REPUBLIC OF ZAMBIA

REPORT

OF THE

COMMITTEE ON PARASTATAL BODIES

ON THE

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS

FOR THE

FINANCIAL YEAR ENDED 31ST DECEMBER, 2017

FOR THE

FOURTH SESSION OF THE TWELFTH NATIONAL ASSEMBLY APPOINTED ON 21ST SEPTEMBER, 2017

Printed by the National Assembly of Zambia

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i. Composition of the Committee

The Committee consisted of Mr P M W Daka, MP (Chairperson); Ms P C Mwashingwele, MP (Vice Chairperson); Mr A Kasandwe, MP; Mr G Chiyalika, MP; Mr D Syakalima, MP; Mr B Kambita, MP; Ms J C M Phiri, MP; Ms P Kasune, MP; Mr E K Belemu, MP and Mr G Putu, MP.

The membership of the Committee changed following the appointment of Ms M D Mwanakatwe, MP to the Committee. She replaced Ms J C M Phiri, MP. Further, Mr M Mukumbuta, MP was appointed to the Committee to replace the late Ms P C Mwashingwele, MP following her demise. Additionally, Ms P Kasune, MP, was elected Vice Chairperson of the Committee.

The Honourable Mr Speaker
National Assembly
Parliament Buildings
LUSAKA

Sir

The Committee has the honour to present its Report for the Fourth Session of the Twelfth National Assembly.

ii. Functions of the Committee

In accordance with the National Assembly Standing Order No 157(2), the functions of the Committee are to:

i) study, report and make appropriate recommendations to the Government through the House on the mandate, management and operations of the Government ministries, departments and/or agencies under its portfolio;
ii) carry out detailed scrutiny of certain activities being undertaken by the Government ministries, departments and/or agencies under its portfolio and make appropriate recommendations to the House for ultimate consideration by the Government;
iii) make, if considered necessary, recommendations to the Government on the need to review certain policies and certain existing legislation;
iv) examine annual reports of Government ministries and departments under its portfolio in the context of the autonomy and efficiency of Government ministries and departments and determine whether the affairs of the said bodies are being managed according to relevant Acts of Parliament, established regulations, rules and general orders;
v) consider any Bills that may be referred to it by the House;
vi) consider international agreements and treaties in accordance with Article 63 of the Constitution;

vii) consider special audit reports referred to it by the Speaker or an Order of the House;
viii) where appropriate, hold public hearings on a matter under its consideration; and
ix) consider any matter referred to it by the Speaker on an order of the House.

However, the main focus of the Committee is to:

i. consider annual reports and accounts of parastatal bodies;
ii. consider reports, if any, of the Auditor General on parastatal bodies;
iii. consider, in the context of the autonomy and efficiency, the operations of parastatal bodies, whether the affairs of the parastatal bodies are being managed in accordance with the relevant regulations, rules and general orders, sound business principles and prudent commercial practice;
iv. report and make appropriate recommendations to the Executive through the House on the mandate, management and operations of parastatal bodies;
v. examine the instruments relating to the acquisition and disposal of parastatal companies and ensure that such exercises are conducted in a fair and prudent manner;
vi. carry out detailed scrutiny of activities being undertaken by parastatal bodies and make appropriate recommendations to the House for ultimate consideration by the Executive;
vii. make, if considered necessary, recommendations to the Executive on the need to review certain policies and existing legislation relating to parastatal bodies; and
viii. consider any matter that may be referred to it by the Speaker or an Order of the House.

iii. Meetings of the Committee

The Committee held nineteen meetings to consider submissions on the Report of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December, 2017.

iv. Procedure adopted by the Committee

With technical guidance from the Auditor General, the Committee considered both oral and written submissions from Controlling Officers and Chief Executive Officers of the nineteen institutions that were cited in the audit report.

This Report contains the observations and recommendations of the Committee, including proposed remedial measures to correct identified irregularities. The Report is in three parts: Part I deals with the Auditor General's comments and the responses from the Secretary to the Treasury; Part II captures the responses from Controlling Officers on the individual audit queries, the Committee's recommendations and observations on the individual audit queries; and Part III contains the Committee's general observations and recommendations arising from the Auditor General's Report. The annex attached to this report is a report on outstanding issues with corresponding comments by the Secretary to the Treasury on the recommendations of the Committee which have not been implemented.

PART I

Auditor General's Comments and Responses by the Secretary to the Treasury, Ministry of Finance

1.0 Auditor General's Comments

The Auditor General reported that the Audit Report had been produced in accordance with *Article 250 of the Constitution of Zambia (Amendment) Act, No. 2 of 2016, Public Finance Act, No. 15 of 2004 and Public Audit Act, No. 13 of 1994.* The Report contained paragraphs on sixteen parastatal bodies and other statutory institutions that were audited and remained with unresolved issues as at 31st December 2018. Seven of the institutions were under the Industrial Development Corporation (IDC).

The Auditor General stated that during the audit process, there were various levels at which the Office interacted and communicated with those charged with governance of the institutions whose accounts were audited. The purpose of this interaction was to provide an opportunity for the responsible Officers to clarify and take corrective action on the findings of the audits.
The Report also included findings of the audits of Information Communication Technology (ICT) systems that the organisations had implemented in order to improve on the efficiency and effectiveness of service delivery. Notable observations included the failure to comply with international standards on information technology, and failure to adopt ICT policies which could guide the operations of the institutions.

Submission by the Secretary to the Treasury Response
The Secretary to the Treasury submitted that the audit of the sixteen parastatal bodies and other statutory institutions by the Auditor General was appreciated and therefore, the Treasury would institute necessary interventions to address the findings contained in the report. The Treasury would review the operations of the institutions cited in the report to understand why such financial irregularities occurred. In compliance with the provisions of the *Public Finance Management Act, No.1 of 2018,* the Treasury would undertake a detailed analysis on each public body cited in the report and make recommendations to appropriate authorities to institute applicable punitive measures where necessary.

2.0 Scope of the Audit

The Auditor General informed the Committee that the Report was as a result of audits and reviews of operations of selected parastatal bodies and other statutory institutions for the Financial Years Ended 31st December 2014 to 2017.

Submission by the Secretary to Treasury Response

The Secretary to the Treasury submitted that the scope of audit used by the Auditor General was appreciated. The test checks and reviews of audited accounts for the Financial Years Ending 31st December, 2014 to 2017 of the sixteen parastatal bodies and other statutory institutions revealed key weaknesses in the management of these public bodies such as non-preparation of financial statements, weaknesses in procurement procedures, irregular payments and poor financial performance.

The interaction of the Office of the Auditor General with the Chief Executives and Controlling Officers was encouraging as it upheld values of good corporate governance in the management of boards by providing checks and balances in the management of public resources. The Secretary to the Treasury in this regard thanked the Office of the Auditor General for availing vital information in the report to assist Parliament in its oversight responsibilities over the management of public resources by the Executive.

3.0 Internal Controls

In the Auditor General's Report, specific mention was made of non-preparation of financial statements, weaknesses in procurement procedures, irregular payments and poor financial performance, among other issues, by the respective institutions. These were clear indicators of internal control lapses in most parastatal bodies and other statutory institutions.

Submission by the Secretary to Treasury Response

The Secretary to the Treasury submitted that he took note of the internal control lapses identified by the Auditor General, namely non-preparation of financial statements, weaknesses in procurement procedures, irregular payments and poor financial performance. In order to address these weaknesses comprehensively, the Ministry of Finance found it expedient to regulate the process in the *Public Finance Management Act, No. 1 of 2018*, as part of the responsibilities for board of directors and relevant ministries Controlling Officers. The Act provided for punitive sanctions for failure to perform these processes by both the board of directors and appropriate Controlling Officers. The specific sections in the *Public Finance Management Act* dealing with state owned enterprises include section 12 (Fiduciary Duties), sections 49 to 51, sections 55 to 69, 71 to 72, 82 and 89. These sections would greatly enhance the internal controls and invariably contribute to the better performance of state owned enterprises and enable the Government to maximise returns on its assets and investments.

PART II

CONSIDERATION OF SUBMISSIONS FROM CONTROLLING OFFICERS AND CHIEF EXECUTIVES

The Committee considered submissions from Controlling Officers and Chief Executive Officers under whose mandate the institutions cited in the Report of the Auditor General fell as set out below.

4.0 COPPERBELT UNIVERSITY MINISTRY OF HIGHER EDUCTION

Review of Operations

A review of the performance of the Copperbelt University for the financial years ended 31st December, 2014 t0 2017 revealed various irregularities to which the Controlling Officer responded as set out below.

4.1 Lack of implementation plan for Control of Objectives for Information and Related Technology (COBIT) Adoption

The Controlling Officer was in agreement with the Auditor General's observations. The Controlling Officer informed the Committee that the non implementation of the COBIT Framework was due to not having included it in the University's Strategic Plan for 2014 to 2018. As a consequence, the University could not mobilise financial resources to implement the COBIT Framework. The Controlling Officer further submitted that the University had since incorporated the COBIT Framework in the University's Strategic Plan for 2019 to 2023. The University, through some of its governance structures, approved the road map and an in-house COBIT trainer had been identified to train other members of staff.

Committee's Observations and Recommendations

The Committee finds it unacceptable that the university is operating without the COBIT Framework whose goals are to, maintain high-quality information to support business decisions, achieve strategic goals through the effective and innovative use of IT, achieve operational excellence through reliable, efficient application of technology and help maintain IT-related risks at an acceptable level. The Committee does not accept the reasons advanced for the failure to implement the COBIT Framework. The Committee observes that the failure to implement the COBIT Framework is as a result of poor planning on the part of the university, and strongly urges the Controlling Officer to ensure that the COBIT Framework is expeditiously implemented. The Committee will await a progress report.

4.2 Lack of an approved ICT Strategic Plan

The Controlling Officer was in agreement with the observation by the Auditor General. The Controlling Officer submitted that the reason for this was that, the university required additional resources to implement the COBIT Framework after its adoption considering that it had not been incorporated in the Corporate Strategic Plan.

Committee's Observations and Recommendations

The Committee finds it unacceptable that the university is operating without an approved ICT Strategic Plan to clearly specify the road map on how the institution will co-operate with relevant stakeholders on IT-related goals. The Committee strongly recommends that the Controlling Officer should urge the university management to expedite the approval of the Corporate Strategic Plan for the period 2019 to 2023 which will incorporate the ICT Strategic plan. The Committee resolves to await a progress report on the matter.

4.3 System Crash

The Controlling Officer was in agreement with the Auditor General's observation that the Copperbelt University experienced a system crash as a result of the ICT Network being attacked by Ransomware. The Controlling Officer further submitted that the attack originated internally from the CBU test server belonging to the development team. The infrastructure that was affected by the crash included: access accounts database; liberty email server; test servers; domain controllers and student information system database. The Controlling Officer further informed the Committee that management had hired investigators to establish the cause of the crash. In addition, to mitigate against future network attacks the university had procured Untangle and Sucuri software as intrusion detection tools on the Local Area Network.

Committee's Observations and Recommendations

The Committee finds it unacceptable that management did not provide a copy of the report from the investigators who had been hired to establish the cause of the crash. The Committee strongly urges the Controlling Officer to desist from giving verbal reports without supporting documents. The Committee also expresses dissatisfaction over the fact that this information was not availed to the auditors and recommends that disciplinary action should be taken against all officers responsible for this lapse. Further the Committee calls upon the Controlling Officer to submit the report to the Auditor General for verification. The Committee will await a progress report.

4.4 Irregularities in Student Registration

(i) Results Issued to Registered Students not Invoiced

The Controlling Officer informed the Committee that during the period under review, the practice was to invoice the students once, upon entry in the university, for a programme that would run over eighteen to twenty four months. In this case the invoices were done in 2014. She further added that apart from the main stream undergraduate programmes, the university run semester, distance and post graduate programmes that run in an academic year. In this regard, due to an overlap in the academic calendar, the invoices for 272 students were done in 2014 and payments received before the audit was conducted. Arising from the Auditor General's observation, the university had since changed the mode of invoicing from one off invoice to invoicing per semester or stage of study.

Committee's Observations and Recommendations

The Committee finds it highly unacceptable and irregular that the university could not track how the 272 unregistered and un-invoiced students had managed to acquire results. The Committee observes that if this manipulation of the system is not expeditiously resolved, the university risks losing its reputation created over the years. The Committee strongly urges the Controlling Officer to ensure that management formulates stringent controls that will eradicate system tampering and recommends that this matter be reported to investigative wings and disciplinary action should be meted against the responsible officers. The Committee resolves to await a progress report on the matter of the un-invoiced students and an update on the collection of the outstanding fees from the 272 students.

(ii) Registered Students not on 100 per cent Sponsorship with Zero Tuition Fees

The Controlling Officer was in agreement with the observations by the Auditor General. She informed the Committee that prior to the period under review, the institution had developed an in-house system in 2014 to register students online and that being a new system the institution had faced unique problems with registration and in some cases, the heads of departments undertook manual registration for students without verifying invoices and payments status of the students. Consequently this lead to having duplication of sixteen representing an amount of to K 362,455 and, seventy five students were not invoiced for tuition fees but for exemption fees only, while sixty seven students were invoiced in the previous year which formed the basis for their manual registration. Going forward, the system was reprogrammed in 2018 to disable manual registration for heads of departments on behalf of the students and subsequently the students who had continued their studies were invoiced.

Committee's Observations and Recommendations

While noting the submission by the Controlling Officer, the Committee finds the reasons given by the Controlling Officer as the cause of the query unacceptable. The Committee is of the view that the query was as a result of poor internal controls and urges management to ensure that stringent controls are put in place to avoid recurrence of the query. The Committee recommends that disciplinary measures should be instituted against all the heads of departments who failed to verify the invoices and directs the Controlling Officer to ensure that management submits a report to the Auditor General on the balance of the seventy five un-invoiced students. The Committee resolves to await an update on the matter.

4.5 Irregular Changes to the Results on the System

(i) Cause of irregular Changes to Results on the System

The Controlling Officer submitted that the Auditor General's observation was factual. The Controlling Officer submitted that the changes to 579 student results after publication of the results were authorised by the various schools during the Board of Studies and that the supporting documents were not submitted for audit verification mainly due to a poor record management system. The Controlling Officer informed the Committee that the affected schools were engaged to verify the accuracy of the results and had confirmed that the changes were authentic. The Committee learnt that arrangements were being made to procure and implement an electronic document management system by the first quarter of 2020.

Committee's Observations and Recommendations

The Committee expresses consternation that management failed to avail supporting documentation during the audit exercise, mainly due to a poor record management system. The Committee strongly cautions management of CBU to strictly adhere to laid down procedures and to tighten their internal controls to avoid recurrence of the query. The Committee directs the Controlling Officer to ensure that all supporting documents are submitted to the Auditor General for verification and a progress report on the procurement and implementation of an electronic document management system by the first quarter of 2020. The Committee will await a progress report.

(ii) Seventeen results were changed by unidentified persons

The Controlling Officer acknowledged the Auditor General's observation as factual. The Committee was informed that the changed results were recommended for approval by the Board of Examiners. The Controlling Officer further submitted that the cause of the anomaly was a new in-house system that was operationalised in 2015 and was used for logging the results online. However, the university experienced some unique problems in the initial stage of use and that the system had since been re-programmed. The Controlling Officer further informed the Committee that the new system was working properly and users were being logged in.

Committee's Observations and Recommendations

The Committee reiterates that management should strictly adhere to the laid down procedures and that it should tighten its internal controls to avoid recurrence of the query. The Committee directs that all relevant documentation including the programmed system should be presented to the Auditor General for verification, subject to which the matter should be close.

(iii) Twelve results that were questionably moderated by the ICT Operations Manager without authority

The Controlling Officer was in agreement with the observation of the Auditor General. The Controlling Officer further informed the Committee that initially the ICT Operations Manager was charged. However, following a detailed verification, it was established that the results were correctly moderated by the ICT Operations Manager as per the resolution of the Board of Examiners for the School of Mines and Mineral Sciences dated 14th June 2017. Therefore, the initial disciplinary action that was started was discontinued for lack of merit. The Controlling Officer further informed the Committee that in peculiar cases, there were logging-in challenges by the head of departments and the ICT Manager used her Administrator profile to moderate results in order to meet the deadline for presentation of results to the Senate. The Committee learnt that in future, members of staff from the department of ICT will not use their logging profiles to assist end users to enter moderated results.

Committee's Observations and Recommendations

The Committee is concerned that disciplinary action was wrongly initiated against the ICT Operations Manager and strongly cautions management at the institution against such reckless conduct which can be costly to the institution in an event that the institution is sued. The Committee is also unhappy that the documents were not provided during the audit process. The Committee directs that all relevant documents should be submitted to the Auditor General for verification, subject to which the matter should close.

4.6 Operating without a Full Council

The Controlling Officer submitted that the observation by the Auditor General was correct. The Controlling Officer submitted that as a result of the disturbances that ensued in 2015, involving striking staff and student boycott of classes, the university was closed and consequently the substantive Council was dissolved. As a result, a caretaker committee was appointed as a stop-gap measure at the university strategic level to stem the industrial disturbances. The Committee was also informed that the university management had since written to the Ministry of Higher

Education requesting for the appointment of the substantive Council in compliance with the *Higher Education Act, No. 4 of 2013.* The Controlling Officer submitted that the delay to appoint a full Council had been as a result of the review process of the Act. The Committee learnt that letters had since been written to the institutions provided for in the Act for the purposes of appointing Council members.

Committee's Observations and Recommendations

The Committee finds it highly irregular and disappointing that the university operated for over three years with a caretaker council whose representation was not from the sectors provided for in the *Higher Education Act, No. 4 of 2013*. The Committee also finds it regrettable that the Controlling Officer could not give a time frame within which the substantive Council will be appointed. The Committee further finds it unacceptable that the Ministry used the review of the *Higher Education Act* as an excuse for its failure to appoint the substantive Council. The Committee strongly urges the Controlling Officer to expedite the process of appointing the Council and resolves to await a progress report on the matter.

4.7 Failure to Prepare Annual Reports

The Controlling Officer acknowledged that the Auditor General's observations were correct. She further informed the Committee that the Annual Reports were delayed as a result of the re-organisation of the Planning Unit and subsequent staff rotations in the schools. With respect to the delay in completing audited financial statements for 2017, the Controlling Officer submitted that, this was as a result of a system failure of the access dimensions in the finance system. The Controlling Officer further submitted that the Annual Reports for the year 2015 were ready and that the draft Annual Report for 2016 had been submitted to the printing press and would be ready by 31st October, 2019. The Committee learnt that management had engaged Asyst International of South Africa, the service provider, to recreate the finance system data base and that the service provider had recreated the system and re-trained staff in the finance department in 2018. Further, the Committee was also informed that the financial statements for the year ended 2017 were ready and would be presented to the Executive Committee in the fourth quarter of 2019 while work on the statements for 2018 had commenced and would be completed by the end of December ,2019.

Committee's Observations and Recommendations

The Committee observes with concern that in the absence of Annual Reports, it is difficult to undertake a systematic assessment of the university's performance. The Committee strongly advises the Controlling Officer to ensure that a Council is expeditiously installed as it will superintendent over matters of preparation of annual reports and audited financial statements. The Committee resolves to await a progress report on all the outstanding Annual Report for 2016 and the audited financial statements for the financial years ended 2017 and 2018. The Committee directs the Controlling Officer to ensure that the recreation of the finance system by Asyst International of South Africa is submitted to the Auditor General for verification, subject to which the matter should be closed. With regard to the audited financial statements, the Committee will await an audit verification of the financial statements that are scheduled to be presented to the Executive Committee in the fourth quarter of 2019.

4.8 Statement of Comprehensive Income

An analysis of the Statement of Comprehensive Income for the years ended 31st December 2015 and 2016 revealed various irregularities, to which the Controlling Officer responded as set out below.

(i) Operating Deficits

The Controlling Officer acknowledged that the Auditor General's findings were correct. The University had a deficit of K221, 686,000 in 2015 and K142, 642,000 in 2016. The Controlling Officer submitted that the university had embarked on various efforts to improve revenue generation. Among these were: increase in student enrolment; opening of satellite campuses in Lusaka, Solwezi and Mpika to capture students who found it difficult to enroll from the Kitwe main campus due to their work schedules. The others were the setting up of the CBU-ICT Business and Innovation Centre in Lusaka which generates income through the development of ICT solutions to companies in various sectors; and Kamfinsa Horticulture project which produces seedlings/plants of high value for sell, through plant propagation for various horticultural products, and a Dental Clinic at the School of Medicine in Ndola.

Committee's Observations and Recommendations

The Committee expresses concern over the high operating deficits which were beyond the university's financial capacity. The Committee strongly recommends that the Controlling Officer should re-engage the Secretary to the Treasury to advocate for better funding or to request for a change in the modality of funding, from monthly and term funding to a semester funding mode. The Committee is of the very strong view that the university requires ample time to plan and implement its programmes, hence the current funding mechanism makes proper planning challenging. The Committee resolves to await a progress report on the matter.

(ii) Operating expenses as a Percentage of Revenue

The Controlling Officer submitted that higher operating expenses were as a result of underfunding and inability to charge cost reflective tuition fees. The Committee was informed that as a public university, the CBU's main source of financing were annual grants and students' tuition fees. The Committee learnt that the grant from the Government had remained static for the period 2014 to 2017, at K63.7 million, whereas the cost of goods and services had continued to increase on an annual basis. The Committee was further informed that tuition fees were regulated and not cost reflective as they remained static for the duration of the programmes for the students, whereas the cost of doing business kept increasing on an annual basis. The Controlling Officer added that, to curb the increase in operating costs, the university had embarked on austerity measures which included reduction in travelling costs and participation in workshops, installation of prepaid meters for water with the view to monitor and manage water expenditure which currently averaged K1.5 million per month.

Committee's Observations and Recommendations

The Committee notes with extreme concern that the Government has continued to underfund the university. The Committee is further concerned that the student tuition fees, which are the major source of revenue apart from grants, are regulated by the Government and are not cost reflective. The Committee further notes the austerity measures the university has implemented to arrest the financial status. The Committee expresses concern that continued underfunding will affect the quality of services provided by the university. In this vein, the Committee strongly recommends that despite the financial challenges currently being faced by the country, the Treasury should expeditiously intervene to ensure that the quality of service offered by the university is not compromised. The Committee also recommends that the issue of non-reflective tuition fees should expeditiously be addressed. The Committee resolves to keep the matter open and will await a progress report on the reduction of the operating expenses and the Treasury's intervention on quantum and mode of funding.

(iii) Staff costs to Income Ratio

The Controlling Officer acknowledged as being correct the observations by the Auditor General. The Controlling Officer submitted that despite increases in the personal emoluments budget and the non cost reflective fees, the grant for the period 2014 to 2017 had remained static at K63.7 million. In addition, higher staff costs were compounded by the implementation of the new Government pay policy in 2012 which also led to increases in basic salaries, introduced mandatory housing and transport allowances for all employees. To mitigate these challenges, the university had been increasing student enrollment over the years from 9,595 in 2015 to 12,676 in 2017 with the view to increase revenue. In addition, the university had opened up satellite campuses in Lusaka, Solwezi and Mpika to capture students who found it difficult to enroll in Kitwe. The Committee also learnt that effective 2018, the institution had been obtaining Approved Parameters from the Ministry of Higher Education which formed the basis for negotiations with the unions as a measure to arrest the increasing labour costs. Further, the Government constituted a Technical Committee in December, 2016 whose mandate was to develop a new financing strategy for debt management for public universities. The Technical Committee completed its work in 2017 and among its recommendations was for the restructuring of internal pension schemes in the institution.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and strongly recommends that the Government should explore strategies that will enable the institution to charge cost reflective tuition fees considering the underfunding of the university and the fact that the grant amount has also remained static for over three years. The Committee further expresses concern that the strategy to increase enrollment of students is temporary. The Committee resolves to await a progress report on the implementation of the Technical Committee's recommendations with respect to the development of the new financing strategies for public universities, debt management and the restructuring of internal pension schemes in the institution.

