2014, these allowances were adjusted to K12, 180, K5, 500 and K3, 640 in accordance with the budget for 2014 that was approved during the 65th Board meeting held on 15th November, 2013. Your Committee was informed that the Board, during the same meeting, also approved the allowance of K5, 500 payable to the new position of Manager. The Commission in November, 2015, abolished the professional allowances when implementing the rationalised salaries in line with the recommendation made by the Public Service Management Division at Cabinet Office.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that allowances were increased without following correct procedures and Financial Regulations. Your Committee urges the Controlling Officer to institute necessary disciplinary action against all those responsible for this breach of Financial Regulations and to ensure that the rationalisation of salaries across all statutory bodies in her Ministry is correctly done. Your Committee will await a progress report on the matter.

e) Loans Exceeding Entitlements - K319, 247.

The Controlling Officer submitted that the loans amounting to K895, 135 were paid in accordance with the Board approved guidelines as opposed to the conditions of service. However, the Commission had taken note of the anomaly and would ensure that the subsequent loans were paid in accordance with the conditions of service.

Committee's Observations and Recommendations

Your Committee finds this unacceptable and strongly urges the Controlling Officer to strengthen internal controls so that such anomalies are promptly detected and rectified. The Controlling Officer is further urged to ensure that approvals by the Board are in line with approved conditions of service. The matter is, however, recommended for closure subject to audit verification.

f) Procurement of Vehicles Outside the Budget

The Controlling Officer informed your Committee that management had requested the Board for an upward adjustment to the 2014 budget for motor vehicles from K600, 000 to K1, 100,400. Approval was granted during the 69th Meeting of the Board.

Committee's Observations and Recommendations

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

g) Unfilled Position of Internal Auditor

The Controlling Officer submitted that it was a Board decision to outsource the internal audit services in line with the 2011-2016 Strategic Plan. This was also in line with the acceptable private sector practice. Your Committee was informed that the Board of Commissioners had since approved the management's request to employ an Internal Auditor with effect from 14th April, 2016. The first advertisement for the job appeared on 7th March, 2016, in the daily papers. This was in line with the recommendation by the Auditor at the time of the audit.

Committee's Observations and Recommendations

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

h) Missing payments - K27,512

The Controlling Officer informed your Committee that the two payment vouchers amounting to K15, 332 were still missing and the Ministry would ensure that they were found and availed to the audit team once located. However, one voucher was available for verification. The Controlling Officer further submitted that in order to ensure proper record documentation, that the Commission had employed an extra person in the Accounts Section to increase the capacity to four in order to ensure the smooth operations of the Department and the filing of the documents on time.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that supporting documents could go missing. The Controlling Officer was strongly urges to ensure that, henceforth, her officers avail all the supporting documents to Auditors during the time of audit and not to trace documents after the Auditors have left. She is also urged to ensure that disciplinary action is taken against all officers responsible for the failure to secure the supporting documents in accordance with the laid down Regulations. Your Committee will await a progress report on the matter.

i) Inadequately Supported Payments

The Controlling Officer informed your Committee that out of the K784, 521 and the US\$5,175, the Auditor was provided with explanations for thirty eight transactions amounting to K621, 417 and US\$5,175 respectively. This information was available for audit verification. She explained that the movement of the Accounts Office made it difficult to locate some receipts at the time of audit amounting to K138, 583. However, these documents would be made available once traced.

The Controlling Officer further submitted that at the time of the audit, the Commission did not have a Stores Department; therefore, acquitting the amounts using documents such as the Good Received Notes (GRNs) was not possible. However, the Commission had since established a Stores Department which became operational on 18th January, 2016. Further, the Accounts Section had employed an extra person to have the current capacity increased to four in order to enhance the operations of the Department.

Committee's Observations and Recommendations

Your Committee does not accept the response by the Controlling Officer. It is particularly concerned and finds it unacceptable that the Commission has been operating without a Stores Department and sternly cautions the Controlling Officer to take matters of accountability seriously. The Controlling Officer is further urged to ensure that the CPCC management is sternly cautioned against the practice of locating documents after the audit has been conducted and to ensure that all the remaining documents are located without any further delay and availed to the Office of the Auditor General for verification. Your Committee, however, resolves to close the matter subject to audit verification.

j) Unacquitted Funds K28,500

The Controlling Officer informed your Committee that the payments were acquitted. However, as a result of the shifting of the Accounts Section, some documents were misplaced. The Controlling Officer informed your Committee that the Commission had started making all payments in cash including the payment of allowances to the Board or staff in duplicate and such information was being filled in on two separate files in order to have a backup in case some documents were misplaced.

Committee's Observations and Recommendations

Your Committee observes that record keeping at the Commission is very poor and finds this situation unacceptable. Your Committee urges the Controlling officer to institute disciplinary action against the erring officers in accordance with the Financial Regulations, to avoid recurrence. Your Committee will await a progress report on the matter. .

k) Unretired Imprest - K311, 225

The Controlling Officer informed your Committee that the unretired imprest in question had since been retired and the documentation was available for verification. Further, the Commission had put in place a mechanism that would ensure that imprest was retired immediately an assignment/activity was undertaken. Furthermore, defaulting Officers would be surcharged accordingly.

Committee's Observations and Recommendations

Your Committee observes that failure to retire imprest in accordance with Financial Regulations is a very serious omission on which officers responsible should face disciplinary action. The Controlling officer is urged to ensure that the traced documents are availed to the Auditor General for verification. Your Committee will await a progress report on the matter.

l) Lack of Disposal Details for Assorted Stores - K670,218

The Controlling Officer took note of the Auditor's observation and informed your Committee that at the time of the audit, the Commission had no Stores Department and all purchases were made based on the requests from the respective Departments.

She further clarified that the K670, 218 included a total of K354, 515 which related to the Commission assets. Thus, the total for the corporate attire was only K315, 703 and not K670, 218. She explained to your Committee that all these (K315, 703) were expensed and thus, no Goods Received Notes or Delivery Notes were raised for these purchases. The Controlling officer further informed your committee that the Stores Department only started operating on 18th January, 2016. In view of the foregoing, the Commission was currently able to raise

Goods Received Notes and Goods Issued Notes and the responsible officers had been advised to ensure that all the procurement procedures were strictly adhered to.

Committee's Observations and Recommendations

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

m) Use of Personal Bank Accounts – Provincial Offices

The Controlling Officer informed your Committee that funds were sent through the personal accounts of the officers in areas where the Standard Chartered Bank was not present or where officers were not able to access funds from the Standard Chartered Bank. Through this process, the Commission never incurred any financial loss. However, the Commission had since opened an account with the Finance Bank. This was after Board approval in order to alleviate the problem in areas where Standard Chartered Bank was not operational.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against such practices in the future as using personal accounts for public funds opened such funds to abuse. Your Committee resolves to close the matter subject to verification.

CITIZENS ECONOMIC EMPOWERMENT COMMISSION (CEEC)

Query Accounting and Other Irregularities

Paragraph 8

9. An examination of accounting and other records maintained at the Commission Head Office for the financial years ended 31st December, 2013 and 2014 revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Undisbursed Funds by Micro Finance Institutions

The Controlling Officer submitted as set out below.

i. Gray Pages Financial Solutions

The Commission sued Gray Pages Financial Solutions Limited as the First Respondent and FNB as the Second Respondent for refund of Commission funds amounting to K419, 899.50 to be returned to the Commission. However, Bank of Zambia who placed Gray Pages Financial Solutions Limited under possession intervened on behalf of Gray Pages Financial Solutions Limited and sought a consent agreement between the parties. On 29th July, 2015, a Consent Order was executed by the Lusaka High Court between Bank of Zambia and CEEC wherein Bank of Zambia acknowledged the debt to CEEC in the sum of K419, 899.50 as full principal sum and agreed that the principal sum would carry simple interest at the Bank of Zambia lending rate from the date of the Writ of Summons till date of final payment.

The Commission, therefore, was awaiting payment of the sum of K419, 899.50 full principal sum plus simple interest at the Bank of Zambia rate. The Commission has continued to follow up on payment from Bank of Zambia which to date remained outstanding.

(ii) CETZAM Financial Services Plc

The Commission sued CETZAM Financial Services Plc for return of the sum of K1, 137,724.13 plus interest and obtained a Judgment on 1st February, 2016. The Commission proceeded to enforce the Judgment granted in its favour through a Writ of FIFA. The bailiffs seized property from CETZAM Financial Services Plc on 7th March, 2016 which would be auctioned if they did not pay the money within five days.

Committee's Observations and Recommendations

Your Committee expresses grave concern that the Commission appears not to have carried out any due diligence to ascertain whether the companies it entered into business with were able to fulfil their obligations. Your Committee, therefore, urges the Controlling Officer to caution management at the Commission against making decisions that could cost the nation huge amounts in losses. Your Committee resolves to await a progress report on the recovery of the funds from CETZAM.

b) Contract with ACCESS Bank Zambia Limited

The Controlling Officer submitted that the contract was signed in 2008, on the understanding that CEEC would provide funds to Access Bank Zambia Limited for onward lending to clients. However, at one point the Commission was underfunded and could not provide the funds to Access Bank Zambia Limited. In this regard, the Bank went ahead to disburse the approved loans using its own funds. As per the High Court arbitration ruling, the K3, 188,800 was a refund on the funds disbursed by Access Bank Zambia Ltd on behalf of CEEC. In line with the arbitral award, Access Bank Zambia Limited was required to submit client files for the loan portfolio including client loan statements to the Commission. However, this had not been done to date. The Commission had written a Demand Notice asking Access Bank Zambia to surrender the files to the Commission.

Once the files were delivered, the Commission would have information to follow up on the defaulting clients which would be assigned to the debt collectors.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the CEEC management to retrieve the records relating to the client loan statements before the suspension of the initial contract with the Bank. Your Committee further observes that CEEC suspended the contract without legal consultation which is not only irregular but could also result in loss of public funds. The Controlling Officer is urged to caution management for this serious irregularity. The Controlling Officer is further urged to ensure that the information is accessed from the Bank and that the remaining balances are recovered without any further delay. A progress report will be awaited by your Committee.

c) Non-Performing Loans

The Controlling Officer responded the Commission had served Final Demand Notices and Writs of Summons were being issued to delinquent clients. This would lead to foreclosure and sale of repossessed properties. Further, the Commission had created a Credit Control and Risk Department and recruited Provincial Credit Control and Risk Officers to undertake debt recovery, among other credit functions.

The Commission now had in place a specialised Risk Management Unit that was responsible for ensuring that adequate due diligence was undertaken prior to approval of loans by the Commission, including due diligence assurance on collateral adequacy. The Commission had

also advertised for more debt collectors to assist in recovery of debts at district level. The Commission had since sold five out of the eight properties that were repossessed. The remaining three received bids that were lower than the reserve prices and they would be re-advertised for sale. Further, where the Commission realised less funds than the amount owed, a FIFA would be issued against the Directors for them to settle the balance.

Committee's Observations and Recommendations

Your Committee notes the measures put in place to improve the performance of future loans as well as recover the current loans through the sale of properties. Your Committee, however, urges the Controlling Officer to ensure that the outstanding debt is recovered. A progress report will be awaited by your Committee.

d) Trade Finance

i. Questionable Procurement of Dairy Animals

The Controlling Officer responded that copies of contracts signed between the farmers and the contractor were availed to the audit team. The seventy animals that were imported from South Africa into Zambia were not cleared for distribution by the Ministry responsible for livestock. Ownership of the animals did not pass from Genetic Breeders to CEEC, thus when the animals were not cleared for distribution, Genetic Breeders disposed of the animals. Zambia State Insurance Corporation (ZSIC) had since been engaged to reimburse the cost of insurance for the animals.

The Commission issued a demand letter against Genetic Breeders Zambia on 28th October, 2015, demanding delivery of the contracted one hundred percent pure Jersey breed animals (as stated in the contract) or a refund of the fifty percent down payment it made in the sum of K1,968,600.00 on behalf of the farmers. The matter was being heard in court and the Attorney General was being kept informed by the Commission.

Committee's Observations and Recommendations

Your Committee expresses concern at the findings and wonders how the animals were procured without the required permits from the appropriate Ministry. Your Committee observes that as in most situations under query, the CEEC had failed to carry out important background checks before issuing out the funds, which is a highly anomalous state of affairs. In this regard, your Committee urges the Controlling Officer to caution the CEEC management against wastage of public resources due to poor decision making. Your Committee further notes that the matter is before the courts of law and resolves to await a progress report on the matter.

ii. Questionable Contract with Great Minds Media Solutions Company Limited

The Controlling Officer responded that the Commission was mandated to promote a supportive culture under the *Citizens Economic Empowerment Act* No. 9 of 2006. In accordance with Section 6 (2) (m) and (r) respectively, the functions of the Commission included to:

- (i) *undertake information, education and communication activities for targeted citizens, citizen empowered companies, citizen influenced companies and citizen owned companies on various empowerment schemes available; and*

- (ii) *promote or undertake a civic education and awareness programme which will ensure an orientation of all institutions and persons to the maintenance of a positive work culture.*”

In line with this mandate, the Commission received and approved a proposal submitted by Great Minds Media Solutions to implement a business reality show for purposes of contributing to the development of the entrepreneurship culture amongst the youth and fostering a better understanding of the Commission’s empowerment programme by young people. The Commission observed that the cost of undertaking information, education and communication activities using private firms was exorbitant. For instance, the cost of one single programme was quoted at K65, 000 for a 10 minute video production covering the Fish Value Chain in Mwandia. Through the partnership with Great Minds Media Solutions, the Commission incurred not more than K30, 000 per month for a minimum of 3 documentaries. For cost effectiveness, the Commission decided to procure equipment in order to reduce on the cost of production. The equipment remained the property of the Commission.

Great Minds Media Solutions was engaged on the basis of an innovative proposal which the Commission felt was in line with provisions of the Act as well as the 2012-2016 Strategy Implementation Plan in promoting a positive entrepreneurship culture amongst the youth. A Memorandum of Understanding (MOU) was signed between CEEC and Great Minds Media Solutions (a youth-owned media company) and this was subsequently cleared by the Attorney General’s office, thereby forming the basis of the relationship.

Auditions for the Mbonge Business Reality show were held from 8th to 13th January, 2016. The show comprises of thirteen episodes and production of the reality show is expected to end 31st May, 2016. The relationship with Great Minds Media Solutions would therefore be reviewed at the end of this period.

Committee’s Observations and Recommendations

Your Committee cautions the Controlling Officer against entering into contracts that are of a questionable nature and resolves to close the matter subject to verification.

ENERGY REGULATION BOARD (ERB)

Query Review of Operations

Paragraph 9

10. A review of operations of the Energy Regulation Board for the period from 1st January, 2012, to 31st December, 2014, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Unsupported Payments K7,396,245

The Controlling Officer submitted before your Committee that the ERB Head Office was housed at Premium House before they moved to the Mass Media Area. During the movement, documents were bundled up in the process of shifting, as such, most of the documents were still mixed up and efforts were being made to find these documents. However, from the K7, 396,245 unsupported payments, documents totaling K4, 618,633 had been found leaving a balance of K2, 777,613.30. These documents were available for audit verification.

Your Committee was further informed that the ERB had improved on document management and had drawn up proposals to secure funds for an electronic records management system that would significantly improve records management once implemented.

Committee's Observations and Recommendations

Your Committee observes that poor record keeping is an area that has not been given adequate attention by the ERB and fears that it can be used as a conduit for malpractices. Your Committee further observes that this lapse is due to poor supervision by management and negligence on the part of the officers. Your Committee urges the Controlling Officer to take disciplinary action against the officers that failed in their duties of securing the supporting documents. Your Committee resolves to await a progress report on the matter.

b) Uncompetitive Procurement K2, 127,644

The Controlling Officer submitted that before August, 2014, procurements below K50,000.00 (Low Value Papers) and quotations for the procurement of goods and services were not being attached to payment vouchers, but were filed separately. This posed challenges at the time of audit. However, the ERB was currently attaching all documentation for any purchase including invoices and Goods Received Notes (GRNs) to payment vouchers and these were available for audit verification.

Regarding the period in question, your Committee learnt that the balance had reduced from K2, 127,644.00 to K1, 028,340.55. This was as a result of the documents archived during the change of offices from Premium House to the present offices.

Committee's Observations and Recommendations

Your Committee expresses concern that supporting documents in respect of such a huge amount were not attached to payment vouchers. Your Committee observes that this anomaly was a direct result of negligence on the part of the officers responsible for securing the relevant supporting documents during the process of moving offices. In this regard, your Committee urges the Controlling Officer to institute disciplinary action against the officers that abrogated the provisions of the *Zambia Public Procurement Act of 2008* and report progress to it on the outstanding amount.

c) Failure to Allocate and Adequately Describe Assets

The Controlling Officer stated before your Committee that management had embarked on an exercise to adequately describe, locate and update the asset registers with an initial target date of 31st December, 2015. However, owing to the nature of the exercise and available resources, this was currently scheduled to be completed within the first half of 2016. The exercise was mainly on furniture and fittings with a net book value of K820, 896.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against failure to describe Government assets and directs him to ensure that the assets were adequately described without further delay to avoid the possible loss of Government assets. Your Committee will await a progress report on the matter.

d) Management Information Systems - Lack of IT Strategic Plan

The Controlling Officer submitted before your Committee that even though the ERB had had no approved strategic plan specific to the IT, the ERB had a Strategic Business Plan which had an ICT component. However, following the audit recommendation, an ICT plan had been drafted and would be finalised by 30th June, 2016.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Energy Regulation Board to develop an ICT strategic plan that can help improve the efficiency and effectiveness of service delivery at the Institution. Your Committee urges the Controlling Officer to ensure that the Plan is expeditiously finalised and operationalised without any further delay in order for the Board to adhere to good standard practices in the IT sector. Your Committee will await a progress report on the matter.

FOOD RESERVE AGENCY (FRA)

Query

Paragraph 10

Accounting and Other Irregularities

11. A review of operations of the Agency for the period 1st April, 2012 to 31st December, 2014, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Failure to Produce Audited Accounts and Annual Reports

The Controlling Officer submitted that the delay was due to a number of factors, some of which were outside the control of the management as submitted below.

- The Agency's activities since its inception in 1995/96, had kept on growing due to changes in its mandate as instructed by the stakeholders. This resulted in the increased volume of transactions which were mainly processed through a manual system as opposed to an automated system. In view of the foregoing, the demand on the increased volumes of activities was not matched with the corresponding increase in staffing levels, let alone investment in automated systems and other operational tools such as vehicles.
- The Agency only had 229 employees countrywide, which was a very lean staffing level compared to its national mandate, particularly with the ever increasing huge volumes of stock that the Agency had to purchase and secure.

This according to the Controlling Officer meant that the small number of employees had to cope with the increased level of activities. This resulted in the accumulation of back logs of unprocessed data, a key input in the finalisation of audits.

- At the time when the financial statements of the previous years were ready, the Board of Directors at the time could not sign the accounts relating to these years, on account that they were not yet on the FRA Board. In this regard, the members requested to be indemnified before they could sign the accounts, which request was not granted until the Board was dissolved.
- Another delay was attributed to getting professional clearance from the outgoing Auditors (Grant Thornton who had been the Agency's Auditors since inception and there was therefore need to appoint new Auditors) to the incoming Auditors (Moore's Rowland – PKF Accounting). This took a period of over one year.
- Audit procedures required that work could not proceed to the subsequent years audit until the current audits had been cleared and this explained the backlog.

The Controlling Officer further submitted that management at FRA was seriously addressing this matter, as evidenced by the fact that the audited accounts had since been prepared up to the financial year ending December, 2011. However, these financial statements had not been approved as the Board of Directors was dissolved on 26th May, 2015, before they could consider the financial statements.

However, from the period 2012 to 2014, fifty percent of the work had been done and the external auditors were currently on site. It was, therefore, estimated that the audit could be concluded by June, 2016.

Committee's Observations and Recommendations

Your Committee expresses concern that FRA can operate in such a manner for such a lengthy period and strongly urges the Controlling Officer to ensure that management steps up its efforts to finalise the preparation of financial statements for stakeholders and Parliament to appreciate its financial position. Your Committee will await a progress report on the finalisation of all the necessary reports for the period under review.

b) Crop Management - Purchase of Excess Maize than Available Storage Capacity

The Controlling Officer submitted as set out below.

- **Excess Purchase of Crops (Maize)**

The quantity of crop purchased in a particular year was an exclusive prerogative of the Government and that the Agency was a Government entity established with specific mandates that included the administering of the national strategic food reserves and providing market access to the rural small scale farmers. As characterised during the period under review, the Agency was directed by the Government to purchase excess stock from farmers who were rural based, where private sector participation was minimal. Therefore, the intervention made to buy the excess stock was to provide a market and income to the rural based farmers in order to encourage farmers to continue with maize production for the enhancement of household food security and indeed national food security.

Your Committee was informed that the Agency had inherited secure storage facilities to the capacity of 748,500 MT by 2013, which were not evenly distributed to match the production by area. The capacity was increased to 865,500 MT in 2014, as intervention in areas that had seen increased production and subsequent increased purchases of crop. However, in order to mitigate the storage shortfalls, the Agency had utilised privately owned storage facilities and this had averted crop losses. Your Committee further learnt that the increment in storage capacity was part of the Agency's Storage Investment Plan to attain at least 2,000,000 MT secure storage capacity by 2018 in an effort to take care of such eventualities.

- **Excess Stock Losses**

The Agency had made loss provisions of two percent as was the standard. This provision emanated from factors such as stock wastage due to rotting, insect damage to grain, discolouration due to the storage environment, pilferage and spillages. During the period under review, the Agency handled a huge crop carry over from the years 2010 and the unprecedented purchase of 1,751,660 MT in 2011 that outstripped the Agency's ability to secure storage capacity leading to crop wastage spilling over in 2012.

With additional storage infrastructure of 117,000 MT constructed in 2014, the total covered storage for the Agency rose to 865,500 metric tonnes. Your Committee notes that in 2011, the Agency bought 1,751,660 MT of maize against storage infrastructure of 748,500 MT. In that same year the Agency had carryover stock of over 300,000 MT. This situation created serious crop storage challenges.

The Agency further put in place a storage Infrastructure Investment Plan for 2014 - 2018, which would bring on board an additional storage space of over 1,200,000 metric tonnes. Your Committee learnt that this would be done through the construction of sheds and silos and the rehabilitation of existing silos.

Furthermore, the Agency had since undertaken prudent crop management mechanisms to avert such losses. These had included partnerships with the private sector to rent privately owned storage facilities, timely fumigation programmes, introduction of a security unit to collaborate with other national security agencies to safeguard the purchased and stored crop, stringent audit reviews to ensure zero tolerance to malpractices and adherence to governance within the demands of best practice to transparently utilise public resources. From 2013, the Agency took a bold decision to terminate contracts of co-operatives and farmer organisations that were engaged as warehouse managers at satellite and district levels to which the massive losses referred to in the report were attributed in the 2011 and 2012 crop marketing seasons and started employing its own personnel to oversee warehouse management functions at that level. Your Committee was informed that this had yielded positive results as evidenced in the reduction of losses to below one percent in recent years.

Committee's Observations and Recommendations

In noting the submission by the Controlling Officer, your Committee urges him to ensure that the mitigation measures identified are implemented fully in order to avert the problems highlighted in the query. Your Committee resolves to close the matter subject to audit verification.

c) Delays in Remitting Statutory Obligations - K4, 641,040

The Controlling Officer informed your Committee that the amount of K4, 641,040.00 was indeed owed to NAPSA and this related to penalties that were slapped on the Agency as a result of delayed remittances for seasonal staff due to delayed funding from the treasury. A letter requesting for the waiver of the penalties had been written to NAPSA since the Agency was current on the principal amount.

Committee's Observations and Recommendations

Your Committee expresses disappointment at the Agency's failure to remit these statutory obligations on time as failure to do so results in the imposition of huge penalties, which could lead to loss of public resources. This would affect the Agency's financial position and consequently its ability to execute planned programmes. The Controlling Officer is, therefore, urged to continuously liaise with the treasury for such funds to be released on time, in order for the statutory obligations to be honoured on time to avoid penalties charged on the Agency. Your Committee resolves to await a progress report on the outcome of the request made to NAPSA.

d) Wasteful Expenditure - Purchase of Four Cocoons

The Controlling Officer confirmed that the Agency had bought four cocoons from Amiran Limited as a pilot project in 2011. This was in response to the challenges that the Agency

was experiencing with regards to storage requirements and after a presentation to management by Grainpro, the manufacturers of the cocoons. Amiran Limited was, therefore, the authorised Agent for Grainpro in Zambia.

The Controlling Officer further informed your Committee that the Agency had not taken any action because the pilot project was regarded as cooperation between FRA and Amiran. Amiran had to provide skilled labour for the installation of the cocoons and training of FRA staff. However, the Agency was pursuing Amiran for the compensation for the failed cocoons through the arbitration process and if the arbitration process failed, litigation would be considered. In this regard, the Agency had since written to and had a meeting with Amiran and a follow-up meeting took place on 9th February, with Amiran and Grainpro, the manufacturers of the cocoons. They had proposed to supply one cocoon, provide technical staff to supervise the installation process and monitor its usage and management was considering the offer.

The Controlling Officer assured your Committee that there was no loss of maize as early interventions were made. The maize was sold as good maize.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Agency expeditiously concludes this matter. Your Committee will await a progress report.

e) Properties without Title Deeds

The Controlling Officer submitted that the process of obtaining title deeds for the Agency's properties transferred from the Government to the Food Reserve Agency (FRA), in 1996 did not commence soon after the properties were transferred due to challenges faced in applying the Statutory Instrument No. 145 of 1996, The Food Reserve (Transfer of Property) Order, 1996. Your Committee was informed that at the time of the transfer of these properties, some of the properties were being operated by cooperative unions, such as the Southern Province Cooperative Union (SPCU) and the Northern Province Cooperative Union (NPCU) both of which had title to the said properties. When FRA took possession of these properties the affected Cooperative unions took out legal actions, claiming ownership. In the case of the NPCU, the matter went as far as the Supreme Court and the Court ruled that Statutory Instrument No. 145 of 1996, was null and void in as far as it related to the NPCU, NORAD sheds.

Following the delivery of the High Court judgment, the then Ministry of Legal Affairs, by a letter dated 29th October, 1998, advised that a new Statutory Instrument be made to legalise the transfer of the sheds to FRA. However, this proposal was not taken up and as such, FRA had been subjected to defending claims made by cooperative unions concerning ownership of storage sheds with the most recent one commenced by the NPCU in April 2009, claiming ownership of two other sheds that were transferred by the Government to the Food Reserve Agency. When the court ruled in favour of NPCU, the Agency had appealed in order to avoid setting a precedent on the ownership of the sheds as this also had potential to open the way for other similar claims. This claim was finally resolved in 2014, in favour of FRA.

In consideration of the fact that the transfer of the property to FRA was done by the Government and FRA was a mere beneficiary, the Agency in 2010/2011, had engaged the Attorney General to intervene and review or legalise the Statutory Instrument as was earlier proposed in order to avoid similar claims. Further, other cooperatives claiming ownership of FRA properties included Chongwe, Luapula, Mpika and Chinsali.

Notwithstanding the challenges and numerous claims associated to SI No. 145 of 1996, the Agency following the settlement of the NPCU case in 2014, decided to proceed and engage the Commissioner of Lands to obtain title deeds for the properties. However, the cost of obtaining the title deeds was huge and although budgetary allocation had been made each year, there had been insufficient funding for this exercise. The Agency, therefore, negotiated with the Surveyor General to pay for the exercise in phases and not as a lump sum for all the properties.

Committee's Observations and Recommendations

Your Committee observes with concern that as long as Statutory Instrument No. 145 of 1996, is not reviewed; the Agency will continue to lose large sums of money in litigation. In view of the foregoing, your Committee calls upon the Attorney General to follow up the possible review the Statutory Instrument. On the other hand, your Committee urges the Controlling officer to engage the Commissioner of Lands to obtain title deeds for the properties in an effort to finalise the matter. Your Committee will await a progress report.

f) Lack of Assets Management Policy

The Controlling Officer submitted that the Agency had started the process of developing an Asset Management Policy. In this vein Management had appointed an Assets Manager who was a qualified engineer and would be the custodian of the Policy currently being drafted.

However, your Committee learnt that the Agency had always maintained records for assets such as storage facilities, buildings, equipment and motor vehicles. Further, the Finance Department also maintained a fixed assets register for the purpose of the Agency's balance sheet in line with international accounting standards. Furthermore, the Agency was currently implementing an Enterprise Resource Planning (ERP) which would equally be used in the maintenance of the Asset Register in line with the Policy that would be developed.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the Agency does not have an Asset Management Policy. It observes that the failure to have this Policy in place exposes the Agency to risk of fraud as the guidance on the acquisition, recording, use and disposal of the Agency's non-current assets, among other things, lack clarity. In this regard, your Committee strongly urges the Controlling Officer to ensure that management expedites the process of formulating the Policy and a progress report should be submitted to your Committee.

HOTEL AND TOURISM TRAINING INSTITUTE (HTTI)

Query Accounting and Other Irregularities

Paragraph 11

12. A review of accounting and other records for the financial years ended 31st December, 2012, 2013 and 2014, maintained at the Institute carried out in September, 2015, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Failure to Constitute the Board of Trustees

The Controlling Officer explained to your Committee that the situation arose as a result of the dissolution of the Board of Trustees by the Honourable Minister of Information, Broadcasting and Tourism in January, 2012, and a new board was not appointed upon

review of the Trust Deed that governed the existence of the Hotel and Tourism Training Institute Trust.

He further explained that the power to appointment the Board of Trustees lay in the original Board itself. However, the original Board of Trustees no longer existed as a result of deaths and therefore, had to be repealed. Your Committee was further informed that the Trust Deed had also proved to have many other challenges such as the limited mandate on the level of training to be offered.

The Ministry of Tourism and Arts, together with the Ministry of Justice, however, had tirelessly worked to develop a bill that would legally transform HTTI to Zambia Institute for Tourism Studies (ZITS), which would be a statutory body governed by a Governing Council with a prescribed criteria for composing the Governing Council and an elaborate training mandate.

Committee's Observations and Recommendations

Your Committee expresses serious concern over the fact that the Institute has been allowed to operate without a Board of Trustees for so long. Your Committee observes that this lapse will result in the non-execution of decisions requiring board approval, thereby, affecting the operations of the Institution. In this regard, your Committee welcomes the possible transformation of the HTTI into the Zambia Institute for Tourism Studies. In the meantime, your Committee urges the Controlling Officer to urgently follow up the speedy appointment of the Trustees with the relevant authorities. Your Committee will await a progress report on the matter.

b) Failure to Produce Audited Financial Statements and Annual Reports

The Controlling Officer informed your Committee that the Institute had so far made tremendous progress on this matter with the involvement of the Office of the Auditor General. In this regard, there would be no further delay on the matter as the External Auditors had been engaged to audit the Institute.

Committee's Observations and Recommendations

Your Committee expresses concern that the Institute can operate in such a manner and strongly urges the Controlling Officer to prevail upon the management of the Institute to regularise the financial operations of the Institute forthwith. Your Committee resolves to await a progress report on the finalisation of all the necessary statements and reports for the period under review.

c) Lack of Audit Committee

The Controlling Officer informed your Committee that an audit Committee for the Institution would be formed immediately the Governing Council was put in place.

Committee's Observations and Recommendations

Your Committee observes with concern that the failure to put in place an Audit Committee means that the Institute lacks a proper financial reporting process, an audit process and internal control systems. In this regard, your Committee strongly urges the Controlling Officer to be proactive and ensure that the Audit Committee is put in place in accordance with the *Public Finance Act, No. 15 of 2004* without any further delay. Your Committee will await a progress report.

d) Inadequate Staffing of Internal Audit Function

The Controlling Officer explained to your Committee that in the Institute's Strategic Management Plan, there was a provision for the position of an Assistant Auditor. However, the Institution had been slow to fill in this position due to financial challenges. She, however, assured your Committee that all the positions provided for in the Strategic Management Plan would be filled when the Institute stabilised financially.

Committee's Observations and Recommendations

Your Committee observes that the lack of an internal control unit is unacceptable as it affects the Institutes capacity to safe guard Government resources. In this regard, your Committee urges the Controlling Officer to take concrete steps to ensure that the Internal Audit Unit is adequately staffed and will await a progress report on the matter.

e) Failure to Complete Works K8, 515

The Controlling Officer submitted that this query arose as a result of the contracted company defaulting. In this regard, management had made efforts to engage the contracted company to see that all the works were completed and at the same time avoid legal costs as this would prove to be expensive for the Institute. The Controlling Officer further informed your Committee that management would also ensure that the balance of K8, 515 was collected.

