

REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR-GENERAL FOR 2009 ON THE ACCOUNTS OF PARASTATAL BODIES FOR THE FIRST SESSION OF THE ELEVENTH NATIONAL ASSEMBLY APPOINTED BY THE RESOLUTION OF THE HOUSE ON 2 NOVEMBER, 2011.

Consisting of:

Mr V Mwale, MP (Chairperson); Mr H H Hamududu, MP; Mr C Mulenga, MP, Ms M Imenda, MP; Mr M Mbulakulima, MP; Mr C Matafwali, MP; Mr G Namulambe, MP, Mr A Milambo, MP; and Mr P Mucheleka, 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 for 2009, on the Accounts for Parastatal Bodies.

Functions of the Committee

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

Meetings of the Committee

3. Your Committee held eleven (11) meetings to consider the Report of the Auditor-General for 2009, on the Accounts of Parastatal Bodies.

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 sixteen institutions that were reported on in the Audit Report. The Secretary to the Treasury was also requested to comment on all the sixteen institutions.

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

Due to the fact that the Report of the Auditor-General for 2010 on Accounts of Parastatal Bodies has been tabled and contains most of the outstanding issues that are in the Report for Audit report for 2009, your Committee has resolved to prepare a consolidated report on outstanding issues from both reports to be tabled and debated together with the 2010 Audit Report.

Auditor-General's Comment

5. The Auditor-General reported that the Report of selected bodies for 2009, was submitted to the President for tabling in the National Assembly in accordance with the Constitution of the Republic of Zambia and the *Public Audit Act*, Cap 378 of the laws of Zambia.

Scope of Audit

- i) The Report was a result of a programme of test checks and reviews of the audited accounts of selected organisations for the financial years up to 31 December, 2009. Due to limited financial resources, the programme of work was restricted to sixteen organisations.
- ii) In preparing the Report, draft report paragraphs were sent to Controlling Officers of the organisations' parent ministries and Chief Executive Officers for confirmation of the correctness of the facts presented. Where the comments were received and varied materially with the facts presented, the relevant items were amended appropriately.
- iii) Specific mention was made of non-preparation of financial statements, failure to remit statutory contributions, poor financial performance and weakness in procurement procedures in the respective organisations.

CONSIDERATION OF SUBMISSIONS

CITIZENS ECONOMIC EMPOWERMENT COMMISSION (CEEC)

Query

Paragraph 4

Review of Operations

6. A review of accounting and other records for the financial years ended 31 December 2007 to 2009 carried out in August 2010 to which the Controlling Officer responded as set out below.

The Secretariat

a) Funding

The Controlling Officer submitted that when the Government decided to create the Commission, empowerment funds were held in different ministries. A decision was then made by the Government that all the empowerment funds so held be transferred to the Commission. The Commission was not able to raise a supplementary estimate because these funds were accounted for in their respective ministries where they came from.

Committee's Observations and Recommendations

Your Committee noted the submission and resolved to close the matter.

b) **Expired Tenure of Office for Commissioners**

The Controlling Officer submitted that the delay in the appointment of commissioners was caused by the vetting process that took long however, the President appointed new commissioners in April 2011.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Management to be proactive in future so that appointments could be made in a timely manner to avoid creating a void.

c) **Failure to Prepare Financial Statements**

The Controlling Officer submitted that the statements for the financial years 2007 and 2008 had been finalised.

Committee's Observations and Recommendations

Your Committee resolves to close the matter following the verification of the signed statements by the Office of the Auditor-General. However, to avoid the recurrence of this anomaly, the Committee urges the Controlling Officer to take disciplinary action against the officer(s) who failed to prepare the financial statements in time.

d) **Expenditure**

i. *Unretired Imprest - K876,213,023*

The Controlling Officer submitted to your Committee that imprest amounting to K675,989,651 was paid to the cashier to pay officers travelling on duty and in difficulties in retiring these funds. Further, K200,223,372 was imprest issued to individual officers whom the Management had requested to retire within forty-eight days failure to which recoveries would be effected.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until outstanding imprest amounting to K270,070,547, as revealed by the Auditor-General's verification report is retired. The Controlling Officer is also urged to caution the accounting officers who should have followed up the retirement of imprests.

ii. *Inadequately Supported Payments - K1,094,516,623*

The Controlling Officer submitted that the missing supporting documents had been found.

Committee's Observations and Recommendations

Your Committee cautions the Controlling Officer against giving misleading responses to your Committee because the verification of his response by the Office of the Auditor-General had revealed that amounts totaling

K611,593,548.99 had not been adequately supported. Your Committee urged the Controlling Officer to take disciplinary action against the Officers whose responsibility was to ensure payments were adequately supported. Your Committee resolves to await a progress report on the outstanding amount as reported by the Auditor-General.

iii. *Missing Payment Vouchers - K50,745,100*

The Controlling Officer submitted that Management had since found all the payment vouchers.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until amounts totalling K29,850,100 in respect of seven (7) payment voucher reported to be still missing in the Auditor-General's verification report was addressed. Your Committee again cautions the Controlling Officer to avoid giving misleading responses to your Committee. Further, your Committee urged the Controlling Officer to take disciplinary action against the Officers responsible for the missing documents.

e) **Irregular Drawing of Fuel-K19,983,694**

i. *Personal-to-Holder Vehicles drawing Fuel from the Pool Account*

The Controlling Officer explained to your Committee that the fuel was drawn by vehicles that had been hired by the Commission to undertake field trips.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the proof is availed to the Office of the Auditor-General that the drawn fuel was used on the Commission's work. A progress report is awaited.

ii. *Fuel drawn by Non-CEEC Vehicles-K25,118,493*

The Controlling Officer stated that vehicles were hired for work for the Commission especially project appraising and repayment follow-ups, however, there was no documentary evidence provided.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until documentary evidence detailing the usage of fuel is presented to the Office of the Auditor-General to support the Controlling Officer's submission.

f) **Motor Vehicles involved in Road Traffic Accidents**

i. *Motor Vehicle Registration no. ABR 2944*

The Controlling Officer submitted that the amount of K11,824,026 was recovered from the Empowerment Programmes Director's terminal benefits.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the recovery of the K11,824,026 had been verified by the Office of the Auditor-General.

ii. *Motor Vehicle Registration no. ABR 3027*

The Controlling Officer submitted that the Police Report indicating that the Director of Finance was not in the wrong was available for verification. The Commission claimed for insurance as the motor vehicle was comprehensively insured. The vehicle had since been repaired and was being used by the Commission.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the response had been verified by the Office of the Auditor-General.

g) **Failure to recover Medical Expenses - K173,315,619**

The Controlling Officer acknowledged the lapse in the interpretation of the conditions of service with regard to health benefits and assured your Committee that the Commission would henceforth pay according to the set limits.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the issue of recoveries was fully addressed. Your Committee also recommends that disciplinary action should be taken against the officers responsible for the lapse. A progress report was awaited.

g) **Non-remittance of Statutory Contributions - K4,541,263,521**

In response, the Controlling Officer submitted that Management had since entered into agreements with NAPSA and ZRA to clear the statutory contributions arrears.

Committee's Observations and Recommendations

Your Committee resolves to close the matter because the existence of agreements between the Commission and the two institutions in question has been confirmed by the Office of the Auditor-General. Your Committee, however, urges the Office of the Auditor-General to keep the matter in view in future audits.

THE EMPOWERMENT FUND

a) Funding

The Controlling Officer submitted that when the Government decided to create the Commission, empowerment funds were held in different ministries. A decision was then made by the Government that all the empowerment funds so held be transferred to the Commission. The Commission was not able to raise a supplementary estimate because these funds were accounted for in their respective ministries where they came from.

Committee's Observations and Recommendations

Your Committee resolves to close the matter but urges the Auditor-General to keep it in view in future audits.

b) Performance of the Empowerment Fund

The Controlling Officer submitted that while the fund was launched in November, 2008 the first funds disbursements were only done in 2009 resulting in some applicants not receiving funds.

Committee's Observations and Recommendations

Your Committee resolves to close the matter but urges the Office of the Auditor-General to keep the matter in view in future audits.

c) Failure to Account for Interest Earned-K7,686,912,245

The Controlling Officer submitted that as a result of this anomaly the Commission did not renew the contract of the Director-General and the Director of Finance.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter as the verification report of the Auditor-General revealed that the trend of using interest received for operations had not stopped. Your Committee urges the Controlling Officer to ensure that this came to an immediate end.

d) Failure to Receipt Loan Repayment Proceeds

The Controlling Officer informed your Committee that the disbursement of the loans was centrally done from the Head Office whilst the loan recoveries were done in the districts which created difficulties in receipting all the loan recoveries as and when they were deposited. The reasons why the Commission allowed loan depositors to do it from the districts were to reduce the cost of doing business as per Government Policy. To address the situation, Management was in the process of signing a Memorandum of Understanding (MoU) with ZANACO where all deposits would have narrations of the projects whose details would be captured on the bank statement.

Secondly, Debt Collectors had been employed to follow-up recoveries made in the districts.

Committee's Observations and Recommendations

While noting the measures being taken to address the situation, your Committee resolves not to close the matter until it is verified by the Office of the Auditor-General that the MOU with ZANACO has been signed and is in force.

e) Valuation of Assets pledged as Collateral

The Controlling Officer explained to your Committee that revaluing the cost of an asset pledged as collateral would have meant that the promoter would bear the cost of the process resulting in the cost of the same exercise doubling thereby increasing the cost. The Commission only accepted valuation reports certified by Government accredited Valuers. Further, during the process of appraisal the Commission ensured that all approved valuation reports were issued by competent Government certified valuers.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

f) Failure to account for Loan Application Forms - K847,350,000

The Controlling Officer submitted that Management had written to the respective banks for reconciliations after which the banks should stop issuing application forms and ultimately surrender them back to the Commission.

Committee's Observations and Recommendations

Your Committee is displeased with the laissez faire attitude exhibited by Management in handling the matter which amounts to negligence of duty and resolves not to close the matter until the reconciliation of application forms is undertaken by the Commission and a progress report made.

g) Misapplication of Empowerment Funds-K13,188,857,527

The Controlling Officer submitted that when the Commission was created, there was need for the citizens to be sensitised on the new empowerment policy before the fund was launched. In 2008 the Commission embarked on a massive sensitisation programme which resulted in high expenditures. In 2009 after the launch of the empowerment fund in November 2008 it was realised that there was still need to sensitise citizens. A decision was then made by the Commission to establish CEEC offices in all the Provincial Headquarters. This was to ensure that the sensitisation programme continued for a longer period. In view of the foregoing and that the budgetary provision in 2008 and 2009 could not meet the expenditures thereof, the Commission decided that empowerment funds be utilised on this important programme. He appealed to your Committee to grant this expenditure as part of CEEC operational expenditure.

Committee's Observations and Recommendations

Your Committee is disappointed that such a large sum was used for operations thereby reducing significantly the amounts that should have gone to the intended beneficiaries. Your Committee resolves not to close the matter until documentation showing that approval was granted by the Minister is available for audit verification.

h) Loan Defaulters-K16, 308,967,510

The Controlling Officer submitted that the Commission had instituted Legal action on defaulters and the legal documents were available for verification.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Office of the Auditor-General to keep the matter in view in future audits.

i) Provincial Offices

i. *Non-maintenance of Accounting Records*

The Controlling Officer explained that the policy of the Commission in 2008 and 2009 was that the Provincial Empowerment Coordinators did not handle the financial transactions as these were done at head office. Therefore the Provincial Coordinators were responsible for the maintenance of financial records. Currently, Provincial Permanent Secretaries were the Controlling Officers of the Empowerment Fund.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Office of the Auditor-General to keep the matter in view in the next audit in order to assess the performance of the Controlling Officers of the Empowerment Fund.

ii. *Unaccounted for Loan Disbursements*

The Controlling Officer explained that the K5,041,330,000 was for amounts approved while the K3,318,359,086 was for the actual amounts disbursed as partial payments which meant that these projects had outstanding balances.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the Office of the Auditor-General acknowledged the Controlling Officer's explanation in the subsequent inspection report.

iii. *Failure to follow Contract Provisions - K2,486,503,507*

The Controlling Officer responded that the Commission had started taking action against promoters who had failed to follow contract provisions.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Auditor-General to keep the matter in view in future audits.

iv. *Misapplication of Loans disbursed - K1,565,914,773*

The Controlling Officer responded that the Commission had started taking action against promoters who had failed to follow contract provisions.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Auditor-General to keep the matter in view in future audits.

v. *Non Insurance of Assets - K1,187,019,050*

The Controlling Officer stated that the Commission had undertaken to insure all assets purchased for the projects for the period of loan tenure.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the assets in question were insured. A progress report was awaited.

vi. *Inadequately supported Bank Transfers - K5,823,581,190*

The Controlling Officer explained to your Committee that the Commission disbursed funds to various suppliers for goods and services based on the promoter's requirements. In the case of these transfers, the original documents supporting the transfers were kept by the promoters. Management was in the process of making copies of all documents pertaining to funds transfers for all purchases which would be given to the promoters.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the inspection report indicated that Management had provided supporting documents for the bank transfers.

MINISTRY OF HEALTH - CHIPATA NURSING SCHOOL

Query

Paragraph 5

Review of Operations

7. A review of operations of the School for the years 2007 to 2009 revealed the issues set out below.

a) **Overfunding-K376,565,077**

The Controlling Officer responded to your Committee that in January 2008, Chipata School of Nursing commenced a direct entry Midwifery programme which was directive from the Government. The school requested for extra funding to cater for the 40 midwifery students that commenced their training on 21 January 2008.

Committee's Observations and Recommendations

Your Committee notes the submission and recommends that the K376, 565,077 should be allowed to stand as a charge to the Treasury.

b) **Failure to Reconcile Bank Accounts**

The Controlling Officer submitted that failure to reconcile bank accounts was because at that time the School did not have an Assistant Accountant as he had been attached to the Provincial Health Office (PHO) on relief basis. During this period, the school accounting unit was being managed by an unqualified staff such as the Accounts Assistant and or Purchasing and Supplies Assistant who were not competent enough to do reconciliations. The Assistant Accountant who was at PHO had since reported back to Chipata School of Nursing and the cash and bank reconciliations were now being done.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification that the situation has improved.

c) **Unaccounted for Funds- K99, 074,657**

The Controlling Officer explained that the monies were used before it was banked because the officer who was manning the office at that time was not conversant with the banking procedures. A total of K1,090,893,788 was collected as receipts and only K1,061,892,390 was deposited. Unfortunately K16,700,000 was used to pay allowances for student's selection and K6, 830,000 was paid to the Ministry of Labour and Social Security who conducted aptitude tests for the same student selection. The balance of K4,470,000 could not be accounted for and the officer concerned had been disciplined and had been asked to pay back the funds.

As regards the K4,280,000 collected from a student, he submitted that a letter had been written to the officer to direct her to reimburse the K4,280,000 and she had so

far paid the 1st installment of K2,000,000 while the rest was to be paid within 14 days.

Committee's Observations and Recommendations

Your Committee observes that this was pure theft which should have been reported to Police instead of handling it administratively. Your Committee urges the Controlling Officer to ensure that the recoveries are done before the matter can be closed.

d) Irregular Payment of Performance Allowances-K62,389,400

The Controlling Officer explained that the performance allowance was paid as a spillover from Central Board of Health without obtaining authority from the Secretary to the Cabinet. The institution had been advised to seek authority from the Secretary to the Cabinet when paying any other allowances outside the stipulated guidelines.

Committee's Observations and Recommendations

Your Committee observes that the payments in question were irregular because no authority was sought from the Secretary to the Cabinet. Your Committee recommends that retrospective authority should be sought to regularise the payment from the Secretary to the Cabinet failure to which recoveries should be effected. A progress report was awaited.

e) Failure to follow Tender Procedures-K114,499,000

The Controlling Officer explained that the procurements in question were not supported by three quotations because in most cases, the supplier was the only one in the district capable of supplying the goods or services that were procured.

Committee's Observations and Recommendations

Your Committee advises the Controlling Officer to ensure that Management at the College adhere strictly to procurement guidelines including those that should be followed when single sourcing is necessary. The Office of the Auditor-General is requested to keep this matter in view in future audits.

f) Security Services

The Controlling Officer explained that the School had commenced the process in that the document called customer intent was filled in but was unfortunately misplaced. A copy of contract forms had since been obtained from G4 Security services and was available.

Committee's Observations and Recommendations

Your Committee expresses concern that the Controlling Officer was giving excuses when it was clear that an anomaly was allowed to go on for a long time. Your

Committee resolves to close the matter but requests the Auditor-General to keep handling of contracts at the School in view in future audits.