4.9 Statement of Financial Position

An analysis of the Statement of Financial Position for the University as at 31st December 2015 and 2016 revealed various irregularities, to which the Controlling Officer responded as outlined below.

(i) Working Capital

The Controlling Officer submitted that the observation by the Auditor General was correct. The Controlling Officer submitted that the underfunding and lower than cost reflective tuition fees charged to students had resulted in the institution's failure to service its short term obligations, and as a result the obligations were ever rising to unattainable levels. The Controlling Officer informed the Committee that, to mitigate the problem, the Government constituted a Technical Committee in December, 2016 mandated to develop new financing and debt management strategies for public universities. The Technical Committee completed its work in 2017 and culminated in a Cabinet Memorandum recommending action plans to address the challenges. Government approved the Cabinet Memorandum on 14th August, 2017. The financing and debt management strategies for public universities were to be implemented over a three year period commencing in 2018. It was expected that once the financing and debt management strategy had been fully implemented, the institution would be able to maintain a positive working capital.

Committee's Observations and Recommendations

The Committee expresses concern that the university is unable to meet its short term obligations using its current assets. The Committee, however, finds some comfort in that the university is undertaking efforts with on-going income generating activities to mitigate the negative working capital. The Committee urges the Controlling Officer to engage the Treasury to ensure that the financing and debt management strategy for public universities is expeditiously implemented. The Committee will await a progress report.

(ii) Current ratio

The Controlling Officer was in agreement with the observations of the Auditor General. The Controlling Officer reiterated that the university had been increasing student enrollment over the years from (9,595 in 2015 to 12,676 in 2017) with the view to increase revenue. In addition, the university had opened up satellite campuses in Lusaka, Solwezi and Mpika to capture students who found it difficult to enroll in Kitwe. Further, the university had embarked on numerous income generating ventures in order to enhance its revenue base. Among these ventures the CBU-ICT Business and Innovation Centre in Lusaka, and the Dental Clinic at the School of Medicine in Ndola.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and urges the Controlling Officer to ensure that the university's current ratio is improved to enable it meet its obligations. In this regard, the Committee seeks an update on the performance of the measures and ventures being implemented by the university.

(iii) Poor Performance of Investment

The Controlling Officer submitted that in an effort to broaden its income generation, the university acquired the former Heer Limited at a cost of K3, 850,000 on 16th October 2013. In addition, Africanza Lodge and Restaurant Limited were incorporated and commenced operations on 1st December, 2013. She further added that it was regrettably Africanza Lodge and Restaurant Limited incurred losses during the period under review and consequently, the value of the investment reduced from K4, 354,000 in 2015 to K4, 167,000 in 2016. The Controlling Officer further informed the Committee that the reported losses were mainly due to general decline in the hospitality business and lower levels of advertising. In an effort to curb the poor performance, the university management was developing a hospitality training Curriculum to implement training programmes at Africanza Lodge and Restaurant Limited and that the caretaker committee had appointed the Deputy Chairperson of the caretaker committee and the Vice Chancellor to sit on the Africanza Board. The Committee learnt that these developments were intended to address the poor performance of this particular investment.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses concern that the measures highlighted do not seem to include a survival plan, a time frame and how these measures will mitigate against the impact of the decline in business in the hospitality industry. Further, the Committee finds it very irregular that the university management undertook a huge investment without having undertaken a proper due diligence and market analysis resulting in the huge losses recorded consistently. In this regard, the Committee strongly cautions management against such decisions that tend to be a drain on the institution's meager finances. The Committee resolves to await an update on the impact of the measures taken on the performance of the investment in question.

(iv) Failure to Remit Statutory Obligations–NAPSA &PAYE- K686, 848,082

The Controlling Officer acknowledged that the Auditor General's observations were factual. She further submitted that failure to settle statutory obligations was due to a low revenue base during the period under review. The Controlling Officer informed the Committee that with respect to NAPSA, management resolved to remit contributions less net salaries commencing January, 2015, and the arrears which arose prior to 2014 had been ring fenced following a court judgment. Further, the arrears were being liquidated as and when the institution had some funds and a total of K 4.9 million had been paid leaving a balance of K 12.4 million. Further, a payment plan had been agreed upon with NAPSA. While with regard to ZRA, management through the Technical Committee set up to develop new financing and debt management strategies for public universities had requested the Government for a bail out of this debt as it could not be financed from the grants and tuition fees generated by the university.

Committee's Observations and Recommendations

The Committee is concerned that the university has accrued penalties on NAPSA contributions due to its failure to pay on time. Further, the Committee is seriously concerned that the trend of delaying payments of statutory obligations and later settling for special arrangements outside the provisions of the law is becoming a permanent feature. The Committee finds this highly unacceptable as failure to remit statutory obligations has a direct and negative effect on payments for staff that are separated from the institution in various ways. In this regard, the Committee strongly urges the Controlling Officer to enhance supervision of the university, and ensure that the proposed measures aimed at liquidating the outstanding arrears are strictly enforced to avoid recurrence. The Committee further urges the Controlling Officer to engage the Secretary to the Treasury, to seek the intervention to bail out the university with regard to the K524.2 million owed to ZRA as PAYE as the university is not able to meet the obligation from its income. The Committee will await a progress report on the matter.

4.10 Staff Related Matters

(i) Inadequate Staffing Levels

The Controlling Officer submitted that inadequate staffing levels were generally due to insufficient funds to meet personal emoluments and general administration to maintain staff costs. The Committee was informed that out of 1,334 positions, 847 had been filled as of December, 2017 leaving a balance of 487 vacant positions. Some of the key personnel that had not been recruited were: Senior Librarian; Professors and Associate Professors; Senior Lecturers; Lecturers; Senior ICT Security Officer and Network Administrator, among others. The Controlling Officer further submitted that the university faced challenges to recruit academic members of staff as they were not readily available on the local market. To resolve this challenge, management undertook a recruitment exercise in March, 2019 in India, in particular for senior lectures at PhD level. It was expected that this initiative would narrow the staff shortfall at senior levels. In the interim, the institution had continued the Staff Development Programme which was also intended to address staff the shortage. The Committee also learnt that the University was working on a right-sizing exercise which would be completed by the fourth quarter of 2019 and that management was hopeful that with the new Financing Strategy for Public Universities, the institution would be able to recruit critical members of staff.

Committee's Observations and Recommendations

The Committee notes the submission from the Controlling Officer and resolves to await a progress report on the right-sizing exercise, expected to be completed by the fourth quarter of 2019. The Committee further urges the Controlling Officer to ensure that the implementation road map of the new approved Financing Strategy for Public Universities through the Treasury is implemented expeditiously and will await an update on the implementation of this strategy.

(ii) Failure to Recover Funds from Students going to Israel K303,900

The Controlling Officer explained to the Committee that on 22nd August, 2017, the university spent K303, 900 on airfares on behalf of twenty students that travelled to Israel under the Co-operation and training for Students in Educational Project in Agriculture as per the Memorandum of Understanding signed between CBU and the International Centre for Agriculture in Israel. The Controlling Officer further informed the Committee that the non recovery of the airfares from the students was mainly due to failure by management to manage the communication with the affected students timeously. Management was supposed to have briefed the students, at the time of travel that they were expected to refund the cost of airfares. The Committee was further informed that it was regrettable that recovery of the money had not been easy, as the affected students were vulnerable students and were under sponsorship from the Higher Education Loans and scholarships Board. In this regard, management was considering waiving the recovery. Going forward the university had engaged the International Centre for Agriculture Studies with regard to the possibility of deducting the cost from the allowances paid to the students and remit directly to the University. Feedback was being awaited. Further, the participants would be required to sign a commitment to refund airfares during their stay in Israel.

Committee's Observations and Recommendations

The Committee finds it unacceptable and irresponsible of management, to have spent K303,900 on airfares on behalf of twenty students who travelled to Israel when in fact the Memorandum of Understanding between the Copperbelt University and the International Centre for Agricultural Studies in Israel stipulated that eligible students were to meet their own tuition fees, return air tickets, and any other fees payable. The Committee does not accept the reasons advanced for this anomaly. In this regard, the Committee strongly urges the Controlling Officer not to waive the repayments, and disciplinary action should be meted out against the employees who sanctioned the payments. Further, the cost of airfares should be deducted from their salaries. The Committee will await a progress report on the matter.

(iii) Irregular Payment of Medical Refunds K18,074

The Controlling Officer informed the Committee that the two payments totaling K 18,074 were made to facilitate speedy commencement of the Staff Development Programmes by the two fellows who could not pay medical insurance from their own resources. The Committee learnt that the insurance premiums for one of the fellows would be borne by the sponsors while recoveries from the other fellow were commenced effective September, 2019.

Committee's Observations and Recommendations

The Committee notes the submission but expresses serious concern over the fact that these payments were made contrary to the institution's regulations. In this regard, disciplinary action should be instituted against officers who authorised the irregular payment. Going forward, given the need to promote Staff Development Programmes, the Committee strongly urges the University to revise the regulations so as to allow it to meet such costs and then effect recoveries from the concerned fellow(s). Further, the Committee is concerned at the inordinate delay in effecting recoveries of the funds. To this effect, the Committee urges the University to expedite the recoveries and to ensure that documentary evidence of the recoveries is presented to the Auditor General for verification. The Committee will await a progress report on these matters.

(iv) Irregularities in Administration of Housing Facilities /Housing Allowances

a) Failure to Charge Economic Rent

The Controlling Officer acknowledged the Auditor General's observation as correct. She submitted that the cause for this was that most of the 164 houses were in a dilapidated state making it difficult for the institution to charge economic rent. This prompted management to spend K 440,815 on maintenance and renovation. Further, management had engaged the University union which represented the employees who were occupants of the houses with a proposal to implement the provisions of the *Rent Act Chapter 206 of the Laws of Zambia,* Section 3 (2a) which was at variance with the collective agreements to provide free housing to members of staff or pay housing allowance. The Controlling Officer informed the Committee that once concluded, the matter would be resolved in compliance with the law and that following the renovations of the housing units, management would be in a position to charge economic rentals.

Committee's Observations and Recommendations

The Committee acknowledges the strides the University management has achieved in an effort to ensure that it charges economic rent. The Committee notes that management is in talks with the union with respect to upholding the provisions of the *Rent Act Chapter, 206 of the Laws of Zambia* Section 3, 2 (a), which stipulates that the employees who are accommodated in the staff houses will not be paid housing allowance. The Committee directs the Controlling Officer to avail all documents in support of the submission to the Auditor General for verification. The Committee will await an update on the ongoing discussion.

b) Rental Charges below the Minimum Charge

The Controlling Officer submitted that the observation by the Auditor General was factual. The Controlling Officer explained that members of staff were allocated institutional houses mid-way in the month. As such, rental recoveries were done on a pro rata basis as they could not be charged for the full month in the first month. However, the situation was but was normalised in the following month.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and directs that the Controlling Officer to submit all relevant documents to the Auditor General for verification, subject to which the matter should close.

4.11 Procurement of Goods and Services

(i) Failure to Produce a Procurement plan

The Controlling Officer submitted that it was regrettable that the University did not have a procurement plan as stipulated in the Public Procurement Regulation. She further submitted that even though management had a procurement plan in place, it had not gone through the approval processes and that procurement of goods and services was based on the University Annual Work Plan and Budget under the Output Based Budget (OBB) system. The Committee learnt that an annual procurement plan had been developed, and that the procurement plan had been approved by ZPPA.

Committee's Observations and Recommendations

The Committee expresses concern over the failure by the University management to put in place an approved procurement plan on which to base their procurement processes in compliance with the ZPPA Regulations. The Committee finds it unacceptable and highly irregular. In this regard, the Committee urges the Controlling Officer to institute disciplinary action against all the officers who failed to execute their responsibilities in order to deter others from such laxity. The Committee further directs the Controlling Officer to ensure that all relevant documents in support of the submission on the procurement plan for 2018 and 2019 are submitted to the Auditor General for verification.

(ii) Uncompetitive Procurement K 335,981

The Controlling Officer submitted that the observation by the Auditor General was true. She further submitted that the University invoked the provisions of Section 32 of the *Public Procurement Act, No.12 of 2008,* particularly where the goods were only available from a single supplier or where there was an urgent need, or additional goods were procured from the same sources because of the need for compatibility, standardisation, or continuity, or where the value of the goods fell in the applicable threshold of K 10,000. The Committee was also informed that invoking of the provision was due to the time factor in respect of preparation of the graduation ceremony and that going forward, management had directed the procurement manager to ensure that where applicable a "No Objection'' was obtained from ZPPA.

Committee's Observations and Recommendations

The Committee is dissatisfied with the response on the matter. The Committee observes that management failed to plan in advance considering that the graduation preparations should have been undertaken well in advance. It is the Committee's view that it was not necessary to invoke the provisions of the Act. Further, there was no documentation to show that where applicable "No Objections" were obtained from the Zambia Public Procurement Authority (ZPPA) which the Committee finds unacceptable. The Committee urges the Controlling Officer to institute appropriate punitive action against all officers involved in the blatant disregard of the law. The Committee resolves to await a progress report on the matter.

(iii) Unsupported Payments-K133,135

The Controlling Officer regretted that the University did not avail supporting documents with respect to K 133, 135 to the auditors contrary to the CBU Financial Regulations. The Controlling Officer explained that the failure to avail supporting documents to the auditors was mainly due to misplacement of the said documents. Management had since retrieved all the payment vouchers and relevant supporting documentation. The Committee was further informed that the four payments were as set out below.

a) Shakit Engineering for date stamps at a cost of K 13,750,
b) Subsistence allowances amounting to K 69,885 was paid to fifteen members of staff who had travelled to Kapasa Makasa University to attend the graduation ceremony
c) Executive dairies were purchased at K 31, 500 and
d) A payment of K 18,000 to Solwezi Radio for the School of Mining and Mineral Resources adverts.

Committee's Observations and Recommendations

The Committee finds the Controlling Officers reason for failing to avail the documents to the auditors unacceptable and a pure lack of proper internal control systems. The Committee strongly recommends that the officers who were responsible should be disciplined as this is a sign of laxity and failure to follow proper accounting procedures, especially that ample time is always given by the auditors before an institution is citied in the Auditor General's Report. The Committee further finds it highly unacceptable that the University, which is grappling with financial challenges, spent K69, 885 as Subsistence Allowance and K31, 500 on executive diaries. The Committee urges the Controlling Officer to ensure that prudence and priority in budget execution is upheld henceforth. The Committee directs the Controlling Officer to ensure that all the relevant documentation is submitted to the Auditor General for verification. The Committee will await an update on these matters.

(iv) Unretired Accountable Imprest- K105,172.18

The Controlling Officer acknowledged that the Auditor General's observations were correct. She explained that some employees who had not retired the imprest were contacted and were able to submit receipts for the expenditure incurred. For those members of staff who did not retire imprest, recoveries were being made through the payroll.

Committee's Observations and Recommendations

The Committee strongly reminded the Controlling Officer that imprest should be retired within forty eight hours as stipulated by the Financial Regulation No 96(3). Where there is failure to do so, Financial Regulation No (5) stipulates that disciplinary action should be taken. In this regard, the Committee urges the Controlling Officer to ensure that officers who fail to retire imprest should not only be requested to avail documentation but that deductions should be commenced immediately to avert the possibility of fabricated supporting documents being provided to merely satisfy the audit process. The Committee further directs that all available supporting documents be presented to the Auditor General for verification and that a progress report be submitted on the disciplinary action taken against the erring officers in this matter.

5.0 DEVELOPMENT BANK OF ZAMBIA MINISTRY OF FINANCE

Review of Operations

An examination of accounting and other records for the financial years ended 31st December 2015, 2016 and 2017 carried out in July, 2018 revealed the following:

5.1 Statement of Comprehensive Income for the financial years ended 31st December 2015 to 2017.

An analysis of the Statement of Comprehensive Income revealed various irregularities, to which the Controlling Officer responded as set out below.

(i) Fluctuating Net Interest Percentage

The Controlling Officer was in agreement with the Auditor General's observations. The Controlling Officer explained that, the fluctuating net interest percentage during the period under review was partly attributed to currency mismatch between the Bank's United States Dollar denominated lines of credit and the Zambian kwacha denominated loans issued to its clients. Thus, any movement in the exchange rate had an impact on the liability side when converted to kwacha, which was the Bank's reporting currency but there was no impact on the assets created in kwacha loans. Furthermore, fluctuating net interest percentage was attributed to movements in the Bank of Zambia Policy Rate and the inflation rate which formed a basis for pricing of the Bank's local currency facilities.

Committee's Observations and Recommendations

The Committee notes with exception that the bank decided to act only after the auditors had queried the Bank. The Committee also finds it unacceptable that the bank could not foresee the challenges associated with the shifts in the exchange rate which is a common variable in the economy and hence finds the Controlling Officer's response an admission of lack of foresight on the part of management. The Committee strongly recommends that stringent measures be put in place to avoid this query from recurring. The Committee resolves to await a progress report on improved net interest income margins.

(ii) Declining Profit Margins

The Controlling Officer submitted that the Auditor General's observations were correct. The Controlling Officer submitted that the declining profit margins during the period under review were attributed to an increase in costs arising from losses on non-performing loans. The major contributing factors were: failure by clients to honour their obligations with the bank as their investments failed to generate sufficient revenue; increasing operational expenses attributed to increasing employee benefit costs; increasing interest expenses due to increased borrowing as well as impact of adverse currency movements; reducing forex gains due to adverse currency movements and the absence of a debt recovery function.

Committee's Observations and Recommendations

The Committee is extremely concerned with the poor performance of DBZ. The Committee observes with concern that the reasons advanced as to why DBZ is performing poorly are mainly rooted in poor planning and failure to make proper business decisions with respect to changing economic parameters. The Committee observes that the declining profit margins during the period under review can only be attributed to very poor internal controls and poor supervision both by the Controlling Officer and management. The Committee sternly cautions the Controlling Officer against the poor supervision of the entity and urges him to ensure that appropriate disciplinary action is taken against officers who fail to diligently execute their duties. The Committee resolves to await a progress report on the improvement of the profit margins.

(iii) Impairment Losses and Charges

The Controlling Officer submitted that the increase in impairment charges for credit losses for the period under review was due to the increase in non-performing loans on the Bank's loan book, which was attributed to delays in loan disbursements hence exposing projects to cost overruns; missed business opportunities; absence of debt recovery function; weaknesses in monitoring of sanctioned projects; weaknesses in project underwriting resulting in financing of non-viable projects and unfavourable macro-economic environment, with unstable exchange rates, inflation rates and borrowing interest rates, among other things.

Committee's Observations and Recommendations

The Committee is concerned that DBZ impairment losses have continued to increase, signifying that the entity's financial assets have depreciated in value and the assets present values are less than their book value. The Committee observes that there has been poor supervision at the bank resulting in weak risk management, weak project underwriting, weak portfolio management and weak debt recovery management. As result, this has eroded the fortunes of the bank as evidenced by the continued decline in profit margin parameters. The Committee reiterates its recommendation that the Controlling Officer should ensure that a proper clean up is carried out both at the Board and management level. The Committee resolves to await a progress report on the matter.

5.2 Statement of Financial Position as at 31st December 2015 to 2017

Various irregularities were observed, to which the Controlling Officer responded as set out below.

(i) Weaknesses in Managing Equity and Return on Equity

a) Declining Return On Equity (ROE)

The Controlling Officer reiterated his submission that the declining profit margins during the period under review were attributed to an increase in costs arising from losses on non-performing loans and consequently affected the return on equity which is a measure of the return on the shareholder's investment or equity assets.

Committee's Observations and Recommendations

The Committee notes the Controlling Office's submission with concern as it does not prescribe any measures that will help turn around the operations of the bank. The Committee is further concerned that the bank achieved its highest Return On Equity in the three (3) years of about 8.4 per cent in 2015 which, however, reduced to 0.1 per cent in 2016 before further plummeting to negative 17.6 per cent in 2017. The Committee is of the view that the bank did not have a proper strategy to sustain its profit gains, which signifies lack of proper planning. The Committee urges the Controlling Officer to take stringent measures to ensure that the performance of the bank is improved, and resolves to await a progress report on the matter.

b) Depletion of Retained Earnings

The Controlling Officer submitted that the Auditor General's observation was noted. He further submitted that the bank's costs of borrowing (COB) on already existing lines of credit were predominantly in foreign currency (USD). The impact over the period under review had been due to exchange losses stemming from the depreciation of the Zambian kwacha which contributed to the erosion in the interest margins. Further, the increase in non-performing loans resulted in increased "Suspended Interest" (interest expected but not gained), consequently resulting in the deterioration of the interest margins over the period under review. The Committee was further informed that the Bank would match its Foreign Currency (FC) denominated assets with its Foreign Currency (FC) denominated Lines of Credit.

Committee's Observation's and Recommendations

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

(ii) Failure to Utilise Additional Government Capital Injection to Improve ROE

The Controlling Officer submitted that the Auditor General's observation was acknowledged as factual. He further submitted that failure to utilise additional Government capital injection to improve return on equity was attributed to:

a) Subsidiary loan (GRZ SME Line of Credit, "Euro-Bond"): the Government injected funds into DBZ using part of the Euro-Bond which had to be converted from debt to equity. The Bank re-priced the loans funded to bring it in line with the Bank's pricing policy as they were initially priced at a concessional rate of inflation plus 2 per cent, under the Euro-Bond Line of Credit Terms and Conditions. Following the re-pricing which was done after the Euro-Bond funds had already been fully disbursed to the projects; the value of the loans increased the cost on interest at book value. The clients financed under the Euro-Bond facility protested and stopped making payments; and
b) Following Governments cash equity injection of K 35 million, the Bank fully disbursed the funds to various projects as medium to long term loans. However, due to the deterioration of the performance of the existing loans, returns generated on these funds were eroded by impairment charges and losses from the existing non-performing loan book.

Committee's Observations and Recommendations

The Committee observes with grave concern the decisions that have been undertaken by DBZ's management resulting in a continued poor performance. The Committee is of the view that there is lack of capacity by DBZ staff, as there is a clear mismatch between the planned objectives and what is actualised. Additionally the Committee is disheartened that DBZ failed to generate profit on the money the Government injected into the entity, in an effort to improve return on equity. The Committee strongly urges the Controlling Officer to ensure that all the loans that were disbursed are repaid; failure to which the bank should repossess the debtor's collateral using all the available legal procedures. The Committee will await an update on the recovery of the loans.

(iii) deterioration of interest margins

The Controlling Officer submitted that interest margins had reduced because of declining profits in 2016 and the losses incurred in 2017. The Controlling Officer further submitted that the bank's costs of borrowing (COB) on already existing lines of credit were predominantly in foreign currency (USD). In this regard, exchange losses stemming from the depreciation of the Zambian Kwacha also contributed to the erosion in the interest margins. In addition to this, the increase in non-performing loans resulted in increased "Suspended Interest" (or Interest in Suspense) consequently resulting in the deterioration of the interest margins over the period under review.