Committee's Observations and Recommendations

Your Committee questions the capacity of the contractor as well as the selection process of contractors at the Institute. Your Committee is particularly concerned that the contractor's failure to complete the works could result in the loss of public funds. In view of the foregoing, your Committee directs the Controlling Officer to ensure that that the funds are recovered and a new contractor engaged in order to complete the outstanding works. A progress report will be awaited by your Committee.

f) Failure to Secure Title Deeds

The Controlling Officer submitted that the Institute was working towards securing the title deeds for some of the properties without titles. However, the process had been slow. However, management would ensure that the legal titles were obtained as quickly as possible

Committee's Observations and Recommendations

Your Committee observes that management does not appear to attach great value to the properties in question and urges the Controlling Officer to ensure that the matter is aggressively pursued to ensure that the title deeds to the properties are obtained properties to avoid the possible loss of government property to other people. Your Committee resolves to await a progress report.

g) Non Payment of Statutory Contributions - K1,793,285

The Controlling Officer informed your Committee that the non-payment of statutory contributions was as a result of the Institute being owed by the Ministry of Chiefs and Traditional Affairs. Further the Workers' Compensation maintained two accounts for the Institute a situation which doubled the amounts due to the Workers' Compensation. However, your Committee was informed that this was resolved and an agreement was reached where the Institution was paying K10,000 every month to the Workers Compensation. The Institute was also working towards coming up with measures to liquidate

the outstanding amount with the Zambia Revenue Authority in respect of PAYE in order to avoid penalties.

Committee's Observations and Recommendations

Your Committee observes that the Institute's failure to pay statutory contributions will result in it continuously suffering penalties and interest charged by the concerned institutions. It also disadvantages the workers as they may not get full compensation in the event of an injury. In this regard, your Committee strongly urges the Controlling Officer to ensure that the Institute is consistent with payments to the Workers' Compensation Fund and that the arrears owed to the Zambia Revenue Authority are cleared without any further delay. Your Committee will await a progress report.

JUDICIARY

Query Accounting and Other Irregularities

Paragraph 12

13. An examination of accounting and other records maintained at the Judiciary headquarters and selected stations for the financial year ended 31st December, 2014, carried out in June 2015, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Inadequacies in Judiciary Infrastructure and Attire

i. Failure to Document Standard Chamber Requirements and Court Attire

The Controlling Officer submitted that the chamber requirements and court attire were as per practice in the Commonwealth as inherited from the British Court Systems. Suffice to state that the attire for advocates was quoted in the Practice Direction No. 3 of 1977. Going forward, the Judiciary would document the Standard Chamber Requirements and the attire for Honourable Judges.

Committee's Observations and Recommendations

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

ii. Inadequate Chambers and Office Space

The Controlling Officer informed your Committee that the Judiciary had been unable to provide adequate offices and chambers due to inadequate funding. However, it would continue to lobby the Ministry of Finance for funding to build modern chambers and offices.

Committee's Observations and Recommendations

Your Committee resolves to close the matter, but urges the Controlling Officer not to relent, but continue to make pursue the allocation of funds for this purpose in order to resolve the matter. Your Committee will await a progress report on the matter.

iii. Inadequate Court Rooms

The Controlling Officer informed your Committee that the Judiciary had been unable to provide adequate modern court rooms due to inadequate funding. However, it would continue to lobby the Ministry of Finance for funding to build modern court rooms.

Committee's Observations and Recommendations

Your Committee resolves to close the matter, but urges the Controlling Officer not to relent, but continue to make pursue the allocation of funds for this purpose in order to resolve the matter. Your Committee will await a progress report on the matter.

iv. Inadequate Modern Court rooms

The Controlling Officer reaffirmed the Judiciary's commitment towards the automation of more courtrooms and registries countrywide under the Zambia Justice Information Management System (ZAJIS) Project. For example, in the 2015 budget, the Judiciary had embarked on ten more courtrooms to be computerised in Lusaka, Central, Copperbelt and Southern provinces as well as upgrade the already computerised courtrooms from analogue to high definition (HD) standard at a total cost of K800, 000.00. However, the Ministry of Finance only released K 395, 000.00 from January, 2015 to date, making automation of more courtrooms virtually impossible.

Committee's Observations and Recommendations

Your Committee resolves to close the matter but urges the Controlling Officer not to relent, but continue to pursue the allocation of funds for this purpose in order to resolve the matter. Your Committee will await a progress report on the matter.

v. Vacancies in the Establishment of Judges and Magistrates

The Controlling Officer responded that at the time of audit the register was being updated, however, the latest and updated one was ready for submission.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that everything possible is done to ensure that the staff establishment for all Judicial officers is filled. The matter is, however, recommended for closure subject to audit verification.

vi. Lack of Risk Management Systems

The Controlling Officer submitted that management would endeavour to consolidate, document and put in place Risk Management Systems, funds allowing.

Committee's Observations and Recommendations

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

b) Purchase and Refurbishment of the Former National Housing Head Quarters

• Single Sourcing of the Consultant

The Controlling Officer informed your Committee that indeed the Consultancy was single sourced. Upon realising that, the Judiciary engaged the Buildings Department to provide quality assurance in the implementation of the project.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against flouting procurement procedures. She is urged to ensure that this does not recur. Your Committee, however, recommends the matter for closure subject to audit verification

- **Delayed Completion of the Project**

The Controlling Officer submitted before your Committee that the project had delayed because of lack of funding. However, the contractor had proceeded and completed the partitioning in the main building. The project was currently at sixty Percent.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to liaise with the Secretary to the Treasury to ensure that funds are released to attend to the concerns raised by the audit. A progress report will be awaited by your Committee.

- c) **Weaknesses in Managing Third Party' Accounts**

- i. **Underbanking of Collections from Litigants**

The Controlling Officer informed your Committee that the officer involved had since been dismissed. The recoveries would be effected from both his terminal and pension benefits.

Committee's Observations and Recommendations

Your Committee notes the action taken by the Controlling Officer and urges him to closely monitor the handling of revenue and ensure that revenue banking is done in accordance with Financial Regulations. Your Committee resolves to await a progress report on the recoveries.

- ii. **Delayed Banking**

The Controlling Officer submitted that the officers involved had been cautioned and directed to adhere to the dictates of the Financial Regulations.

Committee's Observations and Recommendations

Your Committee notes the action taken by the Controlling Officer and urges him to closely monitor and ensure that revenue banking is done in accordance with Financial Regulations. Your Committee further urges the Controlling Officer to take stiffer disciplinary action against the erring officers should this happen again. A progress report will be awaited by your Committee.

- iii. **Erosion of Clients` Account by Bank Charges**

The Controlling Officer responded that the Judiciary had since engaged the Zambia National Commercial Bank (ZANACO) to try and find a lasting solution to this problem bearing in mind that the two subordinate courts in question, did not handle a lot of money. He informed your Committee that once the solution was agreed upon, the Judiciary would render an appropriate report.

Committee's Observations and Recommendations

Your Committee implores the Secretary to the Treasury to intervene in this matter and assist the Controlling Officer to properly resolve it. Your Committee will await a progress report on the matter.

iv. Failure to Provide Schedule of Unpaid Items

The Controlling Officer informed your Committee that the schedules for the unpaid items were ready for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that this does not recur. The matter is, however, recommended for closure subject to audit verification.

d) Failure to Pay Gratuity

The Controlling Officer submitted that at the time of audit, the payments were being processed and the outstanding amount was K 71, 876, 299.43 after paying out an amount of K 8, 123, 700.57.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

e) Weaknesses in Managing the Sheriff's Office of Zambia

i. Lack of Bailiwicks Records

The Controlling Officer submitted that management was in the process of taking stock of the bailiwicks and redefining the new bailiwicks which may have arisen from the creation of new districts. Thereafter, gazette notices would be issued.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

ii. Lack of Warehouses for Sheriff's Office

The Controlling Officer informed your Committee that the Judiciary was renting warehouses in Solwezi and the Ministry of Works and Supply had been courteous enough to offer space for its warehouses in Mongu and Kitwe. The Controlling Officer, however, informed your Committee that in future, the Judiciary would lobby for funds from the Ministry of Finance for the construction of warehouses.

Committee's Observations and Recommendations

Your Committee expresses concern at the lack of warehouses and urges the Controlling Officer to urgently put in place corrective measures. A progress report on the matter will be awaited by your Committee.

f) Weaknesses in the Management of Judiciary Infrastructure

i. Subordinate Court Complex - Lusaka

The Controlling Officer informed your Committee that the process of engaging a consultant to redesign the remedial works was under way. A provision of K1, 000,000 was made in the budget for the year 2015 even though funds were not released by the Ministry of Finance.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

ii. Ndola Subordinate Court

The Controlling Officer informed your Committee that the Judiciary would plan and make a provisional budget for 2017. However, management had since carried out an assessment and prepared the cost estimates.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer not to relent, but continue to make budget provisions in order for the matter to be resolved. Your Committee will await a progress report on the matter.

iii. Kitwe Subordinate Court

The Controlling Officer submitted that a provision of ZMK 600,000.00 was made in the 2015 budget. Further, the Judiciary had prepared the drawings and Bill of Quantities for the rehabilitation of the Kitwe Subordinate Court, however, the Ministry Of Finance did not release the said funds.

Committee's Observations and Recommendations

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

iv. Solwezi Subordinate Court

The Controlling Officer submitted that the Judiciary would commence the planning, designing and preparing of the cost estimate of a modern complex to house the Subordinate and Local Courts. Further, management had been tasked to engage the Local Authority on the acquisition of land.

Committee's Observations and Recommendations

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

v. Choma Subordinate Court

The Controlling Officer informed your Committee that a provision of ZMK 200, 000.00 was made in the 2015 budget under the Head 18/20, but the Treasury did not release the said funds.

Committee's Observations and Recommendations

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

vi. Livingstone High Court and Subordinate Court

The Controlling Officer submitted that the Judiciary would commence the planning, designing and preparing of the cost estimate for renovations at the High and Subordinate Courts.

Committee's Observations and Recommendations

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

vii. Mongu Subordinate Court

The Controlling Officer informed your Committee that a provision of ZMK 500, 000.00 was made in the 2015 budget under the Head 18/30. However, they did not release the said funds.

Committee's Observations and Recommendations

Your Committee expresses concern at the increasing number of projects that are being delayed on account of the treasury not releasing the necessary funding and urges the Controlling Officer to liaise with the Secretary to the Treasury on the possible solution to the problem. Your Committee will await a progress report on the matter.

viii. Kabwe High Court and Subordinate Courts

The Controlling Officer informed your Committee that the Judiciary would commence the planning, designing and preparing of the cost estimate for renovations at the High and Subordinate Courts.

Committee's Observations and Recommendations

Your Committee expresses concern at the state of courtrooms around the country, a situation which negatively affects the dispensation of justice. Your Committee, therefore, urges the Controlling Officer to ensure that all the queries relating to the management of Judiciary Infrastructure are given the serious attention that they deserve. Your Committee resolves to await a progress report on the matter.

NATIONAL HERITAGE CONSERVATION COMMISSION (NHCC)

**Query
Accounting and Other Irregularities**

Paragraph 13

14. A review of accounting and other records for the financial years ended 31st December, 2010 to 2014, revealed accounting and other irregularities to which the Controlling Officer responded as set out below.

a) Failure to Submit Annual Report to the Minister

The Controlling Officer confirmed that it was true that at the time of audit inspection, the Annual Reports for the stated period had not been submitted to the Minister because of the delay in the preparation of the financial statements. However, the outstanding Annual Reports for the period 2007 to 2014, had since been submitted to the National Assembly. Your Committee was informed that the Annual Reports contained, among other items, the draft financial statements.

Committee's Observations and Recommendations

Your Committee finds it highly irregular that the Commission failed to produce Annual Reports for seven consecutive years. Your Committee sternly cautions the Controlling Officer against this failure and directs him to caution the erring officers at the Commission to avoid recurrence and make sure that annual reports are always up to date. Your Committee, however, recommends the matter for closure subject to audit verification.

b) Weaknesses in the Operations of the Board

i. Over Expenditure on Board Expenses

The Controlling Officer agreed with the observation made in the Audit Report and submitted that the over expenditure on Board expenses during the period under review was due to the following factors:

- the Commissioners were, in addition to the usual Board Meetings, involved in conservation activities such as site inspections at Lundazi Castle Hotel in Lundazi District, Victoria/Musi-oa-tunya Falls in Livingstone District, Chishimba Falls in Kasama District, Mumbululuma Falls in Mansa District and at Lumangwe – Kabwelume Falls in Mporokoso District;
- the Commissioners were involved in the launch of tourism infrastructure at Lumangwe Falls in Mporokoso District, Chichele Mofu Tree in Ndola District and Chishimba Falls in Kasama District;
- the Board further participated at the Dag Hammarskjold Memorial Ceremony organised by the United Nations in Ndola District; and
- the Board was involved in the resolution of contentious issues related to staff conditions of service.

Therefore, the participation of the Board in the aforementioned activities entailed that it was inevitable for the Commission to incur expenses on accommodation, food, transport and conference facilities.

Your Committee was further informed that in 2014, the Commission convened one meeting which was an induction and on which only K13, 159 was spent, even though their ledgers read K46, 997. These were submitted to the External Auditors in the draft accounts. Meanwhile, adjustments had been made by charging K33, 838 to be included in the Commission meetings to the management meeting expenses. As seen from the reduced expenses in 2014, the Commission took practical measures to reduce on the expenditure by reducing on the number of Board meetings and cutting down on the number of trips outside the station.

Committee's Observations and Recommendations

Your Committee expresses concern at the justification given by the Controlling Officer concerning the overspending. In this regard, your Committee sternly cautions the Controlling Officer to show strong leadership by ensuring that such expenditure is not tolerated. Your Committee further directs the Controlling Officer to sternly caution the management at the Commission to desist from overspending, but maintain their expenditure within the budget of a planned activity or programme. Your Committee resolves to close this matter subject to verification.

ii. Lack of a Board/Governance Charter

The Controlling Officer submitted that the Commission had taken note and appreciated the proposal and the proposal would be considered.

Committee's Observations and Recommendations

Your Committee is disappointed with the casual manner in which the Controlling Officer responded to this query. In view of the foregoing, your Committee cautions the Controlling Officer to desist from such a casual approach to issues of national interest. Your Committee further expresses concern that the Controlling Officer does not seem to understand the importance of the board charter as evidenced by his response. In this regard, your Committee reminds him that the board charter is important for the Commission as it clearly defines the responsibilities and authority of the Board of Directors and also helps management in setting the direction and control of the Commission. In view of the foregoing, the Controlling officer is directed to ensure that a board charter is implemented without any further delay to ascertain the effectiveness of the board. Your Committee will await a progress report on the matter.

iii. Failure to Convene Board Meetings

The Controlling Officer submitted to your Committee that the appointment of the new Board was not effected in good time due to the impending creation of the Arts, Culture and Heritage Commission whose bill was already developed and was under discussion. Your Committee learnt that the proposed Arts, Culture and Heritage Commission entailed the repeal of the *National Heritage Conservation Commission Act* and the dissolution of the National Heritage Conservation Commission.

The Controlling Officer further submitted that the members of the new Board were only informed of their appointment after the Bill for the creation of the Arts, Culture and Heritage Commission was withdrawn.

Committee's Observations and Recommendations

Your Committee observes with concern that the Executive Director of the Commission failed to inform other board members in time about their appointment. Your Committee, therefore, questions why the Controlling Officer did not intervene in the matter to ensure that the matter was vigorously followed up. Your Committee reminds the Controlling Officer that in the absence of a Board, very little or no progress can be seen regarding policy matters. He is therefore urged to ensure that there is no time lapse in constituting a Board for the Commission and that the omission does not recur. Your Committee closes the matter subject to verification.

c) Lack of a Heritage Policy

The Controlling Officer submitted to your Committee that the observation in the Audit Report was correct. However, the formulation of a Draft Heritage Policy was completed in 2011 and all the processes required to develop a policy were followed. The Commission was at that time under the Ministry of Tourism, Environment and Natural Resources and the draft Policy was supposed to have been submitted to the Cabinet for approval. It was at this stage that the whole process stalled when the Ministry was abolished and statutory bodies and Departments within the Ministry moved to different Ministries.

Your Committee was further informed that the National Heritage Conservation Commission was placed in the Ministry of Chiefs and Traditional Affairs which was a newly created Ministry. With this development, it required that a Ministerial Strategic Plan and Policy be

developed after which the Heritage Policy would be realigned to the Ministerial Strategic Plan and Policy.

In this regard, the Ministry of Chiefs and Traditional Affairs completed developing its Strategic Plan in 2015 and was in the process of finalising the development of its policy document. Your Committee was informed that the Commission was currently in the process of realigning the Draft Policy Document to the Ministry's Strategic Plan.

Committee's Observations and Recommendations

Your Committee finds the lack of a Heritage Policy at the Commission unacceptable as the situation will not allow for the optimum achievement of overall objectives. Not having the Policy will also result in the lack of prudent, responsible and informed decision making at the Commission. In this regard, your Committee strongly urges the Controlling Officer to ensure that the Heritage Policy is formulated without any further delay. A progress report will be awaited by your Committee.

d) Failure to Conserve and Promote Heritage

The Controlling Officer informed your Committee that the Commission acknowledged the query and stated that this was because the National Register had not been updated by the Commission. However, out of the 584 sites listed as unverified, the Commission had already verified a total of 228 sites. Additionally, it was true that the 252 sites were not protected and that this was due to some sites requiring justification for them to be legally protected, other sites requiring physical presence of staff, which was currently not feasible due to under staffing, and also that there was some budgetary constraints at the time.

The Controlling Officer further informed your Committee that the first four residential houses on the list were not National Monuments despite them sitting within the boundary of the Railway Museum National Monument. He explained that the Railway Museum National Monument site boundary was surveyed and marked. Further, the Kalomo Administrator's house was surveyed in 1957, as contained in the Government Notice Number 57 of 1957 and as indicated in the subsidiary legislation of the *National Heritage Conservation Commission Act, Chapter 173* of the Laws of Zambia. Furthermore, the Chilenje house Nos. 393, 394 and 395 all formed what was called the Chilenje House National Monument as contained in Statutory Instrument No. 390 of 1968 and the site was surveyed in 1968.

Your Committee was informed that the Commission did not have records that Stand No 9304 on Dedan Kimathi Road, currently the NHCC Head Office and formerly the Lusaka Boys School, was surveyed and mapped. The Commission had since written to the Lusaka City Council requesting for survey diagrams for the stand. A copy of the letter to the Lusaka City Council was available for verification.

Your Committee was further informed that the Old Mbala Prison was not a National Monument, but an ordinary heritage site. It had been surveyed and marked with beacons in place while Matero House No. 3144B was a National Monument declared pursuant to Statutory Instrument No. 118 of 1984.

The house was surveyed, marked and was on title. Furthermore, the Lundazi Castle Hotel was a National Monument declared pursuant to Statutory Instrument No. 168 of 1987. The Commission had no record that the site was surveyed. However, the Commission had since engaged the Ministry of Lands, Natural Resources and Environmental Protection to identify the extent of the boundary for the site. However, before the exercise could be concluded there was encroachment. The matter was currently in court.

Committee's Observations and Recommendations

Your Committee observes with concern that the updated information about the surveyed and mapped National Monuments was not availed to auditors at the time of audit. Your Committee is dismayed that the Commission waited until the sitting of Public Accounts Committee to reveal the information. In this regard, your Committee urges the Controlling Officer to ensure that management is cautioned for this failure. He is further urged to ensure that all the sites are protected as there is a great risk for the loss of heritage sites through encroachment and vandalism. Your Committee will await a progress report on the matter.

e) Failure to Market and Advertise Heritage Sites

The Controlling Officer submitted to your Committee that the actual number of sites which were earmarked for marketing and advertising was fifteen. Therefore, the number twenty-seven cited in the Audit Report could be as a result of the frequency of advertising whereby some sites were planned for marketing and advertising more than once during the period under review. As a result of this marketing, four sites and one object were concessioned. These included Lundazi Castle Hotel, Mumbuluma Falls, Kalomo Administrator's House, Chakeluka National Monument Site and Locomotive Engine Number 156.

Committee's Observations and Recommendations

While noting the efforts made by the Commission to market the sites and the progress made so far on the few that had been concessioned, your Committee urges the Controlling Officer to enhance its marketing strategies to attract more concessionaires in order to increase possible income or revenue. Your Committee closed the matter subject to verification.

f) Over Expenditure on Personal Emoluments K 3, 495, 748

The Controlling Officer submitted that the over expenditure was as a result of payments of Long Service Bonus to staff after the termination of their conditions of service by both Management and the Union. The Long Service Bonus was factored in the Commission's approved budget under the vote of Debt Dismantling. However, the vote was not funded. Your Committee was informed that the Commission had a contractual obligation to pay the Long Service Bonus to eligible officers and this was done under the Personal Emoluments vote. The Long Service Bonus condition of service was abolished in December, 2011, after realising that it was contributing to the indebtedness of the Commission. The ledgers for the Personal Emoluments were attached for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that funds were misapplied to pay for personal emoluments contrary to the *Appropriation Act*. Your Committee directs the Controlling Officer to sternly caution management at the Commission to desist from overspending but maintain their expenditure within the budget for any planned activity or programme. Your Committee further directs the Controlling Officer to ensure that the funds are reimbursed without any further delay. Your Committee will await a progress report on the matter.

g) Questionable Renewal of Contracts for Senior Management

The Controlling Officer informed your Committee that the observation in the Audit Report was correct. However, the Commission had since reverted to the three year contract period for the Executive Director while contracts for the other senior management officers were ratified by the newly constituted Board at its special meeting held on 6th February, 2016, in Lusaka. The copies of the contracts were available for audit verification.

Committee's Observations and Recommendations

Your Committee resolves to close the matter

h) Lack of Reports after Training

The Controlling Officer submitted that it was true that at the time of Audit inspection, the training reports were not availed to the Auditors. However, the Commission reminded the officers to submit the reports. In this regard, the officers had since submitted the reports and the training reports were made available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the officers are disciplined accordingly for failure to avail the reports during the time of audit and will await a progress report on the matter.

i) Lack of Title Deeds

The Controlling Officer submitted that the Commission did not have title deeds for the seven properties because the Commission had challenges in processing the property transfer. Your Committee was informed that the vendors had not been cooperative and the Property Transfer Tax (PTT) had not been paid to the Zambia Revenue Authority.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to ensure that he liaised with his counterpart in the Ministry of Lands and Natural Resources on the matter in order for the process of acquiring the title deeds for the properties to be expedited. A progress report will be awaited by your Committee.

j) Weaknesses in Managing Liabilities

i. Lack of a Documented Risk Management Policy

The Controlling Officer submitted that the observation was correct as currently the Commission had no formal Risk Management Policy in place. However, the Commission would consider the proposal.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to seriously consider implementing a Risk Management Policy in order to safeguard the Commission's variable information. The Committee will await a progress report on the matter.

ii. Non Remittance of Statutory Contributions K46,389,702

The Controlling Officer submitted that even though the records indicated that the Commission deducted K46,389,702 as PAYE and Pension Contributions from the employees' emoluments during the period under review, the Commission did not have the actual cash to remit the statutory obligations. This was due to the fact that the grant that the Commission was receiving was not enough to cater for personal emoluments, operations for the Commission and paying of retirement gratuities. This led to the Commission accumulating a backlog in accrued penalties and interest.

- **NAPSA Contributions**

The Commission had been remitting monthly contributions to NAPSA from 2010 to date. However, from 2014, the Commission had been paying, in addition to the monthly contributions, one arrear monthly out of the outstanding amount with a view of liquidating the debt.

- **ZSIC Pension**

The Commission had been remitting to ZSIC the monthly pension contributions from 2010 to date. The Commission was able to remit this contribution because of the increase in the income arising from the implementation of Statutory Instrument No. 6 of 2010, on user entry fees.

- **ZRA - PAYE**

As for the Zambia Revenue Authority, the Commission had been unable to remit the Pay As You Earn (PAYE) deductions because of inadequate funding from both grants and internally generated incomes. The Ministry was exploring various options of dealing with the backlog including the possibility of the debt write off in consultation with the Ministry of Finance.

Committee's Observations and Recommendations

Your Committee urges the Secretary to the Treasury to intervene in this matter and ensure that the Controlling Officer is assisted to resolve this matter in order to avoid possible litigation and the payment of penalties as well as interest.

Your Committee further urges the Controlling Officer to ensure that all statutory obligations are paid as and when they fall due to avoid recurrence. Your Committee will await a progress report on the matter.

k) Weaknesses in the Procurement of Goods, Works and Services

i. Inadequate Maintenance of Stores Records K358,398

The Controlling Officer submitted that it was true that at the time of audit inspection, various assets and stores items costing K358, 398 were not entered in the relevant stores and assets records. However, the assets and stores had since been entered in the relevant records and the records of receipt and disposal details were available for audit verification.

Committee's Observations and Recommendations

Your Committee observes that there is a great risk of pilferage in the absence of accountability in the stores. Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers for their failure to secure the relevant documents. Your Committee will await a progress report on the matter.

ii. Wasteful Expenditure

The Controlling Officer informed your Committee that Monitoring and Evaluation and Information Management System Tools could not be implemented in full because the donors had discontinued with the programme. However, the electronic ticketing system which was part of the programme was being used at the Mosi-oa-Tunya/Victoria Falls World Heritage Site.

Committee's Observations and Recommendations

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

l) Construction of Ablution Block, Walk Trails, Barricading and Steel Palisade Fence – Afriwoods & Development Ltd.

i. Lack of Performance Bonds

The Controlling Officer informed your Committee that the Commission acknowledged the query. He explained that the query arose because the contractors that were mainly in Category 5 and 6 had challenges with raising the covers for the advance payments owing to the cost attached to the application for the same by the insurance companies. The Commission realised that this requirement would have delayed the commencement of the project. Therefore, in order to mitigate for lack of the performance bond, the Commission put in place the following measures:

- three project supervisors, one of whom was the District Works Supervisor from the Ministry of Transport, Works, Supply and Communications, (Buildings Department), were engaged to monitor the project;
- the Supervisors only sanctioned payments of works executed, that was, the contractor could only claim for works done at various stages of the projects; and
- the contract had a liquidated damages clause.

Committee's Observations and Recommendations

Your Committee observes with concern the failure by the Commission to provide for the performance bond as per requirement in the general conditions of a contract. In this regard, your Committee sternly cautions the Controlling Officer and reminds him that any default by the contractor will lead to the loss of public funds and should, therefore, be avoided. The Controlling Officer is further urged to ensure that management is also cautioned to ensure that future contracts include a performance bond as required by the Public Procurement Regulations. Your Committee, will await a progress report on the completion of the project.

ii. Non Payment of Liquidated Damages

The Controlling Officer informed your Committee that the Commission could not charge the contractor for the delay in submitting progress reports because meetings were held every two weeks to discuss the progress of works at the site at which the contractor was always giving a verbal progress report and the minutes and reports were available for audit verification.

Committee's Observations and Recommendations

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

iii. Failure to Adhere to Site Instructions

On the issue of non-adherence to site instructions in relation to the construction of the septic tank, the Controlling Officer informed your Committee that the contractor could not adhere to the specifications of the initial plan because of the impermeable rock that could not allow deeper excavation. However, the volume of the septic tank never changed as the depth was compensated for by increasing the width. Your Committee was informed that this guidance

was given by the District Works Supervisor from the Ministry of Transport, Works, Supply and Communications (Buildings Department). Further, the leaking tank had also been replaced.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for the Controlling Officer to defend the non-adherence to contract provisions by the contractor as it is evident from the supervisor's report that the contractor did not adhere to clear instructions. Your Committee is further concerned that the contractor did not put in writing the progress reports as per contract provision and depended upon weekly meetings and verbal submissions. In this regard, your Committee sternly cautions the Controlling Officer for this failure and directs him to accordingly caution the management at the commission to ensure that written reports are insisted upon. The Controlling Officer is further urged to ensure that liquidated damages are claimed from the contractor for his failure to follow the architectural plan, specifications and measurements for the septic tank. Your Committee will await a progress report on the matter.

iii. Irregular Extension – Construction of the Coffee Shop/Visitor's Shelter

The Controlling Officer informed your Committee that the initial contract had a delivery period of two months starting from 18th March, 2013. However, the Contractor had requested for extensions to allow him source materials especially timber twice, for the viewing points and frames for the ablution block. The correspondence between the Contractor and the Commission were available for audit verification.

Your Committee was informed that the extensions meant that the delivery period for the contract had to be extended. Under this contract, the Commission awarded two additional works namely, the erection of a tank stand and plumbing works whose delivery period was fourteen days and the extension of the palisade fence whose delivery period was twenty-one days. The two works had a total delivery of thirty-five days that fell beyond 7th July, 2013, when the Coffee Shop/Visitor's Centre works were awarded.

Committee's Observations and Recommendations

Your Committee observes with concern that the Commission extended works on an expired and invalid contract. Further, the procurement procedures were not followed in this contract in that there was single sourcing and your Committee finds this highly irregular. In this regard, your Committee urges the Controlling Officer to ensure that management is sternly cautioned for this failure as such irregularities can lead to corrupt practices by officers charged with this responsibility. The matter is, however, recommended for closure.

m) Extension and Alteration of the Curio Market and Paving of the Visitor's Car Park – Kalomo Contractors Hardware Enterprises

i. Lack of a Performance Bond

The Controlling Officer submitted to your Committee that this irregularity was because Contractors who were mainly in Category 5 and 6 had challenges raising covers for the advance payments owing to the cost attached to the application for the same by the insurance companies. The Commission realised that this requirement would have delayed the commencement of the projects. Therefore, in order to mitigate for lack of the performance bond, the Commission put in place the following measures:

- three project supervisors, one of whom was the District Works Supervisor from the Ministry of Transport, Works, Supply and Communications (Buildings Department), were engaged to monitor the project;
- the supervisors only sanctioned payments of works executed. The Contractor could only claim for works done at various stages of the projects; and
- the contract had a liquidated damage clause.

Committee's Observations and Recommendations

Your Committee observes with concern the failure by the Commission to provide for the performance bond as per requirement in the general conditions of a contract. Your Committee, therefore, cautions and reminds the Controlling Officer that default by the contractor can lead to the loss of public funds and must, therefore, be avoided. Your Committee further urges the Controlling Officer to ensure that management is sternly cautioned to ensure that future contracts include a performance bond. Your Committee however, recommends the matter for closure.

ii. Questionable Variations

The Controlling Officer submitted to your Committee that it was correct that at the time of the Audit, the minutes of the Procurement Committee on which approval for the variation was granted were not availed to the Auditors. This was regretted. However, copies of the stated minutes as well as Bill of Quantities (BOQs) were now available for audit verification.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that erring officers at the Commission are disciplined for failure to avail the documents in question. Your Committee, however, recommends the matter for closure subject to audit verification.

iii. Irregular Additional Works

The Controlling Officer submitted to your Committee that variations done in July and August, 2013, were necessitated by additional works that had to be conducted to facilitate the successful hosting of the UNWTO General Conference. The Commission had already extended the contract from 22nd June to 21st July, 2013, therefore, the variations were in order. Under this contract, the following additional works were undertaken; paving of the holding car park adjacent to the new ablution block - (8th July), paving another 100m², cast concrete on a two walk trails with a total length of forty-five metres (45m) - (7th August, 2013), other civil works - (13th August, 2013) and other works - (21st August, 2013). Each of the variations had a delivery period and completion date besides the delivery period for the initial contract. Cumulatively, the total delivery period for these works was seventy-one days. The records were available for audit verification.

Committee's Observations and Recommendations

Your Committee observes with concern that the Commission allowed unlimited variations which led to huge costs on the works due to poor planning. Further, the procurement procedures were not followed in this contract in that there was single sourcing and your Committee found this highly irregular. Your Committee urges the Controlling Officer to ensure that management is sternly cautioned for this failure as it can lead to corrupt practices

by officers charged with this responsibility. Your Committee, however, recommends the matter for closure subject to audit verification.

iv. Delayed Completion and Unclaimed Liquidated Damages

The Controlling Officer informed your Committee that the Commission did not claim for liquidated damages because the time lapse arose due to the suspension of works owing to the commencement of the UNWTO General Conference. The Commission suspended the works due to the fact that over ninety-seven percent of the works were completed and the UNWTO General Conference was about to commence. In addition, the Commission could not claim liquidated damages because the works were suspended at the instance of the Commission, to allow Curio Traders to occupy the market seeing that the UNWTO General Conference was about to commence.

Committee's Observations and Recommendations

Your Committee notes the submission and recommends the matter for closure.

n) Rehabilitation of the Railway Museum and Refurbishment of the Rolling Stock – Keysmar Services

i. Irregular Additional Works/Variations

The Controlling Officer submitted that despite this omission, the works were completed successfully and the Commission regretted the omission.