JUDICIARY - HEADQUARTERS

Query

Paragraph 6

Review of Operations

8. An examination of accounting and other records relating to the 2009 appropriation accounts at Judiciary revealed the matters set out below.

a) **Failure to Prepare Financial Statements**

The Controlling Officer explained to your Committee that the Judiciary had prepared the draft financial statements in adherence to the Judicature Administration Act CAP 24 of 1994 despite not having the values for the Assets. The financial statements were available for audit scrutiny.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the Office of the Auditor-General verifies that the Judiciary has complied with the provisions of the Act to produce financial statements.

b) **Unsupported Payment of Settling-in-Allowance - K11,283,769 and K45,483,146**

The Controlling Officer submitted that three payment vouchers in amounts totalling K11,283,769.55 that were said to having been outstanding at the time of the Audit were in fact adequately supported by the necessary documentation. The other four payment vouchers in respect of K45,483,146 had the necessary transfer letter and Authority.

Committee's Observations and Recommendations

In resolving to close the matter, your Committee urges the Controlling Officer to take advantage of the audit process to avail required information to the auditors instead of waiting to appear in the Auditor-General's report. The Auditor-General is requested verify the matter before it can be closed.

c) **Procurement of Goods, Services and Public Works**

i. *Inadequately Supported Payments - K1,742,472,082*

The Controlling Officer explained that the payment vouchers that were said not to have been adequately supported were in fact supported by the relevant documents apart from those that required job cards as these were not issued by suppliers.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the payments in question are adequately supported and verified by the Office of the Auditor-General.

ii. *Missing Payment Vouchers - K41,591,492*

The Controlling Officer informed your Committee that all the payment vouchers in amounts totaling K41,591,492 had been traced and were available for verification.

Committee's Observations and Recommendations

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

iii. *Unretired Imprest - K331,524,963*

The Controlling Officer explained that out of the fifty-one payment vouchers that were said not to have been retired thirty-two had been retired while nineteen could not be retired as officers concerned had left the Institution through dismissals and deaths. Recoveries would be made when paying terminal benefits in case of the dismissed officers.

Committee's Observations and Recommendations

Your Committee urges the Office of the Auditor-General to verify what had been retired but resolves to keep the matter active until all the recoveries are effected. The Controlling Officer is strongly advised to ensure the guidelines on the retirement of imprest were strictly adhered to, to avoid the repeat of such instances.

iv. *Un acquitted Expenditure - K111,014,215*

The Controlling Officer explained that the payments which were said not to have been acquitted or signed for were actually signed for.

Committee's Observations and Recommendations

Your Committee does not understand why this was not resolved during the audit process and urges the Controlling Officer to always pay serious attention to the audit process. The Committee resolved that this matter should be closed after verification.

d) **Equipment use and control**

i. *Poor Maintenance of Asset Register*

The Controlling Officer informed your Committee that the non-current asset register was being maintained though most of the assets were without value. A

comprehensive register would be made upon the completion of the valuation of assets in 2012.

Committee's Observations and Recommendations

Your Committee expresses disappointment at the apparent lack of seriousness at the Judiciary in terms of following financial provisions in respect of assets registers. While noting the limitation faced in obtaining values for some properties, your Committee considers it negligence of duty not to record available values such as the cost of motor vehicles. Your Committee, therefore, urges the Office of the Auditor-General to keep the matter in view in the next audit.

ii. *Lack of Title Deeds*

The Controlling Officer explained that the Bank of Zambia had not changed the name of the property into their name from the Lusaka City Council who were the original owners. The Bank was making efforts to have the Title Deeds changed into its name before they could be changed into Judiciary's name.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the Title Deeds are obtained and verified by the Office of the Auditor-General.

e) **Provincial Offices**

i. *Unvouched Expenditure - K1,293,879,224*

The Controlling Officer stated that most payments that were not vouched by the Provincial offices, had been vouched while corrective measures had been put in place to address a few that were not adequately supported.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the remaining payments were correctly and adequately vouched. A progress report indicating figures of what had been vouched would be awaited.

ii. *Unretired Imprest - K277,273,717*

The Controlling Officer submitted that all the imprest amounting to K277, 273,717 had been retired.

Committee's Observations and Recommendations

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

LOCAL AUTHORITIES SUPERANNUATION FUND (LASF)

Query

Paragraph 7

Review of Operations

9. An examination of accounting and other records for the financial years ended 31 December 2005 to 2009 revealed the matters set out below.

a) **Non-preparation and Audit of Financial Statements**

The Controlling Officer explained that the delay in the preparation of financial statements was due to the manual accounting system which had been operational at the Fund prior to 2002 which made it difficult to generate credible and up to date information for the purpose of preparing financial statements. Secondly, the Fund experienced some difficulties in getting information from the Associated Authorities especially the Councils which resulted in an outdated member's database. Thirdly, the External Auditors were reluctant to pass the financial statements without the necessary guarantees from the Government to settle the outstanding pension contributions debt owed to the Fund by the Councils.

As regards the latest position, the Controlling Officer reported that financial statements for the years ended 31 December, 2007 and 2008 had been finalised and signed by KPMG Zambia while the draft financial statements for the year ended 31 December, 2009 had been prepared and substantially audited. However, at Partner review stage, KPMG Zambia observed going concern indicators which required Government's attention before the Accounts could be signed. Further, the Fund was currently finalising the preparation of the Financial Statements for the year ended 31 December, 2010.

Committee's Observations and Recommendations

Your Committee notes with concern the failure by the Fund to comply with requirements in respect of the preparation of financial statements and urges the Fund to step up efforts to be current. A progress report on the matter would be awaited.

b) **Questionable Clause in Managing Director's contract**

The Controlling Officer submitted that the basis of Clause 26 of the Contract for the Managing Director which provided that he or she would be entitled to conditions of service enjoyed by staff on permanent and pensionable conditions as revised from time to time, was that there were some conditions of service which were of a general nature and were enjoyed by all employees whether they were serving on contract or permanent and pensionable basis.

The Controlling Officer however submitted that in order to avoid cross referencing of conditions of service and improving clarity on the interpretation of conditions of service, the Board considered and approved the separate Administration Manual in April, 2011 outlining conditions of service for contract staff.

Committee's Observations and Recommendations

Your Committee notes the submission and resolved to close the matter subject to verification of the new manual by the Office of the Auditor-General.

c) Overpayment of Retirement Benefits

The Controlling Officer explained that there was no overpayment as it was the employer who initiated the process that led to the member discontinuing his pension contributions into the scheme. He added that the LASF Board had approved the conversion of positions in SUP 1 from permanent and pensionable to contractual basis when the new organisation structure of the Fund was approved. The LASF Board approved the restructuring of the Fund's organisation structure at its meeting held on 31 October, 2003 and approved the conversion of jobs in SUP 1 to contractual basis on 20th February, 2004. The decision was therefore not the employee's fault as what was discontinued was the membership status under the LASF Scheme and not the employment status with the employer.

Committee's Observations and Recommendations

Your Committee notes the submission but to clear all doubt urges the Controlling Officer to seek legal interpretation and advice from the Attorney-General and provide progress report.

d) Irregular approval of Salary Increments for Contractual Staff

The Controlling Officer explained that the 15% salary increment was approved by the Ministry of Local Government and Housing because during the time, the Fund had no Board in place. He noted that the matter was presented and reviewed by the new Board on 29 July, 2009 and both the letter from the Ministry of Local Government and Housing and Board minutes were available for verification.

As regards performance evaluation, the Controlling Officer explained that although the Fund started developing a Performance Management System in 2009 it was only implemented in 2011 after sensitising stakeholders and would be used as a basis for performance in future years.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as soon as evidence is adduced to confirm the Board's decision to uphold the approval granted by the Ministry to award the salary increment in question.

e) Non-remittance of Statutory Contributions-K10,852,219,108

The Controlling Officer submitted to your Committee that the failure to remit taxes to ZRA was mainly due to the poor liquidity position but when the financial position stabilised in mid 2008, Management started remitting the current PAYE in order to stop the growth of the liability and for the past 20 months above, the Fund had been remitting the current payroll taxes and withholding taxes on pension refunds to

members who got lump sum refunds from the scheme. Meanwhile, the Fund would continue to clear the back log of the unremitted taxes once the pension contributions debt was collected from employers. The Ministry of Local Government and Housing had confirmed that it would assist the Fund to recover K48 billion owed to the Fund by Councils so that part of the funds could be used to pay the PAYE arrears.

Regarding failure to remit the pension contributions for LASF Scheme on time, the Controlling Officer explained that the Fund was at some stage accounting for the pension contributions recovered from employees as book entries in the Books of Accounts but changed this in 2008 when these were funded. He added that Since July, 2008, the Fund had been consistent in implementing this and as at 30 November, 2011, the amount had reduced to K1, 261,470,425.77 from K3, 098,462,610.

Committee's Observations and Recommendations

In noting the submission, your Committee resolves not to close the matter until there is a significant reduction in the funds that had not been remitted. A progress report was awaited.

g) Lack of Actuarial Valuation

The Controlling Officer explained that the last actuarial valuation for the Fund was conducted by QED Actuaries & Consultants Limited of South Africa at a cost of Rands 100,000. The actuarial valuation was concluded in 2006 while the Report was issued in June, 2006 and approved by the LASF Board. Procurement processes for the next Evaluation had also commenced.

Committee's Observations and Recommendations

Your Committee is disappointed that this report was not presented to the Auditors during the audit process in order to avert the query. The Controlling Officer is therefore directed to avail the report and the Board approval to the Office of the Auditor-General for verification after which the matter should be closed.

g) Investments

i. *Lack of Title Deeds*

The Controlling Officer submitted that the Fund had, through National Housing Authority and Chilupe & Company, been pursuing the issuance of the Certificates of Title in the Fund's name.

Committee's Observations and Recommendations

Your Committee resolves to wait for a progress report on the matter.

ii. *Outstanding Rentals*

The Controlling Officer explained that the Fund evicted the tenants and undertook successful legal action against 121 Administration and Joseph Chilengi sometime in 2008/9 in an effort to recover the outstanding rentals. The other three tenants, Next Technology, Huridex (Z) Limited and Homestead Computers were evicted by the Fund sometime back.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to avail documentary evidence on the outcome of the court process to the Office of the Auditor-General for verification after which the matter should be closed.

h) **Pension Contributions**

i. *Uncollected Pension Contributions*

The Controlling Officer submitted that the figures in the draft Audit Report paragraph were as 31 December, 2009 and not 31 December, 2010.

As at December, 2009, the Fund was owed K94,885, 563,503.77 in form of unremitted pension contributions broken down as below.

• ZESCO Limited	K51,621,535,869
• City Councils	K26,768,056,280
• Municipal Councils	K7,197,572,793
• District Councils	K1, 609,175,245
• Water Utilities	K3,955,547,280
• NHA	K635,213,425
Total	K94,885,563,503.77

The Controlling Officer explained to your Committee that in order to address the situation, the Fund and ZESCO had entered into a payment plan in June 2008 which resulted into ZESCO paying its debt in full. As regards Local Authorities the Fund had been working with the Ministry of Local Government and Housing who had assisted in many ways to reduce the debt owed by the councils. Some of the efforts include the following:

- Debt equity swap in 2003 amounting to K7.0 billion
- Payment of K144.0 million in 2004 by Government
- Payment of K8.25 billion in 2005 by the Government
- Payment of K10.0 billion in 2006 by the Government
- Payment of K11.5 billion in 2007 by the Government
- Payment of K8.7 billion in 2009 by the Government
- Payment of K1.03 billion in 2011 by the Government

Further, in January, 2011, the Fund submitted a proposal to Government to acquire 14.27% shareholding in Nanga Farms Plc through a debt equity swap transaction. This transaction if approved by the Minister of Finance and National Planning, would result into a reduction of the Councils debt to the Fund.

The Fund had held meetings and signed payment plans with the Water companies that were aimed at reducing the unpaid contributions.

LASF, on the other hand, had entered into an agreement in which Lusaka Water and Sewerage paid K100,000,000 towards the debt monthly and the debt had reduced from K2,640,525,243.35 as at 1 January, 2011 to K1,763,333,066.17 as at 30 November, 2011.

Committee's Observations and Recommendations

Your Committee notes the progress that has been attained in reducing the debt but resolves not to close the matter until there is a significant improvement in the outstanding amounts. A progress report would be awaited.

ii. *Declining Membership*

The Controlling Officer explained that the reason for the declining contributing membership was the enactment of the National Pension Scheme Act No. 40 of 1996, which provides that all employees starting work on or after 1 February, 2000 were required to contribute to NAPSA on a compulsory basis. This therefore meant that the Fund had not been having new members since 1 February, 2000 and the implication was that the Fund's membership had been declining over the years.

Committee's Observations and Recommendations

Your Committee takes note that this is a policy matter on which the Government was in a better position to provide direction. Your Committee, therefore, urges the Government through the Secretary to the Cabinet to provide policy guidance on the matter. A progress report would be awaited.

iii. *Understated Contributions*

The Controlling Officer explained to your Committee that the Fund brought the matter of understated contributions to the attention of the Chingola Municipal Council to amend their payroll programme. All future pension contributions were being administered at 23% of basic pay as provided for in the LASF Act.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification that corrective measures have been taken.

i) **Benefits**

i. *Un-reconciled Satellite Accounts*

- Failure to obtain Acquittal Sheets

The Controlling Officer acknowledged that some branches of the cooperating Banks did not send the acquittal schedules back to the Fund but periodically staff was sent to the Bank to reconcile the accounts and the audit reports produced. On the basis of the audit reports produced, the Fund held meetings with the Head Offices of the cooperating Banks with a view to regularise the anomalies identified in the reports.

From the Fund's perspective, the reconciliations on annuities transferred to the Banks were done and could be ascertained as the Fund was able to reconcile what had been sent to each branch and the unclaimed annuities when refunded back by the Bank. However, it was the individual satellite accounts at the Bank branches in Districts throughout Zambia which the Fund and the Banks required to review the system which was in place.

To correct the situation, the Fund had introduced life certificates for all living pensioners to use when getting their annuity. Further, the Fund had written to the Banks to consider the option of opening bank accounts for all pensioners.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the concerns by the Auditor-General are addressed in full.

ii. *Unpaid Benefits-K69, 388,171,958*

The Controlling Officer explained to your Committee that the Fund's failure to pay benefits was because it was owed a lot of money in unpaid pension contributions and measures were being put in place to address the situation. Further, the approval of the proposed amendments to LASF Act which had been submitted to Ministry of Justice through the Ministry of Local Government and Housing would assist in slowing down the accrual rate of lump sum benefits.

Committee's Observations and Recommendations

Your Committee urges the Management of LASF to put in place aggressive measure to improve the collection of unpaid contributions and reduce on unpaid benefits. Your Committee will only close the matter after a significant reduction in unpaid benefits has been reported.

NATIONAL ECONOMIC ADVISORY COUNCIL

Query

Paragraph 8

Review of Operations

10. An examination of accounting and other records for the financial years ended 31 December 2006 to 2009 revealed the issues set out hereunder.

a) **Lack of Enabling Act Establishing the Council**

The Controlling Officer explained that the Council was instituted by Presidential decree with the approval of the Cabinet in 1993 to serve as a non-partisan Think Tank to provide supplementary advice to the President and Government on the socio-economic aspects of development. He noted the delay in passing the enabling legislation and assured your Committee that the Government would expedite the process of enacting the relevant legislation to legitimise the Council's existence. The Ministry of Justice was finalising the drafting of the bill for presentation to Parliament.

Committee's Observations and Recommendations

Your Committee expresses concern at the time that has elapsed since the Presidential decree was made and wonders whether the Government attaches any importance to the Council. Your Committee resolves not to close the matter until the position of the Government on the plight of the Council is made clear to the Nation.

b) **Non Payment of Statutory Obligations-K703, 020,601**

The Controlling Officer explained that the Council was failing to remit the statutory contribution as required due to insufficient funding from the Treasury.

Committee's Observations and Recommendations

Your Committee observes that this situation is unhealthy and urges the Controlling Officer to write to the Secretary to the Treasury to seek ways of resolving the matter and report progress to your Committee.

c) **Irregular Drawing of Fuel-K4, 274,504**

The Controlling Officer submitted that investigations had revealed that the former Executive Secretary was erroneously recording the number ABK 9211 instead of ABK 9261 and management would recover the funds from the former Executive Secretary whose separation benefits had not yet been paid.

Committee's Observations and Recommendations

Your Committee does not understand why recoveries were necessary if indeed the anomaly was due to human error. Your Committee urges the Controlling Officer to find out what actually transpired and report the matter to investigative wings if necessary.

d) Irregular Renewal of Contracts

The Controlling Officer acknowledged that although contracts of employment for the Executive Secretary were supposed to be signed by the Council Chairman or a council member, the former Executive Secretary signed his own contracts both as employee and employer. The lapse on the part of the Council was regretted and measures had been put in place to ensure that this would not be repeated.