Committee's Observations and Recommendations

The Committee observes that the deteriorating interest margins are an indication of reduced efficiency with which the bank's assets were being managed in the period under review. The Committee is worried about the negative trend in interest margins The Committee takes note of the submission and strongly urges the Controlling Officer to improve supervision of the bank, ensure that quantifiable and measurable strategies are put in place to improve the unsatisfactory performance of the bank. The Committee resolves to await a progress report on the matter.

5.3 Weaknesses in managing Credit Appraisal, Monitoring of Projects & Loan Recoveries

(i) Non - Performing Loans

The Controlling Officer noted the observations by the Auditor General as factual. He further informed the Committee that portfolio management had since been intensified by the bank, through the creation of a stand-alone portfolio management department as well as the debt recoveries unit. The Committee was informed that the portfolio management department had since engaged all portfolio clients establishing close working relations which included business support to ensure adherence to all approval conditions ranging from loan servicing to the expected impacts of the investments. In addition, some of the poor performing projects had been placed under receivership and litigation to ensure recovery of the funds owed.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses disappointment that DBZ only acted after auditors highlighted the fact that DBZ had over thirty six out of ninety one loan accounts being categorised as losses, as they had been outstanding with amounts totaling K 237,791,373. In this regard, the Committee strongly urges the Controlling Officer to ensure that management is proactive in dealing with matters that relate to the financial performance of the bank .The Committee further, urges the Controlling Officer to provide a time frame within which the outstanding loans will be recovered. The Committee will await a progress report on the matter.

(ii) Delayed Disbursement of Loans

The Controlling Officer acknowledged the Auditor General's observations as true. The Controlling Officer informed the Committee that during the period under review, the bank was in the process of approving projects, earmarked for funding when funds were available. Therefore, the process merely identified the projects and made financial commitments that the approved projects would be funded when funds were available. In view of the foregoing, the Controlling Officer submitted that there was no actual delay in the disbursement of the loans .Going forward; the bank would ensure that no projects were approved, when there were no funds available.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to keep the matter open in view for future audits.

(iii) Chasasa Farms K 3,109,617

An analysis of the agreement between DBZ and Chasasa farms with a loan to support an integrated fish farming project and rearing of livestock simultaneously revealed various irregularities, to which the Controlling Officer responded as set out below.

a) Lack of Proof of Existence of Equity Contribution

The Controlling Officer informed the Committee that the promoter was supposed to inject equity amounting to K 265, 050 in addition to the land and buildings which had been pledged. The equity funds were to meet part of the project cost which included the pump house, auxiliary equipment, motorbike, bicycles, initial working capital and pre-production expenses. Further, the listed items were to be financed by the client alongside DBZ disbursements for other project items. Unfortunately, the client did not finance the items as agreed. The bank had since received a payment of K 1,000, 000 from the client.

Committee's Observations and Recommendations

The Committee observes with concern the failure by DBZ management to ensure that before any loans are disbursed, proper due diligence and perfecting of securities is undertaken as this resulted in the failure by the promoter of the Chasasa farm project to inject an equity contribution of K 265, 050 contrary to the terms of the signed contract. The Committee further notes that a K 1,000, 000 has been paid to DBZ which is insignificant. The Committee directs the Controlling Officer to submit all the relevant supporting documents to the Auditor General for verification subject to which the matter should be closed.

b) Utilising Loan Proceeds on Ineligible Expenditure

The Controlling Officer submitted that the Auditor General's observations were correct. The Controlling Officer explained that, it was regrettable that the promoter utilised K635,536 of DBZ's loan proceeds to fund works that were outside the agreed project cost and to meet farm operational expenses which included salaries and wages. He further submitted that when this was brought to the attention of DBZ through the bank's forensic audit, the promoter was advised to inject the varied funds back into the project to facilitate the execution of the intended works. Further, the Committee was informed that efforts to recover the funds from the project had commenced as the project had been reclassified under the 'Loss Category'.

Committee's Observations and Recommendations

The Committee observes with exception that DBZ continued to disburse funds to the project despite being aware of the anomalies in the implementation of the project. In this regard, the Committee strongly recommends that disciplinary action should be meted out against all staff that processed the disbursement of the funds. The Committee directs the Controlling Officer to provide a time frame within which the outstanding loan amount will be recovered. The Committee resolves to await a progress report on the matter.

c) Loan Repayments and Outstanding Balances K6, 777,847

The Controlling Officer submitted that it was very unfortunate that during the period under review, no repayments had been received by the bank as the Chasasa farm project was not yet operational. However, efforts to recover the funds from the project had commenced as the project was under the 'Loss Category'. The Controlling Officer further submitted that the client had approached the bank with a proposal to sale off a plot that was part of the security package. In addition, funds amounting to K1, 000,000.00 were to be split between the bank and the client to enable the client to begin operations at a smaller scale. The proposal was approved by the bank and the said plot was sold. The bank had since received the payment of K 400, 000 in equity participation, as at September, 2019. The balances from the proceeds were injected back into the project to kick start the operations and the assets of the project had remained as part of the pledged security package to the facility.

Committee's Observations and Recommendations

The Committee is saddened that the outstanding loan balance increased from the borrowed amount of K 3,109,617 to K 6,777,847 through unpaid interest as at the time of the audit. The Committee finds it unacceptable that out of the accrued amount of the loan with interest; only K 400,000 had been paid. The Committee directs the Controlling Officer to provide a time frame within which the recovery of the loan will be completed. Further, the Committee recommends that management should sell off the project assets and the pledged collateral, so that the loan is paid off before it escalates to unmanageable levels. The Committee resolves to await an update on the matter.

(iv) Yalelo Limited

An analysis of the shareholders' agreement of DBZ, Liongate Venture Fund I SPC (LVFI) of Cayman Islands and Yalelo Limited, a fish farming company incorporated in Zambia, revealed various irregularities, to which the Controlling Officer responded as set out below.

a) Understatement of Dividends Receivable

The Controlling Officer submitted that while noting the Auditor General's observations, it was noteworthy that the computation of interest on preference equity in Yalelo Limited was based on clause 7.2 of the original shareholders' agreement of 2014. However, clause 7.2 of the 2014 agreement was subsequently amended by an addendum of 2015which provided that DBZ would be entitled to a dividend calculated at 23 per cent per annum of K 12,500 payable every 31st July which lead to the understatement in dividends receivable at the time of audit.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses concern, that the amendments that were effected reduced the basis for the calculation of the dividends, to which the Controlling Officer failed to give a justifiable cause for the change. In this regard, the Committee directs the Controlling Officer to submit all the relevant documents to the Auditor General for verification, to support and justify why the amendment was done. The Committee resolves to await an update on the matter.

b) Accrued Dividends and Interest Receivable

The Controlling Officer submitted that the accrued dividends plus interest as at 25th November, 2018, per client's bill was K19, 277,137.34 as opposed to K27, 183. The Controlling Officer further submitted that for the financial years 2014 to 2017, Yalelo limited financial performance showed that the company made losses and as such, were not in a position to pay the dividends on the bank's preference equity investment due to cash flow constraints. As of 13th September, 2019, the client had cleared their outstanding amount on the preferential share equity facility with the bank. The total remittance amount of K31, 883,319.38 had since been received by the bank and this had resulted in a successful exit of the bank as a shareholder in Yalelo Limited. The bank had made an application to PACRA for release of debentures and shareholding of the Development Bank of Zambia.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs the Controlling Officer to submit all the supporting documents to the Auditor General for verification, subject to which the matter should be closed.

6.0 INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

Review of Operations

A review of operations of the Corporation for the financial years ended 31st December 2014, 2015, 2016 and 2017 revealed the following:

6.1 Failure to Produce Annual Report

The Controlling Officer submitted that the Auditor General's observation were correct. He further informed the Committee that the cause of the delay to compile the annual reports was due to the nature of accounting procedure for IDC. The Committee learnt that IDC had to compile thirty three other annual reports from its subsidiary companies which informed the IDC's report. The Committee was further informed that the annual report for the financial year ended 2017 had since been prepared and ready for audit verification.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee is of the view that there is laxity on the part of IDC to ensure that annual reports are prepared timeously. The Committee therefore, strongly urges the Controlling Officer to ensure that the reports are prepared on time. The Committee urges the IDC to ensure that its performance should be of excellence, considering that it has a mandate to transform how business is conducted by parastatals. The Committee directs the Controlling Officer to submit the annual report to the Auditor General for verification, subject to which the matter shall be closed but be kept in view of future audits.

6.2 Lack of Financial Policies and Procedures Manual

The Controlling Officer submitted that the Auditors General's observations were correct. The Controlling Officer further submitted that the Procedures Manual had since been finalised and approved by the Management Executive Committee (MEC) of the Board and that the finance policy had also been reviewed by the MEC and would be submitted to the Finance and Administration Committee of the Board for approval.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee expresses concern that IDC was operating without the financial policies and procedures manual. The Committee cautions IDC against such laxity as the documents in question are vital policy documents to help in evaluating the accounting control procedures, providing guidance and information to assist in the preparation of accounts. The Committee further expresses dismay that in the absence of the financial policies and procedures manual it would be difficult to ensure that the accounting personnel are effectively and efficiently performing their responsibilities so as to achieve the set objectives. In this regard, the Committee urges the Controlling Officer to ensure the all accounting and planning documents are put in place without fail. The Committee directs the Controlling Officer to submit all supporting documents to the Auditor General for verification subject to which the matter should close resolves to close.

6.3 Statement of Comprehensive Income

The Controlling Officer submitted that IDC had improved its operating profit from negative K 2,523,900 in 2014 to K 39,999,237 in 2016.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs that all relevant supporting documents should be submitted to the Auditor General for verification, subject to which the matter should be closed and be kept in view of future audits.

6.4 Statement of Financial Position

The Controlling Officer explained to the Committee, that it was regrettable to have a negative K717, 768,000 for three state owned enterprises which were included in the value of investments amounting to K 14, 493, 294.00 for the portfolio of the subsidiaries. The negative amount was shared among the following: Zamtel stood at negative K206, 686,000; Zambia Printing Company had negative K 4,256,000; and Times Printpark had negative K 506,826,000. The Controlling Officer further explained to the Committee that the three subsidiaries were part of IDC's active restructuring plan that was being pursued by the IDC. The Controlling Officer submitted that some of the strategies to turnaround the entities were that, IDC planned to convert the debt of K 1.5 billion owed by Zamtel to the Ministry of Finance into equity and had also transferred to Infratel all the redundant assets. The Committee learnt that the restructuring at Zamtel had resulted in a reduction in head count and shrinking of directorates from eleven to seven. With respect to Times Printpak, IDC targeted to provide K45 million to finance the first phase of restructuring (Full restructuring would require K97m). The restructuring exercise was expected to right size the head count and accordingly reduce the fixed overheads to sustainable levels by the end of the fourth quarter of 2019. On the other hand, with respect to Zambia printing company, IDC was mobilising K5 million to fund redundancy costs as the company was being wound down.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission with concern and strongly urges the Controlling Officer to ensure that all the earmarked strategies are implemented to the latter. The Committee resolves to await an update on the matter.

6.5 Staff Issues

(i) Inadequate Staffing Levels.

The Controlling Officer submitted that IDC had a five-year phased recruitment plan aligned to its corporate strategy. The Controlling Officer explained that the phased recruitment plan considered the capacity of IDC to fund the payroll cost. In this regard, management had made administrative arrangements for the positions that had not been filled at the time of the audit to cover the vacancies. Further, subsequent to the audit, the following had been implemented: the position of Chief Investment Officer had been filled; the Manager- Risk's function had also been incorporated in the Office of the Manager Internal Audit as an interim measure; and the Manager Risk was also acting in the role of Treasury and Equity Manager pending confirmation of the Chief Investment Officer. The vacant positions of Manager-ICT and Manager Strategy and Research were being filled in line with the employment schedule approved by the Board as and when resources were available.

Committee's Observations and Recommendations

While noting the submission by the Controlling Officer, the Committee strongly urges the Controlling Officer to ensure that there are no administrative gaps in the efficient and effective management of the entity. The Committee resolves to await an update on the filling up of the remaining positions.

(ii) Unsupported Payment of Leave pay K 1,415,383

The Controlling Officer acknowledged the Auditor General's observations as being factual. The Controlling Officer submitted that following the approval of the conditions of service by the Board of IDC, ten employees who had been engaged prior to the approval of conditions of services were awarded contracts of employment and the old contracts under which they had been serving were severed. Accordingly, accrued leave days up to February, 2016 before the award of new their contracts, had to be settled. The Committee learnt that approval for payment of accrued leave days was granted by the CEO based on the memorandum generated by the Manager-Human Capital even though the individual staff leave forms were not filled in at the time. Further, leave days accrued were also paid to six Graduate Trainees upon completion of their Graduate Training Programme. The Controlling Officer informed the Committee that subsequent to the audit the leave forms had since been filled in and were ready for audit verification.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and urges the Controlling Officer to ensure that accounting procedures with their perquisite documents are duly completed and properly secured to avoid recurrence of the query. The Committee directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should be closed.

(iii) Irregular Increment of Salaries K 154,776

The Controlling Officer submitted that K 154,776 was paid as notch increments for ten officers on 16th January, 2017 as a way of motivating staff and upholding the staff morale. The Controlling Officer explained that the former Chief Executive Officer authorized the payment based on the memorandum from the Manger Human Resources and Administration. Regrettably, performance appraisals were not conducted because the performance appraisal tool had only been introduced during the year in question.

Committee's Observations and Recommendations

The Committee observes with exception that management did not follow the prescribed regulations to give the employees the salary increment. The Committee strongly urges the Controlling Officer to ensure that going forward the procedures and regulations are strictly adhered to. The Committee directs the Controlling Officer to submit all documents supporting the submission to the Auditor General for verification, subject to which the matter should be closed.

6.6 Failure to Implement Board Resolutions

The Controlling Officer submitted that the observations by the Auditor General were correct. The Controlling Officer informed the Committee that the decision to remove ESCO from the group was awaiting Cabinet decision while the sale of Lusaka Trust Hospital was delayed when the bidder with whom IDC had negotiated with progressively, filed for liquidation. He further submitted that the delay by Cabinet to transfer ESCO was exacerbated by the change of ministers at the Ministry of Works, while progress had been made with respect to Lusaka Trust Hospital. The Committee learnt that the AGM had approved the proposal to remodel the business into property and health service provision. With respect to the transfer of Kagem to ZCCM-IH, a transaction advisor had since been appointed and the board had approved the transaction and the re-alignment of ZCCM-IH mining assets.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses concern that the delay by Cabinet which was as a result of change of ministers in the Ministry of Works and Supply is unacceptable. The Committee strongly urges the Controlling Officer to ensure that the representatives of the group should endeavor to lobby for speedy decisions by Cabinet on the resolutions of the IDC Board, as a time lag in business has negative ramifications. The Committee resolves to keep the matter open and will await an update.

6.7 Unsupported Payments K 72,801

The Controlling Officer submitted that it was regrettable that twelve payments in amounts totalling K72, 801 made during the period under review were not supported with relevant documents such as receipts and invoices. He further submitted that there was no loss of value incurred from the transactions not supported by documentation. He further explained that mainly controls had since been put in place to ensure proper record retention.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee finds it irregular and unacceptable that accounting procedures were not adhered to. The Committee strongly recommends that caution should be given in writing to all officers who processed the transactions so as to deter others. The Committee directs the Controlling Officer to submit all the documents in support of the submission and also with respect to cautioning of the staff, subject to which the matter should be closed.

6.8 Unaccounted for Stores K 44,566

The Controlling Officer acknowledged the Auditor General's observations as true. The Controlling Officer submitted that controls had since been put in place to ensure proper record retention was adhered to.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission with dismay and urges the Controlling Officer to ensure that all accounting records are well secured and that the officers who were involved should be cautioned in writing. The Committee further directs that all the relevant documents for the unaccounted stores should be submitted to the Auditor General for verification, subject to which the matter should be closed.

6.9 Lack of Transport Policy

The Controlling Officer submitted that the observations by the Auditor General were correct. The Controlling Officer submitted that IDC had since formulated the Motor vehicle and Transport guidelines and these were being implemented. The guidelines covered fleet management, maintenance of vehicles, and staff usage of vehicles and monitoring of fuel usage per vehicle. He further informed the Committee that there was no longer allocation of 250 liters of fuel per month but vehicles were given fuel as and when need arose with respect to the assignments assigned.

Committee's Observations and Recommendations

The Committee observes with serious concern the amount of fuel that was being drawn per month at the time of audit. The Committee finds it unacceptable that there were no guidelines on how to draw fuel and when to replenish the fuel levels. Further, the Committee observes that in most cases, fuel drawings were not supported by authorised issue notes and that this created a platform to abuse the facility. The Committee strongly condemns the drawing of 250liters per month for each vehicle. In this regard, the Committee sternly directs that resource mismanagement should not be tolerated hence forth. The Committee directs that all documents supporting the submission should be submitted to the Auditor General for verification, subject to which the matter should be closed, but will be kept in view for future audits.

7.0 JUDICIARY

An examination of accounting and other records maintained at the Judiciary Headquarters and selected stations carried out in September, 2018 revealed various irregularities to which the Controlling Officer responded as set out below.

7.1 Failure to Produce Financial Statements

While noting the Auditor General's observation, the Controlling Officer submitted that the draft financial statements for the year ended 31st December, 2018 had been finalised and were ready for audit scrutiny. The Controlling Officer further submitted that the financial statements had been prepared in line with transitional International Public Sector Accounting Standards (IPSAS) cash basis accounting.

Committee's Observations and Recommendations

The Committee finds it unacceptable that the Judiciary failed to prepare the financial reports as stipulated in Section 20 of the *Judiciary Administration Act, No 23 of 2016*. While noting the cause of the delay, the Committee strongly recommends that disciplinary action should be meted out against the officers who did not prepare financial statements in time. The Committee resolves to await an update on the matter.

7.2 Failure to produce title deeds for 617 properties

The Controlling Officer submitted that management had since engaged the Ministry of Works and Supply and Government valuation department to undertake the exercise of collecting information on property size, extent and values in all the provinces. The information was required for the preparation of survey diagrams and site picking in the process of acquiring the title deeds. The Controlling Officer explained that recommendations for acquisition of titles had since been received for Lusaka, Central, Western, and Southern provinces. Furthermore, the Controlling Officer submitted that the exercise was ongoing for the remaining provinces depending on the availability of funds.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission on the strides that have been scored in a bid to acquire title deeds, the Committee expresses disappointment that the Judiciary has a number of properties without title deeds. The Committee cautions the Judiciary that they risk losing these properties in an event that people claim ownership to the properties and institute legal proceedings against the Judiciary. The Committee observes that this would easily lead into a conflict of interest and would be very untidy on the part of the Government. Therefore, the Committee strongly urges, the Controlling Officer to expedite the process of acquiring the title deeds. The Committee will await a progress report on the matter.

7.3 Failure to Fill Vacant Positions

The Controlling Officer submitted that the Auditor General's observations that there were a total of two thousand and eighty six (2,086) positions vacant were correct. The non-filling of the vacant positions was due to lack of adequate fiscal space to request for the Treasury authority that could absorb all the vacant positions. However, the Treasury had since granted the Judiciary Treasury authority to the sum of **K 6,118,435.00.** The Controlling Officer explained that the Judiciary had since filled a number of the vacant positions from 2086 to 1437 as at the time of audit, as outlined in the table below.

Province	**Establishment Register**	**Filled Positions**	**Vacant Positions**
Headquarters and Lusaka	1,934	1621	313
Eastern	626	542	84
Southern	616	500	116

Western	728	452	276
Copperbelt	731	731	0
Central	455	339	116
North Western	467	353	114
Northern	549	261	288
Lupapula	479	349	130
Total	**6,585**	**5,148**	**1,437**

Committee's Observations and Recommendations

The Committee notes the strides made to reduce the outstanding vacancies in the established structure and resolves to await a progress report on the filling of the remaining vacancies and requests the Controlling Officer to submit a time frame when this will be done.

7.4 Misplacement of Payroll Area K 2,863,043

The Controlling Officer acknowledged the Auditor General's observation as being correct. The Controlling Officer submitted as outlined in the table below.

Station	No of Misplaced Officers	Moved to Respective Station	Officers Not Moved
Chipata	9	8	1
Mongu	25	23	2
Livingstone	37	34	3
Chinsali	11	11	0
	81	**76**	**6**

The Committee was further informed that some officers were not moved. With respect to Chipata, one officer was physically stationed at his payroll station; while for Mongu, one officer could not be moved to his respective station as his physical station had incomplete payroll structure to accommodate the payroll transfer and one officer was dismissed and terminated from the payroll. The Controlling Officer further explained that with regard to Livingstone, two officers were dismissed and terminated from the payroll and one officer could not be moved to his respective station as the physical station had incomplete payroll structure to accommodate the payroll transfer.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission on the misplaced payroll, the Committee is extremely concerned with the failure by management to put in place control measures to avert the issue of misplaced payroll points. The Committee is concerned that without control measures, there are high risks of having ghost workers on the payroll and this also creates a platform for abuse of the meagre resources. In this regard, the Committee resolves to await a progress report on the measures that will be implemented to ensure that control measures are put in place to avoid recurrence of the query.

7.5 Irregular Payment of Hardship Allowances K 134, 963

The Controlling Officer submitted that out of the twenty-one officers reported in the audit report, nine officers had the irregular payment of hardship allowances terminated and out of the nine, five had the recoveries effected, while four had the recoveries effected even though deductions were not showing on their payslips as the officers had exhausted their 40 per cent debt service ratio. Further, two officers out of the twenty-one were physically stationed at rural stations, while ten officers out of the twenty-one (21) had the recovery effected even though the deductions were not showing as the officers had equally exhausted their 40 per cent debt service ratio.

Committee's Observations and Recommendations

While noting the Controlling Officers submission, the Committee resolves to request an update on how much has been recovered from the irregular payment of hardship allowances amounting to K 134, 963. The Committee further observes with concern that deductions were effected for some officers even though these were not showing on their individual payslips. In this regard, the Committee directs the Controlling officer to submit for verification a report on the monies allegedly being deducted. The Committee will await an update on the matter.

7.6 Payment of Remote instead of Rural Hardship Allowance – Chipata K 8,270

The Controlling Officer submitted that the Auditor General's observations were noted. The Controlling Officer further submitted that five officers who were reported as wrongly getting remote hardship allowances instead of rural hardship allowances had the differences between remote and rural hardship allowance effected. The Committee was also informed that, one officer out of the five officers had since retired and migrated to a separate payroll; while the other two officers had the differences effected even though the deduction could not show on their payslips as the officers had exhausted their 40 per cent debt service ratio.

Committee's Observations and Recommendations

The Committee strongly urges the Controlling Officer to ensure that control measures are put in place to curtail the irregular payments of allowances. The Committee requests for an update on the recoveries that have since been effected and are not showing on the officers pay slips.

7.7 Irregular Use of Imprest K 79,628.92

The Controlling Officer submitted that the Auditor General's observations were correct. The Judiciary had cautioned the sub-warranty holders and advised them to desist from the practice. Management had since put in place a system of signing contracts with suppliers as a measure to ensure that before any purchases were done, sub-warranty holders had to ascertain the cost and the suppliers. The Controlling Officer further explained that sub-warranty holders where strictly cautioned not to wrongly use imprest unless in circumstances that were justifiable to purchase goods without pre knowledge of the cost and would be supplier.