Committee's Observations and Recommendations

Your Committee observes with concern that the Commission extended works on an expired and invalid contract. Further, the procurement procedures were not followed in this contract in that there was single sourcing which was highly irregular. In view of the foregoing, your Committee urges the Controlling Officer to ensure that management is sternly cautioned for this failure as such an irregularity can lead to corrupt practices by officers charged with this responsibility. The matter is, however, recommended for closure.

ii. Lack of Completion Certificate and Handover

The Controlling Officer submitted to your Committee that the certificate of completion was available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution management for this failure. Your Committee, however, recommends the matter for closure subject to audit verification.

iii. Dilapidated Gallery

The Controlling Officer submitted to your Committee that the Bill of Quantity for the rehabilitation of the structure had already been done and the rehabilitation works were included in the 2016 budget. Notwithstanding this fact, the building was not covered under the UNWTO funding. A copy of the Bill of Quantities was available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to improve the Gallery in order to intervene in the matter by ensuring that there is a budgetary allocation for the said amount. Your Committee awaits a progress report on the matter.

o) South West Regional Office

i. Kalomo Administrator's House – Dilapidated state

The Controlling Officer submitted to your Committee that Kalomo House did not benefit from the K5, 392,011 because it had already been funded in 2006. Unfortunately, the contract for its rehabilitation had problems leading to litigation in 2012 and the matter was still in court. The Default Judgement was available for audit verification. Your Committee was further informed that the Commission had engaged the Buildings Department at the Livingstone Office, to produce the Bill of Quantities in order to understand the cost of rehabilitating the structure. A copy of the Bill of Quantities was also available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter in court is resolved and to also ensure that funds are secured for the dilapidated house without any further delay. Your Committee awaits a progress report on the matter.

ii. Livingstone Railway Museum - Non Maintenance of Rented Properties

The Controlling Officer submitted that the Commission had taken note of the observations contained in the Audit Report that funds generated as rentals from these houses were not ploughed back into the rehabilitation of the houses. Notwithstanding this fact, the houses would be rehabilitated. To this effect, the Bills of Quantities for the rehabilitation of the same houses had already been prepared.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that funds are secured for the rehabilitation exercise without any further delay and your Committee will await a progress report on the matter.

p) Construction of a Boundary Wall at the Railway Museum and Painting two Historic Buildings – the Anglican Church and Jewish Synagogue – Imaza Building Contractors

i. Delayed Completion and Failure to Claim Liquidated Damages

The Controlling Officer submitted to your Committee that the contract was honored in its tenure. However, the five months extension arose as a result of the Commission requesting the contractor to cut the gate into two parts to prolong its lifespan. The request was made after the contractor had completed the works. Therefore, the Commission could not claim for liquidated damages because it caused the extension.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Commission to adhere to contract provisions. It observes that there is no proof to the fact that works were completed and also

that damages were not claimed despite the provisions. Your Committee, therefore, urges the Controlling Officer to direct management at the Commission to ensure that liquidated damages are claimed from the contractor as he did not perform within the contract terms and there were no certificates of completion to prove the successful completion of works. Your Committee awaits a progress report on the matter.

ii. Unsatisfactory Work

The Controlling Officer submitted to your Committee that it was true that the gate was initially seven meters in length. However, the contractor was instructed to rectify this by cutting the gate into two parts. The four meter part was the one that opened and closed, while the three meter part was permanently fixed. The gate was rectified before the contractor was paid in full and was fully functional.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer as it is evident that there was no supervision of works at this project. In view of the foregoing, your Committee urges the Controlling Officer to ensure that the erring officers are sternly cautioned and also that works are rectified without any further delay since there is no evidence to prove that they were rectified. Your Committee will await a progress report on the matter.

iii. Lack of a Performance Bond

The Controlling Officer submitted to your Committee that this was because the contractors who were mainly in Category 5 and 6 had challenges to raise covers for the advance payments owing to the cost attached to the application for the same by the insurance companies. The Commission realised that this requirement would have delayed the commencement of the projects. To mitigate for lack of the performance bond, the Commission put in place the following measures:

- three project supervisors, one of whom was the District Works Supervisor from the Ministry of Transport, Works, Supply and Communications (Buildings Department), were engaged to monitor the project;
- the Supervisors only sanctioned payments of works executed, that is, the contractor could only claim for works done at various stages of the projects; and
- the contract had a liquidated damage clause.

Committee's Observations and Recommendations

Your Committee observes with concern that the Commission allowed unlimited variations which led to huge costs on the works due to poor planning. Further, the procurement procedures were not followed in this contract in that there was single sourcing and your Committee found this highly irregular. Your Committee urges the Controlling Officer to ensure that management is sternly cautioned for this failure as it can lead to corrupt practices by officers charged with this responsibility. Your Committee, however, recommends the matter for closure subject to audit verification.

q) East Central Regional Office

i. Missing Payment Vouchers

The Controlling Officer submitted to your Committee that the vouchers were handed over to the Office of the Auditor General. Nevertheless, the relevant copies were available for audit verification.

Committee's Observations and Recommendations

Your Committee finds the reason given by the Controlling Officer misleading and directs him to ensure that the erring officers were disciplined for this failure. Your Committee awaits a progress report on the matter.

ii. Construction of Visitor's Toilets at Embassy Park National Monument – Ailito Cleaning Services

• Delayed Completion/Lack of Handover

The Controlling Officer submitted to your Committee that due to inadequate funds, the Commission opted for a labour based contract. However, the contractor abandoned the site resulting in delay in the completion of works.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that works were abandoned by the contractor despite having been paid over ninety five percent of the contract price. Your Committee directs the Controlling Officer to ensure that liquidated damages and other applicable penalties are claimed from the contractor for failure to complete the project within the specified period. Your Committee awaits a progress report on the matter.

• Irregular Payment

The Controlling Officer submitted to your Committee that the Commission acknowledged the audit observation that K 17, 015 was paid to the contractor before the satisfactory completion of the works. However, the Commission had instituted disciplinary action against the officer who caused this expenditure. Further, the Commission had requested the officer to respond to the circumstance and was awaiting a response.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to ensure that the funds are recovered from the officer without any further delay. Your Committee will await a progress report on the matter.

iii. Tourism Concession Agreement – Lundazi Castle Hotel

The Controlling Officer submitted to your Committee that the Commission took note of this anomaly and the Concessionaire was reminded about his obligation in writing. Unfortunately, at the time he was about to start the construction of the other two chalets and fencing the site, the land had been encroached. This matter was currently in the Courts of Law and, consequently, the works had stalled. The correspondence between the Concessionaire and the Commission was available for audit verification.

On the progress reports in implementing the capital investment and other developments, the Commission also reminded the Concessionaire of his obligation. Unfortunately, there was no compliance. Your Committee was informed that the latest reminder to this was during the months of December, 2015, and January 2016, respectively.

Committee's Observations and Recommendations

Your Committee observes with serious concern that the Commission was only reminded about the Concessionaire's failures after the audit and wonders whether the works were supervised and if there was any interest in the Commission knowing what was happening. Your Committee is also not clear on what was being awaited since it was evident that the Concessionaire had failed to comply with many clauses of the Tourism Concession Agreement (TCA) which was signed with him. In light of the above, Your Committee directs the Controlling Officer to ensure that he acted urgently on the matter in accordance with the provisions of the TCA without any further delay. He is further urged to ensure that the officers responsible are disciplined for failure to report and monitor the progress of the implementation. Your Committee will await a progress report on the matter.

r) Northern Regional Office

i. The Lumangwe/ Kabwelume Falls Tourism Infrastructure Development Project – Failure to Remit Funds K533, 202

The Controlling Officer submitted to your Committee that the purposes of the funds were to provide tourism infrastructure not only for Lumangwe and Kabwelume Falls in Mporokoso but also for the production of the Bill of Quantities (BoQ) for the tourism infrastructure at the Kalambo Falls as well as the extension of the Chishimba Falls Tourism infrastructure. In this regard, the breakdown was as follows: Lumangwe/Kabwelume Falls Infrastructure Development in Mporokoso K2,541,798 - (construction of the: visitor information center at the entrance to the Lumangwe/Kabwelume Complex; ablution block at Lumangwe Falls; resting shelter with ablution facilities at Kabwelume Falls; sinking of a borehole and erection of a water tank stand and purchase of a water tank at Lumangwe Falls; and suspended walk trails leading to Kabwelume Falls). The Controlling Officer further submitted that the amount of K533, 202 was used for the following activities at other sites in northern region:

- i) Chishimba Falls Infrastructure Development (Extension) K 250, 000;
- ii) production of BoQ for Kalambo Falls K 19, 390; and
- iii) administration and monitoring at Chishimba Falls and Kalambo Falls K263, 812.

The expenditure returns were available for audit verification.

Committee's Observations and Recommendations

Your Committee finds the reasons submitted by the Controlling Officer misleading because officers at the Commission failed to avail the documents to the auditors during the time of audit. Your Committee further observes with concern that the amount which went to the administration and monitoring of the two projects at Chishimba and Kalambo Falls was unacceptable as it was over fifty percent of the cost of the two projects. In this light, your Committee directs the Controlling Officer to ensure that the matter is investigated and that the culprits are disciplined accordingly. Your Committee awaits a progress report on the matter.

ii. Failure to Rehabilitate Director’s Residence

The Controlling Officer submitted to your Committee that the Director’s house had a number of structural problems such as poor water reticulation and a leaking roof, among others. Further, the amount of K40,000 was released to attend to the structural problems to which the water reticulation system was rectified. Your Committee was informed that the roof required a complete overhaul; consequently, timber was procured in anticipation that additional resources would be sourced. However, this was not tenable, and in order to complete the roofing, the Bills of Quantities had been prepared in anticipation of funding in the 2016 financial year.

Committee’s Observations and Recommendations

Your Committee expresses concern at the failure by the Commission to safeguard the wastage of public funds that will be caused by the decay of the materials. Your Committee finds it unacceptable that planks which are perishable could be bought without being sure of the additional resources. In this regard, your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers for this omission. He is further urged to ensure that more funds are sourced to complete the project without any further delay. A progress report on the matter will be awaited by your Committee.

iii. Construction of the Proposed Tourism Development Infrastructure at Kalambo Falls – Curve Contractors

• **Delayed Completion and Unclaimed Liquidated Damages**

The Controlling Officer submitted to your Committee that the Commission had approved three extensions to this contract. The extensions were necessitated by the challenges that the Contractor faced namely the poor state of the road from Mbala to the site, collapsed bridge and the heavy rains. The correspondence between the Contractor and the Commission was available for audit verification. The Controlling Officer further submitted that the Commission did not claim liquidated damages because it had authorised the extensions to the contract.

Committee’s Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the officers are disciplined for their failure to avail the relevant documents relating to the three extensions that were done on the contract. Your Committee also urges him to ensure that the works are expedited and completed. A progress report will be awaited by your Committee.

• **Irregular Variation**

The Controlling Officer submitted to your Committee that due to the extensions to the contract which the Commission had authorised, the variations and additional works were done when the contract was still subsisting.

Committee’s Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the concerned officers are disciplined for their failure to avail the documents relating to three extensions that were done on the contract. Your Committee also urges him to ensure that the works were expedited and completed and will await a progress report.

- **Weaknesses Identified in the Site Handover Report**

The Controlling Officer submitted to your Committee that:

- i. the Contractor was advised to maintain the landscaping in accordance with the contract and had since carried out the clean-up and maintenance works;
- ii. the pump had since been secured by a metal cage;
- iii. due to limited funds, the ticket office could not be built in the initial contract as such, the attendant was allowed to use the building for official duties; and
- iv. a full - time security guard had since been employed.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to institute disciplinary action by surcharging the erring officers who caused the theft. Your Committee awaits a progress report on the matter.

iv. Failure to Maintain Tourism Infrastructure at Ntumbachushi Falls in Kawambwa

The Controlling Officer submitted to your Committee that the provisions of *Section 8(1) Part II of the NHCC Act* applied to structures constructed before 1st January, 1924. Therefore, the structures cited in the Audit Report did not fall under this category. In addition, these structures were not properly sited as their proximity to the falls caused visual intrusion. In view of the above, the Commission had built modern infrastructure at the site and intended to demolish the old structures. The Commission also intended to rehabilitate the foot bridge once funds were available.

Committee's Observations and Recommendations

Your Committee notes the submission, but will await a progress report on the matter.

NORTH WESTERN WATER AND SEWERAGE COMPANY LIMITED

**AUDIT QUERY
Accounting and Other Irregularities**

PARAGRAPH 14

15. A review of operations of the Company for the period from 1st January, 2012 to 31st December, 2014, revealed irregularities as set out below.

a) Poor Physical and Environmental Security

The Controlling Officer submitted to your Committee that the query is as a result of the inadequacies in the rooms accommodating the servers. He also added that the leaking air conditioner had since been worked on and the pipe drain outside the room is functional and fire extinguishers had been installed within the vicinity of the server room. The Controlling Officer also submitted to your Committee that the company shall ensure that CoBIT DSS01.04 Manage the Environment is adhered to in the future.

Committee's Observations and Recommendations

Your Committee observes with concern that the Water Utility Company (WUC) has taken long to improve its physical and environmental security for its information processing facilities. Your Committee reminds the Controlling Officer that there is a great risk in operating without servers racks to secure server equipment and that the state of affairs will also leave room for damages to computer equipment which will eventually result in the loss of data. Your Committee, therefore, urges the Controlling Officer to ensure that the matter is resolved without any further delay. Your Committee will await a progress report on the matter.

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

The Controlling Officer submitted to your Committee that the query arose as a result of the ICT policy which covers Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) was still in draft form awaiting Board approval. The Controlling Officer submitted to your Committee that the ICT Policy had been approved by the Board in which the BCP and DRP had been imbedded.

Committee's Observations and Recommendations

Your Committee observes with concern that the Business Continuity Plan (BCP) and Disaster Recovery Plan are merely mentioned in security policies, but not developed as separate documents and circulated to the responsible officers for reference in the event of a disaster. Your Committee further observes that the failure to have the two documents would result in the failure to resume timely normal operations in cases of disaster or significant damage to its Information Processing Facilities (IFP). Your Committee, therefore, directs the Controlling Officer to ensure that the two documents are developed without any further delay and will await a progress report on the matter.

c) Poor Administration of Backups - Lack of Backup Policy

The Controlling Officer submitted to your Committee that the query arose due to the lack of the ICT Policy at the time which covers Administration of Backups. The Controlling Officer submitted to your Committee that the ICT Policy had been approved by the Board which also covers back up processes.

Committee's Observations and Recommendations

Your Committee observes with concern that the backup policies are merely mentioned in the ICT Policy and not developed as separate documents and should include such details as procedures for carrying out backups and restoration. Your Committee further observes that the failure to have a separate document will result in the loss of company data which will be costly and time consuming to be recovered. Your Committee, therefore, directs the Controlling Officer to ensure that a separate back up policy is developed without any further delay and your Committee will await a progress report on the matter.

d) Failure to Carry out Backups for Payroll Data

The Controlling Officer submitted to your Committee that the query arose due to lack of external backups for payroll data. The Controlling Officer submitted to your Committee that there were now back up carried out on external media and stored offsite.

Committee's Observations and Recommendations

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

e) Lack of Offsite Storage Facility for Backups

The Controlling Officer submitted to your Committee that the query arose as a result of the Backups being maintained within the same premises though away from the server room. The Controlling Officer submitted to your Committee that the Company now has offsite storage facility for backups away from operational offices.

Committee's Observations and Recommendations

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

f) Failure to Replace Failing Hard Drives on the Main Server

The Controlling Officer submitted to your Committee that the query arose as result of faulty hard drives which were on order awaiting supply. The Controlling Officer submitted to your Committee that the hard drives had since been replaced.

Committee's Observations and Recommendations

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

g) Lack of Service Level Agreements (SLAs)

The Controlling Officer submitted to your Committee that the query arose because the file on which some of the copies of the Service Level Agreements (SLAs) could not be located at time of audit. The Controlling Officer submitted to your Committee that the copies of the Service Level Agreements had been traced and were available for verification.

Committee's Observations and Recommendations

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

h) Lack of Data Migration Procedures

The Controlling Officer submitted to your Committee that the query arose due to lack of documentation with respect to the migration of data from Piano to Pastel ERP. The Controlling Officer submitted to your Committee that the ICT policy had since been approved and outlines the migration procedures of data from one system to another. The Controlling Officer submitted to your Committee that in future strict adherence to CoBIT 5 requirements would be observed.

Committee's Observations and Recommendations

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

i) Lack of Support and Maintenance Agreements

The Controlling Officer submitted to your Committee that the query arose because the file on which some of the copies of the Service Level Agreements (SLAs) could not be located at time of audit. The Controlling Officer submitted to your Committee that the copies of the Service Level Agreements had been traced and were available for verification.

Committee's Observations and Recommendations

Your Committee does not accept the reasons given and urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers for failure to avail the Service Level Agreements to auditors at the time of audit. Your Committee will await a progress report on the matter.

j) Lack of Documented Procedures – System and Transaction Data - K708, 781

The Controlling Officer submitted to your Committee that the query arose as a result of not being compliant to Cobit 5, though an internal control procedure existed in the Company's Commercial Policy and was adhered to. The Controlling Officer submitted to your Committee that NWWSSCL had continued to observe the internal control procedures in the Commercial Policy.

Committee's Observations and Recommendations

Your Committee observes with concern that the reversals and adjustments in amounts totalling K708, 781 were passed without being supported by approved documents. Your Committee, therefore, urges the Controlling Officer to ensure that procedures for handling and administering changes to both systems and transaction data are developed without any further delay. Your Committee further directs the Controlling Officer to ensure that the amount in question is documented without any delay and your Committee will await a progress report.

k) Lack of IT Risk Management Framework

The Controlling Officer submitted to your Committee that the query arose as a failure to comply with Cobit 5. The Controlling Officer submitted to your Committee that NWWSSCL board had since approved the ICT policy which addresses the ICT risk management. He also reported that it would look at ways to mobilise resources to help commercial utilities become compliant with Cobit 5. However, this may take time due to the cost of implementing Cobit 5. For example, the cost of certification was USD 350 per person and USD 126, 641.50 for consultancy respectively.

Committee's Observations and Recommendations

Your Committee resolves to keep the matter in view in future audits but impresses upon the Controlling Officer to ensure that funds are expeditiously secured to make the utility company be more compliant to Cobit 5.

l) Failure to Fill Vacant ICT Positions

The Controlling Officer submitted to your Committee that the query arose as a result of vacancies in the ICT section. The Controlling Officer submitted to your Committee that the NWWSSCL advertised for the ICT vacant positions which would be filled in once the process was concluded.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process is expedited and resolves to await a progress report on the matter.

m) Poor Administration of the Active Directory (AD)

Active Directory (AD) is a directory service implemented by Microsoft for Windows domain networks. An AD domain controller authenticates and authorises all users and computers in a Windows domain type network - assigning and enforcing security policies for all computers and installing or updating software.

NWWSSCL had an Active Directory which it is utilising to administer and manage internal mail and the users on its management information systems.

The Controlling Officer submitted to your Committee that the query arose due to the different setting of password requirement in remote district offices where frequent logging challenges were being faced as a result of distances from IT personnel assistance who were based in Solwezi. The Controlling Officer submitted to your Committee that staff training was being conducted on password management.

Committee's Observations and Recommendations

Your Committee will keep the matter in view in future audits.

i. Failure to adhere to Password Policies

According to the NWWSSCL's Domain Policy on password settings, a password should have at least the following properties:

- Minimum length of seven (7) characters;
- Password should have a history (days of twenty-four (24));
- Maximum password age (days) of sixty (60); and
- Minimum password age (days) of one (1).

ii. User Password Set Never to Expire and Separate Staff still Active on the System

During the period under review, there were thirty nine out ninety active users whose passwords were set not to expire contrary to the domain policy which requires the password to expire after sixty days. Included in the thirty nine users were six users who had domain administrator privileges.

iii. Failure to De-activate Dormant User Accounts

The Controlling Officer submitted to your Committee that the query arose due to the failure to de-activate dormant user accounts. The Controlling Officer submitted to your Committee that user accounts in question had either been de-activated or re-allocated.

Committee's Observations and Recommendations

Your Committee resolves to keep the matter in view in future audits.

iv. Separated Employees Still Active on the AD

The Controlling Officer submitted to your Committee that the query arose due to failure to de-activate accounts which belonged to separated staff, which NWWSSCL still required for operation. The Controlling Officer submitted to your Committee that access to the same accounts was restricted to authorised personnel only.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter does not recur. However, your Committee resolves to close the matter subject to audit verification.

n) Poor Administration of Systems

i. System Administrators with Business Process Privileges - Pastel Evolution ERP

The company was registered to operate the following Sage Pastel modules, among others: Account Receivable, Accounts Payable, Contract Management Basic, Point of Sale, Fixed Asset, BIC Standard, Audit Tool, Procurement and Municipal billing.

It was observed that the Assistant ICT officer (System) who had system administrator rights to the application had also full rights and privileges to carry-out business processes on the accounts receivable module, such as ability to add, delete, view or modify accounting data.

In addition, the Billing Officer, had administrator privileges to the municipal billing module to assign or revoke user rights to the billing application and also full rights to the menu and authorisation roles to carry out all business transactions such as ability to add, edit, view, or modify billing transactions.

As a consequence of system administrators performing business transactions, there was inadequate segregation of duties rendering the system susceptible to abuse or manipulation.

The Controlling Officer submitted to your Committee that the query arose because of the lack of clear segregation of duties that relate to two distinct roles where the ITC Administrator had privileges of carrying out business processes and the Billing Officer had rights of undertaking Administrator application roles. The Controlling Officer submitted to your Committee that the overlapping roles of System Application and business process had since been aligned according to their respective functions. He also stated that the Administrator had overall ICT privileges.

Committee's Observations and Recommendations

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

ii. Failure to Deactivate the User Account of a Separated ICT Staff - Sage Pastel

The Controlling Officer submitted to your Committee that the query arose due to failure to de-activate the former ICT Officer's Account. The Controlling Officer submitted to your Committee that the access rights and account of the former ICT Officer had since been deactivated.

Committee's Observations and Recommendations

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

iii. Poor User Account Administration - Dove Payroll

The Controlling Officer submitted to your Committee that the query arose as a result of Accounting Staff use of the Administrator rights to undertake business processes. The Controlling Officer submitted to your Committee that the Service provider was engaged to separate business processes from administrator rights.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the separation of business processes from the administrator rights is done without any further delay. Your Committee will await a progress report on the matter.

o) Installation of Questionable Programs on Computers

The Controlling Officer submitted to your Committee that the query arose when programmes not related to company's business or objectives were found on a computer for Assistant ICT Officer (Systems). The Controlling Officer submitted to your Committee that the NWWSSCL had now an approved ICT Policy in place of not allowing installation of any programmes on its computers which were not related to Company's objectives or business.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to institute disciplinary action against the erring officers for installing questionable programs on the company computer. Your Committee further urges the Controlling Officer to ensure that there is discipline in the usage of ICT equipment. Your Committee, however, recommends the matter for closure subject to audit verification.

p) Lack of Insurance Cover for ICT Equipment

The Controlling Officer submitted to your Committee that the query arose as a result company's failure to pay premiums on its insurance policies due to financial constraints. The Controlling Officer submitted to your Committee that the company had drawn up a payment plan to liquidate the premium for ICT equipment and other assets.

Committee's Observations and Recommendations

Your Committee urges the Controlling officer to ensure that premiums are paid regularly as and when they fall due. Your Committee further urges the Controlling Officer to ensure that he liaises with the Secretary to the Treasury to secure funds for dismantling the arrears owed on premiums. Your Committee awaits a progress report on the matter.

q) Failure to Utilise Modules Paid for in SAGE Evolution ERP K6, 935

The Controlling Officer submitted to your Committee that the query arose due to non-use of the three modules mentioned which were procured as part of the system. The Controlling Officer submitted to your Committee that with the other modules now fully implemented, a programme of using the business intelligence centre, the procurement module and the Customer Relationship module would be implemented within the first half of 2016. He also added that the major objective of procuring and installing the SAGE Evolution ERP, was to integrate all critical business processes of customer relationship, accounting, stores management, billing, procurement and others for effective and efficient management. During the implementation, however, the municipality billing was very complex resulting in much time being spent on its implementation. This left the other modules unimplemented within expected timeframes.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to expedite the process of implementing the remaining modules in order to have value for money from them and avoid loss of funds due to time. Your Committee awaits a progress report on the matter.

r) Operations of the Board

i. Questionable Board Expenditure K34, 048

The Controlling Officer submitted to your Committee that this query arose because at the time of Audit the minutes of the Board and Annual General meetings and the attendance registers were not availed to the Auditor. Further, the query also related to the K34, 048 that was spent on holding the EGM in 2012, on the nomination of the Board Directors which cost appears as Board expenditure in the financial statements. The Controlling Officer submitted to your Committee that board minutes for 2013 and attendance register for 2012 Shareholders Extra Ordinary General Meeting were provided for verification to the Auditors in the response to the Management Letter issued earlier. The Controlling Officer submitted to your Committee that there would be timely production of minutes in the future.

Committee's Observations and Recommendations

Your Committee expresses displeasure at the failure to avail documents to auditors at the time of audit and the Controlling Officer is urged to ensure that disciplinary action is taken against the erring officers. Your Committee awaits a progress report on the matter.

ii. Irregular Rate of Board Allowances

The Controlling Officer submitted to your Committee that the query arose as the result of Shareholders not having approved the new rates for the Board members despite being written to in December, 2013. The Controlling Officer submitted to your Committee that the Shareholders approved the Board allowances effective 1st January, 2014, when the rates were effected. This is ratified later at the Annual General Meeting.

Committee's Observations and Recommendations

Your Committee expresses displeasure at the failure to avail documents to auditors at the time of audit and the Controlling Officer is urged to ensure that disciplinary action is taken against erring officers. Your Committee will await a progress report on the matter.

iii. Questionable Composition of the Board

The Controlling Officer submitted to your Committee that the query arose as a result of letters of appointment not specifying the stakeholders being represented on the board. The Controlling Officer submitted to your Committee that all stakeholders were represented on the board.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Controlling Officer to adhere to the Ministerial guidelines and Circular Number MLGH/102/17/1 which provided for guidance on the composition of a board. He is directed to ensure that the matter is normalised without any further delay and your Committee will await a progress report on the matter.

s) Internal Audit Weaknesses

The Controlling Officer submitted to your Committee that the query arose due to lack of an Internal Audit Charter and non-recruitment of an Internal Auditor. The Controlling Officer submitted to your Committee that the Internal Audit Charter was now at draft stage awaiting stakeholder input. The position of Internal Auditor had since been advertised.

Committee's Observations and Recommendations

Your Committee finds it highly irregular that the company operated without an Internal Audit Charter which resulted in the non recruitment of an internal auditor. Your Committee observes with concern that the state of affairs left the company vulnerable as it had no strong internal control system in the absence of an internal auditor. Your Committee, therefore, urges the Controlling Officer to ensure that the position is filled without any further delay and it resolves to await a progress report.

t) Financial Performance – Statement of Comprehensive Income

i. Net Profit Margin Ratio

The Controlling Officer submitted to your Committee that the query arose as a result of a smaller customer base spread over a wide operation area. The Controlling Officer submitted to your Committee that NWWSSCL in its 2016 Annual plans and Budget has laid emphases to increasing operational efficiency, reducing costs and increasing revenues. You may wish to further note that except for 2012, the operating expenses had been higher than the operating gross profits resulting in net loss for 2013 and 2014. The Ministry also wishes to report that operating costs had been higher than gross profit since the Company began operations in 2000, the loss has been progressively decreasing. The Controlling Officer submitted to your Committee that NWWSSCL developed a Strategic plan 2015 to 2018, which is now being implemented. Some key objectives in the strategic plan is to grow the business of the Company from the current 13,000 customer connections to 21,600 in 2018. The focus is also increasing water production and supply capacity at reduced cost whilst meeting growing demand. These objectives will increase revenue generation and increase profitability while focusing on managing costs.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company increases its customer base as planned and also that costs are minimised as it is unacceptable for staff costs to have an upward trend despite the poor performance of the company, financially. Your Committee resolves to await a progress report on the matter.

ii. Operating Expenses as a Percentage of Revenue

The Controlling Officer submitted to your Committee that the query arose because of the observed trend in the variation of the operating expenses as a percentage of revenues. The Controlling Officer submitted to your Committee that the NWWSSCL in its 2016 Annual plans and Budget has laid emphases to increasing operational efficiency, reducing costs and increasing revenues. Also note that the customer base of the Company was relatively small and widely spaced. Further, the Regulator NWASCO changed the policy on new connections in 2013 which required the customer to meet only forty percent of the actual cost thus resulting in loss of revenue. The Controlling Officer submitted to your Committee that NWWSSCL developed a Strategic plan 2015 to 2018, which is now being implemented. Some key objectives in the strategic plan is to grow the business of the Company from the current 13,000 customer connections to 21,600 in 2018. The focus is also increasing water production and supply capacity at reduced cost whilst meeting growing demand. These objectives would increase revenue generation and increase profitability while focusing on managing costs.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company increases its customer base as planned and also that costs are minimised as it is unacceptable for staff costs to have an upward trend despite the poor performance of the company, financially. Your Committee resolves to await a progress report on the matter.

u) Financial Positions as at 31st December, 2012, 2013 and 2014

i. Receivable Turnover Ratio

The Controlling Officer submitted to your Committee that the query arose because the Debtors amounts were increasing showing a slackening trend in Customer settling their bills. Of the total amount owed of K20.3 million by customers, 60% was owed by Government Departments and Ministries. For over four years, Government Departments had been very reluctant settling water bills thus leading to the poor Receivable Turnover ratios above. Efforts by the Ministry through NWWSSCL to pursue GRZ debt with the Ministry of Finance had yielded little results. The Controlling Officer submitted to your Committee that as of September, 2015, the Ministry again submitted a schedule to the Ministry of Finance (MOF) of K13 million that GRZ owed the Company as requested by the MOF. They were assured the payment would be made before the end of 2015, but this was not done. He also reported that debt management for other customers had intensified to bring them to current. The Controlling Officer submitted to your Committee that it would continue to engage the MOF and other Ministries to settle the outstanding debt. Further, the Ministry as helping in sourcing some funds to procure Pre-paid meters that would be installed at all GRZ properties and other customers.

Committee's Observations and Recommendations

Your Committee found the Controlling Officer's submission unacceptable as it had been the same for the past three years regarding Government institutions owing the company. The Controlling Officer is strongly urged to ensure that the prepaid meters are installed in all Government institutions in order to compel them to pay as they used water without any further delay. The Secretary to the Treasury is, particularly, urged to provide funds to dismantle the amounts owed by the Government by deducting from source in order to expedite the process. Your Committee will await a progress report on the matter.

ii. Total Asset Turnover Ratio

The Controlling Officer submitted to your Committee that the query arose because the Asset base of the Company is bigger than its revenue base. This underscores the fact water and sewerage business is a high Capital intensive industry. With a small Customer base and low regulated tariffs the Company historically and currently cannot sufficiently generate revenues to give a better returns on Investment.

The Controlling Officer submitted to your Committee that NWWSSCL in the short-term was increasing water production and supply capacity in Solwezi which had high revenue generating potential to improve revenues and thus increase the Asset Turnover ratio without significantly increase the Asset base. The Controlling Officer submitted to your Committee that the Company had developed a Strategic plan covering the period 2015 to 2018, which was now being implemented. Some key objectives in the strategic plan was to grow the business of the Company from the current 13,000 to 21,600 in 2018. The focus was also increasing water production and supply capacity at reduced cost whilst meeting growing demand. These objectives would increase revenue generation and thus improve this Ratio.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company explores more available options to improve its customer base and other strategies to revamp its profitability. Your Committee resolves to keep the matter in view in future audits.

v) Comparative Performance in the Water and Sanitation Sector

i. Operational Cost Coverage by Collection

The Controlling Officer submitted to your Committee that the query arose because the result of failure to meet operational costs from the collections made. The Controlling Officer submitted to your Committee that as of September, 2015, the Ministry again submitted a schedule to the Ministry of Finance (MOF) of K13 million that GRZ owes the Company as requested by the MOF.

The company was assured that the payment would be made before the end of 2015, but this was not done. He also added that debt management for other customers had intensified to bring them to current. The Controlling Officer submitted to your Committee that the company would continue to engage the MOF and other Ministries to settle the outstanding debt. Further, the Ministry was helping in sourcing some funds to procure Pre-paid meters that would be installed at all GRZ properties and other customers.