Committee's Observations and Recommendations

In closing the matter, your Committee expresses concern at the Council's failure to offer effective supervision to the Secretariat which amounts to negligence of duty and lack of patriotism.

e) Unretired Imprest-K41,045,373

The Controlling Officer submitted that documents in respect of K41,045,373 were misplaced during the time the Council was shifting from Indeco House to the new Government Complex. However, during the second visit of the Audit team, most of the relevant documents were availed to the team.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure all the recovered documents are availed to the Auditor-General for verification before the matter can be closed. Disciplinary action should also be instituted against accounting officers who failed to take good custody of the documents in question.

f) Unacquitted Allowances-K7,140,000

In response the Controlling Officer submitted that acquittal documents in question were not availed to the auditors for inspection due to misplacement as stated above.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all the recovered documents are availed to the Auditor-General for verification before the matter can be closed.

g) Inadequately Supported Payments-K136,824,887

The Controlling Officer submitted that the documents were misplaced at the time of the audit for the same reasons advance above.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that all the recovered documents are availed to the Auditor-General for verification before the matter can be closed.

h) Failure to follow Procurement Guidelines-K19, 988,525

The Controlling Officer submitted that the Council did not obtain three quotations as required because goods and services in question were secured from specialised suppliers namely Mitsubishi Motors and Action Auto Motors. Further, the Council secured printing services from a supplier who was willing to deliver on credit due to insufficient funding and unpredictable disbursement of the monthly grants from the Government.

Committee's Observations and Recommendations

Your Committee resolves to close the matter but advises that in future all such cases, a no objection should be sought from the Zambia Procurement Authority (ZPA) before proceeding with procurement.

i) Irregular payment of Gratuity-K1, 318,171,159

The Controlling Officer responded that the decision to pay gratuity annually, over a period of four years, followed the institution's inability to effect "hefty" payments required at the end of a four year contract due to insufficient and at times unpredictable, funding from Government. NEAC resolved to be paying gratuity within a year to avoid accumulating large outstanding contractual obligations to its employees. This system had worked very well for the institution and there was no debt regarding gratuity for staff.

Committee's Observations and Recommendations

Your Committee finds the explanation unacceptable as it is tantamount to glorifying an illegality. The Controlling Officer is directed to ensure that the practice is discontinued without further delay. Your Committee advises Management to propose an amendment to the conditions of service to legalise the practice.

j) Lack of Segregation of Duties

The Controlling Officer responded that segregation of duties would not be attained because the Council was unable to recruit additional staff due to poor funding to the institution by the Government.

Committee's Observations and Recommendations

Your Committee observes that the root cause of all this was the lack of clear Government policy on the existence of the Council and hence urged the Controlling Officer to bring the matter to the attention of the Secretary to the Cabinet without further delay. A progress report on the matter would be awaited.

NATIONAL HERITAGE CONSERVATION COMMISSION

Query

Paragraph 9

Background

11. An examination of accounting and other records for the financial year ended 31 December 2009 revealed several weaknesses to which the Controlling Officer responded as set out below.

a) **Income**

The Controlling Officer explained that the releases for RDCs were K4, 512,690,299 and not K4, 368,058,575 as reported in the audit report. He stated that the under-funding was predominantly attributed to the low funding from the Treasury for capital projects.

Committee's Observations and Recommendations

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

b) **Staffing Levels**

The Controlling Officer explained that the Commission had started the recruitment process at senior management level and later on intended to move to middle and lower positions in order to fill the vacant positions. He further stated that the Commission had been prodded to fill vacant positions using its internally generated revenue.

Committee's Observations and Recommendations

Your Committee observes that operating the Commission with less than half of the establishment was unhealthy as it affected the Commission's capacity to effectively execute its mandate. Your Committee urges the Controlling Officer to take concrete steps to correct the situation. Your Committee resolves to await a progress report on the matter.

c) **Staff Acting Appointments**

The Controlling Officer submitted that the officers were confirmed by the Board.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the submission of the Controlling Officer has been verified by the Auditor-General.

d) **Inadequately Supported Payments-K503, 682,776**

The Controlling Officer explained that documents for amounts totaling K474, 098,678 had been retrieved leaving an outstanding amount of K29, 584,098.

Committee's Observations and Recommendations

The Committee expresses concern at the failure by the Commission to produce the supporting documents during the audit process and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for the omission. Your Committee will await a progress report on the K29, 584,098 which has not been fully supported by the necessary documentation.

e) **Unretired Imprest-K214, 519,719**

The Controlling Officer submitted that of the total amount of K214, 519,719 which was unretired, K163, 577,839 had been retired while K50, 961,380 was outstanding and would be recovered from the concerned officer.

Committee's Observations and Recommendations

The Committee expresses concern at the failure by the Ministry to ensure imprest was retired in accordance with financial regulations and urges the Controlling Officer to ensure that disciplinary action is taken against the accounting officer(s) who should have followed the retirement of the imprests. The retirement details should be availed to the Office of the Auditor-General for verification. Your Committee resolves to await a progress report on the K50, 961,380 which is yet to be retired.

f) **Lack of Debtors' Management Policy**

The Controlling Officer explained that the Commission would ensure that the matter was brought before the Board of Directors for consideration and subsequent approval. He submitted that the Commission was owed amounts totaling K2, 094,673,168 by Frontier Tours Ltd and not Mo-Below Ltd for the lease on its locomotive engine and coach, which debt had accumulated from as far back as 2004 due to legal disputes regarding the amount owing. The matter had since been referred to the new legal advisors who were handling the matter.

Committee's Observations and Recommendations

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

g) **Outstanding Statutory Contributions-K19, 594,883,753**

The Controlling Officer explained that the debt status had since changed from K19,594,883,753 to K19,470,732,871.94 because the Commission had since made payments amounting to K124,150,931.16 as shown in the table below:

NO.	DETAILS	UNREMED DEDUCTIONS	REMITTED DEDUCTIONS	BALANCE
1	ZRA	14,150,730,349.00		14,150,730,349.00
2	NAPSA	2,841,830,619.00	75,546,048.10	2,766,284,571.00
3	ZSIC	2,602,322,785.00	48,604,883.06	2,553,717,951.94
	TOTAL	19,594,883,753.00	124,150,931.16	19,470,732,871.94

Efforts were continuing to ensure that the whole debt was liquidated.

Committee's Observations and Recommendations

While noting the efforts being put in by Commission is urged to reduce the amounts outstanding, and your Committee resolves not to close the matter until the outstanding amounts reduced significantly. The Controlling Officer is urged to engage the Secretary to the Treasury to find ways of clearing the outstanding amounts while the Commission endeavours to remain current using internally generated funds. A progress report would be awaited.

h) Non Current Assets -Questionable Ownership of Buildings

i. *Failure to Change Ownership*

On the three properties in Livingstone, the Controlling Officer submitted as set-out below.

- Plot No. 456 Mokambo Road
The Controlling Officer explained that the vendor sold the property to the Commission while having previously pledged the same as security to the defunct African Commercial Bank for the loan obtained from the Bank. The African Commercial Bank was liquidated and the Bank of Zambia was currently handling the affairs of the defunct African Commercial Bank in Liquidation. The Bank of Zambia through the Liquidation Coordinator advised that the Vendor owed the Bank K33.5 million, however, the matter was subject to review by the Liquidation Committee of Bank of Zambia for the final position. The matter was being handled by the Commission's legal advisors.
- Plot No. 727 Airport Road
The matter was being handled by the Commission's new lawyers and in order to safeguard its interest, the Commission had placed a caveat on the property.
- Stand No. 565 and 472
The matter in respect of these two properties was being handled by the Commission's new lawyers.

Committee's Observations and Recommendations

Your Committee expresses concern that these matters have taken too long to resolve and urges the Management to aggressively pursue these matters until they are resolved. A progress report would be awaited.

ii. *Stand No. 609, Chudleigh, Lusaka*

The Controlling Officer explained that the matter was also being handled by the new legal advisors.

Committee's Observations and Recommendations

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

iii. *Donated Building*

The Controlling Officer submitted that the matter was now being handled by the Commission who had placed a caveat in order to enhance and protect its interest in the property.

Committee's Observations and Recommendations

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

i) **Site Visits**

i. *South West Region - Kalomo Administrator's House*

The Controlling Officer explained that the Commission's lawyers had been instructed to pursue the matter of poor workmanship with the Contractor in order to have the matter resolved.

Committee's Observations and Recommendations

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

ii. *Northern Region*

The Controlling Officer informed your Committee that in the Northern Region, the undeveloped infrastructure at Heritage Sites was due to inadequate funding. However, infrastructure at Chishimba Falls and Lumangwe/Kabwelope Falls had been worked on while similar works at Kalambo Falls had commenced.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter and requests the Controlling Officer to provide a progress report on the works that are being undertaken to up lift the standards of the sites.

iii. *East Central Region - Lundazi Castle Hotel*

The Controlling Officer submitted that the Commission was in the process of reviewing the concession with the Lundazi Castle Hotel with the view of addressing the issues raised by the Auditor-General.

Committee's Observations and Recommendations

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

NATIONAL SAVINGS AND CREDIT BANK

Query

Paragraph 10

Review of Operations

12. A review of audited accounts and other records for the years ended 31 December 2007 to 2009 revealed the matters set out below.

a) **Failure to Prepare Financial Statements**

The Controlling Officer submitted that the delay in preparing financial statements was caused by challenges experienced by the Bank following the migration in 2009 to the new banking system (Rubikon Banking Software) from the legacy banking system (Banksys). The integrity of the data was brought under question as the Bank's Trial Balance reflected huge differences which made it difficult for the Auditors, KPMG to proceed with the 2009 Audit. He, however, assured your Committee that the Bank would soon be up to date with all audits including the 2011 financial year, whose audit would be completed by April 2012.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the Bank is not up to date in its preparation of financial statements despite having qualified accounting staff. Your Committee also wonders why the Bank did not run a parallel system in order to avoid compromising the quality of the data. Your Committee urges Management to quickly address the matter and provide a progress report. Further, your Committee urges the Controlling Officer to ensure that disciplinary action is taken against the accounting officer(s) responsible for the preparation of the financial statements.

b) **Financial Performance**

The Controlling Officer submitted that the personnel expenses increased by 28% from 2007 to 2008 due to an annual increase in staff salaries and also an increase in the staff establishment. Further, the Bank employed ten management trainees who were to be deployed in different functional areas of the Bank upon completion of their trainee programme. He submitted further that other expenses increased by 15% from 2007 to 2008 due to, among other factors, an increase in cash in transit costs as the business volumes in the Bank increased and the upward revision of charges by

security companies. Other factors included the increase in training costs for staff and in advertising and business promotion costs.

Committee's Observations and Recommendations

Your Committee notes the submission and closes the matter but urges the Office of the Auditor-General to keep it in view in future audits.

c) Statement of Financial Position

The Controlling Officer explained that this was mainly caused by increased investments of 78% in cash holdings, 39% in property and equipment, and 22% in loans and advances. The increase in cash holdings was mainly due to increased requirements to fund business needs. The increase in property and equipment was mainly due to the recapitalisation programme embarked upon in conjunction with the Government in a bid to modernise the Bank's computer infrastructure. This was funded by government; hence the increase of 64% in capital for the same period. In addition, there was a K2.1 billion property revaluation arising from a rise in property market values. On the other hand, the 39% growth in loans and advances was within the planned annual growth in response to market conditions. This growth was closely matched to the growth in deposits for the period under review.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Office of the Auditor-General to keep the matter in view in future audits.

d) Under-capitalisation

The Controlling Officer submitted that the major reason for undercapitalization in Bank was the losses that it had been carrying forward from previous years. He however assured your Committee that measures were being taken to address the situation noting that the Bank had already started to demonstrate profitability as evidenced by financial results for the quarter ending December 2010, when the Bank made a profit of K1.851 billion. It was also anticipated that the Bank would record a profit in the range of K6 billion for the 2011 year which would have a significant positive effect on the under capitalisation.

Further, the Government under the IFAD programme had sourced US\$1.6 million for rural branch expansion which indicated a direct injection into the Bank's capital. The Bank was further exploring balance sheet restructuring measures including the sale of part of its loan portfolio of over K70 billion which when completed would resolve the under capitalisation position of the Bank.

Committee's Observations and Recommendations

Your Committee expresses concern that the Bank has remained under-capitalised for such a long time but notes the measures being put in place to ensure the Bank is recapitalised. Your Committee urges the Office of the Auditor-General to keep the matter in view in future audits.

e) **Weaknesses in Credit Management**

i. *Failure to achieve targeted Loan Growth*

The Controlling Officer submitted that the Bank was experiencing liquidity challenges during the years in question hence the targets could not be met. This situation had however improved and the Bank was making efforts to ensure that the target for the year 2011 was met.

Committee's Observations and Recommendations

Your Committee notes that failure to meet targets over a period of time was indicative of weak leadership capacity both at Board and Management levels of the Bank and urges the Office of the Auditor-General to keep the matter in view in future audits.

ii. *Non-performing Loans-K4, 986,713,630*

The Controlling Officer submitted that loans amounting to K4, 986,713,630 were written off in the year 2009 mostly because relevant documentation could not be found. He noted further that these loans were disbursed before 2005 when the Bank had no Lending policy in place to guide officers on prudent lending. The Bank had so far recovered K1.3 billion relating to the Agrit Loan, K139.9 million from Queen trade and a total of K4.190 million from Luanshya and Kitwe Branches for Greenwell Bwalya and Chanda Evaristo respectively. The Bank now had a Debt Recovery unit in place and efforts were being made to ensure that recoveries on the loans involved were made.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that such a huge bad debt was incurred purely on the basis of poor record keeping and does not rule out fraudulent motives in the misplacement of records. Your Committee, therefore, recommends that a report be made to them on what exactly transpired and what disciplinary measures, if any, have been taken against the officers that failed to keep records in safe custody. Further the matter should be reported to the investigative wings for further investigations.

iii. *Non-recovery of Institutional Loans*

The Controlling Officer explained to Your Committee that the institutional loans inputs for most loans that were disbursed between the period 2007 and 2009 were not done by PMEC due to wrong employee numbers and over indebtedness. However this was normalised as inputs for the loans in question were submitted in May 2010 and recoveries to a tune of K4.4 billion had been effected while others continue coming in the consecutive months.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification by the Office of the Auditor-General that all recoveries have been effected.

iv. *Unperfected Securities-K137,000,000*

The Controlling Officer submitted to your Committee that all the loans had since been paid off except for the loan to a company called Chibusanga Enterprises amounting to K20 million. The loan was availed before 2005 when the Bank had no policy in place to guide Officers on what exactly was supposed to be done to ensure security was perfected. A caveat was however placed on the property meant to protect the Bank's interest in the recovery of the debt.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter but urges the Office of the Auditor-General to keep the matter in view in future audits.

f) **Sitex (IT) Project**

i. *Flouting the Constitution in Awarding Contracts-K10,864,099,246*

The Controlling Officer acknowledged that the Bank did not obtain a 'no objection' position from the Attorney General prior to entering into the six contracts totalling K10,864,099,246 relating to computer related procurements. He noted that this oversight arose because procurement of the IT Equipment had extensive involvement and eventual approval of ZPPA.

Committee's Observations and Recommendations

Your Committee finds the decision by the Bank to ignore the constitutional requirement in question unfortunate and recommends that disciplinary action should be taken against the officers responsible for the breach of the Constitution.

ii. *Signing of Project Acceptance Document before Completion of Works*

The Controlling Officer explained that the Board had firmly dealt with these lapses by instituting staff separations at senior management level involving the Managing Director, the Project Manager (Head Information Technology) and the Assistant Project Manager (Head Operations). Management recalled Neptune who did a system upgrade in September 2011 which reduced problem issues from 32 to 66. The Company was made to sign for the outstanding issues the basis under which the Bank were proceeding for legal arbitration under specific performance.

Committee's Observations and Recommendations

Your Committee finds it hard to appreciate the motive for the Management to sign off the contract even before the system was operational and recommends that the entire contract should be subjected to a thorough forensic audit in order to establish the truth of what transpired.

iii. *Failure to claim Liquidated Damages - K775,678,648*

The Controlling Officer submitted that it was difficult for the Bank to claim liquidated damages because the delays were not caused by the suppliers due to the data cleansing that had to take place to comprehensively review all the take-on data prior to migration to the new system.

Committee's Observations and Recommendations

Your Committee observes that this is one of the indicators that the contract was not handled professionally hence the need to subject the whole process to an investigation in order to clarify the reasons for the poor project management. A progress report would be awaited.

iv. *Irregular Payment - K1, 168,520,564*

The Controlling Officer explained that the arrangement under which the Neptune consultants were being paid for flight expenses, accommodation and meals each time they came over to work on the system had been terminated. Neptune's earlier argument was that having gone live on the system and Management's signing off the User Operational Acceptance, the project had then entered into support mode which meant that the Bank was now under obligation to meet any further costs. The total of K1, 168,520,564 which was paid under the above arrangements would be incorporated in the arbitration process and demanded for repayment to the Bank.