Committee's Observations and Recommendations

The Committee is disappointed with the failure by officers to follow accounting procedures and strongly recommends that as opposed to cautioning the warranty holders, the Controlling Officer should ensure that recoveries are carried out from all officers who were involved as a measure to deter others. The Committee resolves to await a progress report on the matter.

7.8 Unaccounted for Stores K 14,535

The Controlling Officer submitted that the Auditor General's observations had been noted. She informed the Committee that the information relating to disposal documents for fuel such as fuel account statement and disposal details could not be availed at the time of audit because the service station had closed down, and there was no way of accessing the said information. The service station in question had since been opened and the documents had all been provided and were ready for audit scrutiny. With regard to the management of general stores, disposal details could not be availed at the time of audit because the officer who was tasked to manage the stores office was untrained. Disposal details had since been prepared and were ready for audit scrutiny.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission, and urges the Controlling Officer to caution the officers that were involved. The Committee directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should be closed.

7.9 Infrastructure Development

A physical verification of projects and infrastructure in selected districts revealed various irregularities to which the Controlling Officer responded as outlined below.

(i) Construction of Litoya Local Court K1,084,079

a) Incomplete Court Building

The Controlling Officer acknowledged that the Auditor General's observations were correct. Management had since requested the Ministry of Housing and Infrastructure Development through the Provincial Infrastructure Officer to inform the contractor to partially handover the court building so that the officers could start using the facility and also safeguard the building from vandalism. The Controlling Officer also informed the Committee that this would resolve the challenge of using the dilapidated court room that posed a risk to the people.

Committee's Observations and Recommendations

The Committee expresses concern that the delayed completion of works has made the delivery of justice a challenge considering that court cases are being heard from a dilapidated court room that poses a risk to the people. The Committee strongly urges the Controlling Officer to engage the Secretary to the Treasury and the Minister of Housing and Infrastructure Development to intervene in the matter so that the court building is handed over considering there are very few works that are outstanding and people are using a dilapidated court room. The Committee resolves to await a progress report on the matter.

b) Incomplete Holding Cells

The Controlling Officer acknowledged that the Auditor General's observations were correct. Management submitted that there had been no progress made on the project due to lack of funding from the Treasury and that some of the projects were commenced as far back as the year 2010.

Committee's Observations and Recommendations

The Committee observes that most of the outstanding works with respect to the construction of local courts date as far back as the year 2010. The Committee is saddened that some of these projects have not been completed for over nine years. The Committee strongly urges the Treasury to intervene as they implement the Presidential directive to give priority to all construction projects that are at 80 per cent completion level as the country's resources envelope is constrained. The Committee resolves to await a progress report on the matter.

(ii) Construction of Chinsali Subordinate Court K 9,179,000

a) Loss of Funds through Interest charges on delayed Payment of Certified Works

The Controlling Officer submitted that the Auditor General's observations were correct. Management did request for a legal opinion from the Office of the Attorney General on the expired contracts with respect to capital projects. The Controlling Officer explained that the issue of loss of funds through interest charges and expired performance bonds affected all the infrastructure projects under the Judiciary. The Attorney General had since guided that considering that the initial contract had expired, the Judiciary was advised sign a new contract. However, this had not been done due to lack of funds. The Committee was further informed that pursuant to the Attorney General's advice, the Controlling Officer had since written to the Secretary to the Treasury requesting for funds to enable the Judiciary to sign the new contracts. Furthermore, the Ministry of National Planning and Development was currently taking stock of all the infrastructure projects.

Committee's Observations and Recommendations

The Committee reiterates its displeasure on the slow pace at which the construction of the local courts is being undertaken across the country, due to lack of sufficient and timely funding. The Committee resolves to await a progress report on the matter.

b) Failure to complete Construction works as per Contract Agreement.

The Controlling Officer submitted that the Auditor General's observations were correct. The Controlling Officer explained to the Committee that the contracts could not be completed on time due to lack of funding. The Judiciary had since received a legal opinion from the Office of the

Attorney General with respect to the expired contracts and was advised to enter into a new contract which must adhere to the provisions of procurement Act. The Committee learnt that works would be completed as soon as funds were available.

Committee's Observations and Recommendations

While noting the submission's from the Controlling Officer, the Committee is disheartened to learn that most of the construction works that had been embarked on were incomplete, while those that are partially complete are being vandalised. The Committee is concerned that this will lead to spending more money on the same projects which will in turn cost far beyond their initial cost. The Committee strongly condemns this as it's a serious drain on the meager resources that could be channeled to other pressing needs. In this regard, the Committee strongly directs the Controlling Officer to ensure that, her office should always take a leading role to advise the Government, to only embark on mammoth projects, when there is certainty of availability of funds, as opposed to the current scenario where there are so many uncompleted projects due to lack of consistent funding. The Committee will await an update on all the pending construction projects.

c) Failure to provide Revised Programme of Works and Status Report

The Controlling Officer submitted that the Auditor General's observations were correct. The Controlling Officer informed the Committee that the contractor made an application to the Ministry of Housing and Infrastructure Development, who were Project Managers, requesting for an extension of time within which to complete the project. Consequently, the extension of time was awarded, which also indicated the revised date of completion of works. However, the project was affected due to lack of funding and the Office of the Attorney General had guided on how to proceed when funds were available.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await a progress report on the matter.

(iii) Construction of Munkonge Local Court – Kasama K 676,575

a) Lack of Terms and Conditions – Contract Document

The Controlling Officer acknowledged that the Auditor General's observations were true. Management submitted that the Terms and Conditions of the Contract, Section IV were not stated in the contract document at the time of award. The Controlling Officer explained that this was one of the projects that had equally been affected by lack of funding and the contract had since expired. The Controlling Officer reiterated that, the Judiciary had since received a legal opinion from the Office of the Attorney General to enter into a new contract that adhered to the procurement laws and regulations. The Committee was also informed that the Terms and Conditions of the Contract Section IV would be included in the new contract.

Committee's Observations and Recommendations

The Committee expresses worry on how Government is losing money through uncompleted construction works and expired contracts among others. The Committee sadly observes that though a larger amount totalling K477, 095, representing 70.5 per cent, had been paid leaving a balance of K199, 479 of the contract sum; the project is still incomplete and has been abandoned. The Committee strongly urges the Controlling Officer to ensure that works on which public resources are spent are strictly supervised to avoid such unnecessary administrative gaps. The Committee resolves to await a progress report on the matter.

b) Delayed Completion of the Local Court and Ancillary Works

The Controlling Officer acknowledged that the Auditor General's observations were true. Management submitted that the contracts could not be completed on time due to lack of funding. The Judiciary had since received a legal opinion from the Office of the Attorney General to enter into a new contract. The Controlling Officer informed the Committee that works would be completed as soon as funds were available.

Committee's Observations and Recommendations

The Committee will await an update on the matter.

c) Poor Workmanship

The Controlling Officer submitted that the Auditor Generals 'observations were correct. Management had since engaged the Provincial Infrastructure Officer to ensure that all the defects were rectified before the final handover.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and urges her to continue pursuing the Ministry of Housing and Infrastructure Development who are the supervising agencies to ensure that the contractors are not carrying out substandard works. The Committee will await a progress report on the matter.

d) Use of Outside for Court Sessions

The Controlling Officer submitted that the Auditor General's observations were correct. Management had since requested the Ministry of Housing and Infrastructure Development through the Provincial Infrastructure Officer to inform the contractor to partially handover the court building so that the officers could start using the facility.

Committee's Observations and Recommendations

The Committee agrees with the Judiciary and further express disappointment that due to failure to complete the project, court hearings are being held under a tree. This is highly unacceptable. In this regard, the Committee strongly urges the Treasury to ensure that funds are made available to complete Munkonge local court expeditiously. The Committee will await an update on the matter.

(iv) Construction of Mukuka Mfumu Local Court – Mungwi K 602,587

a) Failure to Provide Performance Security against the Contract

The Controlling Officer submitted that the Auditor General's observations were correct. Management acknowledged that the contract did not include the clause on the performance security contrary to section 127 (1) of the *Public Procurement Regulations Act. No 15 of 2011*, despite the contract sum being in excess of K500, 000. The Controlling Officer further explained that the project had equally been affected by lack of funding and the contract had since expired. The Controlling Officer reiterated that they had received the legal opinion from the Office of the Attorney General to enter into a new contract. The performance security clause will be included in the new contract document.

Committee's Observations and Recommendations

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

b) Delayed Completion of the Local Court and Ancillary Works

The Controlling Officer submitted that the Auditor General's observations were correct. The Controlling Officer further submitted that the works could not be completed on time due to lack of funding. The Judiciary had since received a legal opinion from the Office of the Attorney General to enter into a new contract which must adhere to the provisions of the Public Procurement Act. The works will be completed as soon as funds were available.

Committee's Observations and Recommendations

The Committee resolved to await a progress report on the matter.

8.0 MEDICAL STORES LIMITED (MSL)

Review of Operations

An examination of accounting and other relevant records for the financial years ended 31st December 2014 to 2017 revealed the following:

8.1 Corporate Governance Matters

i) Irregular appointment of Board Members

The Controlling Officer submitted that the Auditor General's observation was correct. He further explained that the Board of Directors consisting of eleven members was appointed on 28th January, 2014, by the Minister of Health for four year tenure. He further submitted that this was done in accordance with the MSL Board Charter prior to the transfer of MSL shares to IDC on 24th August, 2015. Further, he informed the Committee that there was a discrepancy between the company's articles of association and the Board Charter with respect to how many members were to be appointed to the Board. The Committee was also informed that upon the transfer of MSL to IDC, IDC appointed the new Board of Directors in March, 2018 for tenure of one year in anticipation that the conversion of Medical Stores from a company limited by shares to a statutory body would be completed within a period of one year after which the discrepancy would be resolved. Unfortunately, the process took longer than expected resulting in an over expenditure of K 249,377. The Committee also learnt that progress had been made towards the conversion of Medical Stores into a statutory body.

Committee's Observations and Recommendations

The Committee finds it unacceptable that there is a discrepancy between the Board Charter and the articles of association for MSL. The Committee observes that the effect of the articles of association is that it creates a contract between the company and each member; and amongst the members who should adhere to its provisions. In this regard, the Committee urges the IDC to implore management to adhere to the articles of association with regards to the number of directors to be appointed to board. The Committee further urges the Controlling Officer to institute disciplinary action on the officers who wrongly advised the Minister with respect to appointing eleven board members. The Committee instructs that a report on the disciplinary action should be submitted to the Auditor General's Office for verification, subject to which the matter should be closed.

ii) Uncertainty on the Transformation of MSL

The Controlling Officer submitted that the Auditor General's observations were noted. The Controlling Officer explained that as part of the IDC's transformation mandate for state owned enterprises and its subsidiaries, the Board of the IDC resolved to transform MSL into a statutory body and accordingly a Technical Working Group was constituted to draft a layman's Bill which would transform MSL into a statutory body. The Committee learnt that following the enactment of the *Zambia Medicines and Medical Supplies Act. No 9 of 2019,* MSL was transformed into a statutory body.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to close the matter.

iii) Failure to adhere to the Approved Staff Establishment

The Controlling Officer submitted that the Auditor General's observation was noted. He submitted that the seventy employees, who were not part of the establishment, were directly recruited by the project sponsors, Chemonics under the USAID projects. The conditions of service for the project staff were separate from those of MSL and their contract tenure was tied to the project which lasted for six months to one year. The Controlling Officer further submitted that in 2018, MSL Board of Directors approved a new organisation structure which incorporated all the new positions which had initially been created under the project.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's response and directs that all documents supporting the submission be submitted to the Auditor General's Office for verification, subject to which the matter should be closed.

iv) Lack of Risk Management Policy

The Controlling Officer submitted that the Auditor General's observation was correct. He further submitted that subsequent to the audit, MSL management engaged a consultant with support from the European Union (EU) to develop a framework on risk management. The framework would form the basis for a new Risk Management Policy to be submitted for approval to the board. The Controlling Officer further informed the Committee that, management had strengthened the internal audit function and recruited additional staff to oversee the risk management activities.

Committee's Observations and Recommendations

The Committee observes with concern that, MSL was operating without a Risk Management Policy. The Committee urges the Controlling Officer to ensure that the Risk Management Policy is expeditiously formulated and submitted for approval to the board. The Committee strongly urges the Controlling Officer to enhance supervision of the entity to ensure that all operational policy documents are put in place. The Committee resolves to await an update on the formulation of the risk management policy.

v) Lack of Disaster Recovery Site (DRS)

The Controlling Officer submitted that the Auditor General's observation was correct. He further informed the Committee that subsequent to the audit finding, management had undertaken measures to put in place a disaster recovery site. These measures included, formulation of an electronic logistics management information systems (ELMIS) which was to be hosted at Zambia National Data Centre (ZNDC) and purchase of a separate server for the warehouse management system for the Copperbelt central store that could process orders for the whole country in the event of a major system failure in Lusaka. The Committee was further informed that the procurement process for the interventions had been embarked upon.

Committee's Observations and Recommendations

The Committee finds it unacceptable that MSL has been operating without a disaster recovery site. The Committee notes the Controlling Officer's submission on the strides that have been made, but cautions the Controlling Officer against a laxity approach to ensuring that all the relevant operational policy documents are in place. The Committee will await an update on the implementation of the disaster recovery site.

8.2 Delayed preparation of Financial Statements

The Controlling Officer submitted that the Auditor General's observation was correct and regrettable. He informed the Committee that the delay to prepare the financial statements was caused by a delay to complete the audit of the statements. This was because of the holdup in the finalisation of the procurement process to appoint new external auditors for the financial year ended 2017. The Controlling Officer further submitted that the audit had since been completed and the draft financial statements would be signed when the board was appointed.

Committee's Observations and Recommendations

The Committee finds it extremely unacceptable that contrary to the provisions of the *Companies Act. No. 10 of 2017,* MSL failed to prepare financial statements. The Committee recommends that disciplinary action should be instituted against the erring officers and directs that a disciplinary report and the signed financial statements should be submitted to the Auditor General's Office for verification subject to which the matter should be closed.

8.3 Statement of Comprehensive Income for the Year Ended 31st December 2014 to 2016

The Controlling Officer submitted that the Auditor General's observation that the income for MSL had dropped while expenses increased was correct. He informed the Committee that the increase in income for the year 2015 was due to the funds that were provided by UNDP, Global Fund and USAID for service fees of K43.7 million which later was reduced to K39.3 million in 2016. The Controlling Officer further submitted that included was a K15.3 million grant from SIDA which was later reduced in 2015 when the grant period ended. The Committee learnt that the changes in the agreements with respect to services' fees storage and distribution impacted MSL's income base negatively. However, the impact on the total fee income was mitigated by the increase in total fees paid by Global Fund of K13.6 million compared to 2016. In addition to the above, the Controlling Officer informed the Committee that the increase in costs in 2016 was mainly driven by the increase in activity following the extended mandate for MSL. MSL had adopted the last mile delivery approach in the delivery of medicines which resulted in recruitment of additional staff and harmonisation of salaries among statutory organisations undertaken by the Public Service Management Division (PSMD) which resulted in an increase in MSL employee costs.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's response and directs that all relevant documents regarding the submission should be submitted for audit verification, subject to which the matter should be closed.

8.4 Statement of Financial Position for the Year ended 31st December 2016, 2015 and 2014

An analysis of the Statement of Financial Position for the years 31st December, 2016, 2015 and 2014 revealed various irregularities, to which the Controlling Officer responded as set out below.

(i) Failure to collect service fees

The Controlling Officer submitted to the Committee that the Auditor General's observation was correct. He informed the Committee that K 1, 885,985 was still outstanding as at 31st December, 2018, because by the time internal payment processes were completed and approval granted at the local Programme Management Unit (PMU) of the Global Fund, the initial grant had come to an end in 2017. He added that in order to make payments from the new grant, whose implementation commenced at the beginning of 2018, a fresh approval, had to be obtained by the local office from the Global Fund, Geneva office. The Controlling Officer explained that MSL had written to the Permanent Secretary for the Ministry of Health to request for support.

Committee's Observations and Recommendations

The Committee finds it extremely unacceptable that, the MSL has failed to collect service fees when in fact the authority had already been granted. The Committee however, observes that MSL has written to the Permanent Secretary, Ministry of Health for support to seek a solution on the matter. The Committee resolves to await an update on the collection of the funds in question.

(ii) Non-remittance of statutory obligations

The Controlling Officer submitted that the Auditor General's observations were correct. The Controlling Officer further submitted that the delay in paying statutory obligations was due to inadequate cash flows occasioned by a number of factors among them: reduction in service fees by USAID from K19.7 million paid in 2015 to K1.7 million in 2016; reduction in storage fees in 2017 from Global fund. He further submitted that the reduction in the amount received and the change of mode of support from cash to payment in kind adversely impacted MSL's cash flows and accordingly its ability to settle statutory obligations. The Committee was also informed that subsequent to the audit finding, MSL had since entered into a Time to Pay agreement with ZRA which would result in the waiver of penalties and interest upon full adherence to the agreement. He further added that the principal amount due to NAPSA as at December, 2017 had since been fully paid.

Committee's Observations and Recommendations

The Committee takes note of the strides made by MSL to liquidate the statutory obligations that are due. The Committee strongly urges MSL to fully adhere to the agreement with ZRA so as to achieve the waiver of penalties and interest. In view of the above, the Committee directs the Controlling Officer to submit all documents supporting the submission and proof of payment of the outstanding statutory obligations, to the Auditor General for verification, subject to which the matter should be closed.

8.5 Returned Medicines and Medical Supplies due to wrong/excess supply, short expiry or product not ordered K 615,169

The Controlling Officer acknowledged as true the Auditor General's observation. The Controlling Officer explained that with respect to wrong/excess supply of products not ordered, there had been an increase in the orders that MSL was expected to process. The Committee was informed that there was a rapid increase from approximately 300 orders per month to over 2,800 orders per month. Consequently, this resulted into dispatch of wrong products due to human error as large volumes were processed using mainly a paper based system. Further, the Controlling Officer informed the Committee that the supply of excess products not ordered was only undertaken if a facility consented to utilise the product or if the Ministry of Health had provided a distribution list of a product in an effort to ensure rational allocation and equity of access. The Controlling Officer further explained that in order to address the above challenges, MSL implemented a number of measures among them: stringent stores management procedures to address staff competences, introduction of a new fully automated system that ensured stock was not only accurate but was secure. In view of the foregoing, the Controlling Officer submitted that following the introduction of these systems, incidences of wrong, excess orders had drastically reduced to less than 2 per cent. In addition MSL was able to identify not only where the error occurred, but also the source of the error. With regard to short expiry, the Controlling Officer submitted that MSL had put in measures such as, requesting for weekly provision of information from the Ministry of Health. The Committee also learnt that the continuous engagement with the Ministry of Health on products restricted to particular programs that were at risk of expiry facilitated timely distribution and MSL was able to undertake weekly stock counts to ensure the continuous counting of assigned locations of inventory to verify stock accuracy and checking of expiry dates.

Committee's Observations and Recommendations

The Committee observes with concern that, wrong and excess supply of medicines as well as ordering of un-required products by MSL are a hazard to the end users. The Committee takes note of the measures that have been put in place by MSL to eradicate the problem of returned medicines and medical supplies and urges the Controlling Officer to enhance supervision of the entity. The Committee further directs that all documents supporting the submission be submitted to the Auditor General for verification, subject to which the matter should close but will be kept in view for future audits.

8.6 Failure to commercialise MSL

The Controlling Officer submitted that the Auditor General's observations were noted. He further submitted that it was noteworthy that the US$2 million (K21, 800,000) which was pledged as support by the Swedish International Development Agency (SIDA) towards commercialisation of MSL was never received by MSL and therefore, it was not spent. Further, the bank statements for the project duration presented to the Auditor General revealed that the cited USD 2,000,000 was never received. The minutes of the forty fourth meeting of the board of directors of MSL, revealed that SIDA had indicated willingness to support the commercialisation of MSL by setting aside a provisional sum of US$2 million for the same purpose and that the board had approved the initiative. The Committee also learnt that the consultant who was supposed to develop the commercialisation concept note was engaged and directly paid by SIDA and not MSL.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's responses and directs that the documents supporting the submission should be submitted to the Auditor General for verification, and request an update on the commercialisation of MSL.

9.0 NATIONAL HOUSING AUTHORITY

A review of the operations of National Housing Authority for the financial year ended 31st December, 2017 revealed various irregularities, to which the Controlling Officer responded as set out below.

9.1 Failure to raise budgeted for Revenue

The Controlling Officer submitted that it was regrettable that National Housing Authority (NHA) failed to raise revenue as budgeted for during the period under review. The Controlling Officer explained that the major budgeted activities were not undertaken as earlier planned. NHA had projected to generate revenue from the sale of developed properties, contract revenue and consultancy fees. He further explained that unfortunately these activities never materialised. The Committee also learnt that NHA projected revenue from sale of concrete products which activities fell short of the expectation leading to the eventual suspension of the business unit operation. The Controlling Officer further informed the Committee that to mitigate the liquidity challenges, the Ministry had awarded NHA new projects to construct low medium cost houses and had also capitalised NHA by way of taking over the Shelter Afrique loan in December, 2017

Committee's Observations and Recommendations

The Committee expresses concern about the huge variance of over 60 per cent between the budgeted for revenue and what was eventually realised. The Committee observes that such a huge variance can only be as a result of poor planning and ineffective systems control by NHA's management. The Committee strongly urges the Controlling Officer to ensure that management improves its strategic planning, market research and an aggressive marketing strategy. The Committee is of the view that considering that there are many players dealing in similar products such as block making, property renting and presale of properties that form part of the core business for NHA, there is need for pragmatic business acumen. In this regard the Committee resolves to keep the matter open and in view in future audits.

9.2 Operating without a Strategic Plan

The Controlling Officer submitted that the Auditor General's observation was correct. He explained that it was regrettable that NHA had been operating without a Strategic Plan for four years covering the period January, 2015 to December, 2018. The Controlling further submitted that NHA did not revise the strategic plan following its expiration in 2014. The Controlling Officer explained that NHA used the strategic annual turnaround plan for its operations as it awaited the appointment of the board. The Committee was further informed that NHA had prepared a strategic plan for 2020 to 2024 which was undergoing the final approval process and would be ready by end of 2019.

Committee's Observations and Recommendations

This Committee finds it unacceptable that as opposed to formulating a strategic plan, NHA is using a strategic annual turnaround plan to inform its operations. The Committee is of the view that an annual plan cannot be used in the place of a strategic plan which is expected to cover a longer period of not less than three to five years, provide goals and targets for the entity. The Committee strongly urges the Controlling Officer to ensure that whenever there is no board, the Ministry should expedite the process of instituting a board so as to avoid creating a vaccum at the strategic level of the entity. The Committee resolves to await an update on the preparation of the strategic plan for 2020 to 2024.

9.3 Weaknesses in discharging Statutory Mandate

(i) Failure to Produce Annual Housing Report

The Controlling Officer submitted that the Auditor General's observation was correct. He explained that NHA did not undertake the housing census due to financial constraints and consequently failed to produce the annual housing report as provided for in the NHA Act.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and urges the Controlling Officer to explore the use of secondary data from other cooperating partners to formulate the annual housing report, as opposed to only depending on NHA's housing census which precedes the annual report. The Committee further recommends that as opposed to conducting a yearly census, NHA should consider conducting a housing census after a period of three to five years. The Committee is of the view that parameters do not drastically change within a period of one year and that the cost incurred does not justify conducting the housing census yearly.