Committees Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company improves its performance without any further delay using all available options. Your Committee finds the drastic fall from over one hundred percent to fifty-four percent unacceptable and the Secretary to the Treasury is particularly urged to ensure that he provides some funds to enable the Company improve its liquidity levels. Your Committee will await a progress report on the matter.

ii. Sanitation Coverage

The Controlling Officer submitted to your Committee that the query arose because currently North Western Province generally had more septic tanks than central sewer system. There were only three towns namely; Zambezi, Kabompo and Solwezi which had very small component of sewer systems not adequate to increase Sanitation coverage to the 80% accepted by the Regulator. The Controlling Officer submitted to your Committee that NWWSSCL had developed a Strategic plan 2015 to 2018 which was now being implemented. Some key objectives in the strategic plan was to grow the sewerage connections from the current 400 to 9,000 by 2018. Further, NWWSSCL would in the short-term focus on the rehabilitation of sewerage systems in Zambezi, Kabompo and Solwezi to improve the flows. The Ministry would help in mobilising resources for these activities.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company increases its sewerage (sanitation) coverage to acceptable ratios as the current status is alarming and unacceptable. Your Committee further urges the Controlling Officer to ensure that the Ministry enhances its efforts to source for funds in order to improve the status quo as it is hazardous to public health. Your Committee will await a progress report on the matter.

w) Irregularities in Billing Systems Administration

i. Customer Accounts with Incomplete Details on the System

The Controlling Officer submitted to your Committee that the query arose as a result of 8, 424 customer accounts not having complete records on the system. He informed your Committee that the exercise to rebuild the data had commenced except in situations where the customer was not the actual consumer who were tenants only. Further it was not possible to link some telephone numbers for consumers to that of landlords who appeared in the database as customers due to legal restrictions on telephone database by the telephone service providers. Other customer records had no physical addresses due to non - availability of Plot or house numbers in the Districts. The Controlling Officer submitted to your Committee that NWWSSCL was in the process of capturing all customer information at time of application for a new connection and shall provide for capturing of information for tenants. The company would work in conjunction with Local Authorities to facilitate the numbering of plots and houses.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of capturing customer details is expedited and your Committee will await a progress report on the matter.

ii. Unbilled Customer Accounts

The Controlling Officer submitted to your Committee that the query arose when 393 customer accounts were found with no tariff structure allocated to each of them. The Controlling Officer submitted to your Committee that NWWSSCL was in the process of writing off the debtors in question. He also added that some of these were old customers not on service as they had detached themselves after acquiring their own water supply system but still owed the company as in the case of staff from Solwezi College of Education. In the billing system if these customers were allocated a tariff they would be charged the customer service fees.

Committee's Observations and Recommendations

Your Committee finds the situation unacceptable as it is clear that the company did not keep track of its customers' details. Your Committee directs the Controlling Officer to ensure that the details are updated and that funds are recovered from these debtors without any further delay. Your Committee resolves to await a progress report on the matter.

iii. Customers with Duplicate Account Numbers

The Controlling Officer submitted to your Committee that the query arose from the billing system which showed flaws in data management as evidenced by the tabulation. The Controlling Officer submitted to your Committee that NWWSSCL was capturing customer properties to update its network and customer maps through its GIS personnel and such errors in the billing would be fully addressed as the company finishes carrying out database clean up exercise. It was no longer possible to generate a duplicate customer account number but that was observed as one-off occurrence.

Committee's Observations and Recommendations

Your Committee finds the situation at the Company unacceptable and urges the Controlling Officer to sternly caution the officers responsible against this failure as it is evident that they

inputted wrong details in the system. Your Committee also urges the Controlling Officer to ensure that the matter is resolved without any further delay by way of cleanup of the system. Your Committee awaits a progress report on the matter.

iv. Failure to Remit Collections from Water Sales by Kiosks

The Controlling Officer submitted to your Committee that the query arose from Water Kiosks which were operated in the formal and informal housing areas to assist the urban poor in accessing the service. The Controlling Officer submitted to your Committee that the NWWSSCL had continued to sensitise the community and the vendors on the importance of remitting funds for sustainability of the operations. The company had also included procurement of pre-paid meters under the Ministry’s programme to reduce non - revenue water (NRW).

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the officers responsible are disciplined as it is evident that collections were not remitted despite being collected from the user communities. Your Committee further urges the Controlling Officer to ensure that the revenue collection points are monitored to ensure that receipts are issued to clients so as to reduce theft by public officers. Your Committee resolves to keep the matter in view in future audits.

v. Customers with Zero and Negative Water Consumption

• Zero Consumption

A review of the consumption report revealed that there were four thousand six hundred and sixty two (4,662) customers that had zero consumption during the financial year ended December 2014. The figure of zero consumption represented thirty-six percent of the total customer base of thirteen thousands and fifty nine (13,059) maintained on the customer master database. The reasons for zero consumption are summarized in the table below.

REASON	NUMBER OF CUSTOMERS
Not Defined	607
No reading from Piano	2
No one home	5
No consumption	3,975
New accounts	63
Inactive	5
Gate locked	3
Dog	1
Construction	1
Total	4662

A further analysis of customers with zero consumption, revealed that one thousand four hundred and fifty seven (1,457) active accounts, excluding new connections, had zero consumption for period ranging between four (4) and twelve (12) months.

The Controlling Officer submitted to your Committee that the query arose when some customer accounts were found to have recorded zero consumption. He also added that NWWSSCL was in the process of capturing customer data that would clean the accumulated zero consumption customer accounts. Further, NWWSSCL through the Ministry was procuring 3000 meters to replace old meters.

Committee's Observations and Recommendations

Your Committee does not accept the reasons given by the Controlling Officer as such customers would not be left without paying anything. Your Committee urges the Controlling Officer to ensure that the NAWASCO sector report for 2014, No.5.4.1 on *stuck and Defective Meters* is imposed so that standard monthly rates are billed on the customers and that funds are recovered promptly as they receive the service in the months the meters read zero. Your Committee further urges the Controlling Officer to ensure that the situation is curbed by way of supplying prepaid meters to customers. Your Committee will await a progress report on the matter.

- **Negative Consumption**

The Controlling Officer submitted to your Committee that the query arose as negative consumption was recorded on some customer accounts. The Controlling Officer submitted to your Committee that NWWSSCL had included procurement of ultrasonic prepaid water meters in the programme to reduce non-revenue water (NRW) spearheaded by the Ministry. This arose from meter readings which had been estimated due to difficulty in getting actual reading. This happened when the water meters became obscure due to weather and at times water quality (High Iron and Manganese content in the water) the type of water meter (wet dial) also permits water to be in contact with the mechanical parts of the meter. When the meters were cleaned and readings were visible, it could be found that the estimates based on three months consumption were higher than actual readings.

Committee's Observations and Recommendations

Your Committee does not accept the reasons given by the Controlling Officer as such customers will not be left without paying their differences. Your Committee urges the Controlling Officer to ensure that funds are recovered promptly as they receive the service in the months the meters are unreadable. The Controlling Officer is also urged to ensure that the situation is curbed by way of supplying prepaid meters to the customers. Your Committee will await a progress report on the matter.

- vi. **Customers Billed On Average Consumption Over Three Months**

The Controlling Officer submitted to your Committee that the query arose when some customers were found to be on assessed consumption for more than three consecutive months as result of stuck meters which at times took longer to replace due to procurement procedures and financial constraints. The Controlling Officer submitted to your Committee that the company had been replacing the stuck water meters and also those with defects such as defaced and obscure faces. The Controlling Officer submitted to your Committee that NWWSSCL would eventually replace conversional meter with ultrasonic meters as opposed to going for flat rates which did not reflect a fair way of charging a customer.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of replacing defective meters with ultrasonic prepaid meters is expedited and resolves to await a progress report on the matter.

vii. Failure to Disconnect Past Due Customer Accounts

The Controlling Officer submitted to your Committee that the query arose from the discovery of customers who were not current, but didn't have service withdrawn due to the following;

- some strategic institutions such as Schools, Hospitals and Security Institutions; and
- few domestic accounts where it is morally compelling such as during a funeral.

The Controlling Officer submitted to your Committee that NWWSSCL had submitted a proposal to the Ministry for procurement of ultrasonic prepaid water meters under the programme to reduce non-revenue water (NRW).

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Non-Revenue Water is reduced to acceptable rates by ensuring that all its infrastructure is maintained and also that old customer lines are disconnected to avoid this irregularity. He is further urged to ensure that all outstanding bills relating to old and disconnected customers are recovered without any further delay. Your Committee will await a progress report on the matter.

viii. Metered Customers on Meter Reading Report not on the Customer Master

The Controlling Officer submitted to your Committee that the query arose when 146 customers with water meter readings that were not on the Customer Master Database. The Controlling Officer submitted to your Committee that NWWSSCL was capturing pipe network and customer properties using GIS to update its maps and this would result in the customer base clean up.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the clean up exercise is expeditiously done and it resolves to await a progress report on the matter.

ix. Metered Customers on the Customer Master not on the Meter Reading Report

The Controlling Officer submitted to your Committee that the query arose when 444 metered customers on the customer master were not in the meter readings report caused by either of the following factors:

- the customers were disconnected and have failed to liquidate their bills over a long period of time and the debts were yet to be written off; and
- during the building up of the database, data importation from the old billing system had not been cleaned up.

The Controlling Officer submitted to your Committee that the software vendor Omni Africa had been contacted to have the issues resolved so as to stop charging service fees to customers disconnected.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the clean up exercise is expeditiously done and resolves to await a progress report on the matter.

x. Failure to Refund Customers' Water Reconnections Capital Contributions

The Controlling Officer submitted to your Committee that the query arose when 171 customers who had connections beyond the standard minimum charge of K 617 had not been refunded their sixty percent contribution through direct credit on their customer accounts. The Controlling Officer submitted to your Committee that all affected customers had been credited with the same rebate as per policy. New procedure had since been put in place to ensure all amounts to be credited to the customer were done at the time of creation of the customer account.

Committee's Observations and Recommendations

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

xi. Discrepancies between Revenue Recorded in Financial Statement and Billing Report

The Controlling Officer submitted to your Committee that the query arose from the fact the Financial statements includes cash sale revenues and other revenues that were not billed directly through Customer Billing Accounts. The Controlling Officer submitted to your Committee that the reconciliation reports to explain the differences had been done and were available for verification.

Committee's Observations and Recommendations

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

xii. Discrepancies between Debtors Balances in Pastel Evolution and the Financial Statement

The Controlling Officer submitted to your Committee that the queries arose due to the higher debtor figure in the draft financial statements compared to the debtor figure in the billing system. The Controlling Officer submitted to your Committee that the reconciliation had been done and available for verification.

Committee's Observations and Recommendations

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

xiii. Customers on Wrong Tariff Plan

The Controlling Officer submitted that the query arose when eighty-three non domestic customer accounts were captured under the GRZ category. The Controlling Officer submitted to your Committee that realignment of the tariff plan had been done where such was the case. This however did not create any variance in the commercial values for services rendered as the non-domestic category tariff is the same throughout.

Committee's Observations and Recommendations

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

xiv. Irregular Receipting of Cash Sales by Cashiers

- **Duplicate Receipt/Invoice Numbers**

An analysis of the detailed collection report revealed that there were two (2) duplicate invoice numbers with a net amount totalling K300.

The Controlling Officer submitted to your Committee that the query arose when duplicate receipt/invoice numbers were noted as a result of failure in the system. He, however, reported that the duplication had since been corrected. The Controlling Officer submitted to your Committee that the Software Vendor Omni Africa had been informed to check the system in order to avoid future recurrence.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the system is updated to resolve such irregularities and it recommends the matter for closure subject to audit verification.

- **Irregular Gaps in Receipt Sequences**

The Controlling Officer submitted to your Committee that the query arose as a result of lack of a given sequence of receipts which could not be accessed on the system at the time of audit. The Controlling Officer submitted to your Committee that the system generated receipts could be traced in other Districts and was available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter does not recur. Your Committee, however, recommends the matter for closure subject to audit verification.

x) Weaknesses in Managing Expenditure

i. Questionable Expenditure – Statutory Management of Another CU

- **Failure to Avail Documentation Relating to Appointment as Statutory Manager**

The Controlling Officer submitted to your Committee that this query was as a result of failure to avail actual appointment letters or any agreements relating to the appointment of the Statutory Manager. The Controlling Officer submitted to your Committee that a new management team had been appointed to run CHWSC as of 1st March, 2015.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that documents relating to the appointment of the Statutory Manager were not availed for audit and urges the Controlling Officer to ensure that the officers responsible are disciplined for this failure as circumstances are not clear as to why they chose to wilfully conceal information. Your Committee also urges the Controlling Officer to ensure that the matter does not recur and your Committee will await a progress report.

- **Lack of Board Oversight**

The Controlling Officer submitted to your Committee that the query arose from the fact that there was no board involvement in the statutory management of CHWSC. He, however, informed your Committee that the Board was dissolved and non-functional at the time. The Controlling Officer submitted to your Committee that upon appointment and inauguration of the Board in October, 2013, reports were being submitted to the Board as shown in the 2013 Annual Report which was availed to the auditors at the time of audit.

Committee's Observations and Recommendations

Your Committee expressed concern at the failure by the Controlling Officer to ensure that Parastatal Bodies under his jurisdiction have full operating boards at all times to avoid such irregularities. Your Committee further urges the Controlling Officer is also urged to ensure that all work plans, budgets and progress reports are submitted to the board for approval without any further delay. Your Committee will await a progress report on the matter.

- **Failure to Secure Reimbursement of Statutory Management Expenses K503, 044**

The Controlling Officer submitted to your Committee that it had since received the supporting documents from NWWSSCL and would reimburse them appropriately when funds were available. The Controlling Officer submitted to your Committee that in future it would provide funds required for statutory management upfront.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management is sternly cautioned for this failure and also that the reimbursement is done without any further delay. Your Committee will await a progress report on the matter.

ii. Irregular Legal Expenses

The Controlling Officer submitted to your Committee that the query arose when the Company allowed the Company Lawyers to represent the staff in a matter in which there was criminal trespass on company premises where the staff stays. As the staff went to pursue the issues of trespass, he was assaulted and seriously incapacitated. Two months after taking the matter to court and having refused to settle the matter out of court, the staff was counter sued for criminal trespass and occasioning actual body harm. The Controlling Officer submitted to your Committee that NWWSSCL had since received the final bill from the Company Lawyers and deductions had since commenced.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the company involved itself in the personal affairs of an employee. Your Committee urges the Controlling Officer to sternly caution management to ensure that they desist from misusing their positions to pay for costs which do not affect the Company in any way especially that the officer involved went to pursue the matter in his individual capacity and only involved the Company thereafter. Your Committee further urges the Controlling Officer to ensure that funds are reimbursed without any further delay. Your Committee will await a progress report on the matter.

iii. Questionable Approval of Payments K113,427

The Controlling Officer submitted to your Committee that the query arose when five payments in amounts totalling K113, 427 in advances and imprest made by NWWSSCL but these were not availed to the company to show which junior staff approved or which payments were approved by the beneficiaries. The Controlling Officer, however, informed your Committee that since the objective of any audit was to improve internal control systems and procedures, NWWSSCL had instituted measures to ensure that only authorised staff with mandate to approve payments approved and beneficiaries of such payments do not approve same documents.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management is sternly cautioned for this irregularity and that the payments made without approval by the relevant officers are approved without any further delay. Your Committee also urges the Controlling Officer to ensure that internal controls are strengthened and that the erring officers are disciplined. Your Committee awaits a progress report on the matter.

iv. Missing Payment Vouchers - K335, 251

The Controlling Officer submitted to your Committee that the query arose when the Auditors upon inspection of the Bank statement and cheque tabs that the said transactions amounting to K335, 251 had no supporting payment vouchers. The payment vouchers were re-arranged by staff mostly during Financial Audits by the External Auditor Messrs George Baison and Obed (GBO). The other reason was that some cancelled cheque tabs were not properly filed and so the Auditors could not availed for inspection. He added that the missing payment vouchers and cheque tabs were retrieved and were available for verification. The Controlling Officer submitted to your Committee that the matter had been addressed by improving the filing system. Responsible staff would be retrained in document management. Further NWWSSCL had introduced performance Indicators of this activity and given to the responsible staff which would be monitored.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the erring officers are disciplined for this failure and that the documents are availed to the auditors for verification. Your Committee will await a progress report on the matter.

v. Inadequately Supported Payments K2, 719,375

The Controlling Officer submitted to your Committee that the query arose due to the challenge of remoteness of stations of operations that North Western Water and Sewerage Company faces from the supply markets on the Copper belt and in Lusaka. Once payments were made to suppliers and contractors obtaining receipts especially was a challenge as most suppliers preferred their cheques to be deposited rather than travelling to collect.

The Controlling Officer submitted to your Committee that the missing documents had since been collected attached and were available for verification. The Controlling Officer submitted to your Committee that NWWSSCL would ensure that documents such as receipts were availed prior to the release of cheques and made timely follow ups on the collection of relevant documents pertaining to payments. Further, NWWSSCL would also sensitise suppliers and contractor on the importance of providing documentation for all transactions.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer. Your Committee therefore, urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers. The matter is recommended for closure subject to audit verification.

vi. Unretired Accountable Imprest - K1, 496,425

The Controlling Officer submitted to your Committee that this issue arose because of the separate filling systems that North Western Water and Sewerage maintains for imprest Applications and for Imprest Retirements both of which happen at separate times which leads to Imprest retirements not being attached to the payment vouchers. The Controlling Officer submitted to your Committee that Imprest retirements were attached to respective payment vouchers and were ready for inspection. The Controlling Officer submitted that NWWSSCL had harmonized the two filling system and stiffened retirement procedures in the Company by ensuring that All staff retire promptly or deduct the unretired imprest through the payroll.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer. Your Committee, therefore, urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers. Your Committee awaits a progress report.

y) Weaknesses in Managing Staff Costs

i. Failure to Define Competence Levels for Staff

The Controlling Officer submitted to your Committee that the query arose as a result of not updating the job profiles for certain positions on the organisation structure since 2003, when a comprehensive exercise supported by NISCO and financed by GIZ (then GTZ) was carried out. He informed your Committee that NWWSSCL had now employed the Human Resources Manager and the process for harmonizing the Staff structures had started. The company would now be setting aside funds to periodically engage consultants to carry out job evaluation exercises each time the company strategic objectives changes.

Committee's Observations and Recommendations

Your Committee observes with concern that there are no measures put in place to ensure that competence and academic standards are set during recruitments and that this has made the Company vulnerable to the recruitment of inappropriate personnel. Your Committee urges the Controlling Officer to ensure that job profiles are updated regularly and also that periodic job evaluations are done to avoid recurrence. The matter should be kept in view in future audits.

ii. Questionable Recruitments

The Controlling Officer submitted to your Committee that the query arose as a result of the seven employees who were recruited without following procedures. The Controlling Officer submitted to your Committee that no action had been taken as the details of the seven were not availed to management.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that management failed to know and detect their failure and expected the auditors to avail them details when in actual sense they failed to resolve the same during the audit process. The Controlling Officer is, therefore urged to ensure that management is strongly cautioned so that they take the audit process seriously and use it for the resolution of queries they did not fully understand.

The Controlling Officer is also directed to ensure that the matter is resolved and that where such inconsistency occurs, the erring officers must be disciplined for this failure. Your Committee will await a progress report on the matter.

iii. Failure to Follow Staff Promotion Procedure - Engagement of the Director Finance

The Controlling Officer submitted to your Committee that the query arose as a result of the Auditor General not taking into account the development of staff and succession planning as a mode of retaining and promoting staff. The Controlling Officer submitted to your Committee that the Board approved the development of staff and confirmation of staff upon meeting the qualifications.

Committee's Observations and Recommendations

Your Committee expresses concern at the causal manner the Controlling Officer is responding as he failed to convince your Committee why management chose to disregard Clause 19.2.2 of the Recruitment and Placement Policies for NWWSC. The Controlling Officer is sternly cautioned to desist from taking such casual approaches and is directed to ensure that all flaws in the water utility are eradicated to avoid recurrence. Your Committee will await a progress report on the matter.

iv. Questionable Payment of Performance Bonus to the Managing Director

The Controlling Officer submitted to your Committee that the query arose from the fact that the Board is dissolved late November, 2011 and by January, 2012, the Shareholders had submitted to the Ministry recommendations for appointment of the Board. It was anticipated that the Board would be appointed in time to sign the performance contract with the Managing Director.

The Controlling Officer submitted to your Committee that the Annual Plans and Budgets that contains the annual objectives for the company were submitted and approved by the Ministry. It was these annual objectives on which the Managing Director's performance was based. The Board appraised the Managing Director based on the set objectives for 2012, as the Company had met its set objectives as shown even in the Sector Report published by the Regulator – NISCO realising that the Company was ranked the Best Performing Utility for 2011, 2012 and 2013. The Ministry would now sign performance contracts with the Managing Director when the Board was dissolved.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the water utility paid a bonus despite the poor financial performance of the utility Company. The Controlling Officer is urged to ensure that the matter does not recur and that the performance contracts are signed with the Managing Director and other senior officers so that set objectives will determine the payment of a bonus to them. Your Committee resolves that the matter should be kept in view in future audits.

v. Payment of Transport Allowance in Excess of Entitlement

The Controlling Officer submitted to your Committee that this query arose due to a misunderstanding by the Auditor. The Auditor applied the rates for the previous collective agreement for 2012 to 2014 instead of the rates for 2014 to 2016, collective agreement. The Controlling Officer submitted to your Committee that the correct collective agreement of 2014 to 2016, was provided to the Auditor for verification of the rates.

Committee's Observations and Recommendations

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

z) Weaknesses in Managing Non-Current Assets

i. Lack of Title Deeds

The Controlling Officer submitted to your Committee that this query arose because NWWSSCL does not have title deeds for all its properties. The Controlling Officer submitted to your Committee that the process of obtaining title deeds had begun. Freddie and Company had been engaged to secure title deeds as provided by the documentation to be verified by the Auditors. NWWSSCL was also working with the North Western Provincial Planning UNIT in compiling a detailed property audit and verification that would be taken to the Ministry of Lands for securing Title deeds.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to expedite the process by engaging his counterpart in the Ministry of Lands, Environment Natural Resources and Environmental Protection to ensure that all properties belonging to the utility Company are secured by tile deeds as the current status is unacceptable. Your Committee resolves to await a progress report on the matter.

ii. Failure to Update the Asset Register

The Controlling Officer submitted to your Committee that this issue arose because in 2012, NWWSSCL started the process of migration to Pastel Sage Evolution system in an effort to integrate, the billing system, accounting systems, customer management system and stores system. The complex of migration is compounded by the Rebasing of the Kwacha in 2013. The Service provider had challenges rebasing the Asset Register and as result the Asset register could not be used effectively. The Controlling Officer submitted to your Committee that the Asset Register had since been updated and was available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers and will await a progress report on the matter.

iii. Inadequate Information in the Fixed Asset Register

The Controlling Officer submitted to your Committee that this query arose due to inadequacies of the Asset Register format. The Controlling Officer submitted to your Committee that the Asset Register had since been updated and was available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against erring officers and will await a progress report on the matter.

iv. Lack of Asset Identification Numbers on Assets

The Controlling Officer submitted to your Committee that the query arose due to the lack of asset identification numbers which could be matched to the fixed asset register. The Controlling Officer submitted to your Committee that NWWSSCL had begun the exercise of assigning asset identification numbers to relevant assets.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers and your Committee will await a progress report on the matter.

v. Failure to Avail Vehicle Allocation Lists

The Controlling Officer submitted to your Committee that the query arose due to non - availability of motor vehicle allocation list. The Controlling Officer submitted to your Committee that NWWSSCL had since updated the 2008 allocation list and was available for verification. The Controlling Officer submitted to your Committee that NWWSSCL would update the vehicle allocation list on an annual basis.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the erring officers and will await a progress report on the matter.

aa) Weaknesses in Managing Payables - Failure to Remit Statutory Contributions

The Controlling Officer submitted to your Committee that the query arose due to the financial challenges that NWWSSCL had been facing since its inception where the total cost of operations is higher than its revenues except for 2012, when the Company recorded a marginal profit. Further, NWWSSCL had been failing to settle its statutory obligations because Government Departments had not been settling their Bills. Currently Government Departments owe NWWSSCL over K13 million. The Controlling Officer submitted that at the moment, due to the financial constraints NWWSSCL was facing and worsened by non - settlement of bills, the company at the moment was unable to meet the statutory obligation in question. The Ministry would engage with all other Ministries and Government departments to pay their debt to NWWSSCL so that they could settle their obligations. Further, under the Non-Revenue Water (NRW) programme the ministry was in the process to seek funds to support the pre-paid metering project targeted at all GRZ institutions and other customers.

Committee's Observations and Recommendations

Your Committee finds the state of affairs at the water utility company unacceptable as its liquidity level is very poor and alarming. The Controlling Officer is urged to ensure that he explores all available options in ensuring that liquidity levels are improved and also that all statutory obligations are paid without any further delay. Your Committee awaits a progress report on the matter.

NATIONAL YOUTH DEVELOPMENT COUNCIL (NYDC)

Query Accounting and Other Irregularities

Paragraph 15

16. An examination of accounting and other records maintained at the National Youth Development Council (NYDC) head office for the financial year ended 31st December, 2014 carried out in June, 2015, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) **Failure to Prepare Financial Statements and Non Maintenance of Books of Accounts - 31st December 2006 to 2014**

The Controlling Officer informed your Committee that the financial statements for the years ended 2006 to 2014, were prepared. However, they could not be submitted to the Minister because the financial statements for 2006 and 2007, were not signed due to the non-existence of the board. The draft statements were presented to the auditors but were not accepted on grounds that they were not signed.

As a corrective measure your Committee was informed that the Ministry had written to the NYDC Council requesting them to submit financial statements and books of accounts to the Ministry for verification and subsequent signing. The NYDC Council had since submitted the financial statements and books of Accounts and copies of the letter from the Ministry to the NYDC Council, a letter from the Council to the Ministry and copies of the financial statements were availed for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for the Council's failure to prepare financial statements as prescribed by regulations for a period of eight years. Your Committee observes that the failure to prepare these statements is a sign of poor corporate governance, lack of supervision and laxity at the Council and, therefore, sternly urges the Controlling Officer to ensure that the Council is properly monitored and encouraged to implement good corporate governance such as the composition of a professional Board of Directors and strengthen internal controls to avoid the recurrence of this anomaly. Your Committee, however, resolves to close the matter subject to audit verification.

b) **Irregularities in the Payment of Allowances -**

i. **Overpayment of Council Allowances - K210, 610**

The Controlling Officer informed your Committee that the Council did not have a calendar of meetings and the Chairperson was calling for meetings indiscriminately. Your Committee was informed that the Council was written to, to provide a detailed explanation on the reasons that led to the over expenditure. Your Committee was further informed that authority to regularise the expenditure in retrospect was not granted because the Council failed to provide a detailed explanation on the reasons for the over expenditure.

The Controlling Officer submitted that the matter was reported to the Anti- Corruption Commission (ACC) and Drug Enforcement Commission (DEC).

Copies of the letter from the Controlling Officer to the Council, a letter to the Anti-Corruption Commission and Drug Enforcement Commission (DEC) and a letter for the dissolution of the board were availed for audit verification.

Committee's Observations and Recommendations

Your Committee observes that the irregularities in the payment of allowances at the Council are yet another indication of poor supervision by the Controlling Officer and other senior officials over the Council. The Controlling Officer is urged to put internal control measures in place to prevent the reoccurrence of this irregularity and follow up the matter with the investigative wings for necessary action against the officers involved to deter others from perpetrating such vices in future. Your Committee awaits a progress report on the matter.

ii. Double Payment of Allowances - K155, 534

Your Committee was informed that a total amounting to K155, 534 was paid to carter for subsistence allowance (K103, 784) and sitting allowances of (K51, 750).

The Controlling Officer informed your Committee that Board Chairman insisted to be paid a double allowance, as he was the approving officer and the bank signatory on all the Council accounts. As a corrective measure, therefore, the Board Chairman was removed from the panel of signatories on 27th May, 2015. Subsequently, the Board for the NYDC was dissolved.

A copy of a signed motion to remove the chairperson from the panel of signatories and a letter of dissolution of the board, were availed for audit verification.

Committee's Observations and Recommendations

Your Committee finds it unacceptable for the Controlling Officer to justify such an irregularity. Your Committee observes that this indiscretion is as a result of the Ministry and Council not orientating the Board on the provisions of the Financial Regulations. In this regard, the Controlling Officer is sternly urged to desist from embracing such irregular practices and ensure that practical steps are taken for the Board and officers at the Council to become conversant with Government financial regulations and procedures. Further immediate action should be taken to recover the double paid allowances in amounts totaling K155, 534 from the erring officer. Your Committee awaits a progress report on the matter.

iii. Irregular Payment of Council Allowances

The Controlling Officer submitted before your Committee that the exclusion of the Management from participating in the meetings by the board chairman resulted in the poor keeping of minutes. As a corrective measure, therefore, the matter was reported to investigative wings of the Government. Further, the Board of the NYDC was dissolved.

Letters for the dissolution of the board and the Anti- Corruption Commission and Drug Enforcement Commission (DEC) were availed for audit verification.

Committee's Observations and Recommendations

Your Committee observes with concern that the Controlling Officer is not providing the necessary supervision to the board as it appears that there is a rampant abuse of public resources at the National Youth Development Council. Your Committee queries why Councillors drew allowances in amounts totaling K363, 407 for Council and sub Committee meetings for which no duly authenticated minutes were kept and how five members appointed by the Council Chairman can be authenticated in the absence of their letters of appointment. In this regard, the Controlling Offer is urged to follow up the matter with the investigative wings for the possible expedition of the process in order to clear the concerns surrounding the matter. Your Committee awaits a progress report on the matter.

c) Irregular Recruitment of Staff 787,910

The Controlling Officer submitted before your Committee that the advice provided by the Controlling Officer to the Council was disregarded. However, as a corrective measure, the irregularly recruited staff were laid off while retaining one provincial hub officer in each Province.

As evidence in this regard, dismissal letters were availed for audit verification.

Committee's Observations and Recommendations

Your Committee stresses that such blatant disregard of Government directives which are meant to safeguard public resources is unacceptable and urges the Controlling Officer to institute disciplinary action against the officers who caused the loss of colossal public funds totaling 787,910. A progress report on the matter will be awaited by your Committee.

d) Misapplication of Funds for Terminal Benefits

The Controlling Officer submitted before your Committee that the query was as a result of unplanned expenditure by the board and disregard of financial regulations.

As a corrective measure, therefore, the Board was dissolved in July 2015. Further, the judicial review was sought on servicing the debt to retirees and separated staff at K45, 000 per month for 18 months. To date K270, 000 had been paid off.

A letter for the dissolution of the board and a copy of the High Court judgment were availed for audit verification.

Committee's Observations and Recommendations

Your Committee expresses concern that despite the Government's efforts of releasing funds to dismantle arrears for terminal benefits, the majority of the funds were spent on activities unrelated to the intended purpose thereby, subjecting the Council to further litigation and consequently putting a strain on the Treasury and delaying the execution of other Government projects. In this regard, your Committee strongly urges the Controlling Officer to apply herself fully and resolve the problems associated with the non adherence to Financial Regulations by the Council. A progress report on the matter will be awaited by your Committee.

e) Outdated Youth Organisations Register

The Controlling Officer informed your Committee that the outdated Youth Organisation's registers were due to the following:

- i) inadequate human and financial resources on the part of the council to reinforce registration and collection of membership fees from youth organisations ; and
- ii) lack of harmonisation of pieces of legislation on the registration of youth organisations; and lack of enforcement mechanisms in the NYDC Act to compel youth organisations to register.

The corrective measures, therefore, being put in place, were that qualified personnel were recruited to manage the updates of the youth organisation's register and the registration of youth organisations were being done at provincial hub offices. Further, a recommendation had been submitted to the Ministry to make the registration of youth organisations by NYDC as a mandatory requirement for accessing the funds.

The updated registers, established registers and copies of certificates and a letter from the NYDC to the Ministry were availed for audit verification.

Committee's Observations and Recommendations

Your Committee observes that the failure to update the register is an indication of lack of seriousness in the management of the Youth Development Fund and youth organisations in the country. Your Committee sternly cautions the Controlling Officer against recurrence of this unacceptable anomaly and further urges him to ensure that the Youth Register is up to date at all times and the relevant details about the youth organisations captured in order for the objectives of the Council and the Fund to be achieved. The matter is, however, recommended for closure subject to audit verification.

f) Irregular Awarding of Grant to Luangwa Skills Development Cooperative - K10,000

The Controlling Officer informed your Committee that the query was due to the failure by the Luangwa Cooperative to adhere to evaluation criteria by the NYDC Council. However, the documents for the co-operative had since been found and were ready for verification. The monitoring visits to the project were also conducted and a copy of the Monitoring Report was availed for audit verification.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification. However, your Committee urges the Controlling Officer to ensure that the necessary evaluation criteria on youth organisations wishing to access the fund is undertaken, before the awarding of the grants.

g) Unauthorised Travel Abroad

The Controlling Officer informed your Committee that there was an omission on the part of the Ministry to apply for Authority. A letter had been written to the Secretary to the Cabinet requesting for authority in retrospect and a copy of the letter was availed for audit verification.