Committee's Observations and Recommendations

Your Committee wish maintain its earlier view that an investigation be conducted in order to clear most of the outstanding questions regarding the failed IT project and a progress report be made through the Auditor-General's Office.

v. *Wasteful Expenditure on Sitex (IT) Project-K2, 378,270,000*

The Controlling Officer responded that the bulk of the K2, 378,270,000 was associated with the amount spent on the acquisition of fifteen Automated Teller Machines at the cost of K2, 301,150,000. He acknowledged that the said machines had been in disuse since 2009 but the Management had developed a roll out programme where so far seven machines had been installed in Solwezi, Kitwe, Ndola, Luanshya, Kabwe, Lusaka, Northend and Lusaka Main Branch under a pilot programme. The last five ATMs would be installed between January and March 2012. He concluded that what had been classified as

wasteful expenditure had now been converted into an investment for the Bank at a value of K2.3 billion.

As regard the UPSs purchased at K37, 120,000, the Controlling Officer explained that these had been deployed and installed in all the branches. The DVD writers, on the other hand, were initially for the backing-up on the old system by the branches but could not be used because the Rubikon offline service could not work. The Bank would be seeking authority from the Ministry of Works and Supply to dispose-of these machines in an attempt to recover the K40, 000,000 spent on them before 28 February 2012.

Committee's Observations and Recommendations

Your Committee expresses concern at the manner the whole project was handled and reiterates the need to undertake an investigation to establish the culprits in the matter.

g) Outstanding Debt from Separated Staff - K226, 034,638

The Controlling Officer submitted that the Bank would through the legal department pursue the recovery of these debts through formal demands and litigation where necessary. The target was to recover all the outstanding loans within 2012.

Committee's Observations and Recommendations

Your Committee is concern that Management did not effect the recoveries at the time of paying out terminal benefits which was tantamount to negligence of duty on their part. Your Committee urges Management to ensure that all the outstanding loans are recovered within 2012 failure to which to which officers that caused the anomaly should be surcharged as provided for in the financial regulations. They await a progress report on the matter.

NDOLA CENTRAL HOSPITAL (NCH)

Query

Paragraph 11

Review of Operations

13. An examination of accounting and other records for the financial years ended 31 December, 2006 to 2008 maintained at the Hospital, the Ndola College of Biomedical Sciences and the Ndola School of Nursing and Midwifery weaknesses to which the Controlling officer provided responses as set out below.

a) Failure to Prepare Financial Statements

The Controlling Officer explained to your Committee that the system of reporting at the time was through quarterly reports as provided for in health guidelines however, financial statements were now prepared annually.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until financial statements for 2005 to 2008 are availed to the Office of the Auditor-General for verification.

b) Management Structure

i. Staffing Levels - Doctors and Nurses

The Controlling Officer explained to your Committee that the staffing levels at the Hospital were steadily improving with the Ministry of Health sending forty-eight Medical Doctors, ninety Nurses and fifty-eight Paramedics while the support staff was in position. He noted that the shortage of doctors would continue because the School of Medicine was only producing about forty to fifty doctors each graduation time.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until there is a significant improvement in the staffing levels.

ii. Doctor/Nurse to Patient Ratio

The Controlling Officer explained to your Committee that the staffing levels at the Hospital were steadily improving with the Ministry of Health sending more staff as indicated above.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until there was a significant improvement in the doctor to patient ratios.

c) Unretired Imprest-K160, 601,790

The Controlling Officer responded that a total of K54, 189,922 had been retired leaving a balance of K105, 810,078 and efforts were being made to recover the remaining amount. Most of the imprest had remained unretired because most of the members of Staff who incurred the imprest had been transferred to other institutions while others were separated from the Ministry.

Committee's Observations and Recommendations

Your Committee expresses concern that the imprests were not retired in accordance with financial regulations and urges the Controlling Officer to ensure that the outstanding imprest of K105, 810,078 is retired or recovered without further delay. Further, disciplinary action should be taken against accounting staff who failed to make necessary follow up for the retirement of the imprest and the Controlling Officer should avail to the Office of the Auditor-General evidence for verification.

d) **Unsupported Payments-K4, 829,586,743**

The Controlling Officer explained to your Committee that all vouchers had since been supported with adequate supporting documents while in some cases the institution only managed to trace receipts and not invoices.

Committee's Observations and Recommendations

While noting efforts that have been made to resolve the matter, your Committee resolves not to close the matter until all the necessary supporting documents have been found and verified by the Office of the Auditor-General. The Controlling Officer is further urged to take disciplinary action against the officer(s) responsible for the omission. Your Committee awaits a progress report on the matter.

e) **Uncompetitive Procurements-K283,587,830**

The Controlling Officer submitted that the institution used to single source goods and services that were uniquely provided such as certain drugs which were stocked by only a single supplier. However, the institute had been warned and cautioned against single sourcing without following proper tender procedures.

Committee's Observations and Recommendations

Your Committee expresses concern that tender procedures were ignored and cautions the Controlling Officer that in future all such instances should attract disciplinary action. The Auditor-General is requested by your Committee to keep the matter in view in future audits.

f) **Missing Payment Vouchers-K12,732,500**

The Controlling Officer explained that at the time of audit, the filing system was not well done and that all payment vouchers which were reported missing had since been found and could now be verified.

Committee's Observations and Recommendations

Your Committee is concerned that despite the Hospital employing qualified staff it is operating without a proper filing system which is not only unacceptable but is tantamount to negligence of duty on the part of the Management. Your Committee resolves to close the matter but urges the Office of the Auditor-General to keep the matter in view in future audits.

g) **Missing Accountable Documents**

The Controlling Officer attributed this to the poor filing system resulting in accountable documents being mixed with other hospital clinical records in the basement. He, however, submitted that some of the missing accountable documents had been traced and efforts were being made to trace the remaining ones.

Committee's Observations and Recommendations

Your Committee expresses concern that record keeping has been allowed to deteriorate to such a level and cautions that in future all such instances should attract disciplinary action. Your Committee urges the Controlling Officer to put strong measures in place to address the matter. A progress report would be awaited.

h) Non-Payment of Statutory Contributions-K655,058,404

The Controlling Officer explained that this arose because the grant sent to the institution was not enough to meet statutory obligations. He assured your Committee that in the 2012 the Ministry would strive to remit the outstanding amounts for statutory obligation.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until a significant improvement was recorded in the remission of statutory obligations. Your Committee resolves to await a progress report on the matter.

i) Unauthorised Utilisation of Rental Income

The Controlling Officer submitted that Management had not been receiving the rental recoveries from October 2009 from Ministry of Finance and National Planning as a third party account and efforts were being made to seek authority from the Secretary to the Treasury.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until retrospective approval from the Secretary to the Treasury is received and verified by the Office of the Auditor-General.

j) Lack of Contracts for Leased Property

The Controlling Officer explained that at the time of audit, the institution was unable to avail the auditors with the signed contracts for leased property. However, these had since been traced and could be availed for audit.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the contracts have been verified by the Office of the Auditor.

k) Failure to Settle Terminal Benefits

In response, the Controlling Officer stated that it was difficult to use the grants received during the period because it had no dedicated component for Human Resource Management to fully pay terminal benefits. The institution had now started paying these obligations as the current grants had a dedicated component for

such purposes and all the leave benefits that were accrued up to 2009 were paid off while only part of Long Service Bonus had been paid.

Committee's Observations and Recommendations

Your Committee resolved not to close the matter until a progress report has been provided and the terminal benefits have been paid.

l) Failure to Collect Debts

The Controlling Officer explained that the reason the figure increased in 2008 was due to increase of Companies that accessed High Cost Services. He further stated that most companies had insured their staff while payments were not done directly from the clients but through the insurance companies as the third party. Efforts to collect the money owed to the institution had been increased and the debt was being reduced.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until evidence is availed to support Management's submission that the debt has reduced. The Controlling Officer was , therefore, urged to avail the evidence of the reduction in the debt to the Office of the Auditor-General for verification.

m) Lack of Title Deeds

The Controlling Officer submitted that copies of Title Deeds for some properties were available for verification and for the rest of the houses, a letter had been written to the Lloyd Siame & Company who were handling the change of ownership for the acquired properties for Ndola Central Hospital during the period of Central Board of Health (CBoH) to transfer all the unprocessed Title Deeds to the Attorney General Chambers for further handling.

Committee's Observations and Recommendations

Your Committee urges the Ministry to ensure that the matter is aggressively pursued and resolves to await a progress report.

Review of Operations

14. A review of accounting and other records for the financial years ended 31st March 2006 to 2010 revealed weaknesses to which the Controlling Officer responded as set out below.

a) Failure to Prepare Financial Statements

The Controlling Officer explained that the financial statements for the period 31 March 2008 and 2010 were prepared and submitted for audit while Company auditors Messrs Grant Thornton had since completed the preliminary audit. The final audit for the remaining three (3) years ending 31 March 2010 would be ready by 30 April 2012.

As regards the values of loans, assets and distribution loss of water, the Controlling Officer explained that the Company had submitted a proposal to the Ministry of Local Government and Housing to consider converting the loans to equity or grants as the company had no capacity to liquidate the debt. Secondly, the Company had completed preparing the asset valuation register in 2010 and submitted it to the Ministry of local Government and Housing to proceed with the valuation of the assets. The exercise to value the asset commenced in February 2011 and was expected to be completed by the month-end of December 2011. Thirdly, in order to reduce the distribution of loss of water, the Company was embarking on the installation of water meters to unmetered customers and properties. Further, the Company was rehabilitating infrastructure to address the loss of water from the production points to the consumption points.

Committee's Observations and Recommendations

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

b) Risk Policy

The Controlling Officer submitted to your Committee that the Risk Policy for the Company had been put in place having been approved by the Board in July 2011.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to verification.

c) Revenue Collection/Credit control

i. Debt Collection Policy

The Controlling Officer submitted to your Committee that the Debt Collection Policy for the Company has been developed and was awaiting the approval of

the Board.

Committee's Observations and Recommendations

Your Committee notes the submission but resolves not to close the matter until the Debt Collection Policy took effect through a Board approval. The approval should be availed to the Office of the Auditor-General after which the matter should be closed.

ii. *Suspense Account*

The Controlling Officer responded that the reconciliation of accounts for the Company was current and the final accounts for the years 31 March 2008 and 2010 had been prepared and submitted for audit. Grant Thornton was expected to complete the audit assignment and issue the final report not later than 30 April 2012.

Committee's Observations and Recommendations

Your Committee notes the submission but resolves not to close the matter until the matter is verified by the Office of the Auditor-General.

d) **Staff Related Costs**

i. *Non-Payment of Statutory Contributions*

The Controlling Officer submitted to your Committee that the Company had entered into agreements with both ZRA and NAPSA in order to clear the accrued unremitted contributions totalling K27,472,376,644. The Company was remitting K50 million and K10 million to ZRA and NAPSA every month respectively. So far, K150 million had been paid to ZRA while NAPSA had received K320 million.

Committee's Observations and Recommendations

Your Committee notes the submissions but requests the Controlling Officer to avail the two agreements to the Office of the Auditor-General for verification before the matter can be closed.

ii. *Gratuity Advances*

The Controlling Officer explained that all contractual employment staff gratuities were now paid in accordance with the statutes of the employment contracts.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification that the situation has been redressed.

e) **Procurement of Goods, Services and Works**

i. *Uncompetitive Procurement-K2,886,921,062*

The Controlling Officer responded that all procurements were now done in accordance with the procurement guidelines and supporting documentation for the procurement of various goods and services in amounts totaling K2,886,921,062 had been availed to Office of the Auditor-General for verification.

Committee's Observations and Recommendations

Your Committee urges Management to take disciplinary action against the officers that abrogated the financial regulations and report progress to it. The Office of the Auditor-General is requested to keep the matter in view in future audits to prevent the recurrence of the same.

ii. *Inadequately Supported Payments - K403,360,795*

The Controlling Officer submitted that all the supporting documentation in form of receipts, invoices and goods received notes for the thirty-three payment vouchers in amounts totaling K403,360,795 were availed for verification to the Auditor-General.

Committee's Observations and Recommendations

Your Committee urges Management to take disciplinary action against the officers that were responsible for the omission to provide the documents and provide a progress report through the Office of the Auditor-General.

iii. *Missing Payment Vouchers - K71,444,534*

The Controlling Officer explained to your Committee that all the ten payment vouchers in amounts totaling K71, 444,534 had been traced and availed for verification.

Committee's Observations and Recommendations

Your Committee recommends to Management to take disciplinary action against the officers that were responsible for poor record keeping and provide a progress report to them.

ROAD TRANSPORT AND SAFTEY AGENCY (RTSA)

Query

Paragraph 13

Review of Operations

15. A review of accounting and other records for the financial years ended 31 December 2006 to 2009 revealed weaknesses to which the Controlling Officer responded as set out below.

a) **Income and Expenditure Statement**

Appearing before your Committee, the Controlling Officer explained that RTSA became fully operational in September, 2006 when the Senior Management tier was recruited. The Agency staff establishment, with the commensurate conditions of service, was approved by a committee of ministers. Most of the administrative staff were recruited between 2007 and 2008. A significant amount of the Government grant was, therefore expended on staff costs which were not proportionate to funding. The 2010 funding of K33.3 billion, however, corrected the anomaly.

In addition, the deficit recorded in the financial year 2007 was also attributed to a depreciation charge of K2, 099,152,964.84 following the transfer of assets to RTSA from the defunct Road Traffic Commission (RTC) and the National Road Safety Commission (NRSC).

Committee's Observations and Recommendations

Your Committee resolves to close the matter but urges the Auditor-General to keep the matter in view in future audits to ensure that the situation has normalised.

b) **Other Irregularities**

i. *Failure to obtain Title Deeds and White Books*

The Controlling Officer submitted that the Agency was awaiting the processing of Title Deeds by the Ministry of Lands, Energy and Water Development. White Books for vehicles inherited by the Agency from the RTC and the NRSC had been generated.

Committee's Observations and Recommendations

Your Committee notes the submission but resolves not to close the matter until the Title deeds are obtained and the availability of the white books verified.

ii. *Procurement of Road Safety Equipment*

• **Failure to Make Advance Payment**

The Controlling Officer explained that the failure by the Agency to make an advance payment to Communications and Accessories

International Limited of Germany was as a result of a Government ban on advance payments to suppliers in 2008. Management held negotiations with the supplier of equipment who agreed to waive the advance payment and the procurement was subsequently normalised and the consignment had been received by the Agency after the amount paid in full without interest or penalty charges.

Committee's Observations and Recommendations

In closing the matter, your Committee observes that if Management at the Agency paid attention to the audit process this matter could have been clarified during audit.

iii. *Failure to obtain a Refund - K9,993,610*

The Controlling Officer submitted to your Committee that Management could not recover the amount from Suwilanji Gardens Lodge because some workshop participants were accommodated by the Lodge and the Lodge had provided the service. The workshop was cancelled because there were no prior approvals sought by the staff who were facilitating the workshop. Management had administratively recovered the amount of K9.9 million from staff who occasioned the loss to compensate the Agency. However, the RTSA Board then directed that the members of staff be reimbursed because the disciplinary procedure was not followed.

Committee's Observations and Recommendations

While appreciating the Board's view on the matter, your Committee observes that wasteful expenditure was incurred for which someone must be held accountable. Your Committee, therefore, recommends that the matter be revisited so that appropriate measures can be taken to recover the funds from the officers that caused the wasteful expenditure. A progress report is awaited.

iv. *Unretired Imprest - K52, 310,310*

The Controlling Officer explained that supporting documents worth K30, 279,900 had since been found and in some cases recoveries made and were available for verification. However, K22, 030,410 remained unsupported by relevant documents and the accounts officer responsible for the accounting imprest was due to appear before the disciplinary committee.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until the outstanding imprest amounting to K22, 030,410 is retired and documentary evidence availed to the Office of the Auditor-General for verification. Further, disciplinary action should be taken against the accounting officer(s) who should have followed up the retirement of the imprest.

v. *Failure to follow Procurement Procedures - K416, 987,331*

The Controlling Officer in his response stated that following the verification report issued by the Auditor-General on 27 September, 2010 the value relating to failure to follow procurement procedure was reduced to K280,416,083.99 from K416,987,331. The Agency was not availed the list tabulating the K280,416,083.99 after the verification of 27 September, 2010.

As noted above, the Agency became fully operational in September, 2006. Before that period the financial matter of the Agency were being handled by the then Ministry of Communications and Transport. The Agency proceeded in setting up its own accounting and procurement units and documentation of procedures and guidelines.

Management had analysed each transaction that failed to meet procurement procedure and had found that in general the main cause of the single sourcing was because services to be procured were in some cases of an urgent nature or the supplier was the only reliable one at the time.

Committee's Observations and Recommendations

The Committee urged the Controlling Officer to ensure that where suppliers were limited, the Agency should enter into service level agreements to avoid the queries in respect of single sourcing. The Committee further, urges the Controlling Officer to ensure that the matter is verified by the Office of the Auditor-General.

STATE LOTTERIES BOARD

Query

Paragraph 14

Review of Operations

16. An examination of accounting and other records for the period 2004 to 2009 revealed several weaknesses to which the Controlling Officer responded as below.

a) **Failure to Fill the Position of Chief Executive Officer**

The Controlling Officer submitted that the filling in of the vacant positions was not possible due to the institution's financial difficulties. However, the appointment of the Internal Auditor was not for a period of six months, but to act until such a time that a substantive Director was appointed.