(ii) Failure to establish Housing Revolving Fund

The Controlling Officer submitted that NHA was unable to establish the housing revolving fund meant for providing finance for housing programmes throughout the Republic as provided for in the *National Housing Authority Act, Chapter 195 of the Laws* of Zambia due to financial constraints. The Committee was also informed that the housing revolving fund required a substantial capital outlay for it to have a meaningful impact on the delivery of decent, affordable and sustainable housing. He further submitted that NHA had commenced the process of raising funds through a Revolving Commercial Paper Programme (RCPP) as a platform for setting up a Housing Revolving Fund in the future. The Controlling Officer further explained that the revision of the National housing policy, which would provide a 15 per cent of the National budget toward the housing sector, to facilitate for the establishment of the Hosing Revolving Fund was being finalised.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission. The Committee expresses concern that no time frame has been stipulated in which the alleged RCPP programme will produce accruing benefits. The Committee directs the Controlling Officer to submit to the Auditor General for verification, all the relevant documents with respect to the formulation of the revolving fund. The

Committee further directs the Controlling Officer to submit strategies that have been put in place to actualise the allocation of the 15 per cent of the National budget towards housing development. The Committee will await an update on the matter.

9.4 Impact of Presale Scheme on the income of the NHA

(i) Wasteful expenditure – Rent refunds K 4,290,923

The Controlling Officer submitted that it was regrettable that NHA had to pay rent refunds totaling K4, 290,923 due to breach of contractual obligations for the failure to deliver the houses in the agreed period of not more than ten months. The Controlling Officer explained that NHA subcontracted some of the works and most of the subcontractors delayed to complete the houses. The Committee learnt that all the presale houses had since been handed over to the owners and rental refund payments had ceased. He further explained that NHA had applied Liquidated and Ascertained Damages (LADs) on some of the delayed contracts in which NHA commenced legal action against some subcontractors to recover costs.

Committee's Observations and Recommendations

The Committee is disappointed that management failed to honour its own contract obligations resulting into a wasteful expenditure through rent refunds. The Committee further observes that the penalty resulting from the failure to complete the construction of the houses should have been born by the subcontractors who had delayed to complete the project in time. The Committee strongly condemns this kind of poor planning and laxity in execution of planned activities. The Committee further urges the Controlling Officer to caution management against such retrogressive tendencies. The Committee resolves to await a progress report on the Liquidated and Ascertained Damages (LADs) which NHA commenced in an effort to recover costs.

(ii) Wasteful Expenditure – Legal & Interest costs- K776, 000

The Controlling Officer acknowledged that the Auditor General's observation was correct. The Controlling Officer submitted that it was regrettable that NHA failed to deliver the housing units within the stipulated time frame and this triggered actions by some clients who sued NHA for compensation in form of rental refunds and that, interest accrued due to delay in paying rental refunds. The Committee learnt that all the presale houses had since been handed over to the owners and rental refund payments had ceased.

Committee's Observations and Recommendations

The Committee express dismay on the failure by NHA to adhere to the contract obligations and further delayed to pay off the rental refunds with impunity. The Committee strongly condemns this laxity and wastage of resources and recommends that disciplinary measures be instituted on all the staff who delayed to process the payments for rental refunds as the Chief Executive Officer failed to give a justifiable cause of the delay. The Committee directs the Controlling Officer to submit all the documentation in support of the submission to the Auditor General for verification and the report on disciplinary action, subject to which the matter should be closed.

9.5 Poor Performance of Revenue generating Departments and Units

(i) Direct Build Organisation (DBO)

The Controlling Officer submitted that NHA's DBO unit declined during the period due to reduced volume of activities following the completion and closure of a major housing project with NAPSA in 2015 which had contributed K 198 million towards its revenue. The Controlling Officer further submitted that NHA had secured new contracts with strategic partners among them were National Pension Scheme Authority, Zambia National Building Society, Larfge Cement and Workers Compensation Fund Control Board which would improve its revenue base. The Committee also learnt that NHA had been contracted by the Ministry of Housing and Infrastructure Development to undertake three housing construction projects in Sinda, Vubwi and Luano to improve its revenue generation capacity

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs the Controlling Officer to submit to the Auditor General for verification all documents in support of the submission. The Committee further resolves to await an update on how these earmarked strategies will improve NHA's revenue base.

(ii) Consultancy Department

The Controlling Officer submitted that NHA's Consultancy Department whose main role was to offer consultancy services in the field of construction to both NHA's Direct Building Organisation (DBO) and the public, had its expenditure in excess of the revenue generated. The Controlling Officer explained that the reduction in volume of construction activities experienced by DBO had an adverse effect on the revenue from consultancy as the value of consultancy services provided to the public during the period under review was not significant.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission. The Committee finds it unacceptable that the consultancy services provided to the public during the period under review were not significant. The Committee is of the view that NHA has failed to advertise its consultancy services to the citizenry considering that so many Zambians are building houses including civil servants, entailing that the market is readily available. In this regard, the Committee urges the Controlling Officer to implore management to advertise its products and to offer them at affordable rates. The Committee will await a progress report on the matter.

(iii) Block Making Unit- Failure to sustain block making business

The Controlling Officer submitted that NHA was unable to sustain the block making business due to operational challenges as the machinery had become obsolete, inefficient and was constantly breaking down. He further explained that an internal analysis of the operation revealed that it was not making meaningful contribution to NHA's revenue. Consequently NHA suspended the operations of the block making business. The Controlling Officer further submitted that NHA required K 9.5 million to invest in modern machinery to revamp the block making business. He further explained that one of the earmarked strategies in raising these funds was through the revolving commercial paper programme.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and finds it unacceptable that NHA failed to make meaningful profit from the business of selling blocks, when in fact the business of block making is booming among small businesses owned by small and medium enterprises especially of Asian origin. It is the Committee's considered view that this loss of business was as a result of poor marketing strategies, laxity by management and poor planning. The Committee urges the Controlling Officer to institute stringent quantifiable measures such as introduction of performance contracts to eradicate the laxity approach of handling business by management. The Committee express worry, that if management does not change its approach and business strategies, the capital injection will be a waste of resources. The Committee resolves to await a progress report on the matter.

9.6 Staff costs related matters

(i) Outstanding Salaries-K 29,993,579

The Controlling Officer submitted that NHA was unable to settle salaries due to financial challenges. He further explained that NHA's wage bill had increased after a number of employees, previously engaged on short term contracts were graduated onto long term contracts in 2013 and placed on the pay roll following government policy change on casualisation. The Controlling Officer further submitted that NHA had downsized its work force and placed some employees on project based contracts. In addition NHA had reduced its outstanding wage bill from K29, 993,579 which translated to thirteen months as at August, 2018 to K K9, 303,256.00, equivalent to five months salary arrears as at 30th September, 2019. The Committee learnt that the outstanding balance would be dismantled through the use of debt swaps, government grants and internally generated funds.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses dismay at the length of time NHA is taking to settle its salary arrears which are a source of lively hood for the employees. In this regard, the Committee urges the Controlling Officer to expedite the process of dismantling the outstanding arrears and to submit a time frame within which this will be done. The Committee further expresses concern that management has failed to assure the Committee on what the debt swaps will depend upon and as to why this was not earlier undertaken not until the Auditor General brought it up. The Committee directs that management should submit to the Auditor General all documents supporting the submission and also a verifiable road map on how these strategies will be actulised. The Committee will await an update on the matter.

(ii) Failure to Timely Settle Statutory Obligations

The Controlling Officer submitted that the Auditor General's observations were correct. He explained that it was highly regrettable that NHA was unable to settle the statutory obligations due to financial challenges. The Controlling Officer submitted that NHA had since engaged the statutory bodies to agree on payment plans to dismantle the debts and was yet to conclude.

Committee's Observations and Recommendations

The Committee notes the Controlling Officers submission and acknowledges with concern the financial challenges NHA is grappling with. Nevertheless, statutory obligations are mandatory and must be remitted without delay. The Committee strongly urges the Controlling Officer to follow through the set out plans and resolves to await a progress report on the matter.

(iii) Gratuity

The Controlling Officer submitted that the Auditor General's observation that NHA owed a total of K 2,857,576 as outstanding gratuity payment to members of staff was factual. He explained that NHA was unable to timely settle gratuities due to financial challenges. The Controlling Officer further submitted that management had since paid part of the outstanding gratuities to the officers amounting to K2, 268,141 leaving a balance of K 589,435.00. The Controlling Officer also informed the Committee that the NHA would clear the outstanding balance of K 589,435 by March, 2020.

Committee's Observations and Recommendations

The Committee notes the strides that have been made and requests the Controlling Officer to ensure that the remaining balance is expeditiously paid by the stated date of March, 2020. The Committee directs the Controlling Officer to submit all documents supporting the submission to the Auditor General for verification. The Committee will await an update on the clearing of the remaining balance.

9.7 Procurement of goods and services

(i) Unsupported payments

The Controlling Officer acknowledged that the Auditor General's observation was correct. The Controlling Officer submitted that the query arose due to misplacement of the supporting documents such as receipts, invoices and utilisation schedules. Management had since traced the documents. The Controlling Officer further submitted that NHA management had undertaken capacity building for the accounts and audit record management and preparation for external audit.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee finds it unacceptable that documentation were only traced after an audit query. The Committee condemns this act as submission of supporting documents after an audit query raises questions on the authenticity of the documents. The Committee takes serious reservation against loss of financial documents and strongly urges the Controlling Officer to institute disciplinary action against the responsible officers so as to deter others. The Committee directs the Controlling Officer to submit all the supporting documents to the Auditor General for verification, subject to which the matter should be closed.

(ii) Unretired Accountable Imprest K 533,239

The Controlling Officer acknowledged that the Auditor General's observation was factual. The Controlling Officer submitted that at the time of audit, the retirement documents were not attached to the payment vouchers but instead were attached to individual files. The Committee was informed that the retirements had since been retrieved from the project files and were attached to the payment vouchers.

Committee's Observations and Recommendations

The Committee is concerned about the poor management of accounting documents at NHA. The Committee finds it unacceptable that retirement documents were not attached to the payment vouchers but, instead the retirements were attached to individual files. The Committee urges the Controlling Officer to ensure that erring officers are disciplined to avoid recurrence of the query. Further, internal controls as well as supervision of the entity should be strengthened. The Committee directs the Controlling Officer to submit all the documents supporting the submission and the report on the disciplinary action for verification, subject to which the matter should be closed.

(iii) Unacquitted Payments K 1,642,634

The Controlling Officer submitted that at the time of audit, the acquittal sheets were not attached to the payments vouchers but were attached to individual files. The Controlling Officer informed the Committee that the files had since been retrieved from the project files and attached to payment vouchers. Going forward, NHA had since put in measures to prepare acquittal sheets in duplicate or photocopied to ensure that one copy was attached to the payment voucher while the other was on the project file. Further, staff related payments would no longer be paid through drawings of cash in the name of the cashier, but instead would be paid directly to the beneficiaries.

Committee's Observations and Recommendations

The Committee finds it unacceptable that accounting officers could make such errors. The Committee urges the Controlling Officer to ensure that erring officers are disciplined to avoid recurrence of the query .The Committee further urges the Controlling Officer to engage the Office of the Secretary to Treasury to ensure that qualified accounting staff is recruited. The Committee directs that all documents supporting the submission are submitted to the Auditor General for verification subject to which the matter should be closed.

9.8 Asset Management

(i) Failure to acquire title deeds and Insure Authority's Asset

The Controlling submitted that NHA could not avail the title deeds at the time of audit as some of the title deeds were with the liquidator and some were in the process of being acquired from the Ministry of Lands. He further submitted that NHA could not avail the insurance cover notes at the time of audit as most of the insurance files could not be traced. The Committee also learnt that NHA had engaged the Ministry of Finance to facilitate the release of the titles for the three buildings in the Central Business District of Lusaka from the Liquidators of ZIMCO Limited (In liquidation), while with respect to the other five properties, NHA had commenced the process of obtaining titles from the Ministry of Lands and Natural Resources. The Committee was further informed that the insurance cover notes for the buildings and investment properties were traced.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and urges the Controlling Officer to institute disciplinary measures against the officers who should have secured the insurance cover files. The Committee directs the Controlling Officer to ensure that all documents supporting the submission are submitted to the Auditor General for verification subject to which the matter should be closed.

(ii) Lack of Asset Management Policy

The Controlling Officer submitted that NHA had an Asset Management Policy at the time of audit which however did not have certain clauses such as guidance on the acquisition, use and disposal of non-current assets, and methods of valuing assets. NHA had since revised the Asset Management Policy and the document was available for verification.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs that the documents supporting the submission should be submitted to the Auditor General for verification, subject to which the matter should be closed.

9.9 Failure to Maintain Sondashi Flats – Ndola

The Controlling Officer submitted that NHA failed to maintain the block of flats due to the high cost of maintenance which was not commensurate with the rentals. The Controlling Officer further submitted that though the property had been included in the maintenance programme for 2018, NHA had offered the block of flats for sale to the sitting tenants on a first come basis.

Committee's Observations and Recommendations

The Committee notes with dismay that NHA has disposed off the flats due to failure by management to maintain the flats and also to charge rent that is commensurate with the market price. The Committee recommends that the National Housing Authority Act should be revised to give NHA regulatory authority to enable it regulate rental fees in the market. The Committee urges the Controlling Officer to pursue the avenues for the Act to be amended. The Committee will await a progress report on the matter.

10.0 NATIONAL ROAD FUND AGENCY MINISTRY OF FINANCE

Review of Operations

A review of the operations of the National Road Fund Agency (NRFA) for the period 1st January 2013 to 31st December, 2017, revealed the following:

10.1 Deteriorating operational and Road Sector funding.

The Controlling Officer acknowledged that the observation by the Auditor General was factual. The Controlling Officer submitted that in as much as the grant funding for the period under review (2013-2017) remained constant, the deficit on operations to cover the annual provisional budgets was supplemented by funds received from the road fund. He further explained that this was in line with the provision of the *National Road Fund (Amendment) Act. No. 5 of 2006* section 3 a, b and c. With regard to the road sector funding, the Controlling Officer submitted that all the road user charges had been released in full for the period under review and that the deficit in funding was as a result of a number of factors which included the following: low disbursement of external funding due to lengthy procurement processes of road works; failure to meet conditions precedent to disbursement of funds by cooperating partners (Counterpart Funding) due to fiscal challenges, which led to low receipts from cooperating partners and lengthy negotiations on Private Public Partnerships (PPP) and Contractor Facilitated Financing (CFF) agreements adversely impacted the annual projected budget.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses concern that apart from highlighting the challenges and the factors leading to the deterioration in operations and low sector funding, the Controlling Officer has not provided suggested strategies on how these challenges will be resolved. In this regard, the Committee urges the Treasury to intervene on the challenges relating to lengthy procurement process of road works and lengthy negotiations on PPPs. The Committee will await an update on the matter.

10.2 Lack of Board of Directors

The Controlling Officer acknowledged that the Auditor General's observation was correct. The Controlling Officer explained that the Permanent Secretary Economic Management and Finance, automatically assumed the position of Board Chairperson in the absence of the substantive board. He further submitted that as the default chairperson, the Permanent Secretary, appointed seven members of staff from the Ministry of Finance in line with section 9(1) of the *National Road Fund Act. No.13 of 2002*. The Controlling Officer further submitted that the payment of sitting and quarterly fees amounting to K 563,860 were in accordance to section 10 of the Act, which stated that such members of the agency or any committee should be paid such allowances as the agency may determine, with the approval of the Minister. The Committee was also informed that a legal opinion was sought on the matter and the guidance given was that allowances were legally paid in view of the Act. The Committee also learnt that a substantive Board of Directors was appointed on 3rd March, 2016 under the provisions of the *National Road Fund Act. No. 13 of 2002.*

Committee's Observations and Recommendations

The Committee observes with consternation the inordinate time it took to appoint the substantive Board of Directors. The Committee is also concerned that the Permanent Secretary became the Board Chairperson by default and observes that this is not backed by any provision of the law. Further, in as much as the legal opinion stated that the allowances were legally paid; it is the Committee's considered view that the inordinate delay to appoint a substantive board was deliberate, as the Controlling Officer failed to substantiate why there was such an inordinate delay and consequently resulted in the payment of the allowances amounting to K 563, 860. The Committee strongly urges the Controlling Officer to ensure that in future a substantive board of Directors is expeditiously put in place when a vacancy arises. The Committee directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification. The Committee resolves to keep the matter in view for future audits.

10.3 Failure to Acquire Title Deeds

The Controlling Officer submitted that it was regrettable that NRFA did not have title deeds for its Headquarter building located at plot 33 Fairley roads in Lusaka valued at K57, 905,305. He further submitted that the Ministry of Finance had engaged the Ministry of Works and Supply who were custodians of government property for purposes of title processing. He further explained that NRFA had also engaged the Surveyor General to conduct a survey of the land on which the two buildings of NRFA were located for the purpose of acquiring title deeds.

Committee's Observations and Recommendations

The Committee finds it unacceptable that it had to take the Auditor General for the Controlling Officer to realise and identify that NRFA does not have title for the land on which its Headquarter office is located. The Committee condemns this laxity and lack of supervision on the part of management considering that both the Ministry of Works and Supply and the Surveyor General were only engaged after the audit. The Committee resolves to await an update on the matter.

10.4 NAPSA Corridor Project Agreement K 2, 126,552,025.76

A review of the agreement between NRFA and National Pensions Authority (NAPSA) revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Penalty payments made to NAPSA.

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Controlling Officer informed the Committee that NAPSA advanced the loan with a repayment period of ten years and repayments commenced immediately after the initial disbursement of funds without providing a grace period to enable the tolling infrastructure to be operational. Consequently this placed a constraint on the available funds earmarked for loan repayments that were coming from the road tolls. He further explained that as a result NRFA could not make repayments to NAPSA on time resulting in the penalty charges. The Committee also learnt that NRFA signed an Addendum to the Loan Agreement with NAPSA on 17 July, 2019 and that the Loan repayments were being made on the agreed dates of 30th July, and 31st August, 2019 through the Escrow Bank Account at Bank of Zambia. The agreed Escrow Bank Account at Bank of Zambia would help to ensure that the loan repayments were made on time without default; hence there will be no additional penalty charges.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee expresses concern that NRFA did not ensure due diligence was done at the point of signing the contract with NAPSA. In this regard, the Committee urges the Controlling Officer to ensure that going forward due diligence should be undertaken to avoid incurring unnecessarily penalty charges on future contract agreements. The Committee resolves to close the matter but will keep it in view for future audits.

(ii) Wasteful Expenditure – Penalty Claims by Contractors. K 35, 052,442

The Controlling officer submitted that the Auditor General's observations were noted. He further submitted that the interest claims referred to was accumulated on the projects before the NAPSA loan facility was acquired. The interest claims were as a result of the constrained resource envelope due to fiscal challenges in the period under review. Further, the Committee was informed that the agency procured the NAPSA loan facility for the very purpose of ensuring adequate project funds were available and to avoid penalty charges due to delayed payments. The Committee was also informed that the Road Development Agency was the procuring agent of contractors and supervisors of the construction projects as provided by the National Road Fund Act and NRFA only operated the facilities after completion.

Committee's Observations and Recommendations

The Committee is seriously concerned that NRFA has been accumulating penalty charges on a number of signed contracts. The Committee also finds it highly unacceptable that these penalty charges are sitting on NRFA's books, when in fact the contracts were procured by the Road Development Agency and not NRFA. It is the Committee's considered view that this impasse should expeditiously be harmonised and further recommends that NRFA should have the sole responsibility to procure and negotiate with contractors as opposed to being responsible for the inefficiencies of the RDA that arise due to delay to honour contractual obligations. The Committee resolves to await an update on this harmonisation which will be achieved through the review of the National Road Fund Act.

(iii) Failure to Secure Funds for increased Contract Sums.

The Controlling Officer submitted that it was regrettable that there was an increase in contract sums by an average of 27.57 per cent due to variations in the scope of works and price adjustments translating to an increase of K684, 244,657. He explained that the RDA as the implementing agency ascertained and approved the additional works that arose from the need to construct a dual carriageway and an associated bridge in Solwezi, Urban in order to improve mobility. The Controlling Officer further submitted that NRFA and NAPSA had signed an additional loan of K 1.8 billion on 17 July, 2019, out of which a total of K710.23 million would finance the completion of the Ndola Kitwe Chingola and Solwezi Road, and cater for the increased in costs.

Committee's Observations and Recommendations

The Committee reiterates its recommendation on the need to harmonise the operations of NRFA and RDA. Further, the Controlling Officer should ensure that due diligence is always done before any contracts are signed so as to avoid penalty charges and extreme variations of project costs, as the case was. The Committee directs the Controlling Officer to submit to the Auditor General all documents supporting the submission, subject to which the matter should be closed and will be kept in view for future audits.

10.5 Other Road Projects

(i) Wasteful Expenditure - Penalty charges. K 400,785,163 and US$ 4,535,052

The Controlling Officer informed the Committee that the forty-six contractors who claimed penalty charges amounting to K400, 785,163 in the period under review were not paid on time because of fiscal challenges experienced by the Government. However, the Government of the Republic of Zambia had made significant progress in resolving the issue. He further explained that with respect to the US$4,535,052 penalty charges on Mansa-Luwingu road project, the project was fully financed by EXIM Bank of China. However, the penalty charge arose due to the delay in finalising an addendum between the Governments of Zambia and China due to lengthy negotiation procedures. The addendum did not however incorporate the payment of these penalties which had to be borne by the Zambian Government and the process of dismantling the debt had commenced.

Committee's Observations and Recommendations

The Committee is extremely dismayed at the continued loss of meagre resources through payment of penalty charges which are a result of either over procuring due to poor planning and delayed settlement of payment certificates due to lack of funds. The Committee reiterates its recommendation on the need to harmonise the operations of RDA and NFRA and ensure that contracts are only signed when there is certainty on how payments will timely be settled. With respect to US$4,535,052 penalty charges, the Committee finds it unacceptable that the Government has to be the one to pay penalties to the Chinese contractors when in fact the delay was not on the part of the Zambia Government but EXIM Bank of China who had delayed to disburse the loan. The Committee strongly recommends that the Secretary to the Treasury should promptly intervene on this matter as there is no justifiable need to waste US$ 4,535,052 and the Committee strongly demands that the payments should be stopped with immediate effect and the matter be renegotiated . The Committee will await an update on the matter.

(ii) Failure to pay Contractors on Time. K11, 341,277,405

The Controlling Officer acknowledged that the Auditor General's observation was correct. The Controlling Officer submitted that the Kalabo–Sikongo road project was funded by a consortium of financiers (OFID, BADEA, SAUDI FUND, KUWAIT FUND and OPEC), including the Government of the Republic of Zambia who contributed 50 per cent of the total cost. However, the project was suspended due to delayed payments by GRZ because of limited fiscal space which had generally affected the road sector. He further added that with respect to the Chongwe Hospital, and the road to Katoba and Chabboboma to bottom road projects, there were delays to pay contractors on time due to the fiscal challenges experienced by the road sector during the period under review. The Committee also learnt that the road sector was working on strategies to increase the resource base through enhanced road tolling in order to accelerate construction of these projects. In the case of the KK Airport through to Great North Road and Kabwe–Chibombo road, which stood terminated, the Controlling Officer submitted that they were waiting for the procurement of new contractors by the implementing agency in order to facilitate the construction and maintenance of these critical roads, subject to availability of funds.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee reiterates the need to harmonise the operations of RDA and NRFA and to ensure that contracts procured by NRFA are only signed when there is certainty on the availability of funds The Committee resolves to await an update on the matter.