Committee's Observations and Recommendations

Your Committee sternly warns the Controlling Officer against recurrence and urges him to ensure that the irregularity is normalised. A progress report will be awaited by your Committee.

h) Lack of Title Deeds for Council Properties, Plot 10423/196 and 179, Chainama, Great East Road

The Controlling Officer informed your Committee that the title deeds for the two properties were lost, and that the Council could not afford insurance premiums due to inadequate funding. However, application letters to the Ministry of Lands `Natural Resources and Environmental Protection, requesting for the replacement of title deeds had been written. Your Committee was informed that a copy of the letter written to the Commissioner of Lands was availed for Audit Verification.

Committee's Observations and Recommendations

Your Committee expresses concern that the replacement of title deeds has taken too long to resolve and urges the Controlling Officer to ensure that the titles for Plot 10423/196 and 179,

in Chainama, Great East Road are acquired and the properties insured without any further delay. A progress report will be awaited by your Committee.

ROAD DEVELOPMENT AGENCY (RDA)

Query Accounting and Other Irregularities

Paragraph 16

17. An examination of financial and other records maintained by the Road Development Agency-(RDA) for the financial years ended 31st December 2012, 2013 and 2014, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Lack of Board (Yet K68,800 expenditure)

The Controlling Officer submitted to your Committee that the Board was appointed on 23rd December, 2013 and the letters of appointment were available for review.

The Controlling Officer further explained that before the appointment of a full Board, the Board Chairman (and later with the Permanent Secretary) held meetings with the RDA Management to approve financial statements, the budget and other operational matters. The minutes for these meetings were also available for review. The Controlling Officer, therefore, informed your Committee that the amount of K68, 800 was paid as sitting allowances to the Chairman of the Board and the Permanent Secretary who at the time performed the functions of the Board in its absence.

Committee's Observations and Recommendations

Your Committee expresses concern at the number of board members expected to sit on the Agency's board and also the inclusion of the Attorney General on the board. Your Committee further observes with concern that in the absence of the board, it is not possible to have an expenditure on the category of Board allowances and hence finds the payment of K68, 800 made to the Permanent Secretary and the Chairperson of the Board highly irregular. The Controlling Officer is, therefore, urged to consider renaming the expenditure or recovering the amounts from the officers since the amount is currently sitting in a wrong category of expenditure. He is further urged to consider revisiting the *Public Roads Act No 12 of 2012*, in order to reduce unnecessary expenditure by the Agency as your Committee feels that a 15 Member board is a big number and will cause unnecessary expenditure to be incurred by the Agency. Your Committee awaits a progress report on the matter.

b) Road Tolling

i. Failure to Reconcile the Weighbridge Accounts

The Controlling Officer submitted to your Committee that the observation was noted. Management had equally been concerned about the semi- automated processes at weighbridges and the resulting challenges of difficulties in reconciling traffic weighed to revenue collected. Management had since taken steps to overcome these challenges by procuring and installing weighbridge software in order to fully automate the weighbridge operations. The new software was configured in such a way that the weighing and billing modules were integrated, thereby, facilitating reconciliation of weighing activities and revenue collection.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that the new software is fully operationalised to avoid recurrence and also to eradicate fraudulent activities by officers who might take advantage of the discrepancies. The matter should be kept in view in future audits.

ii. Lack of Accurate Means to Confirm Weights of Abnormal Loads

The Controlling Officer submitted to your Committee that the observation was noted. Currently the RDA had equipment for measuring the length, width and height of abnormal vehicles. Management had further taken steps to address the concerns raised by upgrading the weighbridge in Kafue to have the capacity to weigh abnormal loads. It was, therefore, anticipated that the upgrading project would be completed in the 1st quarter of 2016. Further, other sites such as the Nakonde Border, Chanida border, Sesheke border, Luansobe and Mutanda borders had been identified for the construction of similar facilities and provided for in the 2016 annual work plan. As an interim measure the Agency had also considered the procurement of class 4 portable weighbridges which had the capacity to weigh abnormal loads.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that the new software is fully operationalised to avoid recurrence and also to eradicate fraudulent activities by officers who might take advantage of the discrepancies. Your Committee resolves that the matter should be kept in view in future audits.

c) Irregular Investment of K3,000,000

The Controlling Officer submitted to your Committee that the finding was noted. The Public Roads Act Part II Article 9 (4) permitted the RDA to invest excess funds. However, on 12th November, 2012, the amount of K3 billion was erroneously invested in a fixed deposit Account at ZANACO for three months as authority should have been obtained first from the Treasury as provided for in the Public Finance Act. The investment was cancelled on 12th January, 2013, upon management realising that the investment was irregularly made. Your Committee was informed that the interest earned was credited to operational funds of the RDA.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management is sternly cautioned for failure to adhere to the *Public Finance Act No.15 of 2004*. He is further urged to ensure that the conflict which exists between the Public Roads Act Part II Article 9 (4) and the *Public Finance Act No.15 of 2004*, is resolved to avoid recurrence. Your Committee awaits a progress report on the matter.

d) Lease of Office Space - Partitioning and Installation of Air Conditioners

i. Failure to Avail Contract Document

The Controlling Officer informed your Committee that the procurement of services from Michel Design Studios was conducted through a Simplified Bidding process. When the procurement evaluation process was completed a written Purchase Order was raised as per Part X section 125 (1) of the Procurement Regulations of 2011.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that officers are sternly cautioned for failure to avail the details to auditors at the time of audit after which the matter should be closed.

ii. Questionable Portioning of the Office block

The Controlling Officer submitted to your Committee that an agreement had since been reached with the Landlord to value all the improvements made to the premises, remove fittings (chattels), quantify and value all the fixtures and charge the cost to the Landlord.

Committee's Observations and Recommendations

Your Committee expresses concern at the casual approach exhibited by the Agency where it has been quite all along and only to remember that it needed to claim the amounts which went for improvements after the audit. Your Committee urges the Controlling Officer to ensure that management is sternly cautioned to be proactive so as not to allow wasteful expenditure due to laxity by officers. Your Committee awaits a progress report on the matter.

e) Wasteful Expenditure

The Controlling Officer informed your Committee that the Ministry regretted the hasty decision which was taken and clarified that the decision was aimed at improving efficiency and reducing costs.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against making hasty decisions in future, thereby, causing wasteful expenditure to the Government. He is further advised to consult the relevant offices such as the Attorney General before making such decisions in order for him to understand and appreciate the implications. Your Committee, however, recommends the matter for closure subject to audit verification.

f) Irregular Sales of Motor Vehicles to Officers

The Controlling Officer confirmed that all the listed vehicles which were sold to Senior Officers were sold on the basis of the conditions as specified in the contracts of service between the Road Development Agency and the individual Officers and in line with Clause 7.0 (4) ii of the RDA Management Guidelines for the Motor Vehicle Transport and Maintenance Policy.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer in that Clause 13.2 of the General Management Conditions of Service on the sale of personal to holder vehicles was not followed which was more superior to the RDA Management Guidelines for the Motor Vehicle Transport and Maintenance Policy as to ensure that he seeks guidance from the Office of the Attorney General on the interpretation of these two conflicting clauses after which the matter should be reported to law enforcement agencies depending on the interpretation which will be given. Your Committee awaits a progress report on the matter.

RURAL ELECTRIFICATION AUTHORITY (REA)

Query Accounting and Other Irregularities

Paragraph 17

18. A review of accounting and other records maintained at the Authority Head Office for the financial years ended 31st December, 2012 to 31st December, 2014, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Unremitted Income to REA - K88,475,321

The Controlling Officer informed your Committee that ZESCO did collect the electricity levy on behalf of the Authority. However, the levy collected was not remitted to the Authority, but to the Ministry of Finance by ZESCO. However, management had made numerous efforts in terms of follow ups through various correspondence addressed to the Ministry of Finance to facilitate that the collected levy be channelled to the Authority as provided for in the *Rural Electrification Act* but had proved futile.

Committee's Observations and Recommendations

Your Committee finds the response by the Controlling Officer misleading in that the electricity levy is remitted to REA as part of its appropriation funding by Parliament. In this regard, your Committee sternly cautions the Controlling Officer to desist from misleading your Committee as this is at variance with the Powers and Privileges Act, Cap 12 of the Laws of Zambia which inter alia expects witnesses to be factual as and when they appear before any Parliamentary Committee. Your Committee further urges the Office of the Auditor General to verify the matter with the Ministry of Finance. Your Committee awaits a progress report on the matter.

b) Unsupported Payments - K73,387

The Controlling Officer submitted that the necessary supporting documentations had been found and were available for audit. Further, tabulated below was a listing of the payments in question.

Date	Cheque Number	Supplier 's Name	Amount
18.06.2013	005741	Carnival Furniture	21,999.00
19.06.2013	005746	Furntrade Investments	14,000.00
18.05.2013	005739	South Gate Investments	25,500.00
19.06.2013	005742	Home Corp Limited	5,499.00
18.06.2013	005743	Furncity Furnishers	6,399.00
	Total		73,387.00

Committee's Observations and Recommendations

Your Committee notes that this is a serious omission and urges the Controlling Officer to take disciplinary action against the custodians of these documents for failing to secure them and, in future, ensure that appropriate documents are attached immediately the payments are made. The matter is, however, recommended for closure subject to audit verification.

c) Contract for the Provision of Consultancy Services for the proposed Chunga and Lunga Solar Mini Grid Projects – Watson Lumba

The Controlling Officer submitted before your Committee that the procedures to award the contract were followed as the invitation to submit technical and financial proposals was done on 24th April, 2014. The evaluation for the combined technical and financial proposals was, thereafter, conducted on 5th May, 2014 and authority to award the Contracts was sought from the REA Management Tendering Committee after evaluation, which was granted on 22nd May, 2014.

Management had further taken note of the observation made, and the assignment in question was part of the input into the feasibility studies for Chunga and Lunga Solar Mini Grid Projects. Your Committee was informed that this involved the undertaking of market assessments, financial and economic analysis of the two proposed projects, in order to determine the financial and economic viability of the projects. In addition, all deliverables for consultancy services of such a nature were approved by management through the office of the CEO and not by the Board of Directors as they were purely administrative. Your Committee was informed that the Board approved the budget and work plans and this activity was planned for in the approved 2014 work plan and budget.

The contract in question was signed by REA in May, 2014. However, the actual date when the contract was signed by REA was erroneously not indicated on page 2 of the signed contract. The Controlling Officer submitted that this was an oversight on the part of REA. He, however, assured your Committee that all the activities related to this contract were executed within the assignment contract period which expired on 31st December, 2014. Going forward, management would ensure that all contracts were properly checked to ensure that details such as the commencement and completion dates were properly filled before being printed for signing.

Committee’s Observations and Recommendations

Your Committee expresses concern at the failure by the Authority to avail tender documents to the auditors at the time of audit and urges the Controlling Officer to caution the REA management against signing defective contracts that can result in delays in completing works and consequently the loss of public funds. Your Committee further urges the Controlling Officer to strengthen internal controls that are evidently weak. The matter is, however, recommended for closure subject to audit verification.

d) Contract for the Procurement Strategy for the Rural Electrification Projects

The Controlling Officer submitted before your Committee that the procedures to award the contract were followed as the request for curriculum vitae was advertised in the times of Zambia on 7th and 12th June, 2013. Four submissions were received and an evaluation was conducted.

On 20th September, 2013, the REA Procurement Committee granted authority to award the contract to Mr Misheck Kaoma who was the best evaluated consultant. The final report was done and the procurement strategy approved, however, the soft copy of the final document was not renamed to indicate that it was final.

Committee’s Observations and Recommendations

Your Committee warns that it will no longer condone a situation where vital documents go missing during the time of audit and only resurface after the auditors have left. The

Controlling Officer is sternly cautioned to ensure that documents are properly secured for the audit process. The matter is, however, recommended for closure subject to audit verification.

e) Wasteful Expenditure - Developing of Business Model- K38, 598.80

The Controlling Officer informed your Committee that the business model was presented to the REA Board on 20th May, 2014 and the Board directed the REA management to conduct a wider stakeholder consultation on the proposed business model in order to ensure stakeholder buy-in.

To this effect, REA organised a stakeholder consultative meeting to discuss the proposed business models on 5th February 2015.

One of the recommendations of the business model report was for the REA management to engage the Ministry of Finance to seek authority to charge ZESCO Limited a ten percent fee on completed grid extension projects which REA financed one hundred percent and later hand over to ZESCO Limited at no cost. The REA management made this request through a letter dated 15th May, 2014, however, no feedback had been received from the Ministry of Finance. This was followed up by a presentation to the senior officers at the Ministry on 6th August, 2015.

The Controlling Officer further submitted that the management realised that the implementation of the proposed business models required some changes to be made to the *Rural Electrification Act No. 2003*. To this effect, the management had signalled the Ministry of Energy and Water Development (MEWD) on the need to have the REA Act reviewed. The Ministry in conjunction with the Ministry of Justice were spearheading the review and a Committee had been put in place. Currently REA was spear heading the review of the Act which would be passed on to the Ministry of Energy and Water Development.

Your Committee was further informed that the REA management strongly felt that the proposed business models were relevant to REA as it would help the Authority raise additional resources to accelerate the implementation of the Rural Electrification Programme in Zambia. Therefore, management would proceed to implement the proposed models once legislative backing to support the same was in place through the revised Rural Electrification Act and REA Board approval.

Committee's Observations and Recommendations

Your Committee expresses concern that amounts totalling K38, 598.80 were paid to Energy Management Services for the development of a business model before the Act was reviewed. Your Committee finds this unacceptable in that due diligence was not carried out prior to the engagement of the Energy Management Services. In this regard, your Committee strongly urges the Controlling Officer to ensure that the Act is reviewed and that such a lapse does not recur. Your Committee awaits a progress report on the matter.

f) Construction of Substation - Chinsali Project

The Controlling Officer submitted that at the time of the visit, the contractor had been instructed to provide key personnel in particular, a civil engineer according to the contract provisions. The contractor had earlier provided an engineer who did not meet the requirements and the institution could not risk on the quality of works, this meant that works could not proceed. The civil engineer was, however, approved on 27th July, 2015.

The excavation of the trenches where the transmission lines were to be installed had not been completed at the time of the visit due to non-availability of key personnel. However, the trenches

had since been completed. Furthermore, materials such as transformers, pipes and electrical equipment were delivered at the ZESCO Chinsali substation. The materials and equipment were secured in the substation yard and guarded 24 hours by ZESCO security. Access to the substation where the material was stored was always restricted.

The contractor had been written to requesting them to validate the performance security. The time given to the contractor to validate the security had since elapsed and a recommendation to terminate the contract on account of failure to maintain security had been communicated.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

TAZAMA PIPELINES LIMITED

Query

Paragraph 18

Review of Operations

19. A review of the audited accounts, ICT systems and other relevant documents for financial years ended 31st March, 2012 to 31st March, 2014, including a physical inspection of infrastructure conducted in February 2015, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Failure to Convene Board Meetings

The Controlling Officer submitted to your Committee that a Special Board meeting was held on 16th December, 2014, to review the Company audited accounts for the financial year ending 31st March, 2014. A copy of the notice of the meeting was available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the board meets regularly in order for the company to regularly review its affairs. He is also urged to ensure that all documents relating to proof of the meetings held are submitted to auditors for verification. Your Committee resolves to await a progress report on the matter.

b) Financial Performance

i) Profitability

• Increasing Costs

The Controlling Officer submitted that he took note of the increasing costs in the period under review and took cost control measures. This helped reduce some costs as reflected in the audited comparative costs for financial years 2013/14 and 2014/15. The said costs included; fuel and power consumed at pumping stations which were reduced by twelve percent computer expenses reduced by sixteen percent motor vehicle expenses reduced by sixteen percent Office Expenses reduced by nineteen percent, travelling expenses reduced by thirty-one percent and Penalty amount was nil in 2015 due to positive negotiations with Tanzania Revenue

Authority (TRA). Additionally, a waiver on penalty was given resulting in write back of provisional figure of K4.4 Million set aside over the period under review.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that the company enhanced its efforts to further reduce the company's costs so as to enable it meet its obligations. Your Committee resolves that the matter be kept in view in future audits.

- **Decline in Pumping Yield**

The Controlling Officer submitted that the pipeline repairs on all weak areas where corrosion rate was above sixty percent were carried out on all sections in both Tanzania and Zambia. This enabled the Company to deliver 633,000 Metric Tons in the financial year 2014/15 an increase compared to previous periods.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company enhances its efforts in ensuring that timely and regular maintenance are carried out on the company's pipeline infrastructure to avoid recurrence. The matter should be kept in view in future audits.

ii. Liquidity

The Controlling Officer submitted that the company's current and quick ratios as well as negative working capital had been deteriorating due to annual re-classification of long term loans falling due in a period to current liabilities resulting in increased current liabilities or negative working capital. The other contributing reason was that there was an annual increase in exchange losses arising from periodic revaluation of foreign currency denominated loans owed to GRZ which increased the loan amounts and in turn the current liabilities annually and other translation losses in financing foreign operations and purchases.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company improves its liquidity level which is declining, alarmingly. The Secretary to the Treasury is urged to ensure that the company is capitalised to improve the current status as the company is a key player in one of the major economic sector of the economy (energy) in the country. Your Committee resolves to await a progress report on the matter.

ii) Diminishing Reserves

The Controlling Officer informed your Committee that the decline in profitability was due to low revenue attributed to reduced pumping and agency tariffs from US\$53.52 to US\$48.52 and US\$15 to US\$5 respectively in the period under review. Unplanned shutdowns also contributed to the drop in profitability. In the financial year 2013/14, seventy-six days of unplanned shutdown were experienced leading to a loss of 152,560 metric tonnes amounting to K41million. The breakdown of seventy-six days unplanned shut down was ; thirty-six days attributed to Indeni request, thirty days due to lack of feedstock and ten days resulting from leak repairs. Other contributing factors were exchange losses attributed to periodic revaluation of foreign currency denominated loans.

Management had, however, continued to engage the Government of Zambia (GRZ) through the Ministry of Finance to consider converting all foreign denominated loans into Kwacha which would bring to an end annual revaluation of these loans and associated exchange losses. These loans in the GRZ books were forgiven under HIPC debt relief and if agreed may no longer be considered as on- lent foreign currency denominated loans but direct loans to the Company. New development was that GRZ had approved conversion of all outstanding foreign denominated loans to Kwacha effective 31st December, 2015. Further, GRZ was being urged to consider converting all the long term loans to equity as this would improve the Company's Balance Sheet. Another challenge was that remittances to Tanzania Region for operations were currently made in Tanzanian Shillings as opposed to remitting in US\$ currency effective 2015. This was with the view of reducing the associated conversion costs. The company would continue to engage Energy Regulation Board (ERB) for a cost reflective tariff. The pumping tariff was revised to US\$54 on 23rd January, 2015, but was still not cost reflective.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company improves its reserves which are declining at an alarming rate. The Secretary to the Treasury is urged to ensure that the company is capitalised to improve the current status as the company is a key player in one of the major economic sector of the economy (energy). The Government is strongly urged to consider converting all the long term loans to equity as this would improve the Company's Balance Sheet. Your Committee resolves to await a progress report on the matter.

c) Irregularities in Staff Related Cost

i. Over Expenditure

The Controlling Officer submitted before your Committee that Management had noted the Audit observation on over expenditure in personal emoluments ranging from five percent to nineteen in the period under review without Board approval. Management had since prepared a paper on variation threshold limits and would be submitted for Board approval in the first quarter of 2016.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that expenditure is incurred without board authority. The Controlling Officer is urged to sternly caution Management for this failure and your Committee resolves to await a progress report on the matter.

ii. Lack of Supporting Documentation K5,465,747.48 (Tanzania- K3,311,830 and Zambia-K2,153,923.21)

The Controlling Officer submitted before your Committee that Management had revisited the situation in Tanzania Region where payments for middle management was based on a list from HR with a maximum amount paid. Payments would now be on invoice basis as it was done in other business units.

Committee's Observations and Recommendations

The Controlling Officer is strongly urged to ensure that payments had supporting documents in accordance with financial regulations to avoid recurrence. Your Committee directs the

Controlling office to ensure that supporting documents for the payments in question are availed for audit verification. Your Committee awaits a progress report on the matter.

iii. Irregular Payment of Bonuses

The Controlling Officer submitted before your Committee that the Board and Management had discussed the payment and Management accepted the omission. Recovery of the payment made to Senior Management was effected with December 2015, being the last month of recovery. Conditions of service had since been revised ensuring that clauses were clear and without ambiguity.

Committee's Observations and Recommendations

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

d) Lack of Title Deeds

The Controlling Officer submitted that the process of acquiring Title deeds for Kalonje and Chinsali Pump Stations was very advanced with the Ministry of Lands.

Committee's Observations and Recommendations

Your Committee urges the Controlling officer to ensure that the process is expedited and it resolves to await a progress report on the matter.

e) Non Remittance of Statutory Obligations K48,253,419

The Controlling Officer submitted that Monthly statutory obligations were paid as they fall due and were up to date. However, the stated outstanding obligations were amounts incurred on terminal benefits paid to staff during the phased out Tazama pension scheme in 2008. PAYE calculated was re-assessed from the initial ten percent and charged on the thirty-five percent rate and interest charged. TAZAMA in the financial year 2014/15, entered into payment plans with Zambia Revenue Authority and Tanzania Revenue Authority with penalties waived. Balance on ZRA debt currently stands at K37.5million and that of TRA at K8.9million Tazama was committed to both payment plans. As at 31st December, 2015, the outstanding balance on amounts owed to ZRA was K29.4million and TRA K5.1million.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the company improves its liquidity levels which are declining at an alarming rate resulting in failure to meet statutory obligations. He is also urged to ensure that all outstanding arrears are paid without any further delay and that onward payments are made as and when they fell due. The Secretary to the Treasury is urged to ensure that the company is capitalized to improve the current status as the company is a key player in one of the major economic sector of the economy (energy). Your Committee awaits a progress report on the matter.

f) Irregularities in the Selection of Contractors, Implementation and Management of Projects

i. Irregular Engagement of Contractor for Tank No. 3 at the Tank farm

The Controlling Officer submitted that TAZAMA entered into contract on 3rd June, 2013, with TANINGRA contractors after being assessed as the best bidder for rehabilitation of the crude-oil storage Tank No. T4 and piping at Tank Farm in Dar es salaam. In October, 2013, while TANINGRA was carrying out repairs on Tank No. T4, Tank No. T3 developed bottom leakages and was decommissioned in order to carry out physical inspection. The decommissioning of the two Tanks from service (Tank No. T4 and T3) created a serious constrain at Tank Farm and therefore, immediate repairs were required to Tank No. T3 in order to put it back into operation before the next shipment in January, 2014, to avoid demurrage charges which might have been caused by lack of ullage at Tank Farm.

On 16th October, 2013, whilst working on Tank No. T4 TANINGRA contractors were requested to carry out repair works on the leaking Tank No. T3 and conduct a joint full inspection with TAZAMA personnel in order to establish the locations of the leaks at the tank bottom. At this stage TANINGRA Contractors was not yet awarded the contract since the scope of works was not yet defined. This exercise was completed at the end of November, 2013 and thereafter established the scope of works to be carried out by the contractor. Management felt that this problem required immediate attention and therefore the process of engaging the contractor as per system and procedure manual would have delayed the repair works on the Tank No.3 before the next shipment. Further, to engage a new contractor would have required a minimum of three months to mobilise both equipment and personnel before commencement of repair works. Since TANINGRA was already at site working on Tank No. T4 after being the best evaluated bidder before, they were requested to quote for repairs on Tank No. T3 using the same rates quoted for repairs on Tank No. T4.

TANINGRA submitted a quotation of USD 263,948.30 being cost for repairs including hiring of equipment which was used to ensure that repair works were done and completed before the next shipment. On 10th December, 2013, the Tender Committee sat to review the quotation submitted by TANINGRA contractors for repairs and relining of works at Tank No. T3. After evaluation, the Tender Committee awarded TANINGRA Contractors a contract in the sum of USD 263,948.30 as per submission (as per Tender Committee minutes). On 13th December, 2013, purchasing order No. 7636 was raised and issued to TANINGRA contractors to enable them commence repairs on the leaking tank bottom (see attached PO No. 7636).

Committee's Observations and Recommendations

Your Committee finds it highly irregular that TAZAMA management decided to award a contract to a contractor who failed to perform on the previous contract and more so that he is hired without competitive tender. Your Committee is also concerned with the contract sum which is questionable compared to previous and similar quotes. The Controlling Officer is urged to ensure that the matter is reported to law enforcement agencies for further probe and your Committee will await a progress report.

ii. Contract for Supply Delivery and Replacement of Main Engines at Six (6) Pumping Stations–(Over Commitment of K180,909,040 (US\$27,832,160.20)

The Controlling Officer submitted that the funding for the project was dependent on internally generated funds and the plan was to reserve at least USD 500,000 every month in

order to secure enough funds to finance the project. The payment plan for financing the contract was drawn to match with the contractors' work schedule and it was expected that their operations would be smooth throughout the whole contract period. During the financial year 2013/14, the company only managed to deliver a total of 519,752.43 MT against a budget of 630,000 MT as the pipeline was shut down for 106 days due to lack of feedstock and technical problems at Indeni Refinery. As a result, the company couldn't save sufficient funds hence causing delay in the implementation of project works.

Committee's Observations and Recommendations

Your Committee observes with concern that TAZAMA Management overcommitted Government by so huge an amount making Government vulnerable to loss of public funds in case of default. The Controlling Officer is urged to ensure that officers charged with this responsibility are sternly cautioned to desist from over committing Government and that they ensure that the overcommitted amount is paid to the contractors as and when the installments fell due in accordance with the agreement in the contract with the contractor. Your Committee awaits a progress report on the matter.

WATER RESOURCES MANAGEMENT AUTHORITY (WARMA)

Query Accounting and Other Irregularities

Paragraph 19

20. An examination of accounting and other records maintained at the Authority headquarters carried out in January, 2015, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

(a) Board Related Matters

i. Overpayment of Allowances

The Controlling Officer acknowledged the findings of the Auditor General on this aspect of compensation for WARMA Board Chairman and the Vice Board Chairman respectively. He stated that the compensation paid to the two officials were as embedded in the Board Compensation Policy approved by the Minister of Mines Energy and Water Development on 13th May, 2013, a copy of which was available for audit verification. He also added that the funds purported as having being overpaid to the Chairperson and his Vice, were actually there entitlements and that in most cases, the duo used personal funds to ensure that the authority was established.

Committee's Observations and Recommendations

Your Committee expresses concern that documents relating to the expenditure coupled with the explanation given before your Committee were not availed to the auditors at the time of audit. Your Committee urges the Controlling Officer to ensure that the erring officers are sternly cautioned to provide the necessary information to the auditors during the audit process. Your Committee, however, resolves to close the matter subject to audit verification.

ii. Questionable Payment of Allowances to Board Members

The Controlling Officer acknowledged the findings of the auditors. He stated that this was regrettable and that he would put measures in place for the Board to follow the provisions of the Act. The Controlling Officer also acknowledged the recommendation of the Office of the Auditor General that the Board Chairman should not occupy an office at WARMA.

Committee's Observations and Recommendations

Your Committee finds this unacceptable and urges the Controlling Officer to ensure that the amounts wrongly paid are reimbursed without any further delay. Your Committee further urges the Controlling Officer to ensure that the Board Chairperson vacates the office he is currently occupying at the Authority and to also cease taking part in the day to day running of the Authority as this is against the spirit of Good Corporate Governance. Your Committee further urges the Controlling Officer to caution the duo against using personal funds Government business, an act, which is not supported by financial regulations. Your Committee awaits a progress report on the matter.

iii. Questionable Payment of Allowances

The Controlling Officer acknowledged that the wrongly paid allowances needed to be refunded to the Authority by the erring staff as the ceremony was not considered to be a Board meeting. He informed your Committee that the appointing authority had written to the Board Chairman and would ensure that the wrongly paid allowances were refunded to the Authority. He also added that the celebration was organised in conjunction with GIZ and since the Board of Directors formed a quorum, allowances were erroneously paid.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the board was paid allowances without sitting when in actual fact they were only attending a mere celebration. Your Committee direct the Controlling Officer to ensure that the allowances in question are reimbursed without any further delay. Your Committee awaits a progress report on the matter.

iv. Payment of Travel Allowances to Board Members - Staff Identification

The Controlling Officer acknowledged that there was a potential risk of wasteful expenditure and misappropriation of funds in this instance. He informed your Committee that the staff identification programme had a two faceted approach; one was performed by management staff to identify potential staff for transfer to WARMA. Your Committee was further informed that a staff identification report on the Board Tours was attached for verification. This was, however, regrettable. The Controlling Officer added that the movement of the Board was necessitated because they were on a mission to identify officers from the provinces who would take up new roles in the smooth running of WARMA. At this time, the board was operating with a skeleton management which was just put in place temporally as more officers were being recruited to join the cadre of staff.

Committee's Observations and Recommendations

Your Committee notes the submission, but urges the Controlling Officer to ensure that there is segregation of duties between the board and management to avoid recurrence. While it is also appreciated that the board for WARMA at the time was involved in organising the new structure, your Committee urges the Controlling Officer to sternly caution them for setting a wrong precedence which would recur if left without action. The Controlling Officer is further urged to ensure that there are clear roles and boundaries in order to promote Good Corporate Governance. Your Committee, however, resolves to close the matter subject to audit verification.

i. Questionable Recruitment of Director General

The Controlling Officer submitted that the observation of the audit team not having all the information on the recruitment of the Director General was acknowledged. He informed your

Committee that position was advertised in the national newspapers of which the current Director General applied and attended interviews. Your Committee was informed that the relevant documents relating to the recruitment of the Director General were available for verification with the WARMA Board Chairman.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that information relating to the Managing Director's recruitment was kept with the Chairperson of the Board and doubts the transparency of the procedure which was followed during the interviews. Your Committee directs the Controlling Officer to ensure that the documents are located and availed to auditors without any further delay. Your Committee awaits a progress report on the matter.

ii. Failure to Remit Taxes

The Controlling Officer submitted that all the unremitted statutory obligations to the Zambia Revenue Authority had been paid and the receipts were available for audit verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to strongly caution the Authority to ensure that statutory contributions are made as and when they fall due. Your Committee, however, recommends the matter for closure subject to audit verification.

WESTERN WATER AND SEWERAGE COMPANY (WWSCO)

Query Accounting and other Irregularities

Paragraph 20

21. An examination of accounting and other records maintained at the Company and visits to selected stations carried out in August, 2015, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Failure to Recruit Management Staff

The Controlling Officer submitted to your Committee that the delay in recruitment of Heads of Departments was caused by attempts to fill up the positions internally. Furthermore, the internal staff could only fill limited positions; therefore there was a need to advertise externally for qualified staff. However, the company's inadequate financial resource could not attract and retain suitable external candidates. The Controlling Officer submitted that the company had been restructured and all the vacant positions had since been filled up with suitable qualified staff. The Controlling Officer submitted to your Committee that it would continue to invest in capital projects aimed at enhancing the revenue base and financial position which would enable to attract and retain qualified staff.

Committee's Observations and Recommendations

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

b) Lack of Authority to transfer Assets and Liabilities from shareholders

The Controlling Officer submitted to your Committee that WWSC had its Statutory Instrument (SI) passed at formation of the company in 2000. The Assets transferred from the

Local Authorities were valued by Government Valuation Department (GVD) in 2010. At the time of the audit, the documents were not available to the auditors due to staff changes. The Controlling Officer submitted to your Committee that WWSC had retrieved the documents and they were now available for verification. The Controlling Officer also submitted that WWSC in its annual Financial Year End preparation of financial statements would ensure that the Fixed Assets registers were up to date.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that staff changes would result in the loss of documents and misfiling. The Controlling Officer is urged to ensure that the erring officers are disciplined for this failure and your Committee will await a progress report on the matter.

c) Non-Preparation of Financial Statements

The Controlling Officer submitted to your Committee that there were intermittent changes of management staff (Managing Director and other Directors) which caused disruption of work processes for the Organisation including preparation of financial statements. The Controlling Officer submitted to your Committee that financial statements had now been prepared audited and were ready for verification. The Controlling Officer submitted to your Committee that management of WWSCO had put up a system to ensure continuity in work processes.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that staff changes would result in the failure to prepare statutory reports such as the financial statements. The Controlling Officer is urged to ensure that the erring officers are disciplined for this failure and your Committee will await a progress report on the matter.

d) Weaknesses in the Western Water and Sewerage Management Systems

i) Failure to Adopt ICT Standards and Frameworks

The Controlling Officer submitted to your Committee that WWSCO had no IT Unit in the organisation since its inception in 2000, due to financial constraints. The Controlling Officer submitted to your Committee that the company had now set up an IT Unit to attach importance of ICT in the organisation. The Unit was developing the ICT Strategic plan that would embrace among others the ICT Standards and frameworks. The Controlling Officer submitted to your Committee that it was encouraging all commercial utilities to embrace ICT as tools for sustainability.