Committee's Observations and Recommendations

Your Committee notes with concern that the Company is facing serious financial difficulties which need urgent attention from the Government. Your Committee urges the Government to take bold decision on the Company as it is no longer a going

concern. Your Committee resolves to await a progress report on the resolution of this matter.

b) **Income**

The Controlling Officer submitted that the figure of K34, 913,251,000 represented an under performance against the budget and not an under collection of already earned income. The failure to attain the budgeted revenue was attributed to lack of resources to support the marketing and other operating activities designed to drive performance towards attainment of the budget. In an effort to increase revenue, the Board prepared a strategic plan for the period 2010 to 2015 and submitted the same to the Ministry of Finance and National Planning for funding.

Committee's Observations and Recommendations

Your Committee notes again that the Company is facing serious financial difficulties which need urgent attention from the Government. Your Committee urges the Controlling Officer to make a decision over the future of the Company as it is no longer a going concern. Your Committee resolves to await a progress report on the resolution of this matter.

c) **Financial Performance**

i. *Profitability*

Regarding profitability, the Controlling Officer stated that there was an error in the figure for losses in 2009 arising from the figure for 2008 cost of sales being used as cost of sales in 2009 as well. With that correction the deficits then increased from K1, 247,549,000 in 2004 to K2, 507,846,000 in 2009. He submitted further that the increase in the deficits from 2008 was attributed to the increase in operating expenses relating to sales after the launch of scratch card games while the sales revenue did not increase as anticipated due to lack of resources to support marketing and sales activities.

Committee's Observations and Recommendations

Your Committee is of the view that without Government intervention in form of recapitalisation, the Company would not be profitable. Your Committee resolves not to close the matter until Government position on the future of the Company is known.

ii. *Liquidity*

The Controlling Officer submitted to your Committee that deterioration in liquidity was related to the increasing deficits the Board had been recording as a result of inadequate resources to support revenue generating activities in the respective budgets because the institution had been grossly undercapitalised.

Committee's Observations and Recommendations

As noted above, without Government intervention in form of recapitalisation, the Company would not be profitable and would continue to experience liquidity problems. Your Committee resolves not to close the matter until Government position on the future of the Company is known.

iii. *Efficiency - Debtors' Period-K894,060,866*

In response the Controlling Officer submitted to your Committee that the Board had been pursuing the tenants with outstanding rentals as evidenced by appointments of debt collectors and bailiffs to pursue the debts from time to time and the internal demand letters for settlement of outstanding rentals.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until there is a significant improvement in debt collection. Your Committee resolves to await a progress report.

d) **Cash Payment of Salaries - K125,401,728**

In response the Controlling Officer stated that the Board was forced to pay the salaries by cash because employees had loans which, due to delayed salaries had loan recoveries swelling raising fears that once credited salaries would all be taken up by the loan recoveries. However, the Board reverted to paying salaries by direct transfer to employees' bank accounts with effect from the March, 2010 salaries.

Committee's Observations and Recommendations

In closing the matter, your Committee requests the Office of the Auditor-General to verify the response after which the matter should be closed.

e) **Non Remittance of Statutory and Other Obligations-K2,904,793,695**

The Controlling Officer submitted that the failure to remit statutory obligations was attributed to poor liquidity or financial distress the Board was experiencing due to under capitalisation. However management had been making efforts to pay in installments and the position had changed for some of the items as shown below.

Institution	Details	Amount K	Paid to Date	Balance
ZRA	PAYE	1,481,141,979	-	1,481,141,979
ZRA	VAT	691,487,383	-	691,487,383
ZRA	Tax on terminal benefits	270,678,260	-	270,678,260
NAPSA	Contributions	272,063,207		272,063,207
Workers Compensation	Contribution	69,393,498	11,939,349	57,454,149

Life Assurance	Staff insurance contribution	19,950,100	-	19,950,100
Capital Solutions	Staff loan recoveries	65,114,782	22,923,500	47,470,394
IZWE Loans	Staff loan recoveries	34,964,485	27,563,194	7,401,291
Total		2,904,793,695	62,426,043	2,852,367,652

Committee's Observations and Recommendations

In noting the submission, your Committee observes that failing to remit money after it has been deducted from employees is unacceptable and should stop forthwith. The matter will not be closed until there is a significant improvement in the remissions. The Controlling Officers is also urged to seek the assistance of the Treasury in dealing with the matter.

f) Failure to Surrender Motor Vehicles

The Controlling Officer submitted that the Board managed to retrieve the motor vehicle ABK 5887, while the other one the exercise was stopped until money was found to pay the separated employees in order to recover institutional assets they were holding on to. Management has recovered the values of the vehicles from the two ex-employees. In future, management would endeavour to prevent a repeat of such cases and report them to police when and if they occurred.

Committee's Observations and Recommendations

Your Committee expresses concern that Management failed to abide by the conditions of service in dealing with this matter and cautions that this should never be tolerated in future. A progress report on the recovery of the other vehicle was awaited.

g) Misappropriation of Funds

i. *Un-receipted rentals- K83,347,403*

The Controlling Officer submitted that the institution had taken disciplinary measures by suspending the officers involved while an audit was being conducted. In this regard Management had requested the auditors from the Office of the Auditor-General to do a comprehensive audit of the rentals management system in order to come up with a detailed schedule of cash misappropriated by these officers. The officers involved had since had their services terminated and monies recovered from their benefits.

Committee's Observations and Recommendations

Your Committee expresses concern at the apparent non existence of internal audit controls at the Board resulting in the failure by the Management to discover the misappropriation of funds until the Office of the Auditor-General did so. Further your Committee is of the view that this is a criminal offence

which should have been reported to the Police instead of relying on administrative action.

ii. *Failure to declare Cash sales - K79,218,200*

The Controlling Officer submitted that Management had written to the person involved but no response was received.

However, as at February, 2011, the Institution had counter-sued the employee involved for the K79,218,200 not declared to the cashier because he decided to sue State Lotteries Board for his gratuity instead of clearing the issue of undeclared sales.

Committee's Observations and Recommendations

Your Committee finds the laissez faire approach taken by the Management on the matter unacceptable because had they been proactive the matter should have been reported to the Police before the officer resorted to legal action. Your Committee resolves to not to close the matter until it is conclusively resolved.

iii. *Kitwe office- K119,626,000*

The Controlling Officer submitted to your Committee that the amount in question was used to pay prizes for scratch cards as at that time the institution was already going through financial difficulties and was not able to reimburse the prizes cash floats as and when it was due. However, all the receipts were written off to prizes and a print out of the transaction was available for verification.

Committee's Observations and Recommendations

Your Committee requests the Office of the Auditor to have the matter verified after which the matter would be closed.

h) **Kitwe Office-Delayed Banking-K409, 841,110**

The Controlling Officer submitted that the delayed banking of revenue for Kitwe office was also due to the same situation as explained in g (iii) above as it related to incidents when the sales would be used to pay prizes and banked only when the prize float was reimbursed. This system had since been discontinued and the prizes were knocked off at the point of receiving the sales.

Committee's Observations and Recommendations

Your Committee cautions the Management against using money at source as it is against financial regulations. Your Committee resolves to close the matter subject to verification.

i) **Failure to Collect a Motor Vehicle from the Garage-ABA 7853**

The Controlling Officer submitted that due to liquidity problems, the institution had fallen in arrears in settlement of bills from the garage as a result when the van ABA 7853 was taken for repairs, the garage decided to impound it until the outstanding amount was settled by the Board. The Board had since settled the bill and the vehicle had been collected.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

j) **Failure to Conduct a Motor Vehicle Raffle**

The Controlling Officer submitted that the failure to conduct the draw stemmed from the introduction of two direct competitors and numerous indirect competitors which resulted into reduced revenue and ultimately poor cash flow and failure to raise enough money to purchase the grand prize.

Committee's Observations and Recommendations

Your Committee reiterates its earlier view that the Government should immediately review the operations of the Company and make a decision on the way forward as the Company has failed to compete with new players in the market. The Committee resolved to close the matter.

k) **Failure to Submit Returns- K2 billion**

The Controlling Officer responded that return on the utilisation of the K2 billion funding received from the Ministry was submitted on 27 December, 2010.

Committee's Observations and Recommendations

Your Committee observes that the late submission of returns on the usage of the funds received from the Ministry of Finance and National Planning is clear indication of weak leadership and poor corporate governance at the Board. Your Committee directs the Controlling Officer to avail copies of the returns to the Office of the Auditor-General for verification after which the matter should be closed.

l) **Failure to Prepare Reports**

The Controlling Officer explained that the officers who went on the trips did prepare trip reports on their return and copies of the same were available for verification.

Committee's Observations and Recommendations

Your Committee is disappointed that reports that were due upon the officers' return were not availed to the auditors during audits. The Controlling Officer is urged to avail the said reports to the Office of the Auditor-General for verification and should it be

established that reports were submitted late, the Management should take disciplinary action against the officers in question. A progress report would be awaited.

m) Irregular Award of Advertising Contract

The Controlling Officer responded that this was for a contract for advertising services with an advertising agency of a continuing nature whose value could only be determined as the institution utilises the contracted services. The Agency's claims were therefore based on the advertisements the Agency produced for the Board during the tenure of the contract.

Committee's Observations and Recommendations

Your Committee is concerned that Management did not see anything wrong in signing a defective contract which resulted in the institution owing a lot of money. Your Committee notes that this act amounts to negligence of duty as it was possible that public money could have been lost.

n) Inadequately Supported Payments-K766,607,089

The Controlling Officer submitted that management was frantically working towards finding the supporting documents in respect of the K766,607,089.

Committee's Observations and Recommendations

Your Committee views this as clear evidence that leadership at the Board neither has the capacity nor the zeal to run the affairs of the Board. Your Committee urges the Government to take drastic action to address the situation. Disciplinary action should also be taken against the staff that failed to ensure safe custody of the documents as required. Further, all missing documents should be found without further delay and availed to the Office of the Auditor-General for verification.

o) Unretired Imprest-K267,815,050

The Controlling Officer submitted to your Committee that an extract had been prepared showing what had been retired whilst the finance department continued to look for the others. However issues relating to PAL payouts and petty cash float were available for scrutiny but were too bulky in nature to be attached to the response. As regards the ones relating to instant lotto, payouts had request forms attached which were verified before a claim was done. The actual cards had since been disposed of for fear of being recycled as was advised by the auditors. A few were presented for scrutiny.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until all retirement documents were traced and verified by the Office of the Auditor-General and a progress report availed.

p) **Unauthorised Payments-K31,686,980**

The Controlling Officer submitted to your Committee that authority had been attached for some while the rest were erroneously missed by the signatory responsible at the time as he only signed the cheques without authorising the attachments. Management accepted the error and would in future ensure that payments were fully authorised before payment was made.

Committee's Observations and Recommendations

Your Committee observes that the matter has not been fully addressed and directs that all the documents in respect of authority to pay should be found and availed to the Office of the Auditor-General for verification. Disciplinary action should also be taken against the accounting staff who failed to guide the signatory appropriately on how to sign the documents. A progress report is awaited.

TROPICAL DISEASES RESEARCH CENTRE (TDRC)

Query

Paragraph 15

Review of Operations

17. An examination of accounting and other records maintained at the Centre for the financial years ended 31 December 2007 to 2009 revealed several weaknesses to which the Controlling officer responded as set out below.

a) **Income received without the Minister's Approval-K21,854,476,000**

The Controlling Officer explained that the Board through its committees had approved funding from Cooperating Partners by approving the MTEF budgets that included projected funding from Cooperating Partners and were submitted to the Ministry for approval as contained in the Act. The project proposals bearing the sum of money in question went through the same process as per the approved 58th TDRC Board Meeting. However, retrospective approval had been sought and a letter had been signed and was available for verification.

Committee's Observations and Recommendations

Your Committee observes that the Centre should have sought express approval from the Minister instead of what was being implied in the response. Your Committee resolves not to close the matter until the approval from the Minister is obtained and verified by the Office of the Auditor-General.

b) **Failure to Submit Annual Reports**

The Controlling Officer submitted to your Committee that the annual report was being finalised and would be availed to the auditors as soon as possible.

Committee's Observations and Recommendations

Your Committee expresses concern that Management at the institution are failing to prepare annual reports without any reason and urges the Controlling Officer to ensure that the Centre produces the reports as required failure to which disciplinary action should be instituted against the Management. A progress report would be awaited.

c) Non-maintenance of a Register of Accountable Documents

The Controlling Officer explained that at the time of audit, TDRC was maintaining a register that was adopted from Central Board of Health (CBoH). After the Centre was audited they were advised to use proper accountable documents which Headquarters had asked TDRC to collect from the respective offices.

Committee's Observations and Recommendations

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

d) Outstanding Terminal Benefits-K2,391,143,564

The Controlling Officer explained that TDRC had been unable to pay terminal benefits amounting to K2,391,143,564 due to poor funding. The Centre had asked the Ministry of Finance and National Planning to release funding as budgeted so that outstanding bills such as terminal benefits could be cleared.

In addition, as way of supplementing GRZ grant, TDRC had insured the terminal benefits with Zambia State Insurance Company (ZSIC) to liquidate the same. So far the Centre had received proceeds amounting to of K382,611,461.52 which had been paid towards terminal benefits.

Committee's Observations and Recommendations

While noting the measures put in place by the Management at the Centre to clear the outstanding terminal benefits, your Committee resolves not to close the matter until a significant reduction in the outstanding terminal benefits is attained.

e) Non-remittance of Statutory Obligations-K462,393,816

The Controlling Officer submitted that the Centre's inability to settle statutory obligations and other obligations was due to under-funding by the Government. The Ministry of Finance and National Planning had been asked to release funding as budgeted so that outstanding bills such as ZRA, NAPSA and Workers Compensation Fund were cleared.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until a significant reduction in the arrears is reported and verified.

f) **Inadequately Supported Payments-K94,839,000**

The Controlling Officer stated that a total of K46,825,000 payments had since been supported leaving a balance of K48, 044,000.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to ensure that supporting documents in respect of the balance of K48,044,000 are found without further delay and are availed to the Office of the Auditor-General for verification.

g) **Unretired Imprest-K29,830,000**

The Controlling Officer explained that K3, 380,000 had since been retired while imprest worth K23,000,000 from an individual officer who had since left the institution was yet to be recovered.

Committee's Observations and Recommendations

Your Committee expresses concern that guidelines on the retirement of imprest are not being strictly followed giving rise to difficulties that are being faced to recover the money. Your Committee urges the Controlling Officer to ensure that the matter is aggressively pursued until the K23, 000,000 from the officer is retired or recovered. A progress report would be awaited.

ZAMBIA INSTITUTE OF MASS COMMUNICATION EDUCATION TRUST

Query

Paragraph 16

Review of Operations

18. A review of operations for the years 2004 to 2010 revealed a number of internal control weaknesses to which the Controlling Officer responded as set out below.

a) **Lack of a Strategic Plan**

The Controlling Officer submitted to your Committee that the consultant, a Mr Kamona Mubita was contracted to formulate the plan at the total cost of K27million payable in installments. The Board was currently reviewing the strategic plan and would ensure that it was signed within the first quarter of 2012.

Committee's Observations and Recommendations

Your Committee observes that the delay in putting the strategic plan in place is as a result of poor administration at the Trust and implored the Controlling Officer and the Board to ensure that the strategic plan is put in place without further delay. A progress report on the adoption and implementation of the plan was awaited.

b) **Failure to Prepare Financial Statements**

The Controlling Officer explained that at the time the forensic audit was requested, Management was in the process of preparing 2007 and 2008 accounts. Further, Management had resumed the preparation of financial statements and the aim was to be up to date by the end of the first quarter on 2012.

Committee's Observations and Recommendations

Your Committee expresses disappointment at the failure by the Trust to prepare financial statements and urges the Controlling Officer to work closely with the Board to ensure that the financial statements are prepared by the Management in a timely manner. A progress report would be awaited.

c) **Financial Performance**

The Controlling Officer acknowledged that it was difficult to assess the performance of the Trust in the absence of financial statements.

Committee's Observations and Recommendations

Your Committee reiterates its earlier recommendation for the Controlling Officer and the Management of the ZAMCOM Trust to ensure that the non preparation of financial statements is urgently addressed so that the performance of the Trust can be evaluated. A progress report would be awaited.

d) **Financial Position for the Period 2004 to 2006**

i. *Liquidity Positions*

The Controlling Officer submitted that ZAMCOM's poor liquidity position was partly as result of failure by Management to implement Board resolutions. Further, ZAMCOM had generally operated without any long term financial plans and not much effort was made to address the liquidity problems of the Institution as focus was on short-term plans aimed at addressing immediate operational obligations such as payment of salaries and suppliers.

However, the management had realised the need for long-term projects and had since identified a number of long-term projects such as the e- learning project meant to address the training needs of untrained practitioners who were already working but had no opportunity to go on study leave.