(iii) Increase in Time Related Obligations K560, 059,503,

The Controlling Officer acknowledged that the Auditor General's observation was correct. The Controlling explained that during the period under review, the road sector experienced fiscal challenges resulting in failure to pay contractors on time. Consequently projects could not be completed on time leading to extensions of time on completion periods by the implementing agencies hence an increase in Time Related Obligations. He further explained that the Government had made significant progress in re-scoping some projects in order to provide fiscal relief and accelerate the completion of key and prioritised projects.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission. However, the Committee is disheartened that government is losing colossal sums of money due to over procuring and poor forecasts on the availability of funds to pay for the projects. The Committee reiterates its recommendation for the need to ensure that all processes are properly undertaken before signing any road contracts to reduce the wastage of resources.

(iv) Failure to Pay Contractor on Time – Toll Plazas

The Controlling Officer submitted that the Auditors General's observation was noted. He further explained that as at October, 2018, Michael Chilufya Sata toll plaza had been fully paid for and operations commenced on 4th November, 2018. He further submitted that with respect to the Choma Toll Plaza, the Tolling System was delivered and installed and the contractor was paid for all the outstanding certified works. With regard to the Kafulafuta Toll Plaza, the works were substantially complete and the equipment which was not required for the outstanding works had been immobilised to avoid standing time claims. The Controlling Officer further submitted that all the outstanding certified works had been paid for and the installation of the Tolling System would be completed by 30th November, 2019.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs the Controlling Officer to submit to the Auditor General for verification all the documents supporting the submission subject to which the matter should close.

11.0 TIMES PRINTPAK ZAMBIA LIMITED

Review of Operations

A review of operations for Times Printpak (TPZL) Zambia Limited for the financial years ended 31stDecember 2015, 2016 and 2017 revealed a number of irregularities to which the Controlling Officer responded as outlined below.

11.1 Failure to Fill Key Management Positions

The Controlling Officer submitted that the two positions of Director Finance and Director Commercial had not been filled because the former position holders had remained on the payroll pending full settlement of their pension and gratuity. He further explained that the company had streamlined its structure to enable the Finance Manager, Marketing and Sales Manager to perform the responsibilities of the former directors. The Controlling Officer further informed the Committee that the restructuring of TPZL was ongoing as part of the subsidiary transformation strategy.

Committee's Observations and Recommendations

The Committee observes with concern that the Finance Manager and Marketing and Sales Manager are performing the responsibilities of the former directors. The Committee's concern is on the eligibility of the Manager's executing the functions of the directors and if the company spending extra in terms of paying the managers an acting allowance. In this regard, the Committee strongly urges the Controlling Officer to ensure that the separation packages are expeditiously settled and the substantive directors are appointed to fill the positions. The Committee will await an update on the matter.

11.2 Procurement of Goods, Works and Services

(i) Procurement of Newsprint Reels from United Technical Equipment (UTEC)

The Controlling Officer submitted that the Auditor General's observation was noted. He further explained that whereas there was no executed agreement as such between Mitchell Cotts who were engaged by TPZL and UTEC as clearing agents, TPZL had in possession a letter dated 20th April, 2016 from Mitchell in which revised storage charges were communicated and these formed the basis of invoicing. The Controlling Officer further submitted that the letter was available for verification.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission. The Committee urges the Controlling Officer to enhance the supervision of TPZL and to ensure that all documents that relate to contract engagements and other accounting documents are put in place as opposed to relying on correspondences. The Committee directs that all documents supporting the submission should be submitted to the Auditor General for verification, subject to which the matter should close and will be kept in view for future audits.

(ii) Undelivered Newsprint Reels by Local Suppliers

The Controlling Officer submitted that all the newsprint reels purchased from the local suppliers, were paid for and fully delivered during the period under review. The Controlling Officer further submitted that there were no running contracts with any of the local suppliers who were only engaged as a stop gap measure to cushion any delay or non-delivery by UTEC. The Committee also learnt that all local suppliers including Book Hut only supplied newsprint reels after either being paid or given post-dated cheques and when UTEC delayed in sending consignments or when TPZL run out of stock. The Controlling Officer further submitted that documentary evidence of receipt of the newsprint reels was available for audit verification.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification subject to which the matter should close.

11.3 Government Ministries' and Parastatal Bodies' Debt K 7,566,369

The Controlling Officer informed the Committee that the Auditor General's observation was true. He further explained that as at 30th November, 2018, the debts had been outstanding for periods of over 190 days and efforts had been made to engage the Government Ministries and Parastatal Bodies. Unfortunately due to inadequate funding from the Treasury most of the creditors failed to honour their obligations.

Committee's Observations and Recommendations

The Committee notes with dismay that the parastatals and government ministries owe the company a huge sum of money that can help revamp the operations of the company and enable it to compete favorably in the market. In this regard, the Committee strongly urges the Controlling Officer to pursue the parastatal bodies that owe and ensure that they settle their debts. Further, the Committee directs the Controlling Officer to engage the Secretary to the Treasury to help clear the debts that have accumulated through the purchase of newspapers. The Committee resolves to await a progress report on the matter.

11.4 Non-Remittance of Taxes and Statutory Contributions-K 670,496,682

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He further explained that there had been significant movement on the outstanding statutory obligations especially on taxes. In addition, the Controlling Officer informed the Committee that TPZL no longer owed Workers Compensation Fund Control as the debt was cleared through debt swap arrangements, TPZL had also engaged Ndola city council to negotiate for a debt swap involving K 31, 608 for outstanding personal levy payments. The Committee also learnt that debt swaps had been arranged with ZRA and NAPSA to offset statutory obligations against the revenues derived from the adverts placed in the newspapers and that outstanding statutory obligations as at 31st July 2019 for Taxes were K142,478,261 and NAPSA contributions K330,617,131.00. The Committee was also informed that to resolve the challenges, remittance of statutory obligations was one of the key performance indicators for Chief Executive officer to have their contracts renewed.

Committee's Observations and Recommendations

The Committee notes the Controlling Office's submission. The Committee expresses disappointment on the growing tendency to clear statutory obligations with debt swaps and observes with serious concern that remittance of statutory obligations seems to be an overreaching problem among parastatal bodies and other statutory institutions. The Committee further observes with concern that it is unfortunate that other private companies operating in the same market are recording profits while Times Printpak is accumulating a huge debt of statutory obligations. The Committee urges the Controlling Officer to find a permanent sustainable solution to the challenge as opposed to relying only on debt swaps. The Committee directs that all documents supporting the submission be submitted to the Auditor General for verification. The Committee will await an update on the payment of the outstanding statutory obligations.

11.5 Failure to Collect Rental Income K 150,000

The Controlling Officer acknowledged that the Auditor General's observation was correct. He further informed the Committee that Times Printpak had received part payments for the outstanding rentals. The balance stood at K120, 000 as at 30th September, 2019 including new invoices for rentals.

Committee's Observations and Recommendations

The Committee strongly urges the Controlling Officer to press upon management to use more aggressive measures to collect its debt as the amount that has since been cleared off is so insignificant as compared to what is still owed. The Committee will await a progress report on the matter.

12.0 ZAMBIA AIRPORTS CORPORATION LTD

Review of Operations

A review of operations of Zambia Airports Corporation (ZACL) headquarters and the four international Airports for the financial years ended 31st December 2014, 2015, 2016 and 2017, revealed the following:

12.1 Statement of Profit and Loss for the years ended 31st December 2014, 2015, 2016 and 2017

An analysis of the statement of profit and loss revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Net Profit Margin Ratio

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He explained that the decrease in net profit was due to an increase in staff and finance costs. The increase in staff costs was due to the increase in the number of airlines and flight frequencies serviced by the corporation thereby demanding for more ground-handling staff. Further the increase in finance costs was due to the servicing of the loan acquired from the Zambia National Commercial Bank for the development of the Harry Mwaanga Nkumbula International Airport in Livingstone. In addition to this, the Corporation had experienced an increase in other operating costs due to project management costs on the Kenneth Kaunda International Airport and the Greenfield Copperbelt international airport projects.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee expresses concern that having a low net profit margin entails that the income being generated is lower than the costs being incurred. In this regard, the Committee requests for a road map on how ZACL will improve its net profit margin and details as to what the staff costs constituted. The Committee further directs that the documents supporting the submission be submitted to the Auditor General's Office for verification and the Committee will await an update on the matter.

(ii) Operating Profit Margin Ratio

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Controlling Officer reiterated his submission that the decrease in the operating profit margin which negatively affected the operating profit margin ratio was due to increase in both finance and staff costs.

Committee's Observations and Recommendations

The Committee reiterates its recommendation that ZACL should provide a road map on how it will improve the operating profit margin ratio and that it should also provide the standard ratio against which its performance will be measured. The Committee will await a progress report on the matter.

12.2 Statement of Financial Position as at 31 December –Liquidity Position

The Controlling Officer submitted that the reduction in the current ratio in the years 2016 and 2017 was due to the reduction in the corporation's current asset. He further explained that this was because the financial assets held to maturity such as cash and cash equivalents were used to declare and pay a dividend to its shareholder. Further, the Committee was informed that ZACL's current ratios were within the permissible range according to their financing covenants with Zanaco and Stanbic Banks who were their lenders.

Committee's Observations and Recommendations

The Committee observes with concern that ZACL does not have a standard operative current ratio against which the ability to settle short term liabilities can be measured. Further, the Committee finds it unfortunate that the company operated with a negative working capital in 2014. The Committee observes with concern that ZACL does not have a policy with respect to liquidity ratio standards. In this regard, the Committee recommends that a policy should be formulated to enable the auditors have a standard yardstick against which ZACL's performance can be measured. The Committee resolves to await an update on the matter.

12.3 Failure to Execute Judgment–Zambian Airways K 23,792,048

The Auditor General's observation was noted as correct. The Committee was also informed that that the corporation's board had since written off the debt amounting to K 23,792,048 following failed efforts to successfully execute the judgement through the sheriff of Zambia as the debt had fallen subject to the law of receivership. The efforts to have the debt recovered through the receiver of the Zambian Airways failed due to the low ranking in the order of settlement of the debts.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee expresses disappointment that ZACL has failed to recover its debt. The Committee further recommends that management should put in measures to ensure that this loss does not reoccur. The Committee directs the Controlling Officer to submit all the documents supporting the submission to the Auditor General for verification, subject to which the matter should close.

12.5 Failure to put to use the old Terminal Building-Harry Mwanga Nkumbula

The Controlling Officer submitted that the Auditor General's observation was correct. The Controlling Officer further submitted that the cracks observed by the auditors were caused by the aging of the building which had earlier necessitated the decision to build a new terminal. Further, the corporation had the property listed on the market for leasing but due to its airside access, no qualifying tenants were found. The status, however, had changed and a possible tenant had been identified and structural engineers were on the ground to assess the habitable status and recommend possible remedial measures.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await an update on the matter.

12.6 Failure to avail Asset Registers

The Controlling Officer submitted that the observation of the Auditor General was noted as correct. He further submitted that at the time of the audit, the corporation maintained a centralised asset register at head office with all the assets of the four international airports recorded and locations indicated. This was, however, not accessible at three of the four airports at the time of the audit. This had since been rectified through the decentralisation of the accounting information system.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs the Controlling Officer to submit documents supporting the submission to the Auditor General for verification subject to which the matter should close and be kept in view for future audits.

13.0 ZAMBIA DAILY MAIL LIMITED

Review of Operations

A review of operations for the period under review revealed the following:

13.1 Financial Performance-Statement of Comprehensive Income for the years ended 31st December 2015 to 2017

The Controlling Officer acknowledged that the observation by the Auditor General was true. He explained that the company's recorded loss increased from K5, 577, 978 in 2015 to K13, 727, 328 in 2017. This was due to the dampened loss in 2015 on account of the deferred tax recovery of K17, 136,371. In terms of operating results, the company recorded a 66 per cent improvement in the reported loss before taxation from K22, 714,349 to K7, 646,270 in 2015 and 2017, respectively. This was attributed to the 11 per cent increase in the revenue, and the 44 per cent reduction in the operating expenses.

Committee's Observations and Recommendations

The Committee finds the reasons given by the Controlling Officer unacceptable as it is evident that management has failed to take pragmatic decisions that can help the entity to improve its income. The Committee strongly urges the Controlling Officer to ensure that management formulates realistic and implementable strategies to revamp the company's income generation and will await a progress report on the matter.

13.2 Statements of Financial Position as at 31st December 2015 to 2017

An analysis of the statement of financial position revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Current Ratio

The Controlling Officer submitted that it was unfortunate that Zambia Daily Mail Limited (ZDML) failed to meet the ideal current ratio of 2:1. The Controlling Officer further submitted that the low was mainly attributed to the huge statutory debts comprising of principal, interest and penalties due to Zambia Revenue Authority and NAPSA. In addition the Controlling Officer submitted for instance the 2017 current liabilities figure of K 147,095,436 included a total of statutory obligations amounting to K 123 million. The Committee further informed the Committee that ZDML had undertaken steps to improve the current ratio. These included: being current with NAPSA monthly contributions; entering into Debt Swap arrangement to liquidate the NAPSA penalties from prior years; and also agreeing on a time to pay arrangement of K250, 000 per month with Zambia Revenue Authority (ZRA. He further informed the Committee that ZDML had paid K2, 037,516.60 through a debt swap arrangement between January, 2018 to September 2019, leaving a balance of K136, 111, 934.83 as at 30 September, 2019.

Committee's Observations and Recommendations

The Committee takes note of the steps ZDML has undertaken to improve the entity's current ratio. The Committee is how ever concerned that some of the payment plans may take an inordinate time to liquidate for instance, K 136 million owed to NAPSA in penalties is estimated to take close to twenty years with respect to the targeted monthly payment, which the Committee finds unrealistic. In this regard, the Committee strongly recommends that the Controlling Officer should ensure that management formulates time bound decisions to resolve these outstanding debts which will in turn help to improve the financial position of the company.

(ii) Insufficient Working Capital

The Controlling Officer submitted that the negative working capital was as a result of inadequate liquidity to cover the current liabilities which comprised mostly statutory obligations. The increase in the current liabilities was compounded by interest and penalties, especially on taxes owed to ZRA. He further explained to the Committee, that in order to resolve the challenge of negative working capital, the company had implemented the Voluntary Severance Scheme (VSS) where it was expected that staff numbers would reduce from 231 to 138 by 2022 and consequently this would reduce the accrued staff liabilities. Further, since the implementation of the VSS, fifty-three employees had been separated leaving a balance of 178 employees as at 30th September, 2019.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee expresses concern that the company is currently grappling with financial challenges and questions how the company will finance the Voluntary Severance Scheme. In this regard, the Committee strongly urges the Controlling Officer to ensure that as the company implements the VSS, it must ensure no employee is separated without honouring their respective dues and resolves to await a progress report on the matter.

(iii) Poor Management of Receivables

The Controlling Officer acknowledged that the Auditor General's observation was correct. He further explained that the significant amount was owed by Government ministries, departments to a tune of K 15.4 million. Spending agencies and parastatals accounted for 44 per cent of the debt. The Committee learnt that out of K 35, 996,279.00, a total of K13, 111,440.35 had since been collected from Government ministries, spending agencies and parastatals through intensified debt follow-up initiatives by way of customer engagement. As a result, there had been an increase in collections and commitment to the agreed upon payment plans by Directors of Finance in Government ministries, departments and spending agencies.

Committee's Observations and Recommendations

The Committee finds it highly unacceptable that government departments such as the Ministry of Justice, Road Development Agency, Cabinet Office, National Road Fund Agency and Road and Safety Agency owe ZDML huge sums of money through adverts and newspaper subscriptions. The Committee observes that if the money owed is invested into the company, the company will be able to compete favourably in the market. In this regard, the Committee strongly urges the Controlling Officer to press upon the Secretary to the Treasury to help recover debts through deductions at source considering that most of the efforts employed have proved futile. Further, the Committee urges the Controlling Officer to ensure that vetting procedures for placing adverts on credit terms are strengthened. Placements should be supported by duly authorised Local Purchase Orders or cash payment. The Committee will await a progress report on the matter.

13.3 Procurement of Goods and Services

(i) Unsupported Payments-K 250,050.02

The Controlling Officer acknowledged that the Auditor General's observation was true. He explained that the eighteen payments in amounts totalling K256, 050 were not supported with relevant documents such as receipts and invoices. The Controlling Officer further submitted that it was regrettable that the documents were not availed to the auditors during the audit period, but were now available for verification.

Committee's Observations and Recommendations

The Committee finds it unacceptable that management failed to avail the accounting documents to the auditors and could only avail these documents after the audit exercise. The Committee strongly recommends that the Controlling Officer should ensure that proper filling systems are put in place and that all the officers responsible for the failure to avail supporting documents are disciplined. The Committee resolves to await a progress report on the matter.

(ii) Uncompetitive Procurement K 103,527

The Controlling Officer acknowledged the Auditor General's observations. However he submitted that procurement of the some of the goods was done with adherence to the Public Procurement Regulation No. 108(2), during the period under review. He further explained that for a few procurements, there was no competitive procurement due to the limited number of suppliers.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee does not accept the submission that certain procurements were done without competitive procurement due to limited suppliers as this was not substantiated by the Controlling Officer. In this regard, the Committee strongly urges the Controlling Officer to ensure that provisions of the Public Procurement Act and other respective regulations are adhered to. The Committee directs that all documents supporting the submission should be submitted to the Auditor General for verification, subject to which the matter should close. The Committee resolves to keep the matter in view of future audits.

13.4 Unacquitted Expenditure K 16,130

The Controlling Officer informed the Committee that the K 16,130 comprised of payments for a workshop and out of pocket allowance. Out of this amount, acquittal documents for K 4,375 and a retirement receipt for K 1,745 were available for audit verification. However, it was regrettable that ZDML could not provide the acquittal sheet for the balance of K 10,010.

Committee's Observations and Recommendations

The Committee is disappointed that management only submitted documents for verification after the audit visit as opposed to ensuring that accounting documents are always filed and kept. The Committee recommends that the officer(s) responsible for failure to retire documents for K 10,010 should refund the money and disciplinary action instituted. The Committee will await an update on the matter.

13.5 Non-Remittance of Taxes-K 2,037,516.60

The Controlling Officer informed the Committee that ZDML acknowledged the Auditor General's observation as true. He regretted the failure to remit deducted taxes to Zambia Revenue Authority due to inadequate liquidity challenges. ZDML had since entered into Time to Pay Agreement at a rate of K250, 000 every month and a debt swap arrangement for advertising services provided to ZRA.

Committee's Observations and Recommendations

The Committee finds it highly irregular that the company deducted various taxes in amounts totalling K114, 614,369 during the period from January, 2015 to December, 2017, but had not remitted to ZRA. The Committee sternly cautions the Controlling Officer against this and further directs that all documents supporting the submission should be submitted to the Auditor General for verification and the Committee will await an update on the matter.

13.6 Failure to Remit Pension Contributions to NAPSA K 4,412,804

The Controlling Officer acknowledged Auditor General's observation as true. He further explained that as at 17th September, 2019, the ledger balance had reduced to K1, 573, 812.25 after some debt swaps with NAPSA. Further, ZDML had entered into a debt swap arrangement with the aim of liquidating the outstanding penalties amounting to K 5,515,001.46. The Controlling Officer further submitted that ZDML was current with all monthly NAPSA contribution payments.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's the submission and directs him to submit to the Auditor General all supporting documents for verification. The Committee is concerned that ZDML has not put up a tenable strategy on how it will settle the outstanding penalties and therefore urges the Controlling Officer to ensure that this is done. Further the Committee observes with that even though ZDML pays its NAPSA contributions, there is a delay to acknowledge payments by the NAPSA system. Consequently this delay leads to recording of penalties in their system. The Committee recommends that the Controlling Officer should ensure that this time lag is expeditiously harmonised and will await a progress report.

13.7 Irregular Ex-gratia Payment to Staff K 135,300

The Controlling Officer submitted that the Ex-gratia payments to staff for the period under review were approved by the interim Board comprising the Permanent Secretary Ministry of Information and Broadcasting Services and the Managing Director. However, following the directive from the Secretary to the Cabinet about interim Boards appointed by Cabinet Ministers, Zambia Daily Mail Limited submitted all previous board resolutions, which included payment of Christmas Ex-gratia, to the Industrial Development Corporation for ratification. Further, IDC had since guided that no payment of bonuses would be allowed until the company became profitable and started declaring Dividends.

Committee's Observations and Recommendations

The Committee directs the Controlling Officer to submit all documents supporting the submission to the Auditor General for verification subject to which the matter should close and will be keep it in view for future audits.

14.0 ZAMBIA EDUCATION PUBLISHING HOUSE MINISTRY OF GENERAL EDUCATION

Review of Operations

A review of operations for the financial years ended 31st December, 2015 to 2017, carried out in May, 2018, revealed the following:

14.1 Lack of Strategic Plan

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He further submitted that Zambia Educational Publishing House (ZEPH) had a draft strategic plan which was developed in 2015 and would be concluded once funds were made available and the validation exercise by stakeholders was finalised. He further informed the Committee that the main cause for the failure to formulate a strategic plan was lack of a Board of Directors. There had been no substantive Managing Director at the Institution over a period of three years thereby impacting negatively on the going concern of the Institution.

Committee's Observations and Recommendations

The Committee finds it irregular that a government institution has been operating without a strategic plan for over a period of over five years. While noting the Controlling Officer's submission, the Committee observes that the excuse lacks merit and is of the view that, the ministry could have taken decisions as a supervising agent to ensure that ZEPH put in place a strategic plan. The Committee further observers that ZEPH has been performing below par due to lack of a strategic. In this regard, the Committee strongly urges the Controlling Officer to ensure that a time frame is provided within which ZEPH will formulate its strategic plan and the Committee will await an update on the matter.

14.2 Operating without a Board of Directors

The Controlling Officer acknowledged the observation by the Auditor General as correct. The Controlling Officer further submitted that the appointment of the Board was currently in progress. The names had been identified and were being scrutinised.

Committee's Observations and Recommendations

The Committee finds it unbelievable that it has taken over four years to appoint a Board. The Committee observes that there are no justifying reasons as to why the ministry has not appointed a Board. In this regard, the Committee strongly urges the Controlling Officer to expeditiously engage the appointing authority to appoint the Board without further delay. The Committee will await an update on the matter.

14.3 Irregular Payment of Board Allowances K140, 000.

The Controlling Officer acknowledged the Auditor General observation as correct. The Controlling Officer submitted that this irregular payment was due to the fact that the previous Board of Directors had continued to hold meetings after the expiry of its mandate in order to provide leadership in the period before the new Board could be appointed. The Controlling Officer acknowledged that this was an anomaly on the part of the institution and made a commitment that the query would not recur in future. The Committee was further informed that the board members had been requested to refund the sitting allowances.

Committee's Observations and Recommendations

The Committee is extremely dismayed that the board members continued to draw allowances amounting to K 140,000 with impunity. The Committee strongly recommends that reimbursing of these funds should be expedited. The Committee further recommends that disciplinary action should be instituted on the officers who processed the payments. The Committee is disappointed that it has taken such an inordinate time for these reimbursements to be done and recommends that the matter be reported to the police. The Committee also urges the Secretary to Treasury to intervene as some of the culprits are still serving in the Government in very senior positions.