Committee's Observations and Recommendations

Your Committee resolves that the matter be kept in view in future audits.

ii) Lack of IT Strategic Plan

The Controlling Officer submitted to your Committee that WWSCO had an overall strategic plan for the period 2010 to 2014 and is available for verification. However, the overall strategic plan did not include the IT aspect as the focus then is more on stabilising the operations and financial position of the company. The Controlling Officer submitted to your Committee that the company had now set up an IT Unit to attach importance of ICT in the organisation. The Unit was developing the ICT Strategic plan. The Controlling Officer submitted to your Committee that in developing the organisation Strategic Plan 2016 – 2020, the Water utility company had emphasised the need to embrace the ICT.

Committee's Observations and Recommendations

Your Committee observes with concern that the lack of an IT Strategic Plan at the utility company will result in the misalignment of ICT goals with the organisation's strategic goals. Your Committee urges the Controlling Officer to ensure that the ICT Strategic Plan is expeditiously finalised to avoid a situation which is prevailing. Your Committee will await a progress report on the matter.

iii. Lack of an Information Security Policy

The Controlling Officer submitted to your Committee that WWSCO had no IT section to spearhead the development of ICT policy. The Controlling Officer submitted to your Committee that the company had now set up its IT section. The IT Unit had been instructed to develop the ICT policy and the draft was available for verification. The Controlling Officer submitted to your Committee that WWSCO had enshrined in its Strategic Plan 2016 – 2020, an annual policy review mechanism to ensure relevant policies including ICT Policy remain current.

Committee's Observations and Recommendations

Your Committee observes that the prevailing situation made the company has no basis for making ICT security decisions which is highly irregular. Your Committee urges the Controlling Officer to ensure that the ICT Policy is finalised to address the anomaly. Your Committee awaits a progress report on the matter.

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

The Controlling Officer submitted to your Committee that WWSCO had no IT section to spearhead the development of BCP and DRP which fall within the ICT policy. The Controlling Officer submitted to your Committee that the company has now set up its IT section. The IT Unit had included BCP and DRP in the ICT policy and the draft was available for verification. The Controlling Officer submitted to your Committee that WWSCO has enshrined in its Strategic Plan 2016 – 2020, an annual policy review mechanism to ensure relevant policies including ICT Policy remain current.

Committee's Observations and Recommendations

Your Committee observes with concern that the Business Continuity Plan and Disaster Recovery Plan should not merely be mentioned in security policies, but must be developed as separate documents and circulated to responsible officers for reference in the event of a disaster. It also warns that the failure to have the two documents will result in the failure to resume timely normal operations in cases of disaster or significant damage to its Information Processing Facilities (IFP). Your Committee directs the Controlling Officer to ensure that the two documents are developed without any further delay. Your Committee will await a progress report on the matter.

v. Lack of Control Over the Piano System

The Controlling Officer acknowledged that WWSCO had no control over the continued operation of the Piano system. This could be attributed to lack of specific department in charge of the IT management. The Controlling Officer submitted to your Committee that they were in the process of changing the system for WWSCO that could take care of these inherent limitations. The Controlling Officer submitted to your Committee that in the procurement of

the new billing system, issues of support, knowledge transfer and system maintenance contracts had been provided for.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all ICT related matters are resolved without any further delay while also ensuring that the capacity is enhanced in the ICT Department. Your Committee resolves to await a progress report on the matter.

vi. Lack of Segregation of Duties

The Controlling Officer submitted to your Committee that there was no IT Unit to provide overall systems guidance and policy to user departments. The Controlling Officer submitted to your Committee that with the establishment of an IT Unit at WWSCO, segregation of duties in Pastel and Dove Payroll had been put in place. The Controlling Officer submitted to your Committee that in developing the organisation Strategic Plan 2016 – 2020, WWSCO had embraced the standards which include procedures for segregation of duties as well as management of user access rights.

Committee's Observations and Recommendations

Your Committee observes with concern that there is no segregation of duties which is alarming because loss of funds through fraud is likely. Your Committee urges the Controlling Officer to ensure that the matter is resolved without any further delay and your Committee will await a progress report on the matter.

vii. Lack of Support and Maintenance Contracts

The Controlling Officer reiterated that due to the absence of the IT Unit, the coordination of annual and contracts for individual IT systems was absent resulting in individual user departments obtaining licences renewals without proper IT guidance. The Controlling Officer submitted to your Committee that all the software service agreements had been obtained and were available for verification. The Controlling Officer submitted to your Committee that WWSCO had developed an annual work plan that incorporates a review and renewal of all service agreements for the IT Unit.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management is cautioned for this failure and the matter is recommended for closure subject to audit verification.

viii. Expired License for Pastel Evolution

The Controlling Officer submitted to your Committee that WWSCO at the time of the audit was in the process of comparing the quotations from various suppliers for a cheaper renewal of licences, which is delayed. The Controlling Officer submitted to your Committee that the licence was renewed in the same month of September, 2015. The Controlling Officer submitted to your Committee that WWSCO had taken steps to ensure that in future, licences were renewed in time.

Committee's Observations and Recommendations

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

ix. Lack or Non Operation of the Audit Trail Function on the Systems

The Controlling Officer submitted to your Committee that due to non existence of the IT Unit in WWSCO, there was lack of capacity on use of audit trail in dove payroll. As for the piano system, it had inherent limitation on use of audit trail due to lack of support from the donor. The Controlling Officer submitted to your Committee that the audit trail for dove payroll had now been activated. The Controlling Officer submitted to your Committee that WWSCO had a running IT Unit that oversees the overall administration of all systems ensuring that audit trails were monitored.

Committee's Observations and Recommendations

Your Committee resolves that the matter be kept in view in future audits.

x. Lack of Insurance Cover for Information Technology (IT) Equipment

The Controlling Officer submitted to your Committee that WWSCO could not be locate insurance covers at the time of audit due to staff changes. The Controlling Officer submitted to your Committee that the Insurance covers were located and were available for verification. The Controlling Officer submitted to your Committee that WWSCO had an existing IT Unit that would ensure institutional memory and adequate record keeping.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the erring officer. Your Committee, however, resolves to close the matter subject to audit verification.

xi. Failure to Update Assets Register

The Controlling Officer submitted to your Committee that due to non-existing IT Unit, there was no independent IT register. The Controlling Officer submitted that an independent IT assets register had now been complied and was available for verification. The Controlling Officer submitted to your Committee that WWSCO had incorporated in its IT annual work plan updating of the IT assets register as an activity.

Committee's Observations and Recommendations

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

xii. Lack of Network Monitoring Tool

The Controlling Officer submitted to your Committee that WWSCO had not yet implemented a wide area network for its branches. He, however, stated that with the setting up of the IT unit, WWSCO had implemented a Local Area Network (LAN) at its Head Office in Mongu. A LAN monitoring tool was available for verification. He also informed your Committee that WWSCO's proposed WAN was included in its investment plan.

Committees Observations and Recommendations

Your Committee resolves that the matter be kept in view in future audits.

xiii. Physical Access and Information Processing Facility (IPF)

The Controlling Officer acknowledged that the physical security to the server room was inadequate. He added that the fire extinguisher had been installed and a grill door fixed. The Controlling Officer submitted to your Committee that WWSCO would ensure that these physical security features for the server room were maintained at all times.

Committee's Observations and Recommendations

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

e) Weaknesses in the Administration of the Active Directory

i. Lack of Contract – Microlink Limited

The Controlling Officer submitted to your Committee that WWSCO had since signed a contract with Microlink Ltd and was available for verification. He also added that WWSCO had incorporated in its IT annual work plan the renewals of all software agreements with vendors.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that contracts are not signed with the supplier and cautions the Controlling Officer that this can make the company vulnerable in case of litigation due to default. Your Committee urges the Controlling Officer to ensure that the matter does not recur. Your Committee, however, resolves to close the matter subject to audit verification.

ii. Failure to Disable Default Administrator Account

The Controlling Officer acknowledged that WWSCO did not disable the default administrator account due to non existence of the IT Unit to manage it. The Controlling Officer submitted to your Committee that WWSCO had now disabled the default administrator account and this could be verified. The Controlling Officer submitted to your Committee that WWSCO had incorporated in its IT annual work plan the management of all administrator and user accounts.

Committee's Observations and Recommendations

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

iii. Inappropriate Administration of the Schema and Enterprise Admin Group

The Controlling Officer acknowledged that WWSCO did not have an IT Unit to manage the Schema and enterprise group accounts. He, however, submitted to your Committee that WWSCO was now managing the two accounts which had been restricted to a single administrator and was available for verification.

Committee's Observations and Recommendations

Your Committee finds the situation prevailing unacceptable as the scheme and enterprise group were exposed to active unauthorised modification, misuse and deletion of data without control. The Controlling Officer is urged to ensure that the administrative controls are active

at all times to avoid recurrence. Your Committee, however, recommends the matter for closure subject to audit verification.

iv. Use of Operating Systems that have Reached end of Life Support

The Controlling Officer acknowledged that WWSC was still using a Windows Operating system XP which had since been removed from Microsoft update support due to the non existence of an IT Unit. He, however, informed your Committee that WWSC had now upgraded all the operating systems to supported versions of Microsoft Windows software. This was available for verification. He further added that WWSCO currently had an annual IT work plan that includes an activity monitoring all software updates and upgrades.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management is cautioned. Your Committee, however recommends the matter for closure subject to audit verification.

v) Poor Password Administration

- **Active accounts were not adhering to the Password policy**

The Controlling Officer reiterated that WWSC had no IT unit to coordinate the management of password policies for all user departments. The Controlling Officer informed your Committee that WWSCO had installed a password policy that met the requirements ISO/IEC 27001A 11.3.1 and this was available for verification. The Controlling Officer submitted to your Committee that WWSCO had incorporated in its annual work plan the maintenance of the standard password policy.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management is cautioned. Your Committee, however, recommends the matter for closure subject to audit verification.

- **Failure to set Account Lockout Threshold**

The Controlling Officer acknowledged that WWSCO did not have an account lockout threshold for its password policy. The Controlling Officer submitted to your Committee that an account lockout threshold had been set and can be verified. The Controlling Officer submitted to your Committee that WWSCO had incorporated in its annual work plan the maintenance of the account lockout threshold.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management is cautioned. Your Committee, however, recommends the matter for closure subject to audit verification.

f) Internal Control Weaknesses

i. Lack of the Risk Management Policy

The Controlling Officer acknowledged that WWSCO did not have a risk management policy in place. He informed your Committee that WWSCO had now developed a risk management policy which was in draft stage awaiting Board approval and was available for verification.

The Controlling Officer submitted to your Committee that WWSCO in its internal audit annual work plan would incorporate the risk profile review.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of formulating and approving of the risk management policy is expedited and will await a progress report on the matter.

ii. Failure to Prepare Bank Reconciliation Statements

The Controlling Officer submitted to your Committee that WWSCO had not been reconciling its bank accounts on a monthly basis due to high staff turnover in the department. He acknowledged that although 2013 and 2014, bank reconciliations were done, the computerised entries had errors at the time of audit. The computerised errors on the system were investigated and found to be mispostings from 2014. These had been reversed in the system and were now available for verification.

Committee's Observations and Recommendations

Your Committee finds the situation where the company is exposed to a great risk of possible fraud unacceptable. The Controlling Officer is urged to ensure that the matter does not recur and that staff changes do not disturb normal operations. Your Committee resolves that the matter be kept in view in future audits.

g) Irregularities in Staff Costs

i. Recruitment of staff not provided for in the Establishment

The Controlling Officer submitted to your Committee that WWSCO recruited the staff according to the new organisational structure which was duly approved by Board. However, at the time of the audit, the approved new organisational structure was not availed to the auditors due to staff changes.

The Controlling Officer submitted to your Committee that the WWSCO approved new organisational structure had been retrieved and was ready for verification. The Controlling Officer submitted to your Committee that WWSCO in its annual reviews of the strategic plan had incorporated regular updates of the organisational structure to reflect macro environment and legal framework.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the erring officers are disciplined for failure to avail documents to the auditors at the time of audit. Your Committee awaits a progress report on the matter.

h) Financial Performance - Statement of Comprehensive Income for the Year ended 31st March 2013

i) Financial Position – Statement of Financial Position

i) Liquidity

The Controlling Officer submitted to your Committee that WWSCO's tariff for the period under review was insufficient to meet the company's operation and

maintenance cost structure. The operation and maintenance cost for the company was compounded by the dilapidated infrastructure requiring constant repairs due to frequent breakdowns. The Controlling Officer submitted to your Committee that WWSCO submitted a proposal for the review of tariff to NISCO. NISCO had approved an upward adjust of water tariff for WWSCO for the period 2016 to 2018.

He also reported that WWSCO had been included on the list of water companies to benefit from the financial investment from cooperating partners being pursued under the National Urban Water Supply and Sanitation Programme (NUWSSP). The Controlling Officer submitted to your Committee that WWSCO was developing a long term investment master plan to be used as a bankable document for accessing future capital investment financing.

Committee's Observations and Recommendations

Your Committee notes with concern the poor liquidity and financial performance of the company and urges the Controlling Officer to ensure that the plans suggested are implemented to help the company improve its liquidity. He is also urged to ensure that the water infrastructure is capitalised to ensure that the breakdowns are minimised. Your Committee awaits a progress report on the matter.

ii. Failure to provide for Bad Debts

The Controlling Officer acknowledged that WWSCO had not been providing for bad debts due to non availability of clear policy guidelines and inability of the billing system to capture age analysis. The Controlling Officer submitted to your Committee that WWSCO had since adopted the policy for doubtful debts and is available for verification. The Controlling Officer submitted to your Committee that the new billing system that would be procured for WWSCO would now include an age analysis function. Further to that, WWSCO in its annual review of policies would include review of its doubtful debts policy.

Committee's Observations and Recommendations

Your Committee notes the submission and urges the Controlling Officer to ensure that the matter does not recur. Your Committee resolves to close the matter subject to audit verification.

iii. Failure to Amortise Grants

The Controlling Officer submitted that WWSCO had not been amortising grants due to capacity inadequacies of staff in the finance department. The Controlling Officer submitted to your Committee that WWSCO had sought a technical assistance from the external auditors and had effected the grant amortisation procedures in the 2014 audit. The Controlling Officer also submitted that WWSCO had incorporated the amortisation of grants in the financial year closing procedures.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that capacity is enhanced in the Finance Department by employing qualified staff who were able to cope up with the emerging demands in the accounting fraternity. Your Committee awaits a progress report on the matter.

j) Assets

i) Failure to update the Fixed Asset Register

The Controlling Officer submitted that WWSCO had not been charging depreciation due to capacity inadequacies of staff in the finance department. The Controlling Officer submitted to your Committee that WWSCO had re-computed the depreciation and adjustments had since been effected in 2014. The Controlling Officer submitted that WWSCO had incorporated the depreciation and management of the asset register in the financial year closing procedures.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that capacity is enhanced in the Finance Department by employing qualified staff who will be able to cope up with the emerging standards in the accounting fraternity. Your Committee will await a progress report on the matter.

ii. Non-Remittance of Statutory Contributions

The Controlling Officer submitted to your Committee that WWSCO had not been remitting Pay As You Earn (PAYE) due to poor liquidity position and huge indebtedness to various statutory bodies. The Controlling Officer added that WWSCO was making up-to-date regular remittances to NAPSA. For Workers Compensation, payments arrangement had been entered into to clear the outstanding arrears. The Controlling Officer submitted to your Committee that WWSCO has requested for Balance Sheet restructuring to be incorporated as part of the investment funding from cooperating partners in forthcoming infrastructure projects.

Committee's Observations and Recommendations

Your Committee notes with concern the poor liquidity and financial performance of the company which has resulted in the failure to meet its statutory obligations. The Controlling Officer is urged to ensure that the proposed plans suggested are implemented to help the company improve its liquidity. He is also urged to ensure that all statutory contributions are paid as and when they fall due to avoid recurrence. Your Committee will await a progress report on the matter.

k. Weaknesses in Accounting for Revenue

i. Failure to Collect Revenue

The Controlling Officer submitted that WWSCO was not collecting its revenues as they fell due to high defaults amongst different categories of customers. The Controlling Officer submitted to your Committee that WWSCO had put in place a stringent revenue collection strategy involving disconnections, sensitisation programs, and in some cases litigations. This had increased the collection efficiency to ninety-two as at 31st December, 2015. The Controlling Officer submitted to your Committee that WWSCO had been directed to install prepaid meters on all its customers as a way of controlling debt.

Committee's Observations and Recommendations

In noting the efforts made by the Company, the Controlling Officer is urged by your Committee, to ensure that more vigorous efforts and strategies are employed to improve the current status on revenue collection. Your Committee resolves to keep the matter in view in future audits.

ii. Loss of Revenue through Non Revenue Water

The Controlling Officer submitted to your Committee that high Non Revenue Water was as a result of dilapidated infrastructure due to lack of significant investments in asset renewal over the years. The Controlling Officer submitted to your Committee that WWSCO had been included to be beneficiary of the large scale investment funding for all the district towns of Western Province, and a contract had been signed with the consulting engineers for finalisation of designs and bid documents for all the towns to concluded and tendered by October, 2016. The Controlling Officer submitted to your Committee that due to the anticipated huge investments in all these towns, WWSCO should be able to reduce its Non Revenue Water (NRW) to less than twenty-five percent in all its towns by 2018.

Committee's Observations and Recommendations

Your Committee notes with concern the poor infrastructure coupled with high Non Revenue Water. Your Committee, therefore, urges the Controlling Officer to ensure that the water infrastructure is capitalised to ensure that breakdowns are minimised to improve the current status. Your Committee awaits a progress report on the matter.

iii. Lack of Interface between the Billing and Accounting System

• **Failure to Collect Debt**

The Controlling Officer submitted to your Committee that the total amount reported in the audit report of K77, 543,184.54 debt as of September 2015 was not correct. Their records as of December, 2015 indicated K10, 225,277. 53 as total receivables. The Controlling Officer submitted to your Committee that WWSCO had put in place a stringent revenue collection strategy involving disconnections, sensitisation programs, and in some cases litigations. This had increased the collection efficiency to ninety-two percent as at 31st December, 2015. The Controlling Officer submitted to your Committee that WWSCO had been directed to install prepaid meters on all its customers as a way of controlling debt.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that management at WWSCO failed to reconcile the balance on accounts receivables until after audit. The Controlling Officer is urged to ensure that disciplinary action is taken against the erring officers for this failure and further that more efforts are employed to collect the remaining balances without any further delay. Your Committee will await a progress report on the matter.

• **Lack of Debt Collection Policy**

The Controlling Officer submitted to your Committee that WWSCO did not have a commercial directorate to initiate the policy formulation. He, however, informed your Committee that WWSCO had now set up a commercial directorate. The debt management policy had been formulated and was being implemented. The Controlling Officer submitted that WWSCO had also developed a strategic plan to cover the period 2016 to 2020 in which annual reviews of the organisational structure would be undertaken and also all policies would be reviewed annually for effectiveness.

Committee's Observations and Recommendations

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

- **Failure to Disconnect Defaulting Accounts**

The Controlling Officer submitted to your Committee that WWSCO had a disconnection system that was based on its billing cycle. Its disconnection cycle began every 15th to the 31st of each month. The Controlling Officer also submitted that WWSCO carried out disconnections of defaulting accounts monthly during the period 15th to 31st of each month. He added that WWSCO had been directed to install prepaid water meters on all customer accounts in its catchment area.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to be proactive to its disconnection system to avoid loss of revenue and ensure that prepaid meters are installed to improve revenue collection. Your Committee, however, resolves to close that matter subject to audit verification.

- iv. **Metered Customers Billed without Receiving a Service**

The Controlling Officer submitted to your Committee that the twenty-eight customers were billed using the fixed meter charge. He also added that the bills for customer showing the fixed meter charges had been retrieved and were available for verification.

Committee's Observations and Recommendations

Your Committee recommends the matter for closure subject to audit verification

- v. **Lack of Data Integrity on the System**

The Controlling Officer submitted to your Committee that WWSCO was using a billing system that had a lot of limitations for effective database management. Some customer data record details were lost during the initial data migration. He also informed your Committee that WWSCO had installed Geographical Information System (GIS) that was now being used to clean up the database, establish reading routes and map meter numbers, to updated customer data. This exercise had begun in Mongu. He further informed your Committee that the updated customer data shall be input into the versatile new billing system to avoid future loss of customer data.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter does not recur and your Committee resolves that the matter be kept in view in future audits.

- vi. **Disconnected Accounts Still Receiving Service**

The Controlling Officer acknowledged that there was a lapse between the reconnection team and updates of reconnected customer accounts in the billing system. These accounts were legally reconnected, but remained showing as disconnected. The Controlling Officer submitted to your Committee that WWSCO had updated its customer account record to reflect all accounts that had been reconnected in the period. The Controlling Officer submitted to your Committee that WWSCO would integrate the two activities by revising the reconnection forms and procedures to include billing accounts sign off.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter does not recur and your Committee resolves that the matter be kept in view in future audits.

vii. Bills on Disconnected Accounts

The Controlling Officer submitted to your Committee that the customers were billed based on the fixed meter charge. The Controlling Officer submitted to your Committee that the bills for customer showing the fixed meter charges had been retrieved and were available for verification.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter does not recur and your Committee resolves that the matter be kept in view in future audits.

l) Irregular Sourcing of Bank Overdraft

- **Single Sourcing of Financier.**

The Controlling Officer acknowledged that due to the weaknesses in the procurement processes, no competitive tender had been issued. Further there was no evidence of Board approval. He added that WWSCO compared similar facilities with other financial institutions and at the time of renewal management, sought Board ratification for the procurement of the facility. He, however, assured your Committee that he would ensure that all future overdraft facilities were procured competitively and approved by the Board.

Committee's Observations and Recommendations

Your Committee finds the situation unacceptable and urges the Controlling Officer to sternly caution Management for failure to follow procurement procedures. Your Committee, however, recommends the matter for closure subject to audit verification.

m) Failure to meet Water and Sanitation Sector Bench Marks

- **Sanitation Coverage**

The Controlling Officer submitted to your Committee that WWSCO had not expanded its sanitation coverage mainly due to lack of capital investments. The Controlling Officer submitted to your Committee that WWSCO had been included to be beneficiary of the large scale investment funding for all the district towns of Western Province, and a contract had been signed with the consulting engineers for finalisation of designs and bid documents for all the towns. The tendering processes were expected to be concluded by October, 2016. The Controlling Officer submitted to your Committee that it would continue to mobilise resources for the development of water and sanitation sector.

Committee's Observations and Recommendations

Your Committee observes with concern the limited coverage of the customer base serviced by the company despite available room for expansion. The Controlling Officer is urged to ensure that more options are explored to capitalise the Company and enable it increase its customer base which would hopefully result in increased

revenue collection. The Secretary to the Treasury is, particularly, urged to consider recapitalising the Company to improve the current status to supplement on the available plans. Your Committee resolves to await a progress report on the matter.

- **Water Service Coverage**

The Controlling Officer submitted to your Committee that WWSCO could not meet the benchmark due to lack of capital investment in the water utility company to match the growing demand as most of the infrastructure inherited from the local authorities are old and obsolete. The Controlling Officer submitted to your Committee that WWSCO had been included to be beneficiary of the large scale investment funding for all the district towns of Western Province, and a contract had been signed with the consulting engineers for finalisation of designs and bid documents for all the towns. The tendering processes were expected to be concluded by October, 2016. The Controlling Officer submitted to your Committee that it shall continue to mobilise resources for the development of water and sanitation sector.

Committee's Observations and Recommendations

Your Committee observes with concern the limited coverage of the customer base serviced by the company despite available room for expansion. The Controlling Officer is urged to ensure that more options are explored to capitalise the company to enable it increase its customer base which will hopefully result in the increased revenue collection. The Secretary to the Treasury is, particularly, urged to consider recapitalising the company to improve the current status to supplement on the available plans. Your Committee resolves to await a progress report on the matter.

- **Hours of Supply**

The Controlling Officer submitted to your Committee that WWSCO could not meet the benchmark due to lack of capital investment in the water utility company to match the growing demand as most of the infrastructure inherited from the local authorities were old and obsolete. The Controlling Officer submitted to your Committee that WWSCO had been included to be beneficiary of the large scale investment funding for all the district towns of Western Province, and a contract had been signed with the consulting engineers for finalisation of designs and bid documents for all the towns. The tendering processes were expected to be concluded by October, 2016. The Controlling Officer submitted to your Committee that it would continue to mobilise resources for the development of water and sanitation sector.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to expedite the process of finalisation of the designs and bid documents for all the towns so as to improve the current status. The Controlling Officer is also urged to ensure that the company infrastructure is capitalised to enable it meet its benchmark for hours of supply to its customers. Your Committee will await a progress report on the matter.

n) Procurement of Goods and Services

- **Overpayment on Leak Detective Equipment**

The Controlling Officer submitted to your Committee that WWSCO paid the invoice correctly VAT inclusive.

Committee's Observations and Recommendations

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

o) Poor management of Water Reticulation Projects

i) Water Reticulation in Mulobezi and Sesheke– Abandoned Works

The Controlling Officer acknowledged that WWSCO exhibited lack of capacity to manage the projects due to lack of qualified staff i.e. Technical Manager and Project Manager as the workforce then were of low qualification, for instance, crafts certificate holders supervising the projects. This resulted into substantial breach of contract by the contractor which could only be remedied by instant termination of the contract.

The Controlling Officer submitted to your Committee that the contract had been terminated and legal proceedings were underway to recover the costs. Furthermore, WWSCO has recruited the qualified Technical Manager and Projects Manager to effectively supervise the completion of the projects as well as the implementation of future projects. The Controlling Officer submitted to your Committee that it had since formulated a capacity development strategy which identifies the capacity gaps in the water utility companies and the water sector as a whole in order to address the challenges being faced by water utilities. Furthermore, the Ministry with support from cooperating partners had embarked on the Utility Governance program to strengthen structurally weaker Commercial Utility Companies (CUs).

Committee's Observations and Recommendations

Your Committee expresses concern at the low capacity of the staff from the engaged contractor and thus, questions the selection process. Your Committee is also concerned with the Controlling Officer's failure to curb this irregularity as he is a member of the board which sat to approve the contractor. He is, therefore, sternly cautioned to ensure that the selection process is well handled to avoid the loss of public funds and time by the Government by re-engaging other contractors for the same works. He is then urged to ensure that the matter is reported to law enforcement agencies for further probe. Your Committee will await a progress report on the matter.

ii. Mwandu Water Project – Collapsed Tank

The Controlling Officer acknowledged that WWSCO exhibited lack of capacity to provide in-house supervision of the project due to its inability to recruit qualified engineering staff to manage the project effectively. The Controlling Officer submitted to your Committee that WWSCO had now recruited the qualified Technical Manager and Projects Manager following restructuring of the organisation. The Controlling Officer submitted to your Committee that all future projects would have a component of designs and supervision as part of the contract.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that stern disciplinary action is taken against erring officers for issuing certificates of completion of works on poorly completed works. Your Committee also urges the Controlling Officer to ensure that the selection process of contractors is well handled to avoid contracting contractors with questionable capacity. He is further urged to ensure that repairs to the destroyed building and the re-erection of the water tank are done without any further delay. Your Committee awaits a progress report on the matter.

iii. Kaoma Rehabilitation and Extension Water Supply Network – Collapsed Borehole

The Controlling Officer submitted to your Committee that the said borehole had not collapsed but the pump housing walls collapsed due to high pressure vibrations from the raising mains. He also informed your Committee that the cause of several leakages on the raising main was due to chemical reaction between the iron and oxygen in the water leading to corrosion.

He added that the motor for submersible pump No. 6 was burnt due to failure of the protective gadgets which gave way to power fluctuations. He furthermore submitted that the leakages were as a result of old dilapidated corroded tanks. Several attempts had been made to repair the leaking tanks, but the leakages continue in several points. This seemed to indicate that the tanks had now reached the end of their useful life, and required complete overhaul. He also submitted to your Committee that funds were being sourced from cooperating partners to conduct total rehabilitation of water infrastructure in western province including Kaoma.

The Controlling Officer further added that for all future network extensions, UPVCs pipes would be used in place of GI pipes as they were resistant to corrosion. In order to mitigate burning motors, voltage regulating equipments would be installed and the implementation of planned maintenance programs at WWSCO were monitored to increase the lifespan of installed infrastructure. Effective chlorination systems would be installed to avoid manual chlorination which corrodes tanks.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that stern disciplinary action is taken against the erring officers for issuing certificates of completion of works on poorly completed works. Your Committee also urges the Controlling Officer to ensure that that the selection process of contractors is well handled to avoid contracting contractors with questionable capacity. He is further urged to ensure that repairs to the collapsed wall, leakages on the GI water pipes and water tank are done without any further delay. Your Committee will await a progress report on the matter.

ZESCO LIMITED

**Query
Review of Operations**

Paragraph 21

22. A review of the information systems and an examination of accounting and other records as well as physical inspections of selected infrastructure projects for the financial years ended 31st December, 2011 to 31st December, 2013, carried out during the period from November 2014, to February, 2015 revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Lack of a Risk Management Policy

The Controlling Officer informed your Committee that the risk management policy was developed under Safety, Healthy, Environment and Quality. The Policy was approved by the Management, and was awaiting presentation for approval by the Board. Since the Board was recently constituted, it was expected to be presented at the next sitting of the Board in the second quarter of 2016.

Committee's Observations and Recommendations

Your Committee expresses concern at the absence of a Risk Management Policy in an organisation whose operations are of high risk and cautions the Controlling Officer against such lapses. Your Committee will await a progress report on the matter

b) Lack of Approved Policy Documents

The Controlling Officer submitted that the draft policies on treasury, disposal of assets, asset management and transport were being revised. He explained that the draft policies were outdated and needed to be revised before finally being submitted to the Management and the Board for approval. The draft policies would be presented for approval at the next Board sitting in the second quarter of 2016.

Committee's Observations and Recommendations

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

c) Weaknesses in Management Information Systems

i. None Adoption of Internationally Recognised ICT Framework

The Controlling Officer responded that ZESCO was currently implementing COBIT 5.0 which was an internationally recognised ICT framework. The contract between ZESCO Limited and the consultant to implement COBIT 5.0 was signed in July, 2015. Your Committee was informed that the project was for a duration of ten (10) months. The preliminary project works such as training and certification of project team members had been completed. The Gap analysis exercise was on-going.

Committee's Observations and Recommendations

Your Committee will await a progress report on the implementation of the internationally recognised ICT framework.

ii. Failure to Fill Vacant ICT Positions

The Controlling Officer responded that the vacant positions could not be filled in 2015, because they were not in the 2015 budget. However, management had since given authority to fill up the vacant position following the approval of the 2016 budget.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

iii. Inadequate Security over the Disaster Recovery Site (DRS)

The Controlling Officer submitted that the security for the Disaster Recovery Site had since been enhanced. Further, the access door for equipment deliveries had been replaced with aluminium double doors and the biometric access control system had been installed.

As regards the Disaster Recovery Site, management had started the tendering process for the procurement for a Fire Suppression System. It was expected that the installation of the Fire Suppression System would be done at the Disaster Recovery Site once the procurement process was completed in the second quarter of 2016.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

iv. Poor Contract Management - Provision of Internet Services to ZESCO Limited by Telecom Namibia

- **Failure to have a Contract in Place**

The Controlling Officer submitted that there was a formal agreement that was signed between ZESCO Limited and TELECOMS Namibia, concerning the provision of internet services. However, management had taken note that the agreement did not meet the conditions of a contract. Therefore a draft contract had since been drawn which addressed the observations made by the auditors and was being reviewed by Legal teams from both parties. The draft report was expected to be finalised in the second quarter of 2016.

Committee's Observations and Recommendations

Your Committee expresses disquiet at how a large sum of money could have been paid out without any written contract and wonders what ZESCO would do to seek recourse if any problems arose. Your Committee, therefore, urges the Controlling Officer to caution the ZESCO Management against such risky undertakings and to immediately correct the situation. A progress report on the matter will be awaited by your Committee.

- **Poor Service Provision**

The Controlling Officer submitted that the low internet speed, Management had engaged TELECOMS Namibia on the issue so that it could be rectified.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

d) Financial Affairs of ZESCO Limited

i. Employee Remuneration

The Controlling Officer informed your Committee that the increase in staff costs was attributed to the expansion of the operations in the new districts where the Company had to open new branches or area offices, and also in existing districts in order to meet the growing customer demands. Your Committee was informed that the customer base increased by twenty-six percent from 418,651 in 2011 to 527,378 in 2013. The growth in customer base meant that the Company had to employ additional staff in order to effectively and efficiently serve the customers.