Committee's Observations and Recommendations

Your Committee expresses disappointment at the poor liquidity position ZAMCOM has found itself and observes that this could partly be attributed to poor supervision by the Board and the parent Ministry. Your Committee, therefore, urges the Controlling Officer to work with the Board to urgently find ways of addressing the liquidity challenges ZAMCOM is facing.

ii. *Accounts Receivable*

The Controlling Officer explained that the situation arose due to lack of capacity in Accounts Department however. The Department had engaged more and competent staff and debt collection had improved. Management was also in the process of engaging debt collectors to follow-up outstanding debts.

Committee's Observations and Recommendations

Your Committee is concerned with the manner debt collection is being handled even when it is clear that ZAMCOM is facing liquidity problems. Your Committee is also saddened by poor record keeping at the Trust and resolves not to close the matter until there is a significant reduction in the debt and record keeping has improved. A progress report would be awaited.

e) **Misapplication of Funds-K189,000,000**

The Controlling Officer explained to your Committee that following the misapplication in question, the Board instructed Management to ensure that the capital items were purchased as soon as possible. The Board was especially concerned about the non-purchase of a bus and advised management that money should be set aside for the purchase of the bus. This had not been implemented due to the financial challenges that the institution had been facing.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the implementation of the Board's directive to Management to find money to purchase the equipment that was supposed to be purchased using the grant.

f) **Overbanking of Revenue - ZAMCOM Main Office - K819, 230,571**

The Controlling Officer submitted that the amounts reflected as over-deposits were amounts deposited from the Lodge as the Institute used the same account to deposit cash received for both Institute income as well as Lodge income. He noted that a reconciliation of the receipts-to-bank statement revealed that the manual receipt books were at some stage used fraudulently by the former Assistant Accountant with the former Director. The matter had since been reported to the Police, and the two officers were charged and have had their employment contracts terminated.

Committee's Observations and Recommendations

Your Committee requests the Office of the Auditor-General to revisit this matter in order to ascertain the current status. The Controlling Officer is urged to ensure the concerns by the Auditors are fully addressed by ensuring that there are strongly internal controls. A progress report would be awaited.

g) **Unaccounted for Funds - ZAMCOM Lodge-K1, 336,544,777**

The Controlling Officer submitted to your Committee that reconciliation of the bank

statements and receipts revealed that the larger part of the amounts reflected as under-banking at the Lodge was the same reflected as over-banking at the Institute. However, the reconciliation revealed that the total amounts of K37, 921,000 was not deposited. The personnel who collected the cash but did not deposit it were reported to the Police.

Committee's Observations and Recommendations

Your Committee recommends that the submission by the Controlling Officer be verified by the Office of the Auditor-General. Your Committee further resolves to await a progress report on the matter reported to Police in respect of the K37, 921,000.

h) Management of Assets

i. *Failure to Maintain the Non-current Assets Register*

The Controlling Officer explained that the assets in question, were bought by the American International Health Alliance and were not included in the assets register because they were not intended for use by ZAMCOM but for further distribution to radio stations. Remittance contracts signed as proof that the radio stations received the assets were available for verification.

Committee's Observations and Recommendations

Your Committee observes that this matter should have been addressed and resolved during the audit process but requests the Office of the Auditor-General to verify the response before the matter can be closed.

ii. *Failure to Revalue/Insure Assets*

The Controlling Officer submitted that this was a serious oversight and the property had now been insured. The institution also recognised the need to have a revaluation of the mast which would be done as soon as financial statements/audits were up to date. Further, the lodge had now been insured and copies of insurance policy were available for verification.

Committee's Observations and Recommendations

In noting the submission, your Committee urges the Controlling Officer to ensure that the mast is revaluated without further delay. Your Committee also urges the Controlling Officer to avail insurance documentation in respect of the lodge to the Office of the Auditor-General for verification. A progress report would be awaited.

iii. *Unauthorised disposal of Motor Vehicles to Non staff*

The Controlling Officer acknowledged that the sale of vehicles to non-staff was not ratified by the Board as the Board's authority stated that vehicles would be sold to members of staff. But when no member of staff could afford to buy at

the final offer price Management decided to open the offers to the outsiders without Board approval. He submitted however that the money had been accounted for while those involved had been charged.

Committee's Observations and Recommendations

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

iv. *Wasteful Expenditure - Repair of Toyota Exiv AAX 4501 - K21,295,700*

The Controlling Officer stated that Management decided that the motor vehicle be brought back from the garage because it was feared that the asset could be tampered with or lost. The matter shall be handed over to the Police to investigate whether there was collusion or fraud between ZAMCOM personnel and Dell Motors in the transaction.

Committee's Observations and Recommendations

Your Committee expresses concern at this unnecessary wasteful expenditure. Your Committee urges the new Management to engage Dell Motors to establish what really transpired and why they should be allowed to keep the money if the vehicle was not repaired. A progress was awaited.

i) **Procurement of Goods and Services**

i. *Unauthorised Procurement of a Minibus ABL 9721-K46, 000,000*

The Controlling Officer stated that the Director acted alone in making a decision of the purchase of the said minibus in accordance with provision article 2(c) of the ZAMCOM's Conditions of Service, which states that "Management means the Director and Managers whether acting jointly or alone". The rest of the management team was only made aware of the purchase when the bus was already being used by ZAMCOM. He noted that this was one of the issues that was cited against the former Director.

Committee's Observations and Recommendations

Your Committee notes that the Director acted inappropriately as the provision being referred to does not preclude the Director from seeking Board approval and following tender procedures. Your Committee urges that the matter should be reported to the investigative wings to establish whether the former Director did not abuse the authority of his office in this matter. A progress report would be awaited.

ii. *Failure to declare Interest-K9, 700,000*

The Controlling Officer explained that disciplinary action was taken against the former Director in accordance with the provision of his contract of service and the conditions of service while the amount involved would be recovered from

him.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the matter and urges the Controlling Officer to report the matter to the investigate wings to establish whether the officer abused his authority or not.

iii. *Hire of Taxi Services - K105, 480,000*

The Controlling Officer explained to Your Committee that the contract for the taxi driver had been terminated and the Assistant Account out charged for signing on the contract, which should have only been signed by the Director. The Disciplinary Committee sat to hear his case.

Committee's Observations and Recommendations

In closing the matter, your Committee expresses concern at the break down of internal controls at ZAMCOM. Your Committee is not satisfied that the malpractice has been attributed to one officer when Management was aware of the taxi services rendered to the Institution and even processed payments in this regard. Your Committee requests the Controlling Officer to put in place measures to strengthen internal controls.

iii. *Irregular Payments*

- **Panel Beating of Vehicle Registration Number ABG 2873 - K2,000,000**

The Controlling Officer stated that investigations had revealed that there was in fact no panel beating done on the vehicle. The amount involved would, therefore, be recovered while disciplinary action would be taken against the former Director in accordance with the provisions of the conditions of service.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to report the matter to investigative wings as it appears to be a clear case of theft. A progress report would be awaited.

- **K15,000,000 used for Monitoring and Evaluation**

The Controlling Officer stated that the payment of the K15 million to the Accountant at the Ministry of Information and Broadcasting was questionable because if the monitoring and evaluation was necessary for implementation, then the payment should not have been made through ZAMCOM. Management wrote to the Permanent Secretary Ministry of Information and Broadcasting Services to facilitate the recovery of the money.

Committee's Observations and Recommendations

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

v. *Disregard of Tender Procedures in contracting for minor works*

The Controlling Officer stated that Management was currently putting in place tender procedures to ensure compliance and that a procedure manual had since been drafted which proposed an establishment of the procurement office and tender committee.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until disciplinary action has been taken on all the staff that neglected to follow procurement procedures. Your Committee also requests the Office of the Auditor-General to verify the measures that have been put in place to correct the situation.

vi. *Inadequately Supported Payments - K335,382,500*

The Controlling Officer submitted that all supporting documents were found and attached to payment vouchers. Management had put in place a system of ensuring that all payments had supporting documents and properly filed.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to ensure that supporting documents in respect of the amount of K335, 382,500 are availed to the Office of the Auditor-General for verification so that the matter can be closed. Additionally, the Controlling officer is urged to caution the officers that caused the anomaly.

vii. *Unretired Imprest-K47,795,000*

The Controlling Officer submitted that supporting documents were found for most of the payments made and those that did not retire were charged and disciplinary action taken against them. Action was being taken to recover amounts involved.

Committee's Observations and Recommendations

Your Committee is concerned that the Controlling Officer could not state the specific amounts that had been retired and directs that all the documentation in respect of the retired imprest and the disciplinary action taken should be availed to the Office of the Auditor-General for verification.

j) **Staff Related Matters**

i. *Questionable Payment of Commissions-K353,594,928*

The Controlling Officer submitted that payment of 7.5% Commission was introduced and approved by the Board as performance based remuneration for managers. This was a way of tying manager's remuneration to measurable performance. The Commission was only paid when business was brought to the institution and claim forms used indicated the nature of business, total amount received and the amount claimed.

Committee's Observations and Recommendations

In closing the matter, your Committee observes that payment of commission to serving officers is not only unfair to other employees but also susceptible to abuse as all business including that from walk in customers could be attributed to any person. Your Committee recommends that the system should immediately be done away with to avoid abuse.

ii. *Over-drawn Fuel Allowance*

The Controlling Officer submitted that the former Director was charged and disciplinary action taken against him while action was being taken to recover the amounts involved from him.

Committee's Observations and Recommendations

Your Committee expresses concern at the near total collapse of internal controls at ZAMCOM and urges the Controlling Officer not to allow such a situation to recur by working with the Board to put in place stringent control measures. The Auditor-General was urged to keep the matter in view in future audits.

ZAMBIA PUBLIC PROCUREMENT AUTHORITY

Query

Paragraph 17

Review of Operations

19. An examination of accounting and other records for the period January to December 2009 revealed several weaknesses to which the Controlling Officer responded as set out below.

a) **Failure to Convene Board Meetings**

The Controlling Officer submitted that there were two board meetings held in the year, but it was difficult to hold more meetings due to the busy schedule of the chairperson and therefore meetings for the set dates could not be convened.

Committee's Observations and Recommendations

Your Committee is not satisfied the reason advanced by the Controlling Officer for the ZPPA Board's failure to convene meetings as required by the ZPPA Act. Your

Committee considers ZPPA as a very sensitive institution whose Board should be on top of things to provide relevant policy guidance. Your Committee recommends that Government should consider amending the membership of the Board to incorporate persons from the private sector. Your Committee further requests the Auditor-General to keep the matter in view in future audits.

b) Failure to Prepare Financial Statements

The Controlling Officer responded that the financial statements were delayed due to the change of the payroll system without adequate training of accounting staff. Further, there were missing bank statements as a result of the bank sending statements by e-mail. These difficulties had been addressed as the financial statements were prepared and were ready for verification.

Committee's Observations and Recommendations

Your Committee finds the reasons given by the Controlling Officer unacceptable and reiterates that in future this practice should not be tolerated as it amounted to negligence of duty. The said financial statements should be availed to the Office of the Auditor-General for verification subsequent to which the matter should be closed. Further, your Committee urges the Controlling Officer to caution the accounting staff who should ensure that financial statement were prepared in a timely manner.

c) Missing Payments Vouchers-K28,671,520

The Controlling Officer submitted that the missing vouchers were traced and were available for audit verification.

Committee's Observations and Recommendations

Your Committee notes the submission and directs that all the recovered documents should be submitted to the Office of the Auditor-General for verification after which the matter would be closed.

d) Inadequately Supported Payment Vouchers-K1,293,340,519

The Controlling Officer stated that vouchers in amounts totalling K1, 239,240,519 had now been supported with relevant documents.

Committee's Observations and Recommendations

Your Committee directs Management at the Authority to take the management of accounting documents seriously and take disciplinary action whenever responsible officers failed to follow laid down financial regulations and procedures. All the documents should be availed to the Office of the Auditor-General for verification after which the matter should be closed.

e) **Failure to maintain Imprest Register**

The Controlling Officer submitted that the imprest register had been put in place and was ready for audit verification.

Committee's Observations and Recommendations

Your Committee urges Management to pay attention to the requirements of the financial regulations to avoid such basic queries. The matter should close as soon as the availability of the imprest register was verified by the Office of the Auditor-General.

f) **Irregular Signing of Contract**

The Controlling Officer submitted that a legal opinion was sought from the Ministry of Justice over the previous Director General's contract and the Solicitor General, in his reply, indicated that the contract was in order, although subsequently, the current Director-General's contract was referred to the Permanent Secretary (FMA), Ministry of Finance and National Planning, for the signature of the chairman of the Board.

Committee's Observations and Recommendations

Your Committee finds the confusion as regards who should sign the contract of the Director-General's contract unfortunate and a direct result of a having an absentee Board in place. Your Committee is convinced that there is nowhere in the corporate world where signing of the chief executive's contract by subordinates would be entertained and resolves not to close the matter until the legal opinion from the Attorney-General Chambers is availed for verification and the correct position ascertained.

g) **Irregular Drawing of Salaries-K1,242,069,208**

The Controlling Officer responded that a legal opinion was sought from the Ministry of Justice and the Attorney-General recommended strongly that the Board should correct the anomaly by ratifying the two appointments to avoid possible litigation.

Committee's Observations and Recommendations

Your Committee expresses concern that Management has not brought the matter before the Board as was advised by the Attorney-General's Chambers. The matter will remain outstanding until it is conclusively addressed by the Board.

h) **Un-reconciled Net Salary Payments-K732,901,006**

The Controlling Officer submitted that the variance was caused by wrong coding of loan items in the new payroll system due to inadequate training on the new system. This was corrected in 2010 with the help of the Information Technology staff. Furthermore, the reconciliation of the net salary payments for 2009 was done and information was ready for audit verification.

Committee's Observations and Recommendations

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

i) **Unaccounted for Stores Items-K94,268,800**

The Controlling Officer submitted to your Committee that records in respect of stores items costing K94, 268,800 were available for audit verification.

Committee's Observations and Recommendations

The Committee expresses concern at the failure by the Authority to produce the stores details in respect of K94,268,800 during the audit process and urges the Controlling Officer to ensure that disciplinary action is taken against the officer(s) responsible for keeping stores records. The recovered details should be availed to the Office of the Auditor-General for verification. A progress report is awaited.

j) **Failure to Prepare Bank Reconciliations**

The Controlling Officer submitted to your Committee that the problem of getting bank statements was resolved with the bank and the reconciliations were done.

Committee's Observations and Recommendations

Your Committee cautions the Management against being casual in the management of public funds and reiterates that in future such cases would not be closed until proof of disciplinary action against staff responsible for the anomaly was availed.

ZAMBIA ELECTRICITY SUPPLY CORPORATION (ZESCO) LIMITED

Query

Paragraph 18

20. Review of accounting and other records for the financial years ended 31 March, 2007 to 2010 revealed several weaknesses in respect of which the Controlling Officer responded as set out below.

a) **Outstanding Issues from Previous Report**

i. *Supply Agreements with Copperbelt Energy Corporation (CEC) and other Mines*

The Controlling Officer explained to your Committee that ZESCO Limited and Lumwana would start negotiations to review the pricing of power by mid February 2012. He noted that with this agreement, ZESCO had effectively been providing a subsidy to Lumwana Mine given that the initial objective to ensure that the mine was developed had since been attained and the Company was making profits. Further, the subsidy was in conflict with the Energy Regulation Board policy not to allow cross subsidies between customer segments.

Committee's Observations and Recommendations

Your Committee expresses concern over the fact that ZESCO has failed to act on this matter despite a recommendation made by your previous Committee in the Second Session of the Tenth National Assembly to have it reviewed. Your Committee considers ZESCO's failure to be proactive on the matter unfortunate and a demonstration of lack of patriotism on their part. Your Committee resolves to await a progress report on the conclusion of the re-negotiation efforts with Lumwana.

ii. *Power Wheeling through CEC*

The Controlling Officer submitted to your Committee that ZESCO Limited's policy was to charge standard tariffs for all its residential customers inclusive of the mining townships residents. Losses were being made because Copperbelt Energy Company who owned the distribution infrastructure on the Copperbelt were charging ZESCO wheeling charges.

Committee's Observations and Recommendations

While noting the submission from the Controlling Officer, your Committee urges the Government and ZESCO Management to find a lasting solution to the challenge as the Company cannot be allowed to continue making losses for ever. A progress report on the matter is awaited.

b) Irregular Payment of Group Personal Insurance Policy for the Board.

The Controlling Officer explained that from 2003 ZESCO Management decided to insure its Non-Executive Members of the Board of Directors appointed from time to time for accidental bodily injury only when they were engaged in ZESCO's business affairs out of prudence due to the hazardous nature of the corporation's business activities. This did not extend to their private activities/lives but was restricted to ZESCO interests.

Committee's Observations and Recommendations

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

c) Lack of authorised Staff Establishment

The Controlling Officer acknowledged that ZESCO was indeed operating without an authorised staff establishment but assured your Committee that the Company was in the process of reviewing the strategic business plan after which a staff establishment would be drafted and submitted to the Board for approval.