14.4 Failure to Prepare Financial Statements

The Controlling Officer acknowledged the Auditor General's observation as correct. He explained that failure to prepare financial statements was regrettable. The Controlling Officer further submitted that the preparation of the statements was hampered by inadequate human resource in the accounts department. Further, the institution had since requested for human resource from the Ministry of General Education and was in the process of updating and preparing the financial statements. The Draft Financial Statements for 2015 to 2018 were estimated to be concluded by 31st March 2020. The Controlling Officer further submitted that an external accounting firm had been engaged to try and speed up the preparation of the books of accounts but had challenges to commence because the previous years were still unaudited. In addition, the ministry was in the process of attaching more manpower to assist with the preparation of the accounts so that the backlog could be cleared.

Committee's Observations and Recommendations

The Committee observes with consternation that ZEPH has not prepared financial statements for over ten years. The Committee questions what role the ministry has played in the previous years if it has had to take the auditors to highlight this inefficiency. The Committee observes that the decision by the Controlling Officer to attach more manpower to assist with the preparation of the accounts to clear the backlog was only taken after being queried. This is a sign of laxity on the part of the ministry which is unacceptable especially that, ZEPH has a qualified ACCA accountant who was drawing a salary during the period in question without adding value to the institution. In this regard, the Committee strongly urges the Controlling Officer to ensure that the financial statements are prepared and the accounting officer to be cautioned for failure to do is. The Committee will await an update on the matter.

14.5 Failure to Achieve set Production Targets–Printing

The Controlling Officer acknowledged the observation by the Auditor General as correct. He submitted that management at ZEPH failed to meet the production targets during the period under review, due to: inadequate working capital, failure to procure sufficient production materials; and lack of periodical servicing of equipment.

Committee's Observations and Recommendations

The Committee expresses concern that ZEPH has consistently failed to reach its set production targets with respect to printing books. The Committee observes that ZEPH had a variance of 442,610 in 2015 which reduced to 71,585 in 2017. The Committee notes that for ZEPH to operate to the expected output, it requires close to K 53 million. In this regard, the Committee urges the Controlling Officer to ensure that the Ministry hires ZEPH for its printing works as opposed to engaging foreign companies. This will help revive its operations and resolve the financial challenges. The Committee will await an update on the matter.

14.6 Failure to Fill Vacant Positions

The Controlling Officer submitted that failure to fill vacant position was due to inadequate funding and inadequate income from operations since 2013 which resulted in the failure by the institution to pay salaries and other emoluments consistently. Further, the ministry was in the process of attaching staff to Zambia Education Publishing House in order to fill some key vacancies.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission the Committee expresses disappointment that it took the auditors to highlight the gaps for the ministry to decide intervene. The Committee condemns this reactive type of management and urges the Controlling Officer to ensure that the situation at ZEPH is given the due attention it requires and the Committee will await a progress report on the matter.

14.7 Failure to Pay Terminal Benefits K 7,342,130

The Controlling Officer informed the Committee that this arose due to the failure by the institution to pay salaries and other emoluments as a result of inadequate operational funds. However, since the year 2018, the institution began to service the outstanding terminal benefits totalling K 990,000. Further, the Ministry of Finance had been engaged for release of other emoluments to enable the Institution pay accrued terminal benefits. The Committee also learnt that the Ministry of General Education owed ZEPH K 7,000,000 for services rendered.

Committee's Observations and Recommendations

The Committee observes with sadness that failure to pay terminal benefits has in most cases led to people becoming destitute after diligently serving the country. The Committee takes note that of ZEPHs submission that the institution is owed money by the Ministry of General Education, which if paid could help resolve some of the challenges as opposed to only relying on the Treasury. The Committee will await an update on the matter.

14.8 Failure to Settle Statutory Obligations K 84,555,775

(i) NAPSA Contribution

The Controlling Officer submitted that the failure to settle statutory obligations owed to NAPSA was due to the failure by the institution to generate enough liquidity from its operations to service contributions as they fell due. However, the institution had been engaging NAPSA with regard to payment plans to settle the arrears.

Committee's Observations and Recommendations

The Committee urges the Controlling Officer to ensure that the statutory contributions in question are liquidated to avoid possible litigation. The Committee will await a progress report on the matter.

(ii) Pay As You Earn (PAYE) K 23,001,077

The Controlling Officer submitted that the failure by the institution to settle statutory obligations to ZRA was due to the failure to generate enough liquidity from operations in order to service contributions as they fell due. However, the institution had been engaging ZRA with regard to payment plans to settle the arrears.

Committee's Observations and Recommendations

The Committee notes with concern the failure by ZEPH to settle statutory obligations and strongly urges the Controlling Officer to ensure that the outstanding balances are cleared without further delay and will await an update on the matter.

(iii) Lack of Asset Management Policy

The Controlling Officer acknowledged that the observation by the Auditor General was as correct. The Controlling Officer informed the Committee that the institution had been using an Assets List Record in place of the management asset policy which was updated regularly. He further submitted that the institution in collaboration with the Ministry of Works and Supply was in the process of implementing an asset policy which would be concluded once funds were made available. He further submitted that ZEPH had engaged a consultant to work on the policies but the institution could not proceed due to inadequate resources.

Committee's Observations and Recommendations

The Committee finds it unacceptable that ZEPH is using an Asset List Record as opposed to having an Asset Management Policy. The Committee observes that failure to have this policy in place exposes the entity to risks of fraud as there is no guidance and clarity on the acquisition, recording, use and disposal of the entity's non-current assets, among other things. In this regard, the Committee strongly urges the Controlling Officer to ensure that the Policy is formulated speedily and will await a progress report on the matter.

14.9 Properties without Title Deeds

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Committee was informed that ZEPH had been processing the acquisition of the title deeds. He further explained that the institution had engaged its Legal Counsel to follow up the acquisition of fresh title/duplicate titles for the properties.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and resolves to await an update on the acquisition of the title deeds for all the properties in question with respect to the *Lands Act. No 29 of 1995.*

14.10 Failure to Insure Assets

The Controlling Officer acknowledged that the Auditor General's observation was true. He further that explained the Motor Vehicles had always been insured, however, Property Plant and Equipment had not been insured due to failure by the institution to generate enough liquidity from its operations.

Committee's Observations and Recommendations

The Committee notes with concern that ZEPH has failed to ensure its property, plant and equipment. The Committee, therefore, strongly urges the Controlling Officer to ensure that ZEPH obtains insurance cover for its valuable assets to ensure that in an event that there is a risk of loss or significant damage to the assets or equipment, damages can be mitigated and minimal disruption to operations would occur. The Committee resolves to await a progress report on the matter.

14.11 Failure to Produce Procurement Plans

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He further submitted that it was regrettable the institutional had no procurement specialist for during the period under review and was unable to recruit due to liquidity challenges. However, the institution had requested for manpower from the Ministry of General Education which was being awaited.

Committee's Observations and Recommendations

The Committee expresses worry that ZEPH has been operating without a procurement plan. The Committee questions how procurements are being undertaken. The Committee strongly urges the Controlling Officer to strictly supervise the entity and cautions him against taking decisive action only after being queried by the auditors. This shows that the Ministry is reactive rather than being proactive and this is unacceptable. The Committee resolves to await a progress report on the matter.

14.12 Unsupported Payments K 4,675,582

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Controlling Officer submitted that out of the total amount of K4,675,582, payments amounting to K4,448,144 had since been retrieved leaving a balance of K227,437. Further, efforts to ensure that the balance was supported with relevant supporting documentation were been undertaken.

Committee's Observations and Recommendations

The Committee is dismayed with the submission that efforts were being made to retrieve the missing relevant supporting documents. The Committee is certain that such documents are usually fabricated so as to satisfy the audit process, which the Committee finds unacceptable. In this regard, the Committee strongly recommends that disciplinary action should be taken against the responsible officers by instituting deductions. The Committee will await a progress report on the matter.

14.13 Uncompetitive Procurement K 1,321,113

The Controlling Officer submitted that it was regrettable that at the time of the audit there were no adequate documents. However, out of the total amount of K, 1, 321,113 payments amounting to K 1,117,455 had since been retrieved and supported with relevant supporting documentations such as quotations as per ZPPA guidelines.

Committee's Observations and Recommendations

The Committee strongly condemns the tendency to submit supporting documents after an audit exercise is conducted. This raises doubt on the authenticity of such documents. The Committee, therefore, recommends that strict supervision of the entity should be embarked on, and going forward any documents that surface after an audit should not be admissible as authentic. The Committee directs that the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification subject to which the matter should close.

14.14 Lack of Disposal Details K 2,759,464

The Controlling Officer submitted that it was regrettable there were no adequate documents at the time of the audit. He further informed the Committee that out of the total amount of K 2,759,464 receipt and disposal details in payments amounting to K 1,117,455 had since been retrieved and supported. Further, management had since enhanced the internal control.

Committee's Observations and Recommendations

The Committee reiterates its recommendation that the Ministry should enhance the supervision of ZEPH and directs the Controlling Officer to submit supporting documents to the submission, to the Auditor General's Office for verification subject to which the matter should close and will be kept in view of future audits.

14.15 Failure to Collect Outstanding Rentals K 48,000

The Controlling Officer acknowledged the Auditor General's observation as correct. The Committee was informed that the matter relating to Machiti Engineering had been taken to court and judgment was issued in favour of ZEPH. The Lawyer was in the process of collecting the outstanding rentals. With respect to Kabacho Enterprises which owed K10, 200, a part payment of K6, 000 had been advanced leaving a balance of K 4, 200 to be paid in the last quarter of 2019.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await an update on the matter.

14.16 Abandoned ZEPH Building–Kasama Branch

The Committee was informed that that the building was abandoned based on the recommendation of the Provincial Buildings Engineer that the building was not habitable. The Controlling Officer further submitted that he had since reengaged the Ministry of Works and Supply and the Ministry of Housing and Infrastructure Development to make reassess the building and determine the way forward.

Committee's Observations and Recommendations

The Committee expresses concern over the irresponsible manner that ZEPH had abandoned the building, which if renovated or rebuilt can be a source of revenue and relief to solve some of the financial challenges. The Committee resolves to await an update on the matter.

14.17 Unaccounted for Revenue–Mongu Branch K 24,000

The Controlling Officer submitted that query on unaccounted for revenue at Mongu Branch was regrettable. He further informed the Committee that disciplinary action was taken against the erring officers and recoveries had since been instituted against the Stores Clerk and the Book Keeper.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and directs that all the documents in support of the submission should be submitted to the Auditor General's Office for verification, subject to which the matter should close.

14.18 Poor Stores Management – Mongu Branch K 45,860

The Controlling Officer submitted that the observation by the Auditor General regarding poor stores management at Mongu Branch was acknowledged as factual. The Controlling Officer also informed the Committee that management had since distributed the bin cards and all branches had been instructed to engage the service providers to service the fire extinguishers.

Committee's Observations and Recommendations

The Committee is disappointed that it had to take the auditors to highlight the query for the supervising ministry to be aware and take action. The Committee observes that it is unacceptable that an entity that is struggling financially and engaging the Ministry of Finance for assistance had books in stock valued at K 45,860 which had been kept for over three years. The Committee requests for an update on what led to the failure to sale the books and if the books have been sold. The Committee further recommends that caution should be given to all the officers involved and resolves to await an update on the matter.

14.19 Unaccounted for Funds–Chipata Branch K 45,019

The Controlling Officer acknowledged the observation by the Auditor General as factual and regrettable. The Controlling Officer submitted that disciplinary action was taken against the erring officers and recoveries had since been instituted.

Committee's Observations and Recommendations

The Committee reiterates its recommendation that the Ministry should enhance its supervisory role of ZEPH and should ensure that internal controls are tightened. The Committee directs that all documents supporting the submission should be submitted to the Auditor General for verification, subject, to which the matter should close.

14.20 Non–Maintenance of Office Buildings–Choma

The observation by the Auditor General was acknowledged as factual. The Controlling Officer informed the Committee that the building was under rehabilitation and that it was unfortunate that stock costing K95, 435 was lost as a result of being exposed to rain due to the dilapidated roof.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officers submission. However, the Committee is concerned that the Controlling Officer failed to give a time frame within which the rehabilitation The Committee is disheartened that an entity grappling with financial challenges failed to repair a leaking roof and consequently lost stock costing K95, 435. The Committee resolves to await an update on the matter.

14.21 Lack of Tenancy Agreements–ZEPH Livingstone

The observation regarding lack of tenancy agreements at the Livingstone Branch was regrettable. The Committee was informed that the tenancy agreements had since been retrieved and were available for audit verification.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs that all documents supporting the submission should be submitted to the Auditor General for verification, subject to which the matter should close.

14.22 Poor Maintenance of Buildings–Livingstone

The observation by the Auditor General was acknowledged as factual. The Controlling Officer submitted that the Livingstone buildings were in two parts, one had since been rehabilitated and the other one was in the process of being rehabilitated.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs that all documents supporting the submission should be submitted to the Auditor General for verification. The Committee will await an update on the matter.

15.0 ZAMBIA INTERNATIONAL TRADE FAIR

Review of Operations

A review of operations for the financial Years ended 31st December, 2015 to 2017 revealed the following:

15.1 Failure to Meet the Prescribed Minimum Share Capital

The Controlling Officer acknowledged that the observation by the Auditor General was factual. He submitted that Zambia International Trade Fair (ZITF) had since regularised the position by raising the nominal share capital to the statutory minimum of K15, 000 and the change was effected on 19th February, 2019.

Committee's Observations and Recommendations

The Committee directs the Controlling Officer to submit the documents supporting the submission to the Auditor General for verification, subject to which the matter should be closed and will be kept in view for audits.

15.2 Failure to Produce Audited Financial Statements for 2017

The Controlling Officer submitted that the delay to prepare the accounts was due to the changes in key staff in the Finance department following resignation of the Accountant and Assistant Accountant. The Controlling Officer further submitted that changes in finance personal resulted in delayed completion of financial statements. Additionally the General Manager was also separated from the entity. The Committee was further informed that the positions of General Manager and Accountant were filled in April, 2018 and the accounts were prepared, audited and approved in February, 2019.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee observes with concern that the provisions of the Company Act were not adhered to and urges the Controlling Officer to ensure that this query does not recur. The Committee resolves to close the matter subject to, submission of the documents by the Controlling Officer to the Auditor General for audit verification. The Committee will keep the matter in view for future audits.

15.3 Statement of Comprehensive Income for the years ended 31st December 2015 and 2016

The Controlling Officer acknowledged that the Auditor General's observation was true. He explained that the cause of the increased operating loss in 2016 to 2015 were due to the increased cost of hosting the 2016 trade fair. The total cost for the 2016 show (Entertainment, General exhibition costs, and Security) increased from K 2 million to K 3.3 million with an increase in other costs such as legal fees (K592,318) for eviction of squatters on the company land. He further explained that it was unfortunate that the corresponding revenue from the show only increased by K 0.8million The Controlling Officer also informed the Committee that the IDC was actively working with the Board to explore initiatives that would help generate income all year-round and optimise the use of the land owned by ZITF.

Committee's Observations and Recommendations

The Committee observes with concern that ZITF failed to generate income consumerate to the total cost of hosting the 2016 trade fair. The Committee finds it unacceptable that from an injection of K 3.3 million, ZITF only realised a meager K 0.8 million. The Committee strongly urges the Controlling Officer to provide a turnaround strategy for ZITF with a specific time frame. The Committee condemns the entity's reliance only on the hosting of the trade fairs, as a source of income, considering that this is a seasonal activity. The Committee resolves to await a progress report on the matter.

15.4 Statement of Financial Position-Weak Current Ratio

The Controlling Officer submitted that the observation by the Auditor General was true. He explained that the low current ratio was indicative of ZITF's inability to generate enough revenue to service outstanding debts. The Committee was also informed that the entity's current liabilities of K 8.6 million mainly comprised of statutory obligations due to: Zambia Revenue Authority (ZRA) K 2. 8 million; National Pension Scheme (NAPSA) was owed K 1.3 million and a disputed water bill totaling K 2.5 million due to Kafubu Water and Sewerage Company dating as far back as to 2004. To mitigate the challenge with respect to water bill, ZITF had sunk boreholes and no longer used water from Kafubu Water and Sewerage Limited. Further, IDC had directed management to re-engage Kafubu Water to resolve the disputed water bill as it was negatively impacting its liquidity ratio. He further submitted that it was regrettable that in comparison to the current liabilities of K 8.6m, trade debtors barely amounted to K 1.7million of which K 900,000 was due from Government Institutions, K707 000 was owed by Mukuba Hotel with the balance representing other debtors as at 31st December, 2016.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and express concern over the failure to generate sufficient income to service outstanding debts. The Committee strongly urges the Controlling Officer to ensure that the outstanding liabilities are cleared and will await a progress report on the new long-term strategy earmarked to improve the company's revenue generation.

15.5 Statement of Cash-Flow for the financial years ended 31st December 2015 and 2016

The Controlling Officer submitted that it was regrettable that the company recorded a negative cash flow of K432, 226 during the financial year ended 31st December 2016 from a positive cash flow of K181, 088 in 2015. He further submitted that inadequate revenue generation was the main driver of negative cash flow.

Committee's Observations and Recommendations

The Committee reiterates its recommendation that the Controlling Officer should ensure that the outstanding liabilities are cleared and will await a progress report on the new long-term strategy earmarked to improve the company's revenue generation.

15.6 Failure to Pay Terminal Benefits K 2,016,183

The Controlling Officer submitted that ZITF had lagged on the payment of terminal benefits due to insufficient liquidity. However, as a short-term solution, ZITF was considering to revert to employing staff on a permanent basis, as a way of reducing pressure to pay gratuity as and when they fell due. This arrangement was expected to allow ZITF to restructure and strengthen its balance sheet. Further, ZITF was actively exploring the possibility of raising funds to pay off former employees so that they could be removed from the payroll.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's response and urges him to expedite the process of raising funds to pay off the outstanding gratuity to the former employees. The Committee will await a report on the restricting strategy being pursed which is expected to strengthen the entity's balance sheet.

15.7 Questionable Payment to Former General Manager

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He explained that ZITF had to reimburse an amount of K16, 008 to the General Manager to compensate the new General Manager for the two months' salary in lieu of notice for resigning from his former employer ZAMPOST. He further explained that this was because, the Hotel needed to urgently fill the vacant position of General Manager. The payment was approved by the Vice Chairperson of the Board and IDC had since directed the Board to ratify the decision.

Committee's Observations and Recommendations

The Committee finds it unacceptable that the company had to incur an unnecessary cost of K 16,008 because the hotel was in a hurry to fill the vacancy. It is the Committee's view that with proper planning this cost would have been avoided. Further, the Committee finds it unacceptable that authority from the board was being requested retrospectively. In this regard, the Committee strongly cautions the Controlling Officer from instituting such decisions without following the laid down procedures. The Committee directs that the documents supporting the submission should be submitted to the Auditor General for verification subject, to which the matter should be closed.

15.8 Irregular Payment to Ndola City Council

The Controlling Officer acknowledged that the observation of the Auditor General was correct He informed Committee that investigations by the current ZITF management revealed that despite the payment voucher being in the name of Ndola City Council, the amount of K35, 000 was cashed by the Assistant Accountant who had since resigned from the company and the former General Manager was deceased. ZITF management had been directed to report the matter to the Zambia Police service.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await an update on the matter.

15.9 Failure to Settle Statutory Obligations K 4,184,158

The Controlling Officer submitted that admittedly ZITF had been failing to pay in full its statutory obligations. This was mainly on account of inadequate cash revenue generation to meet the obligations. ZITF management had engaged NAPSA and agreed on the payment plan to be current with new returns and pay K50, 000 per annum towards the old debt. Management had further engaged ZRA to explore the best option.

Committee's Observations and Recommendations

The Committee observes with concern that ZITF has been failing to pay in full its statutory obligations. The Committee urges the Controlling Officer to ensure that the outstanding debt is expeditiously liquidated and to avail to the auditors the agreed upon payment plan of K 50,000 per annum towards the old debt. The Committee will await a progress report on the matter.

15.10 Lack of Asset Management Policy

The Controlling Officer acknowledged that the Auditor General's observation was correct. He submitted that ZITF however, had a caption in the Financial Procedure that provided broad guidance on asset management. The Controlling Officer submitted that a dedicated Asset Management Policy would be developed by the end of the fourth of 2019.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee cautions the Controlling Officer against the failure to ensure that the proper accounting documents are put in place. In this regard, the Committee urges the Controlling Officer to ensure that an Asset Management Policy is put in place without further delay and the Committee will await an update on the matter.

15.11 Abandoned House – No. 56 Kabelenga Road, Ndola

The Controlling Officer submitted that ZITF had since earmarked the property at 65 Kabelenga Avenue as one of the assets for redevelopment under the asset optimisation strategy. Redevelopment plans had been completed and the company was currently exploring financing options. He further explained that the property at 65 Kabelenga Avenue qualified for admission to the IDC Group Property fund whose objective was to derive best value from asset utilisation for the benefit of individual subsidiaries and the group as a whole.

Committee's Observations and Recommendations

The Committee finds it irregular and irresponsible of ZITF management to have kept a structure unoccupied for over ten years and in a dilapidated state. The Committee resolves to await a progress report on the strategies being undertaken to rehabilitate the house.

15.12 Irregular Drawing of Fuel K 512, 162

The Controlling Officer acknowledged that the Auditor General's' observation was He explained that the vehicles cited however were authorised to draw the fuel as they belonged to partners who provided essential services to the ZITF during the Trade Fair. The partners included Zambia

Police, Zambia Army and ZANIS. He further submitted that vehicles of senior staff not owned by ZITF equally drew fuel in accordance with their respective approved conditions of service.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee expresses worry that the entity spent over K500, 000 on fuel, when ZITF is grappling with liquidity challenges. The Committee urges that the Controlling Officer to submit to the Auditor General documents to substantiate what services the partners executed subject to which the drawing of fuel will be regularised .The Committee resolves to await a progress report on the matter.

15.13 Failure to Produce Procurement Plans

The Controlling Officer submitted that ZITF had since employed a partially qualified Procurement Officer whom the company could afford. Development of the procurement plan was underway.

Committee's Observations and Recommendations

The Committee finds it irregular that ZITF does not have a procurement plan, contrary to the Public Procurement Regulation No. 26 (1). The Committee is dismayed that the Controlling Officer has failed to justify why the entity does not have in place the necessary documents and to this effect sternly cautions the Controlling Officer to ensure that this does not recur. The Committee will await an update on the matter and will keep the matter in view for future audits.

15.14 Unsupported Payments K 2,945,305

The Controlling Officer submitted that the Auditor General's observation that the previous management team did not obtain and maintain the required accounting documents (acquittal sheets and receipts) for the 151 payments was regrettable. IDC had directed the current management team to endeavour to locate the missing documentation in order to determine the existence of the associated expenditure in order to provide the basis for further corrective action.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's the submission and strongly urges him to ensure that the missing documents are located promptly and a recovery should be instituted through deductions. The Committee further urges the Controlling Officer to ensure that internal controls are tightened. The Committee resolves to await an update on the matter.

15.15 Unretired Accountable Imprest K 95,633

The Controlling Officer submitted that it was regrettable that ZITF management did not provide the necessary documents to support the retirement of imprest. IDC had censured and directed management to locate the necessary documents to ensure retirement of imprest and recovery of all unaccounted for amounts. Further, ZITF management had been directed to strengthen internal controls around the imprest system.