In addition, during the same period, the Company converted about 1,400 temporal staff to long term contracts. This was in line with the Government policy to reduce casualisation.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to caution ZESCO management against employing people that are not necessary for the operations of the organisation. Your Committee, however, recommends the matter for closure subject to audit verification

ii. Profitability

The Controlling Officer responded that ZESCO's tariffs had remained uneconomic over the years, while the operational costs had been rising due to inflationary effects. The situation had been compounded by the mining customer disputing the tariff revisions approved by the Energy Regulation Board. This had negative effects on the Company's performance, resulting in poor service delivery to the customers.

Your Committee was informed that Management was optimistic that the tariff impasse especially with the mining customers would be resolved following the recent interventions from the Government through the Ministry of Energy and Water Development.

Committee's Observations and Recommendations

Your Committee is reluctant to accept the explanation that ZESCO's poor profitability was due to uneconomic tariffs. Your Committee urges the Controlling Officer to caution ZESCO management against inflated operational costs. Your Committee resolves that the matter be kept in view in future audits.

e) Financial Position of the Corporation

i. Return on Capital Employed

The Controlling Officer informed your Committee that the return on capital employed had been reducing due to uneconomic tariffs and the inflationary effects which had reduced the tariffs in real terms. The operational costs had increased significantly, compared to the static tariffs, resulting in low return on investment.

Committee's Observations and Recommendations

Your Committee is reluctant to accept the explanation that ZESCO's poor return on capital employed is due to uneconomic tariffs. Your Committee urges the Controlling Officer to caution ZESCO management against inflated operational costs. Your Committee resolves to keep the matter in view in future audits.

ii. Uncontrollable Increase in Receivables

The Controlling Officer submitted that the increase in trade receivables was attributed to the non-settlement of bills by Government spending agencies. In order to prevent the debt from growing further, management had installed prepaid meters in police and military camps, and also in the ministries. Further, there was a cheque swap that was effected in 2015, and negotiations to have another cheque swap had not yielded much results thus far. Your Committee was informed that Management would continue to engage the Government and Water utilities over the possible cheque or debt swap.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

iii. Solvency of the Corporation

The Controlling Officer submitted that the increase in gearing ratio was due to uneconomic tariffs over the years. This had created a funding gap which resulted in increased short term and long term borrowing to finance working capital and projects respectively. Your

Committee was informed that Management through the Ministry of Energy had engaged mining customers to resolve the mining tariff impasse.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to find solutions to help improve the solvency of the Corporation bearing in mind its strategic place in the economy of the country. Your Committee will await a progress report on the matter.

f) Poor Management of Investments

i. Outstanding New Installations

The Controlling Officer submitted that the current capital contribution, charged had not been revised upwards for some time despite the increase in the cost of materials. This had created a funding gap in the procurement of materials used in connecting customers. The situation had further been compounded by uneconomic tariffs. Your Committee learnt that Management had, however, come up with a number of measures, short term measures in order to improve the situation such as outsourcing of construction jobs and also in the process of seeking approval from the Energy Regulation Board to revise the capital contribution cost.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that ZESCO is accepting money from customers and is not delivering the services paid for. The Controlling Officer is urged to caution management and ensure that the measures that have been taken will result in the clearing of the backlog. A progress report on the matter will be awaited by your Committee.

ii. Contract for the Design, Procure, Build and Commission Hydropower Stations

The Controlling Officer responded as outlined below:

- as regards the query on the telecommunication system and inter tripping for Mbala power line. This was resolved in February, 2016, by the ZESCO telecom engineers;
- as regards the office block that had been completed but not in use, the Company was in the process of making the final payment to the contractor so that the office block and housing units could be officially handed over to ZESCO for use;
- regarding the bridge on the access road to the power station which collapsed last year, Management had engaged the Zambia National Service to work on the road, and the works were in progress;
- regarding the telecommunication system installation on the Lunzua-Nkamba Bay, the 66kV line (Power Line Carrier – PLC) had been delayed due to the inaccessibility of Nkamba Bay Substation. However, this was recently resolved; and
- as regards the defect resolution, this had been on-going since the resumption of commissioning works in January 2015. Your Committee was informed that not all the defectives were resolved at the time of the updating the responses.

Committee's Observations and Recommendations

Your Committee is dismayed at the deliberate flouting of the provisions of the Constitution and of the *Public Procurement Act* by the ZESCO Management. Your Committee urges the Controlling Officer to take stern action against the officers responsible for negotiating the contract and for breaking the law. The state of affairs surrounding this contract was highly irregular and your Committee will await a progress report on the matter.

iii. Connection of Luangwa District to the National Grid Project

Updated Management

The Controlling Officer responded that the contract to connect Luangwa to the national grid was awarded to PME on 20th June, 2011, and the project was expected to take eighteen months at a fixed contract price of US\$63,388,771. The contract was extended by eight months to be completed by 31st August, 2015, following, the failure by the contractor to complete the works as scheduled. The contractor had still not completed the project despite the extension to 31st August, 2015. Your Committee was informed that Management was in the process of formally discharging the contractor with PME on non-contentious grounds following the expiry of the contract on 31st August, 2015, as it had become null and void and the parties would separate without prejudice to each party's interests. The outstanding works would be re-tendered and discussions to this effect had since been held with the financier, EXIM Bank of India. It was agreed during the meeting with EXIM Bank of India that the undisbursed funds would remain committed to the project provided the new contractors invited to bid, were Indian companies.

Committee's Observations and Recommendations

Your Committee observes that ZESCO does not have qualified negotiators and, therefore, entered into contracts that were very costly to the institution. The Controlling Officer is urged to ensure that the anomalies arising out of these contracts are corrected as the Country would potentially lose large amounts of money. The Controlling Officer is also urged to strongly caution the ZESCO management against such irresponsibility as, is, exhibited in the contracts entered into. Your Committee will await a progress report on the matter.

g) Unmanageable Receivables

i. Mining and Export Debtor

The Controlling Officer submitted that the mining customers, had not been paying the full invoices due to disputes on tariff, resulting in trade receivables growing at a fast rate. Management through the Ministry of Energy and Water Development had engaged the mining customers to the settlement of old outstanding debt to ZESCO Limited. In addition, exports customers had been settling the debt following the meetings that were held with export customers.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

ii. Government Indebtedness

The Controlling Officer responded that Management had continued to install prepaid meters in Government institutions, Police and Military camps. Further, negotiations between the Government and ZESCO Limited to effect another cheque swap were in progress, despite moving at a slow pace.

Committee's Observations and Recommendations

Your Committee takes note of the efforts being made to correct the situation and will await a progress report on the matter.

h) Poor Management of Non-Current Assets

i. Failure to Revalue Fixed Assets

The Controlling Officer responded that a consultant from Germany had been engaged and a contract was signed in February, 2016. The project was expected to commence in April, 2016 and would be completed by the end of the 2017 financial year.

Committee's Observations and Recommendations

Your Committee expresses concern how ZESCO has been operating for so many years without any asset valuation and wonders why a foreign consultant is being engaged to draw up terms of reference for the asset valuation exercise when it is clear that ZESCO know where all its assets are and can identify them. Your Committee directs the Controlling Officer to ensure that the asset register was formulated without any further delay. A progress report will be awaited by your Committee.

ii. Non Disposal of Obsolete Stocks

The Controlling Officer responded that the tendering process to engage the auctioneer had commenced and it was expected to be finalised in the second quarter of 2016. Further, Management would speed up the process so that there were no further delays in the process of engaging an auctioneer.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

iii. Failure to Pass Title of Assets to ZESCO Limited

The Controlling Officer responded that the process of changing the names on the titles to ZESCO Limited had commenced at the Ministry of Lands, Natural Resources and Environmental Protection. Already a number of titles had since been changed in ZESCO's name. The process was expected to be concluded before end of the current financial year.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

i) Out of Service Diesel Power Generating Machines - Mufumbwe

The Controlling Officer responded that there were two diesel power generating machines running in Mufumbwe at the moment. The delay in repairing the machine was due to a dispute between ZESCO Limited and the supplier as regards to which party should pay for repair costs following the damage caused by the contractor during the process of repairing the machine. The matter was resolved by an arbitrator and agreed that both parties contribute fifty percent towards the cost of repairing the Machine. It was also expected that the machine would be repaired as soon as the parties settled the respective obligations.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

j) Poor Operations of Small Hydro Power Stations - Lusiwasi Power Station

The Controlling Officer responded as outlined below:

- as regards the lack of staff levels, Management had sourced for training of winch operators at ZESCO Training Centre in Ndola. This implied that once they were trained, there, would be four operators at the plant;
- as regards repair works on the machine unit, repair works had been done and were undergoing tests;
- a dredger machine was on site to assist with de-silting. The works were expected to be completed before the end of March, 2016;
- the machine test alarm was currently fully functional; and
- the station had been allocated with a hard top land cruiser which could be used in emergency cases.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

ZAMBIA NATIONAL BROADCASTING CORPORATION (ZNBC)

**Query
Review of Operations**

Paragraph 22

23. A review of operations of the Corporation for the financial years ended 31st March, 2012 to 31st December, 2014, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Financial Performance – Statement of Comprehensive Income

The Controlling Officer submitted to your Committee that the Financial Performance of the ZNBC as reported was regrettable and was an issue of serious concern to the Government. He explained that deficits were mainly driven by the increase in the administrative and operating costs. The increase in Administrative costs was, therefore, largely on account of an increase in terminal benefits, staff salaries and allowances. Your Committee was informed that the terminal benefits provision rose from K2.5 million in 2013 to K58.2 million in 2014, translating into a percentage increment of 2212%. Further, staff allowances rose from K35.1 million in 2013 to K47.4 million in 2014 translating into a thirty-five percent increment. The Controlling Officer informed your Committee that Staff salaries and wages rose from K35.5million in 2013 to K43.5 million in 2014, translating into a twenty-three percent increment.

He explained that the increase in operating expenses recorded at a high of K114 million for the year ended 31st December, 2013 and a low of K24.3 million for the year ended 31st December, 2014 was due to statutory obligations to ZRA and NAPSA. After providing for the penalties and interest charges, other operating expenses were recorded at K74.6 million.

The Controlling Officer also submitted that the Ministry of Information and Broadcasting Services had taken note of the irregularities observed by the Auditor General and the Corporation had taken the following measures:

- a new organisational structure was approved by the Board in November, 2015. In the new structure, a number of staff had been placed on fixed term contracts with a view

to evaluate the relevance of their positions to the Corporation at the point of contract renewal;

- controls had been put in place to manage overtime expenditure by ensuring that the overtime pay was not more than thirty of the basic pay. This had been done without affecting the normal operations of the Corporation;
- a Recruitment Policy to regulate new recruitments had been put in place;
- the Corporation and NAPSA reached an out of court settlement regarding the payment of the debt pension relating to contributions. It was agreed that ZNBC would be remitting K250,000 every month towards the old bill whilst remaining current on fresh bills; and
- to address the ZRA statutory obligation, the Corporation engaged the Secretary to the Treasury with a view to seek debt cancellation. The process was still ongoing.

Your Committee was further informed that some of the measures previously highlighted were put in place after the auditors had completed their work, therefore, some documents could not be availed. However, they were currently available for audit verification.

Further, in his verbal submission, the Controlling Officer informed your Committee that the Corporation had set up a task team to work on modalities of developing the land that the Corporation owned, situated in Bauleni Compound. The Controlling Officer submitted that this would greatly improve liquidity along with other improvements such as the revision of the TV levy. Additionally, an in-house pension scheme had been done away with which was escalating staff costs every year. This had been approved by the Attorney General.

Committee's Observations and Recommendations

Your Committee expresses concern at the high staff costs the Corporation is paying which is not correlating with the financial performance of the Corporation as can be observed from the Statement of Comprehensive Income for the Financial Year ended 31st December, 2014. Your Committee, therefore, urges the Controlling Officer to ensure that he liaises with the Secretary to the Treasury on the need to capitalise the Corporation. The Controlling Officer is further urged to ensure that the Staff Recruitment Policy is fully enforced in an attempt to curb the unplanned for recruitments amid the poor financial performance. Your Committee resolves that the matter be kept in view in future audits.

b) Financial Position – Statement of Financial Position

i) Poor Liquidity - Negative Working Capital

The Controlling Officer submitted that the Corporation was failing to raise adequate revenue during the period under review such that, the little that was raised was going towards paying mainly salaries and operational materials. The Corporation as a result was not able to pay statutory obligations such as NAPSA and PAYE. Your Committee was informed that the Corporation during the period under review did not adequately utilise the financial management system and hence, it became difficult to control and manage debtors. Your Committee further learnt that prior to the year 2014, terminal benefits obligations were not being provided for in the books of accounts giving rise to the increase in the retirement benefits provision from K2.5 million in 2013 to K58 million in 2014. The Controlling Officer submitted that the professional omission by the Corporation was regretted.

He further informed your Committee that in an attempt to deal with the issues observed, the Corporation had instituted as outlined below.

- **Unpaid statutory obligation**

In order to deal with the accumulation of statutory obligations in form of Pay as You Earn (PAYE) and the National Pension Scheme Authority (NAPSA) contributions, the Corporation had taken the following measures:

- the Corporation and NAPSA reached an out of court settlement where it was agreed that ZNBC should be remitting K250,000 to the Authority every month; and
- the Corporation had engaged the Office of the Secretary to the Treasury on PAYE debt and the process was ongoing. In addition, ZNBC reached an agreement with the ZRA to remit K70, 000 every month towards the PAYE obligation.

- **Poor Management of Accounts Receivables**

The Corporation had undertaken the following measures to improve the management of accounts receivables:

- the ZNBC Board had approved the credit policy in 2015, that, among other objectives, had introduced credit limits and a credit period of 30 days;
- computerising the invoicing system by enabling the features in the Sun Accounting System; and
- the Corporation had created a Recoveries Unit to strictly attend to debt management issues.

- **Uncollected Tax Refund of Withholding Tax**

The omission had been noted and ZRA had since been engaged.

- **Growing Terminal Benefits Provision**

Upon realising the accounting omission of not providing for the terminal benefits liabilities, the Corporation started recognising the liability in the books of accounts effective 2013.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor financial performance of the Corporation as can be observed from the Statement of Comprehensive Income for the Financial Year ended 31st December, 2014. Your Committee, therefore, urges the Controlling Officer to ensure that he liaises with the Secretary to the Treasury on the need to capitalise the Corporation which is seen to be limping. The Controlling Officer is further urged to ensure that the statutory obligations are liquidated using all available options including debt swaps, in order to improve the prevailing situation. He is also urged to ensure that efforts to collect accounts receivables are enhanced and liabilities are correctly reflected in the books of accounts to curb the irregularity. Your Committee resolves that the matter be kept in view in future audits.

ii. Loans and Overdraft

The Controlling Officer submitted that the Corporation admitted that management did not seek Board Authority on the excess overdrafts, for single sourcing of the financier and the use of property as security where vital installations were located. He explained that this state of affairs was on account of desperation as the Corporation was under pressure to pay expenses such as salaries and the Financier in question, was approached considering that the Corporation was banking with them. The Controlling Officer, however, regretted this and assured your Committee that it would never recur. The Corporation had fully settled the overdraft with the last payment being made in January, 2015 and had also withdrawn from the facility. As a result, the Corporation had retrieved the documents for plot number 37/M Twin Palm pledged as collateral. Additionally, the Board had further passed a resolution not to pledge such assets as collateral in future.

Committee's Observations and Recommendations

Your Committee finds it highly irregular for management to take such a decision, therefore, risking government property and more so that this was done without board approval. Your Committee, therefore, urges the Controlling Officer to ensure that the management at the Corporation is sternly cautioned for this irregular decision and to encourage the board to become more vibrant in directing the operations of the Corporation in order to protect the interests of the share holders as much as possible. The matter is, however, recommended for closure subject to audit verification.

iii. Debt Collection Period

The Controlling Officer submitted that, as earlier alluded to, the Corporation during the period under review, did not adequately utilise the financial management system and did not have a credit policy, hence it became difficult to control and manage debt. The situation was unfortunate and it was being resolved as follows:

- the Corporation had reinforced the debt collection team by increasing the number of officers participating in debt collection;
- the credit policy had been revised to strengthen it; and
- the Corporation was currently working on a list of debtors for possible write-off arising from closed companies, unsupported balances mostly covering the period prior to 2009. These debtors were the ones blotting the debtors' days.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the debt collection team is vibrant and enhances its efforts to collect all the debts owed to the Corporation in order to improve the Corporation's liquidity. Your Committee will await a progress report on the matter.

c) Statement of Cash Flows

The Controlling Officer noted the factors highlighted in the Auditor General's Report as alluded to earlier and stated that the Corporation had challenges to manage its receivables and inventories because the credit policy was not in place and the financial systems were not effectively utilised. In addition, the Corporation could not generate enough revenue and hence relied on the overdraft facility whose interest payments negatively impacted on the cash inflows. He informed your Committee that this sad state of affairs was regrettable and some of the measures that were taken to resolve the situation included the following:

- the Corporation had developed a new strategic plan for 2016 to 2020, and one of the focus areas was to diversify its revenue base by broadening the customer base and reducing the price of its services so as to capitalise on sales volumes;
- implementing the credit policy which had addressed the credit period and reduced credit limits;
- the Corporation had paid the overdraft interest and the facility had been withdrawn, hence, the pressure on cash inflow from this demand had been removed; and
- the Corporation had put in place an asset Disposal Policy approved in 2015 to facilitate the disposal of obsolete and disused inventory. The Policy was available for verification.

After further probe by your Committee, the Controlling Officer further stated that currently, the cash flow was good and the Corporation was able to meet some of its obligations unlike the previous years. However, there was need for capitalisation.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that he liaises with the Secretary to the Treasury on the need to capitalise the Corporation which is seen to be limping. Your Committee further urges the Controlling Officer to ensure that the statutory obligations are liquidated using all available options including debt swaps in order to improve the prevailing situation. He is also urged to ensure that efforts to collect accounts receivables are enhanced to improve the cash flow position. Your Committee resolves to keep the matter in view in future audits.

d) Appointment of Directors

The Controlling Officer submitted that during the cited period, the Minister did not constitute a Board for the Corporation, however, in the interim as an administrative arrangement, the Permanent Secretary was appointed to oversee the operations of the Corporation. The Board was eventually appointed before the end of 2013.

The Controlling Officer confirmed that the Corporation did not have a Resourcing Policy during the period under review and, therefore, the Minister in the absence of the Board appointed the Director General. The Board for ZNBC was eventually appointed in 2013, after ratification by Parliament and the Board had since appointed the Director General.

Committee's Observations and Recommendations

Your Committee observes with concern that the Corporation operated without a Resourcing Policy which left a serious gap such that the Minister erroneously appointed a Director General. Your Committee finds this highly irregular and urges the Controlling Officer to ensure that the matter is addressed without any further delay while also ensuring that the Corporation has a board in place at all times and that the process of replacing members of the board is revisited to avoid recurrence. Your Committee resolves that the matter be kept in view in future audits.

e) Turnover of the Directors General

The Controlling Officer submitted to your Committee that the high staff turnover of the Director Generals was regretted. However, the actions were not out of negligence of the Board, but were inevitable under the circumstances. He highlighted that the contract for the Director General who served during the period 2010 to 2011, was terminated as a result of change of policy direction while his successor who served from 2011 to 2012, was appointed to the Foreign Service by the appointing authority. Your Committee was informed that the

Director General who served between 2012 and 2014, resigned voluntarily to join the International Monetary Fund and the current Director General was appointed by the Board.

In view of the foregoing, the benefit payments for the Director Generals that left were done in line with the terms and conditions of their respective contracts of employment. Therefore, the expenditure would have been avoided had the officers not left the Corporation. Nonetheless, now that the board was in place, the stability of the tenure of office of the ZNBC Director General was expected to improve.

Committee's Observations and Recommendations

Your Committee observes with concern that the Government has incurred high costs in paying off and replacing top Management at the Corporation. It further finds the replacing of four Director Generals within a space of four years highly unacceptable. Your Committee, therefore, urges the Government to ensure that the decisions it makes work in the best interest of the tax payers as colossal sums of money are being lost as result of such decisions. The Government is further urged to ensure that procedure during appointments is followed to avoid recurrence. The Committee will await a progress report on the matter.

f) Unexplained Terminations of Staff Contracts of Employments

The Controlling Officer submitted that the Corporation did not abide by the staff terms and conditions of services causing the Corporation to incur the expenditure amounting to K5, 112,381. However, to have a systematic separation procedure in the future, the Corporation undertook Corporate Governance workshops for Board members, directors and senior managers to enhance corporate governance practices. Going forward, the Corporation would strictly adhere to the disciplinary and grievance procedures, the Human Resource Policy and to corporate governance.

Committee's Observations and Recommendations

Your Committee does not understand how the Legal and the Human Resource departments failed to advise on matters related to discipline especially that they were the custodians of documents such as the disciplinary and grievance procedures, and the Human Resource Policy among others, as there was no proof given to your Committee suggesting that the duo had written to give counsel. Your Committee are of the view that officers in the Corporation are working under very difficult situations with the Government being the employer and urge the Government to consider allowing the Corporation to operate independently as much as possible in an effort to guarantee professionalism. Your Committee resolves that the matter be kept in view in future audits.

g) Separation of the Head – Taskforce Radio Commercialisation

The Controlling Officer submitted that the Corporation erred. There was an omission to follow the laid down procedures in the terms and conditions of service in relation to retirement. Regrettably, this error resulted in an overpayment. However, the Corporation would ensure the strict adherence to human resource policies and that in future, matters of this nature would be dealt with through the Board. Further, the Corporation had suspended the processing of applications as well as the acceptance of early retirement requests in order to settle existing retirement obligations.

Committee's Observations and Recommendations

Your Committee does not understand how the Legal and the Human Resource departments failed to advise on matters related to discipline especially that they were the custodians of

documents such as the disciplinary and grievance procedures, and the Human Resource Policy among others, as there was no proof given to your Committee suggesting that the duo had written to give counsel. Your Committee are of the view that officers in the Corporation are working under very difficult situations with the Government being the employer and urge the Government to consider allowing the Corporation to operate independently as much as possible in an effort to guarantee professionalism. Your Committee resolves that the matter be kept in view in future audits.

h) Misapplication of Funds - Digital Television Migration

The Controlling Officer submitted that following the misapplication, the Corporation had been directed to refund the money. Going forward, however, the Ministry would enhance performance monitoring on all disbursed funds for projects. Additionally, the Corporation had subsequently assigned specific bank accounts and separate cash books for government funded projects.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to sternly caution the Corporation to desist from abrogating the *Appropriation Act*. The Controlling Officer is further urged to ensure that funds are reimbursed without any further delay. Your Committee will await a progress report.

i) ZNBC Pension Scheme - Failure to Establish the Pension Scheme Under a Trust

The Controlling Officer submitted that the Corporation admitted the failure and the Board had given guidance that the Corporation should have an independent fund manager. He informed your Committee that the Corporation was in the process of engaging a Pension Fund Manager following an actuarial evaluation which was conducted under the auspices of the Zambia State Insurance Corporation (ZSIC)-Life. To this effect, the Zambia Public Procurement Authority had granted the Corporation a no-objection to engage ZSIC-Life to manage the pension scheme. In addition, the Deed of Trustees documentation had been submitted to the Attorney General for approval. Therefore, the areas of concern identified in the Auditor General's Report would be addressed once the pension scheme was in place.

Committee's Observations and Recommendations

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

j) Non-Remittance of Statutory Contributions

The Controlling Officer submitted that the Corporation was technically insolvent and therefore, was unable to pay its statutory debts to the Zambia Revenue Authority (ZRA). The Controlling Officer also submitted that in order to improve the Corporation's liquidity with a view of settling the current obligations on time, the management devised cost containment strategies' which were approved by the Board in 2015. Further, the Corporation had engaged the Secretary to the Treasury for the resolution of the outstanding ZRA obligations.

Committee's Observations and Recommendations

Your Committee expresses concern at the poor financial performance of the Corporation as can be observed by its failure to meet statutory obligations as well as from the Statement of Comprehensive Income for the Financial Year ended 31st December, 2014. Your Committee, therefore, urges the Controlling Officer to ensure that he, urgently, liaises with the Secretary to the Treasury on the need to capitalise the Corporation. The Controlling Officer if further

urged to ensure that statutory obligations are liquidated using all available options including debt swaps in order to improve the prevailing situation. Your Committee resolves to keep the matter in view in future audits.

k) Procurement of Goods, Services and Works - WAN Contract with ZAMTEL

i. Failure to Provide WAN Contract.

The Controlling Officer informed your Committee that the Corporation submitted a Service Level Agreement to the Attorney General in December, 2015 and this document had since been reviewed and was returned to ZNBC on 1st March, 2016, currently awaiting signing. The Controlling Officer submitted that the Contract Sum for the hardware from ZAMTEL was K120, 813.70 and the recurrent charge was yet to be availed by ZAMTEL.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the Corporation only acted upon this important duty after audit and observes that the Corporation was vulnerable as it had no basis for litigation in case of the non-performance of contracted works in the absence of a WAN contract. The Controlling Officer is, therefore, urged to ensure that the Corporation is cautioned for this failure. Your Committee will await a progress report on the matter.

ii. Undelivered Cisco Routers

The Controlling Officer submitted that the three routers, meant for Mansa, Mongu and Chipata were delivered by ZAMTEL after which a delivery note was provided by ZAMTEL. The record was available for verification.

Committee's Observations and Recommendations

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

iii. Television Transmitter Contract (Rohde and Schwarz) and Generator contract (Agro-Fuel Investments Limited)

The Controlling Officer admitted that there were omissions on the part of the Corporation to sign the contracts prior to the approval by the Attorney General and for not specifying the contract date and period. The contract was, however, well executed and both the transmitter and the generator were perfectly functioning.

Committee's Observations and Recommendations

Your Committee finds this unacceptable and urges the Controlling Officer to ensure that the Corporation is cautioned for this failure. Your Committee, however, resolves to await a progress report on the matter.

l) Management Information Systems

The Controlling Officer submitted that the Corporation regretted the omissions observed, but had since undertaken the following measures:

i. Failure to Adopt ICT Standards and Frameworks

At the time of the audit, the Corporation did not have ICT standards and frameworks to effectively measure the ICT operations. However, the Corporation had since drafted the ICT

Policy and the Policy would be submitted to the first meeting of the Compliance Committee of the Board in 2016. Your Committee was informed that the Corporation had incorporated all the standards and frameworks as observed by the Auditor General's Office. The draft ICT Policy was available for verification.

Committee's Observations and Recommendations

Your Committee observes that in the absence of the ICT standards and frameworks, there will be no sound basis for benchmarking or measuring performance of the ICT activities and processes. In this regard, your Committee strongly urges the Controlling Officer to ensure that the ICT Policy is implemented expeditiously to curb this irregularity. Your Committee will await a progress report on the matter.

ii. Failure to Insure ICT Equipment

The Controlling Officer informed your Committee that the Corporation did not have a Fixed Asset register at the time of audit and did not insure the ICT equipment. He submitted that the Corporation had insured some of the ICT equipment such as TV transmitters for Lusaka, Kitwe, Chingola and Ndola that were acquired in 2013 and 2014 while others would be insured when funds were available.

Committee's Observations and Recommendations

Your Committee observes with concern that the failure to insure assets is a serious challenge in that assets may not be timely replaced in an event of theft or damage by natural causes. Your Committee, therefore, urges the Controlling Officer to ensure that the management at the Corporation is sternly cautioned for this failure as it is the Government's policy to insure all its assets to avoid losses. Your Committee will await a progress report on the matter.

iii. Failure to Repair the Damaged Shortwave Transmitter

The Controlling Officer submitted that the Corporation acknowledged that at the time of the audit the incident report was not availed to the Auditors. However, the incident report was currently available for verification. Further, the transmitter in question had not been repaired due to lack of funds. However, the Government was progressively installing FM transmitters across the Country to mitigate the problem.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is resolved without any further delay as there is a great risk to have break downs on radio transmission where information is widely disseminated to the rural parts of the country. Your Committee will await a progress report on the matter.

iv. Lack of Service Level Agreements (SLAs)

The Controlling Officer informed your Committee that the Corporation acknowledged that it did not have Service Level Agreements in place both with external service providers and internal end users regarding the use of the Management Information Systems. In this regard, it was difficult to support and justify the amounts totalling K314 594.45 paid in respect of services rendered to the Corporation in the period under review, by various service providers as given in the table below.

Service Description	Vendor / Payee	Amount K
Internet	ZESCO	272,340
Internet	CopperNET	31,407
Web Hosting	ZAMNET	10,847
SMS Solution License Fees	Not Provided	
Total		314,594

In this regard, the Corporation had undertaken the following:

- developed an SLA with ZESCO which the Attorney General had approved and the copy was available for verification;
- terminated the Contract with CopperNet for the provision of internet services;
- ZAMNET had been engaged over the SLA, however, the SLA had not been submitted to the Attorney General for approval; and
- the payee for the SMS Solution was the Zambia Information and Communications Technology Authority (ZICTA). The annual licence fee was K20, 880.

Committee's Observations and Recommendations

Your Committee observes with concern that the Corporation does not have Service Level Agreements (SLA) with various service providers and that this failure will make it difficult for management to measure performance. Your Committee further observes that this irregularity will further result in the uncertainty of roles and responsibilities on the use of ICT resources which will, consequently, lead to poor service delivery. Your Committee, therefore, urges the Controlling Officer to ensure that the matter is resolved without any further delay. A progress report on the matter will be awaited by your Committee.

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

The Controlling Officer submitted that the Corporation had developed a Business Continuity Plan and Disaster Recovery Plan yet to be approved by the Board. He informed your Committee that the facilities to support the Plans implementation, would then be installed under phase two.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Business Continuity Plan and Disaster Recovery Plan is approved by the Board without any further delay as the absence of a good disaster recovery system will pose a serious challenge of failure to resume normal operations timely in case of significant damage to the broadcasting infrastructure. Your Committee will await a progress report on the matter.

vi. Backup Management Policy

The Controlling Officer submitted that after the audit, the Corporation had developed a backup Management Policy, incorporated in the draft ICT Policy.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is resolved without any further delay as there is a great risk of losing critical data. Further, information may not be protected with its criticality. Your Committee will await a progress report on the matter.

vii. Lack of Data Classification Policy

The Controlling Officer submitted that after the audit, the Corporation had developed a data classification policy incorporated in the draft ICT Policy.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is resolved without any further delay as there is a great risk of losing critical data. Further, information may not be protected with its criticality. Your Committee will await a progress report on the matter.

viii. Weaknesses in the Sun System – Lack of Audit Trail

At the time of audit, ZNBC operated without an audit trail on the sun accounting system as this functionality was not activated. However, the audit trail feature on the Sun system was activated after the audit. As such, the system was currently able to provide the Audit trail from the Sun system.

Committee's Observations and Recommendations

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

ix. Poor Management of Libraries

- **Lack of Data Migration Policy**

The Controlling Officer submitted that after the audit, the Corporation had developed a Data Migration Policy, incorporated in the draft ICT Policy.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the ICT Policy is implemented without any further delay as there is a great risk of losing critical information. Further, information may not be protected with its criticality. Your Committee will await a progress report on the matter.

- **Lack of Integrated Library System (ILS)**

The Controlling Officer submitted that considering that the archived material in ZNBC was in formats for which playback machines were no longer being manufactured, the Corporation opted to include in the Phase II and III of the digital migration project, a Media Asset Management (MAM) Solution that would deal with the archiving of all the digital media in the Corporation. The details of the MAM were contained in the Contract for the Phase II project which was at the Ministry of Information and Broadcasting Services. However, the Corporation carried forward into the 2016 budget for the establishment of an Enterprise Resource Planning (ERP) System which would incorporate the concerned invoicing, cataloguing and tracking among other things.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Enterprise Resource Planning (ERP) System is implemented and the digital migration expeditiously concluded as there is a great risk of losing critical information and also that

information may not be protected with its criticality. Your Committee will await a progress report on the matter.

- **Poor Physical and Environmental Controls**

The Controlling Officer submitted that in recognising the importance of securing the data centres and general security at the Mass Media Complex, the Corporation engaged the Office of the President – Special Division, to help make an assessment on what would be required to implement the CCTV and Access Control System. Subsequently, the assessment revealed that K2.2million would be required to implement the project.

However, considering the cost of the project and the poor liquidity position of ZNBC, the Corporation opted to include the Access Control System in the Corporate Strategic Plan for 2016 to 2020, and the project would be implemented when funds were available.