Committee's Observations and Recommendations

Your Committee finds the lack of unapproved staff establishment unacceptable and tantamount to negligence of duty on the part of Management, the Board and the supervising Ministry. Your Committee resolves not to close the matter until the staff establishment is put in place and approved by the Board.

d) **Financial Performance**

i. *Return on Capital Employed*

The Controlling Officer explained to your Committee that the Return on Capital Employed had been negatively affected by uneconomical tariffs that the Company had been charging over the years and high operational costs. It was Management's view that the Company would continue controlling costs downwards and that ERB would grant the tariff applications so that the profitability of the Company could further be enhanced. The Company required urgent recapitalisation in order to be able to improve its service delivery and increase its customer base. The current share capital stands at just under K200 million. However, the Company had recorded an improvement in the ROCE ever since ERB started awarding tariff increments coupled with growth in the customer base which stands at 462,351. The Company was expected to generate adequate ROCE as it continued to grow the customer base coupled with cost reflective tariffs and maintaining low costs without compromising on service delivery.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until ZESCO takes concrete steps to reduce operational costs. A progress report on the matter is awaited.

ii. *Percentage of Staff Costs to Total Operating Costs*

The Controlling Officer submitted to your Committee that studies on the matter, had established that the current tariffs fell below cost reflective tariffs which was impacting on ZESCO's ability to meet its operational needs. Furthermore, in order to retain the required levels of qualified manpower there was need to ensure that remuneration was commensurate with what was obtainable in the industry. He noted that the staff costs appeared to be high because they also included provisions that were made for retirement benefits and contributions to the Pension Fund. Going forward, with cost reflective tariffs, it was Management's resolve to ensure that more resources were channeled towards improving service delivery to the customers and avail more resources towards operational needs.

Committee's Observations and Recommendations

Your Committee is extremely displeased about the apparent laissez faire attitude that has been adopted by the Management and the Board of ZESCO in addressing this matter. Your Committee reiterates the need for ZESCO to put in place all necessary tools such as an approved staff establishment and endeavour to significantly reduce the percentage of staff costs to acceptable levels. A progress report would be awaited.

v. *Operations of Diesel Power Stations*

The Controlling Officer explained that ZESCO was running the power stations as part of corporate social responsibility. He noted that ZESCO's wish was to phase out the diesel stations but the challenge had been finding the necessary funding to undertake such a venture. Efforts were in progress to source low cost financing amounting to US\$ 255 million to enable ZESCO carry out a project for the grid connection of North Western Province. In the short run, to mitigate the high costs of running these diesel stations, the Government should introduce incentives that would encourage development of alternative energy sources.

Committee's Observations and Recommendations

Your Committee resolves to close the matter but urges the office of the Auditor-General to keep the matter in view in future audits.

e) **Financial Position**

i. *Liquidity position*

The Controlling Officer explained to your Committee that in the electricity industry the average ratio was 1:1 and with the increase in installation of prepaid meters this ratio was likely to improve. Organisations that would normally get cash upfront such as those in retail trading were more likely to have a higher ratio that was closer to the generally accepted ratio of 2:1.

Committee's Observations and Recommendations

In closing the matter, your Committee urges the Office of the Auditor-General to keep the matter in view in future audits.

ii. *Receivables*

The Controlling Officer explained that the projected collection period of 125 days could not be achieved as over 30% of the total debt was owed by Central Government and other spending agencies. Further, the Company had been installing prepaid meters starting with Lusaka and Ndola in order to reduce on the increase in trade receivables and improve collections.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until a progress report is received indicating that customer information has improved and the collection period of receivables has reduced significantly. The Company is further urged to aggressively pursue receivables attributed to Central Government.

iii. *Trade and other Payables*

▪ **Outstanding New Installations**

The Controlling Officer informed your Committee that ZESCO Management would seek Board approval for opening of a new bank account for capital contribution to enhance accountability for all capital contributions made by clients. He submitted that ZESCO experienced challenges contributing to the huge backlog of jobs in new installations. In some cases customers made payments for power to be connected when their properties were not ready for connection. Secondly, in low income residential areas where customers paid flat rates connections were only effected when the construction of backbone infrastructure consisting power lines, transformers and 400Volts lines was completed leading to some delay.

The Controlling Officer further submitted that currently there was a total of 4,702 new installation jobs pending, having waited an average age of 79 days. In order to correct the situation, ZESCO had made some improvements in the purchase of critical materials for new installations. All the sixteen regions had received a vehicle each for the new installation teams to assist in quick connection of new customers. New connections since April 2011 had reached 41,283. The Controlling Officer noted that the number of outstanding installations had risen from 4118 in 2009 to 4702 as of December, 2011.

Committee's Observations and Recommendations

Your Committee wonders how customers whose properties were not ready could be allowed to make payments before site inspections were conducted. The matter will remain outstanding until there is a significant reduction in the cases on the waiting list.

▪ Non Payments of Statutory Contributions

The Controlling Officer explained that ZESCO was now current with payments to NAPSA, LASF and monthly PAYE deductions. The Company was seriously considering entering into a debt swap with the Government which owed ZESCO K180 billion what was owed to ZRA. Further, all payments received from parastatal bodies, central government and other government departments for their electricity bills were used to pay the outstanding debt on PAYE.

Committee's Observations and Recommendations

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

f) Management of Assets

i. *ZESCO Limited Aircrafts*

The Controlling Officer submitted that ZESCO in an attempt to dispose of the aircrafts had placed advertisements in the print media which ran from 13 September 2011 to 3 October 2011. However there had been no positive

feedback from members of the public showing interest to acquire the same and ZESCO would engage the Civil Aviation Authority with a view to boarding the aircrafts to reduce on the storage costs.

Committee's Observations and Recommendations

While noting the efforts made by Management to dispose of the aircrafts, your Committee resolves not to close the matter until the aircrafts in question are disposed of. Further, your Committee urges the Controlling Officer to ensure ownership details as well as log books for the aircrafts are availed to the Office of the Auditor-General for verification. A progress report is awaited.

ii. *Failure to Safeguard Assets*

The Controlling Officer submitted to your Committee that the small hydros were not insured as they were so old that it had proved difficult to find any risk carrier in the market that would be willing to provide cover. It had therefore been decided to first rehabilitate the stations before they could be insured. However, during the rehabilitation period the stations would be covered under projects insurance, which was mandatory. The rehabilitation for the stations was under procurement.

Committee's Observations and Recommendations

Your Committee resolves not to close the matter until evidence that the stations have fully been insured was availed for audit verification.

g) **Breach of Contract (Bulky Supply Agreement-BSA)**

The Controlling Officer explained that the problem arose due to differences in the interpretation of the Contract regarding the supply of power to the copper smelter located in the Chambeshi MFEZ. As regards legal service, the United Kingdom based lawyers were preferred because ZESCO lawyers could not represent the Company in the United Kingdom courts as they were not registered to practice in that country.

Committee's Observations and Recommendations

Your Committee finds it unfortunate that failure by Zesco Limited to interpret the terms of the BSA with CEC of 1997 leading to a breach of contract which is going to cost the Company US\$10.77 million in compensation fees. The Committee is also saddened that the Company spent a further US\$2.9million in legal fees which could have been avoided if the matter had been handled with caution. The Committee resolves to close the matter but urges the Auditor-general to keep the matter in view in the next audit.

h) **Optical Fibre and Digital Microwave Network Agreements**

The Controlling Officer submitted that Management had transferred the functions of debt management and revenue collection from Fibrecom to Corporate Revenue Collections Department in early 2010 in order to enhance revenue collection. Most of

the customers on the optic fibre were current except for Zamnet who were on a payment agreement and were making payments accordingly. The Company had since disconnected Bringcom while legal action had been instituted and Judgment was expected in February 2012. He further submitted that before this time no interest was being charged on outstanding bills because it was in ZESCO's interest to grow the business competitively in the initial stages of the fibrecom business.

Committee's Observations and Recommendations

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

i) Procurement of Goods and Services

i. *Procurement of distribution Transformers*

The Controlling Officer acknowledged that the transformers from El Sewedy were more expensive than similar ones but noted that experience had shown that cheaper transformers tended to be of poor quality as compared to the El Sewedy Transformers. Management at ZESCO would re-engage El Sewedy with a view to procuring the transformers at lower prices.

Committee's Observations and Recommendations

Your Committee notes the submission but resolves not to close the matter until it is verified by the Auditor-General and the outcome of the price negotiations with El Sewedy is known. A progress report is awaited.

ii. *Unaccounted for fuel-K2,095,770,382*

The Controlling Officer informed your Committee that the anomaly occurred because staff used methods that were not recognised by the Assize Department. In many instances, staff would rely on the use of "Dip Sticks" on non-calibrated tanks and in some cases tanks without the requisite charts. In order to resolve these challenges, ZESCO Limited trained all staff in fuel handling, provided them with required tools such as Tee Bars which had resulted in most of the stations reporting full deliveries.

Further, ZESCO had since stopped dealing with some of the oil suppliers that were identified to have been involved in carrying out unethical supply practices.

Committee's Observations and Recommendations

While noting the measures being taken by the Management to correct the situation, your Committee is reluctant to close the matter until a satisfactory explanation is rendered on how the huge losses suffered by ZESCO would be recovered. Given the huge losses suffered, the matter should be subjected to further investigation by the Controlling Officer to establish whether there was no malpractice involved. Your Committee will await a progress report on the matter.

iii. *Inadequately Supported Payments*

The Controlling Officer explained that receipts for payments made were not attached to vouchers because some suppliers did not issue receipts when collecting the cheques. However, measures to correct the situation had been put in place to ensure that suppliers issued receipts at the time of collecting cheques which were then attached to payment vouchers. As regards goods received notes he submitted that the Management had put in place measures to ensure that the expenditure section did not process payment unless the signed hard copy of the GRN was attached to the invoice. Further, Management had put in place measures to ensure that all acquittal sheets were collected and attached to payment vouchers.

Committee's Observations and Recommendations

Your Committee directs the Controlling Officer to avail the recovered documents to the Office of the Auditor-General for verification subsequent to which the matter should be closed.

iv. *Hire of Motor Vehicles-K105, 480,000*

The Controlling Officer explained to your Committee that collections increased steadily from 2006 to 2010, as more resources in terms of transport were availed to Copperbelt Division (CBD) and Northern Division (ND) resulting in more effective bill distribution, disconnection and reconnection activities being carried out.

Committee's Observations and Recommendations

Your Committee is not satisfied with this explanation and directs the Controlling Officer to demonstrate to the Auditor-General that a cost benefit analysis was undertaken before the decision to hire vehicles was made. Your Committee was of the view that with good planning the amount used for hiring could have been used to procure a new fleet of vehicles. The Committee resolved to close the matter.

j) **Optical Fibre Indefeasible Right of Use (IRU) Agreement**

The Controlling Officer explained to your Committee that the agreements were entered into under duress as ZESCO did not willingly enter into this Agreement with Zamtel but were forced by the Government to sign it under extreme pressure. ZESCO did not even participate in the drafting of the IRU Agreement that was eventually signed. During the discussions that were held for the IRU, Zamtel never produced any projections despite repeated requests from the ZESCO team. The Controlling Officer submitted further that on 31 October 2011, ZESCO wrote to Zamtel informing them of their intention to terminate the IRU agreement as it was not beneficial to ZESCO. Zamtel in response sought a court order restraining ZESCO from terminating this IRU agreement which was granted and the matter was still in the High Court pending ruling on the injunction.

Committee's Observations and Recommendations

Your Committee takes note that the matter is in Court but urges the Controlling Officer to adduce evidence to the Office of the Auditor-General to prove that there was intimidation and undue pressure from the Government in the matter. Your Committee resolves to await a progress report.

k) Wasteful Expenditure-Rental of Livingstone Customer Centre-K250,845,772

The Controlling Officer informed your Committee that upon securing the Centre, it emerged that the customer traffic at this new mall never rose to expectations and it became clear that ZESCO would not achieve the intended purpose of opening an alternative customer service centre. Consequently, ZESCO in 2010 decided to cancel the tenancy agreement with Falls Park management and to open a new centre at the Mosi-oa-Tunya Shopping Centre to capture the Livingstone customer traffic which had moved there.

Committee's Observations and Recommendations

Your Committee expresses concern that such a large amount of money was allowed to go to waste and is of the view that a thorough market survey would have helped to establish the viability of the business centre and failure to do so amounted to negligence of duty which should not go unpunished. The matter will not be closed until disciplinary action is taken against those that failed in their duties in respect of this wasteful expenditure.

l. Staff Related Issues

i. *Staff Tariff*

The Controlling Officer explained that as prepaid meters were installed and rolled out all members of staff would be restricted to 2181 units as per the conditions of service that have been agreed upon. Before prepaid meters started being installed all staff were on credit meters which facility had no provision for restricting the number of units.

Committee's Observations and Recommendations

Your Committee finds the prevailing situation where all ZESCO employees are receiving free electricity unacceptable especially that the company is facing a lot of operational challenges such as failing to clear application for new installations on time. Added to this the company is operating without an approved staff establishment and staff related costs constitute the bulk part of the total operational costs. Your Committee recommends that this condition of service should be revisited without further delay until evidence is provided that staff related costs have significantly reduced.

ii. *Irregular Purchase of Personal-to-Holder Vehicles*

The Controlling Officer explained that conditions of service were approved by the Board on 18 March 2011 and entitled Senior Staff in Grade M3 to personal to holder vehicles with fuel entitlement of 280 litres per month. He noted that the Company had always provided vehicles to Technical Senior Managers such as the Divisional Managers and Power Station Managers in order to ensure that the employees swiftly responded to operation and emergency calls on a 24 hours basis. Management later decided to convert the operational vehicles to personal to holder and extended the facility to non-technical managers. Managers forfeited 50% and 100% of the commuted car allowance provided in the conditions of service for Technical and non-technical respectively.

Committee's Observations and Recommendations

Your Committee expresses concern that Management appears to have been taking arbitrary decisions without recourse to the Board and directs that all documentation showing Board approval should be availed for audit verification before the matter can be closed.

iii. *Irregular Purchase of Talk Time-K4.2 billion*

The Controlling Officer explained that talk-time formed part of the operational costs of the Company and was budgeted for and the budget was approved by the Board before execution. Only selected officers whose line of work demanded that they ought to be in constant touch with customers and various strategic stakeholders in the execution of their duties were allocated talk time. The K4 billion plus was incurred over a period of close to four years.

Committee's Observations and Recommendations

Your Committee notes that the Controlling Officer failed to produce evidence indicating that the Board had specifically approved the provision of talk-time instead of relying on the implied authorisation through the approval of the budget. Your Committee urges the Controlling Officer to avail documentary evidence to the Office of the Auditor-General to indicate that Board approval was obtained to back with Management's decisions on the purchase of talk-time.

m) **ZESCO (Ndola) Training Centre**

The Controlling Officer informed your Committee that the ZESCO Training Center was not a revenue generating unit as its major objective was to train technical employees to address skills requirements for the Corporation. In this regard, ZESCO paid the salaries for members of staff and allowances for students, but did not pay the Training Centre any tuition fees and accommodation expenses for students.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to close the matter

n) **Power Rehabilitation Project (PRP)**

i. *Project Status*

The Controlling Officer explained that the variations arose due to the decision by Management to up rate the system, later during the implementation which increased the costs significantly. He noted that at Kafue Gorge Power Station the up rating resulted in the station having an extra 90 MW and going by the rule of thumb if a new power station had to be built to the same capacity the cost would be about US\$ 270 million. At Kariba North Bank Power Station the capacity had been increased by an extra 120 MW which would cost about US\$ 360 million if a new power station had to be built. Therefore, the increase of US\$114 above the projected figure of US\$206 led to a net saving in costs associated with building new power stations.

Committee's Observations and Recommendations

While noting the reasons advanced by the Controlling Officer for the variation of about 55% from the initial project cost, your Committee notes that the variation was too big and a definite sign of poor planning on the part of Management. Your Committee in closing the matter cautions Zesco Management and the Board against adopting a laissez faire attitude in managing projects.

ii. *Interest Payments*

The Controlling Officer informed your Committee that during the period under review ZESCO was going through financial difficulties due to uneconomical tariffs hence delays in paying contractors thereby accruing interest. The Government of the Republic of Zambia came to the aid of ZESCO by making a commitment to assist with recapitalisation of ZESCO Limited through the Power Rehabilitation Project to the tune of US\$ 44 million and had so far disbursed US\$28 million leaving a balance of US\$ 16 million.

Committee's Observations and Recommendations

Your Committee finds the reason advanced for the delay in meeting claims as unacceptable. Your Committee is of the view that ZESCO should look at the challenges facing the Corporation holistically instead of continuously lamenting about non economic rates. For instance during this time, all ZESCO employees continued to enjoy limitless access to free electricity. Your Committee therefore believes that this was due to poor planning on the part of Management for which disciplinary action should be taken and a progress report availed. The Committee resolves to close the matter.

iii. *Kariba North Bank Power Station*

The Controlling Officer submitted to your Committee that high combined bearing temperatures were being experienced on Unit 3 which resulted in clearances on the guide pads being readjusted to about 0.5mm. This clearance

was too large for stability of the generating unit and it was decided to limit the unit at a constant of 150MW, de-rated by 30MW, while investigating possible solutions to the high temperatures. The unit was shut down for the remedial works from 9 April 2011 to 25 May 2011 some modifications were implemented which in temperature reductions on both the thrust and guide pads and the unit was back into service.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the unit was now generating the required capacity.

ZAMBIA STATE INSURANCE CORPORATION (ZSIC LIMITED)

Query

Paragraph 19

Review of Operations

21. A review of audited accounts and other relevant documents for the financial years ended 31 December 2006 to 2009 carried out in May 2010 revealed several weaknesses on which the Controlling Officer submitted as set out below.

a) Financial Performance of the Corporation

i. Profitability

The Controlling Officer submitted that the analysis of the Corporation's financial performance was correct.

Committee's Observations and Recommendations

Your Committee takes note of the improvement in the performance recorded by the Company and commends Management and the Board for recording a profit of K10.9 billion before taxation in 2008 from a loss of 2.6 billion in 2006.

ii. Statement of Movement in Reserves

The Controlling Officer submitted that the analysis of the Corporation's financial performance was correct.

Committee's Observations and Recommendations

Your Committee takes note of the improvement in the reserves from a negative figure of K7.2 billion in 2006 to a positive figure of K10.9 billion in 2008.

iii. Liquidity

The Controlling Officer submitted that the analysis of the Corporation's financial performance was correct.

Committee's Observations and Recommendations

Your Committee takes note of the increase in the working capital recorded by the Company and commends the Board and Management for this good performance.

iv. *Current Ratio*

The Controlling Officer submitted that the analysis made regarding the financial performance of the corporation was correct.

Committee's Observations and Recommendations

Your Committee takes note of the improvement in the current ratio of the Company but urged Management to continue working towards attaining the ideal ratio of 2:1. The Committee requests the Office of the Auditor-General to follow up the matter in the next audit.

v. *Gearing*

The Controlling Officer submitted that the Corporation had suggested changing long term debt to long term liability which would help distinguish this indebtedness from funds borrowed from external financial institutions such as Development Bank of Zambia, Commercial Banks or International Financial Corporation. The suggestion was based on the Corporation being mainly indebted to policy holders as there was no external borrowing from other financial entities.

He noted further that the liability to policy holders was mainly made up of a continuous, active pooling of unexpired periods of insurance as at the reporting date, cash received from clients in form of short term, medium term or long term premiums, claim reserves and general accounting reserves. The reserves were kept to safeguard equivalent and corresponding amounts in assets (fixed assets, investments, cash and debtors) up to the time clients demanded cash, claims arose or policies expired. Normally no concern should arise as the insurance pool kept being replenished by renewals or new policies as claims occurs and policies expires.

Committee's Observations and Recommendations

Your Committee while noting the submission advises the Controlling Officer to work towards a conducive gearing status. The Auditor-General was requested to keep the matter in view in next's audit.

b) **Government Indebtness-K31.975 billion**

The Controlling Officer submitted that very few Government departments and ministries were up to date in the payment of premiums and the Company had constituted a separate debt management team to ensure appropriate policy was put in

place to promptly collect debts and ensure records were reconciled with customers' records. As regards the current debt, the Controlling Officer submitted that out of the K31.975 billion in the Auditor-General's report, only K23 billion was confirmed by Auditors from the ministry of Finance and National Planning and would need to be paid by the Government.

Committee's Observations and Recommendations

Your Committee urges the Management of the Company to aggressively pursue the matter regarding the debt with Government Departments and Ministries as failure to collect the premiums was impacting negatively on the operations of the Company. Your Committee notes that the figure of K31.975 billion will remain outstanding until the audit report from the Ministry of Finance and National Planning is availed for scrutiny.

c) Non-Remittance of Statutory Obligations - K12,064,000,000

The Controlling Officer informed your Committee that in April 2011, the Corporation entered into an agreement with ZRA to help settle the tax arrears which had risen to K19.3 billion and by December, 2011 a total of K1.3 billion had been paid.

In respect of pension contributions, the Controlling Officer submitted that these were cleared in 2009 through an intergroup debt swap involving ZISC Pension Trust Fund, ZISC Limited and ZISC Life Limited. Further, in compliance with a consent order of 2007, NAPSA contributions had been paid up to December, 2011.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the agreement with ZRA and the Controlling Officer's response in general were verified by the Office of the Auditor-General.

d) Irregular Engagement of Consultant for the Restructuring of ZSIC

The Controlling Officer explained that the Company was unable to provide evidence indicating that the Board passed a specific resolution on the matter though minutes to show that the board was engaged on the matter were available. He assured your Committee that in future ZISC would ensure that minutes and Board resolutions were properly recorded.

As regards failure to obtain a *no objection* from ZPPA, the Controlling Officer submitted that this was because the contract sum was within the Management's threshold and a preliminary prequalification stage was undertaken leading to the selection of the preferred bidder.

Committee's Observations and Recommendations

Your Committee notes that this was a clear case of single sourcing as only one supplier was requested to make a proposal and therefore at this stage a *no objection* should have been sought from ZPPA. As regards failure to obtain Board approval, your

Committee finds the excuse of poor recording unacceptable and tantamount to negligence of duty.

e) **Unsupported Bank Transfers-K2,654,581,243**

The Controlling Officer submitted to your Committee that it had been established that the transfers in respect of K2,654,581,243 were made to ZISC Company accounts, staff and other suppliers.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as documents to support the bank transfers have been verified by the Office of the Auditor-General.

f) **Lack of Debtors' Management Policy**

The Controlling Officer submitted that the credit policy which superseded and formalised management directives and written instructions earlier given to staff had been put in place.

Committee's Observations and Recommendations

Your Committee notes the submission but urges Management of ZISC to ensure that records are always properly maintained to allow for analysis of the debts. Your Committee resolves to close the matter as the Credit policy has been verified by the Office of the Auditor-General.

g) **Provincial Offices
ZSIC General Insurance**

i. *Kabwe
Irregular Payment of Insurance Claims*

- **Walusungu Guest House-K2,520,000**

The Controlling Officer reported that the K2.5 million had been recovered in full.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against the officer(s) who processed the claim and avail documentation in respect of the recoveries to the Office of the Auditor-General for verification before the matter can be closed.

- **TATA Novus Tipper Truck-K9,212,000**

The Controlling Officer informed your Committee that the branch manager had been instructed to effect the recoveries in respect of the K9.2 million claim which was irregularly paid.

Committee's Observations and Recommendations

Your Committee resolves to await a progress report on the actual recovery of the K9.2 million before the matter can be closed. Further, Disciplinary action should also be taken against the officer (s) who processed the claim.

ii. *Ndola*
Irregular Payment of Insurance Claims

- **Driver with Provisional driving licence - K4,561,789**

The Controlling Officer informed your Committee that the policy did prevent the issuance of insurance cover to holders of provisional driving licence. He added that when one held a provisional driving licence, such a driver needed to be accompanied by a licenced driver, but in this case, the claim arose out of a theft incident which occurred when the car was parked.

Committee's Observations and Recommendations

Your Committee resolves to close the matter.

- The Office gave insurance cover to a client whose vehicle was registered on 23 October 2007. The cover note which was issued to the client was dated 29 June 2007 before the vehicle was registered. It was not clear why the cover note issued before the vehicle was registered bore the registration mark for the vehicle. The implication was that the cover note may have been back dated. In this regard ZSIC General Insurance paid amounts totalling K3,027,600 in June 2008 in repairs when the vehicle was damaged in a road traffic accident.

The Controlling Officer explained that ZISC had confirmation from RTSA that the vehicle in question was first registered in 2006 and the registration on file was a replacement as required by the law at the time.

Committee's Observations and Recommendations

Your Committee notes the submission and closes the matter subject to verification by the Office of the Auditor-General.

- **Unretired Imprest-K3,230,000**

The Controlling Officer submitted to your Committee that Management had instituted recoveries to recover the K3,230,000 that had not been retired.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to provide documentary evidence to the Office of the Auditor-General to prove that the recoveries had commenced before the matter can be closed.

- **Inadequately Supported Payments - K64,771,397**

The Controlling Officer explained that he was unable to respond because he did not have the breakdown of what constituted the K64.7 million.

Committee's Observations and Recommendations

Your Committee is disappointed that the Controlling Officer did not take advantage of the audit process to get relevant details required to resolve the query and find the excuse unacceptable. Your Committee urges him to address the query and ensure that the documentation is availed to the Office of the Auditor-General for verification.

iii. *Choma*

- **Lack of Lease Agreement**

The Controlling Officer submitted that lease agreement were now available.

Committee's Observations and Recommendations

Your Committee urges the Controlling Officer to take disciplinary action against the officer(s) who neglected to have the agreement signed at the time the tenants took occupancy of the offices. Your Committee will await a progress report on the matter.

- **Unrecovered Rental Income - K7,064,500**

The Controlling Officer informed your Committee that the defaulting tenant, DRK Drilling was evicted from the property and had its property seized in a bid to recover what it owed. The seized goods would be auctioned as soon as Board approval was obtained.

Committee's Observations and Recommendations

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

- **Lack of lease Agreements**

The Controlling Officer submitted that following the query, ZISC sent out lease agreements to tenants for them sign and so far four of the

twelve agreements had been signed while efforts were being made to secure the remaining agreements.

Committee's Observations and Recommendations

Your Committee finds poor management of lease agreements unacceptable and tantamount to negligence of duty on the part of the responsible officer(s). Your Committee urges the Controlling Officer to put in place measures to correct the situation without further delay.

ZSIC LIFE

A review of records at Ndola, Livingstone, Choma and Mazabuka offices revealed the following:

i. *Ndola*
Failure to Maintain Premium Data Base

The Controlling Officer submitted that the database for all client accounts was available except it was kept in electronic form because it was bulk in nature.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the Office of the Auditor-General confirmed having verified the database.

ii. *Livingstone*
Failure to Provide Lease Agreements

The Controlling Officer submitted that ZISC was unable to provide most lease agreements due to a court case involving most tenants.

Committee's Observations and Recommendations

Your Committee resolves to close the matter as the Office of the Auditor-General confirmed having verified the lease agreements.

iii. *Mazabuka*

- **Outstanding Rental Income-K90,345,829**

The Controlling Officer explained to your Committee that of the K90,345,829 which was queried warrants of distress were executed in respect of a total of K35,457,229 while the rest was paid up by the clients.

Committee's Observations and Recommendations

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

- **Lack of Rental Statements**

The Controlling Officer submitted that he could not address the query as the specific statements were not identified.

Committee's Observations and Recommendations

Your Committee finds it unacceptable that the Controlling Officer did not make any effort during the audit process to obtain the required information to address the query and urges him to give future Auditor-General's reports the attention that they deserve. However, the matter is recommended for closure as the said statement have been verified by the Office of the Auditor-General.

- **Poor Maintenance of Offices**

The Controlling Officer explained that some offices remained vacant mainly due to the high rate of turnover resulting from the lack of credible clients. He added however that some offices had been renovated while others had been occupied.

Committee's Observations and Recommendations

Your Committee resolves to close the matter subject to audit verification that the situation has normalised.

SUBMISSION BY THE SECRETARY TO THE TREASURY

22. The Secretary to the Treasury started his submission by thanking the Auditor-General for auditing the accounts of selected Parastatal Bodies for the financial years up to 31 December, 2009 as provided under Part VI, Sections 44 and 45 of the Public Finance Act No. 15 of 2004. He tabulated the common weaknesses in the internal controls highlighted by the Auditor-General under paragraph 3 of the report as set out below.

- i. Failure to prepare Financial Statements.
- ii. Failure to remit statutory contributions.
- iii. Weaknesses in procurement procedures.
- iv. Poor financial performance resulting in non-declaration of dividends.
- v. Failure to secure Title Deeds.
- vi. Misapplication of Funds.
- vii. Wasteful expenditure.
- viii. Poor record keeping leading to unvouched expenditure, missing payment vouchers and unretired imprest.

The Secretary to the Treasury submitted that the non-adherence to the provisions of Part V, Section 34(2) of the Public Finance Act no. 15 of 2004 by the Chief Executive Officers charged with the responsibilities of overseeing such organisation was a very serious omission and needed to be halted without further delay.

He then submitted on specific issues as set out below.

a) **Failure to prepare financial statements**

Failure to prepare financial statements was an indication that the Boards of Directors appointed to oversee the operations of these organisations were also not effective as they were expected to act promptly once the Chief Executive Officer failed to avail financial statements before them at the end of each financial year. The non-preparation of the financial statements was, therefore, a clear sign of poor corporate governance, lack of supervision and laxity by the Boards of Directors who were expected to perform an oversight role in the management of parastatals on behalf of Government.

Committee's Observations and Recommendations

Your Committee agrees with the submission of the Secretary to the Treasury and urges the Government to ensure that only persons who have a track record of success in the corporate world are considered for appointment to Boards. Further, it should be emphasised to Boards that preparation of financial statements should be a critical factor in decisions affecting to the contracts of Chief Executive Officer.

b) **Enactment of the State Enterprise Act and Policy Guidelines**

The Secretary to the Treasury noted that the solution to most shortcomings highlighted in the report of the Auditor-General was the enactment of the proposed State Owned Enterprise Act and Policy Guidelines on which the Ministry was preparing a Cabinet Memorandum for consideration by Cabinet in the first quarter of 2012. It was hoped that the Act would lead to the strengthening of internal controls and enhance the supervisory roles of controlling officers in the Parastatals.

Committee's Observations and Recommendations

Your Committee notes with regret that the Government is taking too long to bring the proposed law to Parliament and urges the Secretary to the Treasury to aggressively pursue the matter so that the law can be enacted without further delay. A progress report on matter would be awaited.

c) **Management of Imprest**

He reported that the Committee setup to look into the management of imprest in Government had prepared a report which was submitted to Cabinet on 24 June, 2011 and the Secretary to Cabinet was in the process of appointing a committee of Permanent Secretaries to look at the recommendations contained therein.

Committee's Observations and Recommendations

Your Committee is disappointed at the slow pace at which this matter is being handled and urges the Secretary to the Treasury to aggressively pursue the matter and provide a progress report.

d) **Failure to follow tender procedures**

As regards procurement procedures the Government would encourage all Parastatals to enter into service level agreements to avoid the abuse related to single sourcing.

Committee's Observations and Recommendations

Your Committee notes the submission but urges the Secretary to the Treasury to take concrete steps to implement his assurance to your Committee. A progress report is awaited.

e) **Abuse of Resources at the Citizenship Economic Empowerment Fund(CEEC)**

The Government had suspended disbursements of funds to CEEC in order to reorganise the management of the Commission.

Committee's Observations and Recommendations

Your Committee notes the submission and resolves to keep the matter in view.

f) **Non-remittance of Statutory Obligations**

The Secretary to the Treasury submitted that through the proposed SOE Act and Policy, all State Owned Enterprises would be compelled to meet statutory obligations.

Committee's Observations and Recommendations

Your Committee resolves to await a report on the matter.

g) **Declining Membership at PSPF and LASF**

As regards the declining PSPF and LASF membership there was immediate need to review the NAPSA Act to allow the two institutions to start taking new members while a lasting solution was being sought to address the plight of retirees.

Committee's Observations and Recommendations

Your Committee observes that there is urgent need for the Government to come up with a clear position on the management of pension schemes in the country is. Your Committee urges the Secretary to the Treasury to urgently bring the matter to the attention of the relevant authorities and a progress report is awaited.

h) **State Lotteries Board**

The Secretary to the Treasury reported that the Company was insolvent as it could not compete on the market. He noted that the Government had no money to invest in the Company and was considering converting the Board into a regulatory body.

Committee's Observations and Recommendations

Your Committee in noting Government position on the matter urges the Secretary to the Treasury to urgently address it with the relevant authorities as the Board is in a bad financial state.

i) **Zesco Limited**

On Zesco Limited's continued subsidizing of electricity supplied to Lumwana Mines, the Secretary to the Treasury informed your Committee that Government was aware of the situation and had indicated to Zesco Management the need to resolve the matter urgently.

Committee's Observations and Recommendations

Your Committee expresses concern that this matter has been outstanding for too long despite the previous Public Accounts Committee having recommended to Government to review the agreements in question. A progress report is awaited.

CONCLUSION

23. Your Committee wishes to express its gratitude to you Mr Speaker and the Office of the Clerk for the support rendered to it when considering the Report of the Auditor-General for 2009, on the Accounts of Parastatal Bodies. Your Committee further wishes to thank the Secretary to the Treasury, Controlling Officers, Chairpersons and other members of the Boards of Directors, and management teams of the institutions that were audited for their cooperation.

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

V Mwale, MP
CHAIRPERSON

June 2012
LUSAKA