Regarding the problem of environmental controls, the Centralised cooling system would be replaced during the implementation of Phases II and III of the Digital Migration Project. As regards the Fire Extinguishers in the Archive Library, the Corporation had started replacing them and already one (1) fire extinguisher had been placed in the Library.

Committee’s Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that he liaises with the Secretary to the Treasury on the need to capitalise the Corporation to enable it resolve various issues related to the environmental and poor physical controls. Your Committee will await a progress report on the matter.

- **Inadequate Library Space**

The Controlling Officer informed your Committee that the Corporation would convert most of the analogue content into digital content under the digital migration thereby, removing the need for large physical space since the material would be saved on the Servers.

Committee’s Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to ensure that efforts to lobby for funds are enhanced in order to expedite the process of digital migration. Your Committee will await a progress report on the matter.

- **Failure to Re-master Tapes**

The Controlling Officer submitted to your Committee that the problem of lack of master tapes would be resolved under Phase II of the digital migration project for Media Asset Management solution in a digitalised environment.

Committee’s Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to ensure that efforts to lobby for funds are enhanced to expedite the process of digital migration. Your Committee will await a progress report on the matter.

- **Outdated Storage Media**

The Controlling Officer submitted that the problem of outdated storage media would be resolved under Phase II of the digital migration project for media asset management solution in a digitalised environment.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Controlling Officer to ensure that efforts to lobby for funds are enhanced in order to expedite the process of digital migration. Your Committee will await a progress report on the matters.

ZAMBIA RAILWAYS LIMITED (ZRL)

**Query
Outstanding Matters**

Paragraph 23

24. In paragraph 18 of the Report of the Auditor General on the accounts of Parastatal Bodies for 2012, mention was made on various accounting and other irregularities. A review of the situation in May and June, 2015, revealed that the following matters remained outstanding from the previous audit and there was no evidence of any tangible action taken to resolve them.

a) Failure to account for traction motors and compressor exhausters sent to South Africa

The Controlling Officer submitted that the matter was being dealt with by the Inter-Ministerial Committee appointed by the Government to follow up on matters that were still under Railway Systems of Zambia (RSZ). Zambia Railways Limited (ZRL) had provided the information to the inter-ministerial Committee which included the traction motors and compressor exhausters which were sent to South Africa by RSZ.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is resolved expeditiously as it has taken too long to conclude. A progress report will be awaited by your Committee.

b) Unaccounted for wagons

The Controlling Officer informed your Committee that the matter was being handled by the Inter-Ministerial Committee appointed by the Government.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is I expeditiously resolved as it has taken too long to conclude. Your Committee will await a progress report on the matter.

c) Unaccounted for coaches

The Controlling Officer submitted that the Public Accounts Committee (PAC) resolved to close the matter after audit verification.

Committee's Observations and Recommendations

Your Committee reiterates its earlier position and urges the Controlling Officer to ensure that the matter is resolved with the auditors without any further delay and that only then will the matter be closed.

e) Irregular Hire of Locomotives to SNCC

The Controlling Officer stated that the Public Accounts Committee (PAC) recommended the matter for closure subject to audit verification.

Committee's Observations and Recommendations

Your Committee reiterates its earlier position and urges the Controlling Officer to ensure that the matter is resolved with the auditors without any further delay and thereafter the matter should be closed.

f) Irregular exchange of locomotive engines

The Controlling Officer submitted that the matter was still with the Inter-Ministerial Committee to resolve the matter with Railway Systems of Zambia, the former concessionaire.

Committee's Observations and Recommendations

Your Committee reiterates its earlier position and urges the Controlling Officer to ensure that the matter is resolved with the auditors without any further delay and thereafter the matter should be closed.

Review of Operations

A review of operations for the Zambia Railways Limited (ZRL) for the financial years ended 31st December, 2012 to December, 2014, revealed accounting and other irregularities which the Controlling Officer responded as set out below.

a) Weaknesses in Management Information Systems

i. Lack of an IT Steering Committee

The Controlling Officer submitted that Management would constitute a Business Processes and Information Systems Committee to address all ICT related matters such as system procurement and development plans.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Zambia Railways Management to constitute an IT Steering Committee owing to the fact that the Company was likely to have a poorly coordinated IT investments which may, consequently, lead to wasteful expenditure.

The Controlling Officer is, therefore, urged to sternly caution Management for this omission and also that the processes of putting in place a Business Processes and Information System Committee is expedited. Your Committee will await a progress report on the matter.

ii. Lack of an Approved Information Security Policy

The Controlling Officer submitted that Management would ensure that an IT framework was adopted through the Board of Directors and would constitute policies such as the Security Policy to address the management of ICT roles and assignments by the Zambia Railways Limited systems users.

In his verbal submission, the Controlling Officer informed your Committee that the entire ICT system in question was inherited from the concessionaire, Railway Systems of Zambia (RSZ), and since it was suspicious, the Zambia Railways Limited decided to phase it out gradually to pave way for a new system. Your Committee was informed that it was this gradual approach which delayed the process. Additionally, the company was slowly doing away with it as it was manually operated and they were enhancing it by introducing a new automated system.

Committee's Observations and Recommendations

Your Committee observes with concern that the board has taken too long to approve the ICT Policy and warns that this will lead to lack of a basis for making ICT security decisions. Therefore, your Committee directs the Controlling Officer to ensure that the ICT Policy is adopted without any further delay. Your Committee will await a progress report on the matter.

iii. Failure to Provide Insurance Cover for the ICT Assets

The Controlling Officer informed your Committee that an office equipment insurance cover was in place that generally covered all office machines inclusive of the computer equipment and software.

Committee's Observations and Recommendations

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

iv) Lack of Documented Change Management Procedures

The Controlling Officer submitted to your Committee that in adopting the IT framework, management shall ensure that a Change Management Policy was put in place to address all developments under the ICT.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process is expedited. A progress report will be awaited by your Committee.

v) Lack of Service Level Agreements (SLAs)

The Controlling Officer submitted to your Committee that Management through the Legal Unit would ensure that the Service Level Agreements with business operation systems were in place.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Zambia Railways Management to formulate and implement Service Level Agreements as it is not clear as to how Management is able to segregate roles and responsibilities in its absence. The Controlling Officer is urged

to sternly caution Management for this omission and also that the processes of putting it in place is expedited. Your Committee will await a progress report on the matter.

vi) Lack of Support and Maintenance Agreements

The Controlling Officer informed your Committee that Management was currently in the process of upgrading all systems to establish an ERP. Once this was achieved, Management would enter service agreements with the different support systems.

Committee's Observations and Recommendations

Your Committee expresses concern at the failure by the Zambia Railways Management to put in place support and maintenance agreements for the existing ICT systems as your Committee felt it is not clear as to when the process of upgrading all systems to establish an Enterprise Resource Planning (ERP) will be finalised. Your Committee also observes that the status quo will also result in disruptions due to non incidence escalation procedures. The Controlling Officer is, therefore, urged to sternly caution the Management for this omission and also ensure that the processes of putting it in place is expedited. Your Committee will await a progress report on the matter.

vii) Lack of Backup Management Policy

- **Failure to Carry out Backup Copies of Payroll Data**

The Controlling Officer informed your Committee that Management would ensure that all payroll related systems were located on the central systems for effective monitoring and backups.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to ensure that the process of integrating the payroll system onto the central systems is expedited and resolves to await a progress report.

- **Data Retention Period**

The Controlling Officer submitted to your Committee that Management would also ensure that effective backup solutions, disaster recovery sites and test environments were made available with audit logs.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that this is done without any further delay and resolves to await a progress report.

- **Lack of Prescribed Storage Media**

The Controlling Officer submitted to your Committee that Management would also ensure that effective backup solutions, disaster recovery sites and test environments were made available with audit logs.

Committee's Observations and Recommendations

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

- **Lack of Off-site Storage Location**

The Controlling Officer submitted to your Committee that Management would also ensure that effective backup solutions, disaster recovery sites and test environments were made available with audit logs.

Committee's Observations and Recommendations

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

- **Failure to Test Backups**

The Controlling Officer submitted to your Committee that Management would also ensure that effective backup solutions, disaster recovery sites and test environments were made available with audit logs.

Committee's Observations and Recommendations

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

- **Failure to Maintain a Backup Log**

The Controlling Officer submitted to your Committee that Management would also ensure that effective backup solutions, disaster recovery sites and test environments were made available with audit logs.

Committee's Observations and Recommendations

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

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

The Controlling Officer submitted to your Committee that Management would adopt an IT framework and establish a Business Continuity Plan and Disaster Recovery Plan Policies. Management would further, ensure IT elevation and representation at policy making levels.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Business Continuity Plan and Disaster Recovery Plan Policies are established without any further delay. Your Committee will await a progress report on the matter.

ix. Inadequate Security to the Wireless Accessibility

The Controlling Officer submitted to your Committee that Management would ensure that a centrally managed Wi-Fi protected access with advanced security was setup on the Zambia Railways Limited network.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of setting up a centrally managed Wi-Fi Protected Access (WPA) is expedited and your Committee will await a progress report on the matter.

x. Lack of Network Monitoring Mechanism(s)

The Controlling Officer informed your Committee that Management would ensure that the Network Monitoring tools were established on the Zambia Railways Limited network.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of establishing Network Monitoring Tools is expedited. A progress report will be awaited by your Committee.

xi. Failure to Deploy Anti-Virus Software and Expired Firewalls License

- **Expired Firewall**

The Controlling Officer submitted to your Committee that Management would ensure that firewall licenses were obtained through an approved Service Level Agreement.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the firewall licenses are secured expeditiously to avoid the loss of the company's critical data. Your Committee will await a progress report on the matter.

- **Failure to Deploy Anti-virus License**

The Controlling Officer submitted to your Committee that Management would ensure that the Anti-virus deployment was conducted through a central server equally for monitoring purposes as opposed to the current manual/direct deployment to the end-nodes. Management would also ensure that capacity was provided to the central systems to accommodate the centralised AV setup.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the Antivirus licenses are secured expeditiously to avoid the loss of the company's critical data. A progress report will be awaited by your Committee.

xii. Wasteful Expenditure – Expired Google Apps for Business

The Controlling Officer submitted to your Committee that Management would ensure a migration from a third party service provider to an on-premises exchange based mail service to reduce on unwarranted costs.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of migrating from a third party service provider to a on-premises exchange based mail is expedited to avoid wasteful expenditure. Your Committee will await a progress report on the matter.

xiii. Poor Physical and Environmental Security

- **Lack of a Designated Server Room**

The Controlling Officer submitted to your Committee that Management would ensure that the access controlled Server and Gateway premises were secured with a fire and theft proof environment.

He also informed your Committee that Management was also in the process of rehabilitating the data center for IT systems. Because of the quick relocation from Lusaka, the current setup was meant to temporarily accommodate the systems whilst the actual center was to be made ready.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that a server room at the Zambia Railways Limited is in a conducive and safe environment at all times to make certain of security and safety hazards. The Controlling Officer is also urged to ensure that the process of rehabilitating the data centre is expedited. Your Committee will await a progress report on the matter.

xiv. Poor Patch Management

- **Lack of Patch Management Policy**

The Controlling Officer informed your Committee that Management was already in the process of acquiring the Microsoft System Center Service Manager (SMS) to manage all patch management requirements for all PC, mobile device and server equipment.

In addition, Management would ensure capacity for the SMS system to process demands for the patch services.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of acquiring the Microsoft System Center Service Manager (SMS) is expedited. A progress report will be awaited by your Committee.

- **Failure to Install Security Updates/Patches on Critical Servers**

The Controlling Officer submitted to your Committee that Management was already in the process of acquiring the Microsoft System Center Service Manager (SMS) to manage all patch management requirement for all PC, mobile device and server equipment.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of acquiring the Microsoft System Center Service Manager (SMS) is expedited. Your Committee will await a progress report on the matter.

xv. Use of Operating Systems that have Reached End of Life Support

- **Windows Servers**
- **Use of Microsoft Windows XP Operating System on Computers**

The Controlling Officer submitted to your Committee that with the Microsoft license agreement being procured, Management would ensure that all PC and Server equipment devices running on legacy operating systems would be upgraded. In addition, management would ensure that a minimum upgrade requirement, such as memory capacity and storage space, were met.

Committee's Observations and Recommendations

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

xvi. Poor Administration of Systems

i. Shared User Account and Password - Dove Payroll

The Controlling Officer submitted to your Committee that Management was in the process of acquiring an upgraded train management and invoicing systems to replace the Dove systems and the current unsupported MCM system – managed by the previous operators. The new system would have an SLA to ensure that security and continuity was upheld.

Meanwhile, Management would also ensure that the systems were monitored using other platforms and that no system failure was encountered. Your Committee was informed that users for both systems would require login, using the secured remote app path through the active directory credentials.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of acquiring an upgraded train management and invoicing systems to replace the Dove systems and the current unsupported MCM system is expedited. Your Committee will await a progress report on the matter.

ii. Lack of Control over the Movement Consignment Management (MCM) System

The Controlling Officer informed your Committee that Management was in the process of acquiring an upgraded train management and invoicing systems to replace the Dove systems and the current unsupported MCM system – managed by the previous operators. The new system would have a Service Level Agreement to ensure security and continuity was upheld.

In the meantime, management would ensure that the systems were monitored using other platforms and that no system failure was encountered. Users for both systems would require to login using the secured remote app path through the active directory credentials.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the process of acquiring upgraded train management and invoicing systems to replace the Dove systems and the current unsupported MCM system is expedited. A progress report will be awaited by your Committee.

xvii. Vandalised Centralised Train Control System (CTC)

The Controlling Officer submitted to your Committee that the CTC system's design to control and monitor train movements between Kitwe and Livingstone, incorporated high levels of safety with the 'fail-to-safe' feature predominant at the time of inception in 1985. He informed your Committee that by 2002, at the height of economic decline in the country, the system suffered rampant vandalism and thefts of underground copper wires, track side and relay rooms' equipment and other associated accessories. At this time, its reliability as a train operating system fell below acceptable safe levels and management decided to switch it off and continue operating it in its redundant mode.

As a consequence of the above, there was no re-capitalisation in the system's equipment. Further, depleted stocks of spares were not replenished because doing so would have been risky under this train control system which was now prone to vandalism and thefts. Up until 2006, the system continued operating in its redundant mode under the paper order train movement authorisation system. With the decline in traffic volumes and train densities during this time, a less expensive but safer train operating system was sought and this gave birth to the introduction of the Track Warrant System (TWS) in 2007. The TWS could simply be described as an enhanced version of the Paper Order system in that it used computers with customised software and interlocking facilities to prevent Train Dispatches (Controllers) from issuing conflicting train movement authorisations. In short, it had superior safety features than the former, though it too had since been degraded and was now being used in its fall-back position.

Your Committee was further informed that after following the revocation of the concession agreement to RSZ in 2012 and the subsequent ushering in of ZRL, plans were now underway to acquire a modern and safer train operating system consistent with the business growth plan of the company.

Committee's Observations and Recommendations

Your Committee observes with concern that safety on the railway network is hazardous and that there is an urgent need to work on the control system of movements of rolling stock without any further delay. Your Committee further urges the Controlling Officer to ensure that he liaises with the Secretary to the Treasury on the need to capitalise the infrastructure at ZRL with particular emphasis on the control system to reduce on loss of lives and enhance safety on the railway lines. Your Committee will await a progress report on the matter.

b) Failure to Prepare Financial Statements

The Controlling Officer submitted to your Committee that the Audited Financial Statements for the years 2012, 2013, 2014 and 2015 were currently completed and were awaiting adoption by the Zambia Railways Limited Board which would sit on 23rd March, 2016. However, the Board approved the 2012 and 2013 financial statements. Your Committee was informed that the management letters for the above accounts from external Auditors would be availed after approval by the Board.

Committee's Observations and Recommendations

Your Committee questions the capacity of officers charged with the responsibility of preparing the financial statements as two years of not preparing the statements is highly irregular and unacceptable. Your Committee sternly cautions the Controlling Officer to ensure that the management at Zambia Railways Limited carry out their duty. The Controlling Officer is, further, urged to ensure that the Board approves the statements in a timely manner in accordance with *Section 164 (1) of Part viii of the Companies Act, and Cap 388 of the Laws of Zambia* in order to give a true and fair view of the financial position of the company.

He is, therefore, directed to ensure that the latest statements are prepared without any further delay. A progress report will be awaited by your Committee.

c) Irregularities in Staff Related Matters

i. Failure to Remit Statutory Contributions

The Controlling Officer submitted to your Committee that the outstanding statutory contributions had been liquidated by way of convention into equity of the company by the GRZ .

Committee's Observations and Recommendations

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

ii. Payment of Christmas Bonus for Board Members

The Controlling Officer submitted that he had taken note of the Auditor General's observations. In this regard, the Ministry of Transport and Communications would write to the Zambia Railways Limited Management to recover those funds from the next quarter Board fees. Your Committee was informed that issue would be rectified accordingly.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that recoveries are made without any further delay and that management is sternly cautioned against making unilaterally decisions outside the provisions of the existing entitlements for the board members. A progress report will be awaited by your Committee.

d) Irregularities in the Management of Funds

i. Euro Bond

• Misapplication of Funds

The Controlling Officer informed your Committee that when the Eurobond funds were received, they were deposited in a fixed deposit account. However, before these funds were available for use, some capital projects which commenced were funded by the Zambia Railways Limited operations account with the view of being reimbursed later by the project account. For example, K10.3 Million and 26 million South African Rand from the operations account was used to cover the K6, 852,097 used from the Project account. In this regard, the Zambia Railways Limited went further to spend more from the operations account.

Committee's Observations and Recommendations

Your Committee observes with concern that the Company was not keeping track of the funds it needed to reimburse. In this regard, Your Committee urges the Controlling Officer to caution management for this failure. The Controlling Officer is further urged to ensure that retrospective authority is sought for the funds that were spent over and above from the project account. Your Committee will await a progress report on the matter.

- **Unsupported Payments**

The Controlling Officer submitted that the supporting documents for these payments could not be traced. He explained that this was the period when some members of staff were fired, therefore, documents went missing. However, efforts to find these documents had been made by the Zambia Railways Limited finance but to no avail.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to ensure that the documents are located without any further delay, otherwise, the matter should be reported to law enforcement agencies for further probe as the figure is too big. Your Committee will, therefore, await a progress report on the matter.

e) **Irregularities in the Management of contracts**

i. **Over Commitment on Procured Contract - Signaling and Telecommunication Equipment**

- **Inadequate Funds for Procured Contract**

The Controlling Officer submitted that the Zambia Railways Limited signed the BHG contract even though the funds provided for under the Euro Bond were not enough to pay for the full project sum. He explained that Management signed the contract with the view that the funding for this project would come from the Government through the national budget for 2014, 2015 and 2016. In 2014, an amount of ZMW 339.8 Million was allocated to be shared between ZRL and TZR. Further, the balance of US\$ 50 Million was later meant to be given to the Zambia Railways Limited.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the company overcommitted the Government contrary to *Section 31 of the Public Procurement Regulations of 2011*. The Controlling Officer is urged to ensure that management is sternly cautioned against this failure and that it should always consult with the Ministry of Transport Works Supply and Communication on guidance matters that are not clear. Your Committee also urges the Controlling Officer to ensure that the issue is normalised to avoid wasteful expenditure. A progress report will be awaited by your Committee.

- **Failure to Pay Huawei International for the Installation of Telecommunication Equipment**

The Controlling Officer submitted that when the Zambia Railways Limited received the communication from the Government that they would not be included in the 2014, 2015 and 2016 National Budget, a meeting was held with the consortium where it was agreed that the project should progress according to the cash flows available. The other members of the consortium accepted this new proposal but Huawei said that they would proceed to do their part and later wait for the payment from the Government. In this regard, the Zambia Railways Limited had been doing everything possible to raise the funds to pay Huawei for the works done. However, the current balance sheet did not allow it to borrow funds from the market. The Controlling Officer informed your Committee that the Ministry was looking into this matter in order to draft a financing mechanism.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that Huawei was engaged without a payment plan and the Controlling Officer is urged to ensure that he liaises with the Secretary to the Treasury on the need to liquidate this payment as there is a great risk of loss in an event that the contractor takes the matter to court. Your Committee further urges the Controlling Officer to ensure that efforts to normalise the matter are expedited. A progress report on the matter will be awaited by your Committee.

- Failure to commence works by Bombardier Transportation Denmark AS

The Controlling Officer submitted that the Bombardier Transportation did not start the project implementation due to the Zambia Railways Limited's failure to issue the seventy-five percent LC as per the contract. He informed your Committee that Bombardier was the only consortium member who refused to deliver anything before the LC was issued or some funds directly transferred into its account. Therefore, a payment plan was proposed which the Zambia Railways Limited failed to adhere to due to lack of funds. Your Committee was informed that this was what had delayed the start of the signaling part of the project. However, the Ministry was looking at the matter jointly with the Zambia Railways Limited in order to establish a financing mechanism.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that efforts to normalise the matter are expedited. A progress report will be awaited by your Committee.

ii. Failure to Execute Contract - BUK Truck Parts Ltd

The Controlling Officer submitted to your Committee that the Contract was terminated on 30th December, 2015 by the Secretary of the Procurement Committee after a resolution dated 28th December, 2015. The Zambia Railways Limited had since recovered the 2.0% Performance Guarantee in the sum of K1,211,345 and had also issued a demand letter to the South African company Grey Insurance Limited for the K 2.5 million and K12.0 Million in advance payments. Currently, the Zambia Railways Limited had recovered from payments withheld in amounts of K628,838.39. Further, B.U.K had since declared a dispute on the termination of the contract and had appointed an arbitrator on their own, without the Zambia Railways Limited's input.

Committee's Observations and Recommendations

Your Committee finds the way the contract was handled highly irregular and urges the Controlling Officer to ensure that the matter is reported to law enforcement agencies for further probe. Your Committee will await a progress report on the matter.

iii. Loss of Nine Coaches

The Controlling Officer explained that after all reputable insurance companies both locally and within the region showed their unwillingness to provide insurance cover due to the high values involved, the parent Ministry had advised the Zambia Railways Limited to advertise outside the region so as to get international coverage preferably from insurance companies linked to the Zambian companies.

Committee's Observations and Recommendations

Your Committee does not accept the reason given by the Controlling Officer as there is no evidence given to show that all the local insurance companies had failed to accept to provide insurance cover for the rolling stock. In this regard, your Committee urges the Controlling Officer to ensure that the Company enhances its efforts in seeking for the service locally including advertising their intention to seek for provision of insurance cover in the media. Your Committee will await a progress report on the matter.

iv. Failure to Deliver Flash Butt by Diamond Motors Limited

The Controlling Officer informed your Committee that the status of the Procurement transaction was that:

- a) One mobile flash butt welding machine worth US\$1,035,058 arrived at ZRL in Kabwe on 25th August, 2015 and was currently still in the hands of the supplier (Hansa Engineering Limited) undergoing pre-delivery Inspection. So far, the Zambia Railways Limited Management had been told that among other items being awaited, was the CAB for the truck which was still overseas.
- b) the second mobile welding machine which was in the final phases of manufacturing was stopped from being shipped and consequently, the sum of US\$ 1,035,058.00 (25% advance US\$ 258,764.50 and balance on equipment US\$ 776,293.50) was recovered from the supplier.

The supplier could not deliver within 9 months after the signing of the Contract because there was a meeting on 25th July, 2014 between the Zambia Railways Limited and Diamond Motors where they requested for an extension on the delivery date from 1st July, 2015 due to challenges. This was granted and as such, no liquidated damages could be claimed.

Committee's Observations and Recommendations

Your Committee will await a progress report on the final delivery of the CAB for the truck.

v. Failure to Code Radio Communication Equipment

The Controlling Officer submitted to your Committee that at present this equipment was sitting at different sites and some of it was kept at stores awaiting installation. Your Committee was informed that this still remained the property of the supplier until funds were sourced to pay for it. Therefore, as soon as funds were made available, the assets in question would be paid for, coded and entered into the company asset register. The Controlling Officer submitted that this was another area the Government would try to source for funds on behalf of the Zambia Railways Limited.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that funds are secured for the full purchase of the remaining components of the Radio Communication Equipment. He is further urged to ensure that the equipment is secured and labeled without any further delay. Your Committee will await a progress report on the matter.

vi. Inadequate Security Over Communication Equipment

The Controlling Officer submitted that eleven new sites were introduced harboring the Zambia Railways Limited Telecommunications equipment. This was an addition to the existing old Zambia Railways Limited sites. Your Committee was informed that the security provision of old radio bases was divided into two (02) segments as follows: twelve (12) Radio Bases were guarded by outsourced Security hired by the Zambia Railways Limited and the Zambia Railways Limited equipment in the ZAMTEL premises was not guarded by the Zambia Railways Limited Police. According to the Lease Agreements with the service providers where the Zambia Railways Limited had installed this equipment, security was to be provided by the owners of the premises except for Chisamba site which was guarded by Group Three Security Company as it was solely for the Zambia Railways Limited

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that management at the Zambia Railways Limited enhances its security systems to safeguard the equipment housed at various sites. Your Committee observes with concern that vandalism and theft is likely if the situation is left unattended to and the resultant will lead to the Government's loss of resources due to repairs on the equipment. Your Committee will await a progress report on the matter.

f) Physical Inspection of the Railway line

i. Encroachments in Kafue, Choma and Livingstone

The Controlling Officer submitted as set out below.

i. KAFUE

The encroachment was at Lukanga Road Rail Level crossing up to the railway yard. The encroachers were mainly mobile street vendors/traders, who trade on the railway line.

ii. CHOMA

The encroachment was between Makalanguzu Market and Winston Road shops across the main Railway line. The encroachers were mobile street vendors trading in various merchandise.

iii. LIVINGSTONE

The encroachments were at Namatama Ward between Ngwenya Level crossing to the Central Police Level crossing. The encroachments/ squatters were temporal/make-shift garages.

Your Committee was informed that as a long term measure, the Zambia Railways Limited management would fence off all the affected areas in order to stop the unauthorised access as and when funds would be made available as this was a very expensive venture.

However, in the short to medium term, several avenues had been pursued by the Zambia Railways Limited to sensitise the public on the dangers and implications of encroachments such as:

- i. reinforcement of Security through the Zambia Railways Limited Police in corroboration with the affected Councils;
- ii. advertisements in the Public Newspapers;
- iii. meetings with stakeholders as part of the sensitisation programs;
- iv. notices to encroachers; and

- v. the distribution of flyers/pamphlets in encroached areas and the general public.

Committee's Observations and Recommendations

Your Committee observes that there are too many squatters building and trading along the line of rail which is hazardous to human life. The Controlling Officer is reminded that it is against the safety rules to build, trade or carryout any economic activity within a distance of less than 50 meters from the rail line. In this regard, your Committee urges him to ensure that safety precautions are enhanced and enforced in order to avoid the loss of lives. The Controlling Officer is further urged to ensure that the process of fencing the affected areas is expeditiously done. A progress report will be awaited by your Committee.

ii. Vandalised Crane Lines at Kafue Offloading Bay

The Controlling Officer submitted to your Committee that the Zambia Railways Limited had taken measures to stem the scourge of vandalism and encroached on its idle land in Kafue by embarking on a programme to fence off the area and pursuing a business prospect for developing an intermodal railway facility through a Public Private Partnership arrangement.

Committee's Observations and Recommendations

Your Committee will await a progress report on the matter.

iii. Poor Track Rehabilitation Work

The Controlling Officer submitted to your Committee that The Track Rehabilitation Project was an on-going programme which commenced in 2013 using Eurobond funding from the government. A progress of 136km of re-sleepering out of a total of 442km had been completed and the remaining sections had been strengthened with a 1 in 4, 1 in 3 or 1 in every 2 sleeper replacement. The Completion of the programme awaited the securing of additional funding.

- **Lack of Ballast**

Ballasting of the track was one of the on-going activities under the Track Rehabilitation Project which would only be completed after the component of re-sleepering with concrete sleepers had been completed. In order to speed up the programme, the company had terminated contracts with the two original underperforming suppliers and had initiated measures to engage more reliable contractors.

- **Gaps on the Rails Ridges**

Following the commencement of operations on Mulobezi line in 2014 some critical works necessary to just barely sustain train service have been undertaken using some materials recovered during the rehabilitation of the main line. However, undertaking and completion of the remaining repair and rehabilitation works awaited sourcing of funding for the purchase of materials such as rails, sleepers and fittings for the branch line.

- **Rotten Wooden and Steel Sleepers**

The replacement of the rotten and unserviceable steel sleepers was an on-going programme under the Track Rehabilitation Project. Out of the 442km targeted for re-sleepering, 136km had been completed. Your Committee was informed that efforts were being made to

accelerate the programme including sourcing for additional funding and exploring Public Private Partnership arrangements for the establishment of a concrete sleeper factory in order to lower the cost of the sleepers.

- **Vandalised walkways**

Having started with the principal bridges such as the Kafue bridge, the programme of attending to bridges by the replacement of rotten bridge sleepers and repairing vandalised walks had continued. Although the programme had been slow due to poor resource inflows, it would be accelerated after the company secured more funding.

- **Culverts in bad state-Mulobezi Line**

The Zambia Railways Limited was engaging the Government for funding to attend to the culverts and other infrastructure issues on Mulobezi line.

Committee Observations and Recommendations

Your Committee expresses concern at the slow pace of the rehabilitation works despite the 120 million Dollar Euro Bond which was released by Government to Zambia Railways Limited three years ago. Your Committee notes the efforts made to rehabilitate some infrastructure but is greatly concerned by the poor workmanship by some contractors who were contracted to carry out the works. Your Committee is of the view that it is likely that the selection process of the contractors was not thoroughly done and hence the poor results. Your Committee further observes that there is need for a complete overhaul of the railway infrastructure to improve the railway network which will also encourage the haulage of heavy cargo and serve the roads from constant repairs. In view of the foregoing, your Committee, therefore, recommends as set out below;

- (i) the Government must consider recapitalising the Zambia Railways Limited to enable it complete the various infrastructure rehabilitation projects which are being done in piecemeal;
- (ii) the Zambia Railways Limited should enhance its efforts in sourcing for funds to finish its other projects, and
- (iii) the Zambia Railways Limited should ensure that it secures the infrastructure to avoid further vandalism.

In this regard, your Committee resolves to await a progress report.

g) Uncollected Fees

i. Unremitted Freight Charges by TAZARA K2,127,013

The Controlling Officer informed your Committee that the first reconciliation meeting was held from 5th to 7th February, 2014 in Dar es Salaam with TAZARA. From this meeting TAZARA agreed to communicate how they were to settle the outstanding debt. A second reconciliation meeting was held on April 16, 2014 with TAZARA representatives in Zambia where this was again tabled. It was agreed during this meeting that TAZARA would avail the Zambia Railways Limited with a payment plan to liquidate the debt. A follow-up meeting was held in July, 2014 to address the outstanding debt and at this stage TAZARA had not concluded the payment plan to present to the Zambia Railways Limited. The Controlling Officer submitted that it was unfortunate that the TAZARA had financial challenges. However, it was exploring possible ways to become viable and the Zambia Railways Limited would continue to pursue the funds.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that the matter is seriously followed up with the TAZARA Head quarters in Dares Salaam and that payment is sought from them without any further delay. A progress report will be awaited by your Committee.

ii. Wagons Overstaying in Foreign Countries

The Controlling Officer informed your Committee that this was being managed based on the Company's interchange business agreements signed by contingent railway administrations in the region on which the status of the wagons was daily reported. Your Committee was informed that each day's position was different and was driven by the level of activity for that day. Below was the status report as at 29th February, 2016:

ZRL Wagons on Foreign Lines

Administration	No. of Wagons	Remarks
TFR	118	
NRZ	26	
BBR	81	
BBR	75	Log wagons
TZR	24	
TZR	27	Log wagons
SNCC	84	
SNCC	55	Log wagons
Total	490	

Foreign Wagons on ZRL Line

Administration	No. of Wagons	Remarks
TFR	144	
NRZ	18	
SNCC	10	
Total	172	

Committee's Observations and Recommendations

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

CONCLUSION

25. Your Committee wishes to express its gratitude to you, Mr Speaker, and the Office of the Clerk for the support rendered to it when considering the Report of the Auditor-General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December, 2014. Your Committee further wishes to thank the Secretary to the Treasury, Controlling Officers, Chairpersons and other members of the Boards of Directors, and management teams of the institutions that were audited for their cooperation.

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

M G M Imenda, MP
CHAIRPERSON

April, 2016
LUSAKA

List of Officials

National Assembly

Mr S Kawimbe, Principal Clerk of Committees
Ms M K Sampa, Deputy Principal Clerk of Committees
Ms C Musonda, Committee Clerk (FC)
Mr A Chilambwe, Assistant Committee Clerk
Mrs C T M Kasonde, Assistant Committee Clerk
Ms K Chisenga, Stenographer
Ms F Hamakalu, Typist
Mr M Chikome, Parliamentary Messenger