Committee's Observations and Recommendations

The Committee is saddened that ZITF has weak internal controls and strongly directs that as opposed to censuring and instructing officers to locate the missing accounting documents, the Controlling Officer should institute deductions to recover the said unretired imprest and the Committee will await an update on the matter.

15.16 Failure to Produce Service Contracts K 250,656

The Controlling Officer acknowledged that the Auditor General's was observation correct. The Controlling Officer submitted that this was regrettable notwithstanding that the officers who were responsible for procurement including the General Manager and Accountant had since separated from the company. He further informed the Committee that IDC had directed ZITF to regularise the observed deficiencies by engaging service providers to ensure service contracts were executed.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to close the matter and keep it in view for future audits.

15.17 Unaccounted for Stores K681, 583

The Controlling Officer submitted that the cited K681,583 as unaccounted for General Stores related to forty five transactions for purchase of material for works, furniture, protective wear, office materials and others. He further submitted that it was regrettable ZITF failed to provide documents such as Good Received Notes, receipts, delivery notes, distribution list, quotations and others. The materials were mostly for direct use as the company did not have stores for stocking. IDC had censured and directed management to provide documentary evidence of expenditure cited by the auditors. ZITF had since established stores and stock management system which was currently operational and a dedicated officer in charge of receiving and issuing of stores items had been engaged.

Committee's Observations and Recommendations

The Committee observes with concern that K 681,583 was unaccounted for by general stores. It is the Committee's considered view that even though the materials were for direct use; it is prudent that requisition and purchase records should be in place. The Committee requests for the necessary documents to be submitted to the Auditor General for verification, failure to which this expenditure will be deemed wasteful and irregular. The Committee resolves to await an update on the matter.

16.0 ZAMBIA NATIONAL BUILDING SOCIETY

Review of Operations

A review of operations for the financial years ended 31st March 2015, 2016 and 2017 revealed the following:

16.1 Statement of Comprehensive Income for the financial years ended 31st March 2015 to 2017

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He explained that the quoted increase of expenses was mainly as a result of an extra ordinary contingent liability, which was posted to the accounts to cover contingent liabilities that would arise from the outstanding legal case. He further informed the Committee that, the legal case arose when some of the former employees sued the Society for alleged underpayment of terminal benefits amounting to of K 1, 198,273.15. The matter was pending judgment in the Supreme Court and a contingent liability was made to cover all potential claims in the event that the matter was decided against the Society.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and resolves to await a progress report on the pending judgment by the Supreme Court.

16.2 Statement of Cash Flows for the Financial Years Ended 31st March 2015 to 2017

The Controlling Officer submitted that the observation by the Auditor General was noted. He explained that the disbursements in 2015 were very high due to the high levels of liquidity arising from the Government recapitalization amounting to K 165 million. The Committee learnt that K 125 million was injected in loans in 2017, out of which K 11.7 million was received largely from loan recoveries and deposits. He further submitted that K 123 million and K 67. 8 million was disbursed in loans and advances in 2018 and 2019, respectively. In addition, the Committee was informed that ZNBS was making profit since the recapitalisation funds were received. Going forward, the Society had embarked on vigorous strategies to access long term financing to be invested in loans and consequently a facility of US$ 25 million had been signed with AfDB. Additionally, ZNBS was in the process of opening up of Class B shares and the implementation of the Medium Term Note Program (MTNP) in order to raise financing from the capital markets.

Committee's Observations and Recommendations

While noting the Controlling Officer's submission, the Committee is concerned that ZNBS only performed better in the years it received injection of capital from external sources. It is the Committee's considered view that ZNBS should be generating enough revenue from its own operations as opposed to relying on external financing to improve its cash flows. The Committee further expresses concern about ZNBS's ability to offset the cost of financing from the markup gained from issuance of loans in the local market. In this regard, the Committee resolves to await an update on the matter.

16.3 Irregularities in Administration of Mortgages K 26,739,263

The Controlling Officer informed the Committee that fifty six unperfected securities with a value of K 26, 739,263 had been reduced to thirty four unperfected securities with a total value of K 8, 981,989.73 as at September, 2019. The Society was in the process of resolving the unperfected mortgages, to be completed by December, 2019. Further, the Society had also put in place measures to ensure that all mortgages were registered and security documents retained. Additionally, ZNBS had put up remedial measures which include: ensuring that mortgages were only disbursed after security was perfected; registration of mortgages to be outsourced by external lawyers to speed up the process and reports on securitisation, to be provided to management and the Board of Directors on a monthly and quarterly basis respectively.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission with displeasure that it had to take the auditors to identify that there were irregularities in the management of mortgages. In this regard, the Committee strongly urges the Controlling Officer to institute disciplinary measures against all the officers who had failed to undertake the due process when issuing the mortgages. The Committee further urges the Controlling Officer to impress upon management to expedite the process of implementing the remedial measures. The Committee will await a progress report on the matter.

16.4 Management of Investment Properties-Vacant Properties

The Controlling Officer acknowledged that the Auditor General's observation was correct. He explained that as at 24th September, 2019, three units had since been occupied while fourteen units remained vacant. The Committee was informed that most rooms located on the upper floors were unpopular among potential tenants while some rooms had leaking roofs. The Society was in the process of sealing the leaks, and would advertise all the vacant spaces. He further submitted that defaulting tenants were being pursued for payment of outstanding rentals.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await a progress report on the matter.

16.5 High Default Rates in Branches

The Controlling Officer submitted that he regretted that there was a high default rates on loans for selected branches. He informed the Committee that this was due to instability of employment and loss of employment for employees in the mining sector. Additionally, the default rate on loans was made worse by Kasama Branch fraud case which involved former employees who were currently being prosecuted by the Drug Enforcement Commission (DEC). The Controlling Officer further informed the Committee that the loans were still on the Society's books until the case was disposed of. He further informed the Committee that remedial measures had been undertaken to reduce the default rate. Some of the measures were, tightening the loan approval process, with the creation of a centralised Credit Department at Head Office which would independently evaluate loans and approves, the Memorandums of Agreements to be signed by the Society with various institutions would be strengthened to secure the interest of the Society.

Committee's Observations and Recommendations

The Committee observes with concern that ZNBS has been operating inefficiently with respect to the issuance of both friendly and building material loans. The Committee observes that during the period under review the default rate was higher than the acceptable threshold of 10 per cent as the default rate ranged from 15 to 22 per cent for Friendly Loans and 19 to 36 per cent for Building Material Loans. The Committee finds it unacceptable that the high default rates were as a result of poor loan appraisal systems and lack of segregation of duties in the management of loan accounts at the branch level. In this regard, the Committee strongly urges the Controlling Officer to improve supervision of the society and further resolves to await an update on the matter that is under investigation by DEC.

16.6 Uncleared Suspense Accounts

The Controlling Officer acknowledged that the observation by the Auditor General was factual. The Controlling Officer informed the Committee that, the Society had since set up a task force of employees to vigorously trace the owners of the funds, through the Know Your Customer (KYC) documents, to formalise KYC and open the customer savings accounts. This task force was working closely with the payroll management and established control (PMEC) system to ensure that no deductions were done without complete information and account details, as the majority of the funds related to savings from civil servants. The Controlling Officer further submitted that the suspense account balance as at 31st August, 2019 had reduced to K1, 734,898.30 from the reported K 1, 953,753.34 as of 31st March, 2018.

Committee's Observations and Recommendations

The Committee observes with concern that ZNBS has a colossal sum of funds whose owners are unknown. It is the Committee's considered view that this is a sign of poor internal controls as it is unacceptable that management has failed to identify the owners of the funds. The Committee is dissatisfied with the rate at which the owners are being identified. In this regard, the Committee strongly recommends that the control systems must be enhanced and that the funds must be ring fenced to avoid misapplication. The Committee will await a progress report on the matter.

16.17 Failure to Recover Loans - Kapiri Mposhi District Council K 373,274

The Controlling Officer submitted that this challenge arose because most of the former Kapiri

Mposhi council employees had been transferred to other councils and as a result they failed to submit their recoveries to ZNBS. He further explained that the outstanding amount in arrears was K 185, 956 as at 31st August, 2019 and that the Society had engaged debt collectors and also taken legal action to recover the money.

Committee's Observations and Recommendations

The Committee observes with concern that fourteen employees with outstanding loan payments amounting to K373, 274 representing 47 per cent of the total amount issued were dismissed from the Council in 2015 and 2016. In light of this, the Committee strongly urges the Controlling Officer to ensure that management must improve the process of issuing loans by undertaking a very stringent due diligence before issuance of any type of loan to reduce defaults. The Committee will await an update on the matter.

16.18 Failure to Account for Fuel K 772,016

The Controlling Officer submitted that it was regrettable that the Society had failed to account for fuel costing K772, 016 drawn by fifteen branches from the different provinces. To mitigate the problem, the Controlling Officer submitted that management had since introduced controls on all branches. Management transferred all fuel accounts to Puma (BP) and introduced Tom cards (Total) for centralised pulling of statements and accountability purposes. Further Branch managers had been cautioned to ensure that all fuel records were up to date and reconciled as and when fuel was issued. He further submitted that the employees who were involved were no longer with the society and hence recovery was difficult.

Committee's Observations and Recommendations

The Committee observes with consternation that ZNBS management failed to put in control measures to curtail the abuse of authority by branch managers with respect to fuel management. The Committee sternly warns the Controlling Officer against such lapses and directs the Controlling Officer to submit to the Auditor General for verification all documents in support of the submission, subject to which the matter should be closed and will be kept it in view for future audits.

16.19 Re-development of Society House and Central Arcades Project

An analysis of re-development of society house and central arcades project revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Missing Clauses on Concession Lease Agreement

The Controlling Officer acknowledged that the Concession Agreement signed by ZNBS, National Pensions Pension Scheme Authority (NAPSA) and Society House Development Company Limited (SHDCL) which was a Special Purpose Vehicle (SPV) wholly owned NAPSA had some conflicting and onerous clauses which were identified by management. He further explained that the parties met to discuss and re-negotiate the Concession Agreement but failed to reach a consensus. The Committee also learnt that the Attorney General guided that the agreements between NAPSA and ZNBS were validly subsisting hence there was no ground for its negation. Additionally, the Government could not interfere in the agreements but could facilitate any renegotiation agreed upon by the parties. The Committee was further informed that Clause 4.2 and 9.2 which stipulated "Delay of commencement of Commercial Benefits of the Project" as the concession agreement indicated that the Concession was for a period of twenty years from the commencement date but did not provide separate time frames for construction and commercial operations, as rightly observed. Furthermore, in 2015 the budget for the project was revised to K 952, 966,441.16 citing additional cost due to the fluctuation of the exchange rate which impacted on the importation of building materials for the project, change of the scope of work as new requirements were introduced on the project and the inclusion of an additional contractor to the project so as to expedite construction works as the initial main contractor, Yangts Jiang Enterprise Limited was in liquidation. However, Clause 5.4 of the agreement did give latitude to the parties to extend the concession period should the need for the extension arise.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await a progress report on the ongoing discussion between NAPSA and ZNBS that are aimed at reconciling the lacunas that exist in the signed concession. The Committee urges the Controlling Officer to expedite the process to avoid loss of institutional memory, considering that officers who were party to the signing of the concession are still with NAPSA and ZNBS. The Committee resolves to await an update on the matter.

(ii) Failure to Collect Concession Fees K1,608,563

The Controlling Officer acknowledged the Auditor General's observations as factual. He explained that ZNBS had not received concession fees in relation to the occupied space amounting to K 1,608,563 as at 30th September, 2018. He further informed the Committee that NAPSA had commenced the payment of concession fees in February, 2019 and as at 31st July, 2019; a cumulative total of K 2,335,004.04 (VAT inclusive) was paid through a debt swap against the rental expenses arising from occupying the 1st and 6th floor of Society Business Park. Going forward, the concession fees will be invoiced on a monthly basis and all the outstanding concession fees due to the Society had since been collected.

Committee's Observations and Recommendations

The Committee observes with concern the poor manner in which ZNBS is operating, considering that the Society has no details of tenants occupying the redeveloped Society House, copies of lease agreements or database of the tenants. The Committee is disappointed that it had to take the auditors for ZNBS to follow up on the outstanding concessional fees considering that NAPSA only began to settle the fees in 2019. The Committee urges the Controlling Officer to be proactive in the management of the concession as opposed to waiting for the auditors to flag out irregularities. The Committee directs that all documents in support of the submission should be submitted to the Auditor General for verification, subject to which the matter should be closed and will be kept open in view for future audits.

(iii) Loss of Concession income due to Vacant Space

The Controlling Officer submitted that the Concession rights were given to NAPSA, for the period of twenty years. NAPSA had the right to finance, commission, operate, maintain, repair, charge and collect rent and service charges from the project assets. In addition NAPSA had a contract with Pam Golding, who was responsible for the leasing out of the premises. The Society had engaged NAPSA to ensure that all the spaces were occupied. Further, NAPSA had been requested to provide all information relating to the tenants and rentals payments. The Committee was also informed that the Steering Committee referred to by the Auditor General was only in place during the construction of the project.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and urges management to be proactive in the management of the concession. The Committee further directs the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification, subject to which the matter should be closed. The Committee resolves to keep the matter in view of future audits.

(iv) Questionable Clause – Handing the Asset Back to the Contracting Authority

The Controlling Officer acknowledged that the Auditor General's observation was true. He explained that ZNBS management through the Ministry of Labour had engaged NAPSA on the review of the agreement.

Committee's Observations and Recommendations

The Committee is concerned that the concession has so many lacunas and questions the capacity of the officials that were party to the signing of the concession. The Committee strongly urges the Controlling Officer to ensure that all lacunas are expeditiously harmonised and urges management to caution all officials who were party to the signing of the contract. The Committee resolves to await a progress report.

17.0 ZAMBIA RAILWAYS LIMITED

Review of Operations

A review of operations of the Zambia Railways Limited (ZRL) for the period ended 31st December, 2015 to 2017 carried out in August 2018 revealed the following:

17.1 Failure to Achieve Set Targets

The Controlling Officer submitted that, the Auditor General's observation was correct. He further submitted that ZRL failed to achieve the set targets in the five year Strategic Business Plan (SBP) which ran from 2013 to 2018 due to lack of capital injection for the identified capital expenditure (investments) which were initially assumed. The Controlling Officer explained that some of the factors that stalled the attainment of the corporate strategic goals were: lack of capital expenditure to fully rehabilitate the rail track which could have lead to increased speeds of 70km/hr. and 80km/hr; non realisation of full revival of the inter-mine connectivity and operations; lack of capital expenditure to acquire new rolling stock; failure to achieve competitive conditions of service ,which could only be improved after recapitalisation and failure to meet the target passengers as ZRL failed to acquire the fifty planned new coaches due to lack of funding.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and expresses concern over the failure to achieve its corporate strategic goals. The Committee urges the Controlling Officer to expedite the process of sourcing external funding and further cautions management to ensure that there is prudence in the management of the funds as it is the Committee's considered view that ZRL did not prudently utilise the funds it received from the Euro bond. The Committee will await a progress report on the matter.

17.2 Weaknesses in Key Performance Indicators

The Controlling Officer submitted that it was regrettable that ZRL failed to meet benchmarks of its set key performance indicators in 2016 and in 2017. The Controlling Officer further submitted that the failure to meet performance targets resulted in a decrease in total turnover by 11 per. He further submitted that the reason for not meeting the targets was that the planned rolling stock and works on the rail line were not achieved due to lack of funding for capital expenditure. The Committee learnt that in the immediate term, ZRL hired six locomotives to address the lack of locomotives and the same agreement provided for the hire of wagons as and when need arose. The Committee also learnt that ZRL had revised downwards some of the key performance indicators as compared to the strategic plan.

Committee's Observations and Recommendations

The Committee finds it unacceptable that the company failed to meet the set benchmarks even after having revised its key performance indicators in 2016 and 2017. In this regard, the Committee strongly urges the Controlling Officer to ensure that management improves its forecast planning function as it is evident that there is failure to actualise set out plans. The Committee will await a progress report on the matter.

17.3 Statement of Comprehensive Income for financial years ended 31st December 2015, 2016 and 2017

An analysis of the statement of comprehensives Income revealed a number of irregularities to which the Controlling Officer responded as set out below.

(i) Manpower Related Costs

The Controlling Officer submitted that the observation of the Auditor General was correct. He explained to the Committee that there were employees who had been separated from the company but could not be released due to the company's constrained financial performance. The Committee was further informed that ZRL had reduced the employee head count by 365 and these had been empowered through the formation of eleven cooperatives stretching from Mulobezi to Chiliabombwe for track works.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and strongly urges the Controlling Officer to source for funds to clear the employee emoluments for the employees who have been separated from the company, to enable ZRL operate with a head count that is equivalent to the revenue generated. The Committee and will await a progress report on the matter.

(ii) Increase in Administration Expenses

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Controlling Officer submitted that the significant expense line in the administration cost arose from penalties amounting to K 20 million charged by NAPSA. He further added that the penalty rate of 20 per cent per month made efforts to liquidate the debt almost unattainable and consequently the administration expenses line was difficult to reduce.

Committee's Observations and Recommendations

The Committee is dismayed by the state of affairs, as this does not promote growth of the company. The Committee urges management at ZRL to ensure that it liquidates the NAPSA penalties and to ensure that it's current with its remittances as failure to do so does not substantiate the increase in administration expenses as a result of penalty charges. The Committee resolves to await a progress report on the reduction of administration expenses and liquidating of the outstanding NAPSA debt.

17.4 Statement of Financial Position as at 31st December 2015, 2016 and 2017

An analysis of the statement of financial position revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Reduction in Working Capital

The Controlling Officer submitted that it was unfortunate that the company had a negative working capital. He further informed the Committee that the increase in the negative working capital of K 7,211,000 IN 2017 was as a result of NAPSA penalties, PAYE and provisions ZRL had been accruing for the employees who had retired. The Controlling Officer also submitted to the Committee that the constrained liquidity position made it difficult for ZRL to be current on its statutory obligations.

Committee's Observations and Recommendations

The Committee notes the challenges being faced by ZRL in liquidating its NAPSA pension contributions and strongly urges the Controlling Officer to ensure that a lasting solution is implemented. The Committee finds it unacceptable that the company is operating with a negative working capital, which entails that it is unable to offset its short term liabilities as and when they fall due. The Committee resolves to await an update on the matter.

(ii) Liquidity Position

The Controlling Officer informed the Committee that ZRL was not generating enough revenues due to the redundant equipment and poor state of the rail track. The Controlling Officer further informed the Committee that the increase in the negative working capital was as a result of NAPSA penalties, PAYE and provisions for retirement which accrued as current liabilities.

Committee's Observations and Recommendations

The Committee expresses concern that ZRL has a poor liquidity position entailing that it cannot convert its assets into cash promptly and consequently fail to pay off its short term liabilities when they arise. The Committee urges ZRL to invest in business ventures that would generate enough revenue for the company to thrive. The Committee further urges the Controlling Officer to ensure that NAPSA penalties that have accrued are cleared off expeditiously. The Committee cautions management against using the NASPA debt as an excuse for failure to perform profitably. The Committee will await an update on the matter.

(iii) Increase in Receivables K 178,075,000

The Controlling Officer acknowledged the Auditor General's observation that there was an increase in the number of receivable days from 190 to 321 days as factual. The Controlling Officer further informed the Committee that subsequent to the reporting date, ZRL had since collected US$ 1.32 million from the old amount outstanding. He added that management would continue to monitor the situation with a view to improve the debtor's days. The Committee also learnt that the trade debtors particularly for Interchange were from as far back as 2013 and not accumulated in one financial year.

Committee's Observations and Recommendations

The Committee finds it inappropriate that ZRL acquired an overdraft facility of USD 1,000,000 to use on operational expenses as observed by the auditors. The Committee is disheartened that this exacerbated the poor performance of the company, as ZRL had to pay finance costs amounting to K 891,000. It is the Committee's considered view that management should have collected its receivables as opposed to acquiring a debt. The Committee strongly urges the Controlling Officer to impress upon management to come up with a plan that will help the company reduce its receivable day's period and to generate internal income as opposed to relying on debt financing. The Committee will await a progress report on the matter.

17.5 Poor Status of Infrastructure resulting in Loss of Revenue

The Controlling Officer informed the Committee that ZRL infrastructure was old and that some of the rails were installed as far back as 1940. He explained that 200 kilometers of rail was replaced in 1970 with assistance from the World Bank. He further added that without external capital injection, it was not possible to have this infrastructure in a good state. As a result, management had to source for funding to rehabilitate the old infrastructure. The Committee also learnt that despite not having capital injection, management at ZRL put up some measures in the short term to reduce on derailments and accidents. These included, outsourcing of the contractors for track maintenance and creation of twelve cooperatives along the line of rail for maintenance of infrastructure (Mulobezi to Chililabombwe).

Committee's Observations and Recommendations

The Committee is dissatisfied with the reasons advanced for the poor state of ZRL's infrastructure, which has; led to increased accidents and derailments. The Committee is also concerned that management requires capital injection when in fact the Euro Bond which was advanced to the company was improperly managed as there were no tangible results to show an improvement in its operations. The Committee is disappointed that managements alleges that the Euro Bond was only a partial intervention and was not meant to deal with the core challenges. In this regard, the Committee implores the Controlling Officer to ensure that management improves the infrastructure and ensures that they are on course with the earmarked strategic plans devised to maximise ZRL's potential and turn around the current worrying trend. The Committee resolves to await a progress report on the matter.

17.6 Reliability of Locomotives

The Controlling Officer acknowledged that the company failed to achieve the reliability target of 7,000 kilometers between failures and the locomotive reliability that was achieved averaged between 2,878 and 3,464 kilometers between failures. The Controlling Officer further submitted that was as a result of ZRL's failure to allocate the standard maintenance costs for locomotives because the company failed to generate enough revenues and the locomotives were over-aged.

Committee's Observations and Recommendations

The Committee is disappointed to learn that the performance of locomotives falls below the target of 10, 000 kilometers. The Committee is further dismayed that it has taken over forty years to replace the over aged locomotives. In this regard, the Committee urges the Controlling Officer to ensure that the company enhances its standard maintenance cost from a mere US$ 3000 per month to the accepted SADC standard of US$ 22,500 per month in order to reduce the reliability time frame in between failures and to expedite the process of replacing the over aged locomotives. The Committee will await a progress report on the matter.

17.7 Failure to Pay Premium ZMW3.67 million

The Controlling Officer acknowledged that at the time of audit, ZRL had outstanding premiums which totaled K 3.67 million. He further explained that the balance had legacy issues which were gradually being reduced through an agree payment plan. He further submitted that the outstanding premium payments stood at K 1.65 million. The Controlling Officer further informed the Committee that ZRL had an understanding with its insurers where insurance premiums were paid on installment basis through agreed payment plans and so far the company was up to date with current premiums.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and observes with concern that the insurers refused to compensate ZRL, when five vehicles were involved in road traffic accidents even though they were comprehensively insured, due to unpaid premiums. The Committee urges management to ensure that all the outstanding premiums are expeditiously paid. The Committee further urges management to ensure that ZRL is current with payment of the premiums to avoid the query from recurring. The Committee directs the Controlling Officer to submit to the Auditor General all documents in support of the submission for verification, subject to which the matter should be closed and be kept in view for future audits.

17.8 Staff Related Costs

(i) Unauthorised increase of Salaries and Allowances

The Controlling Officer submitted that it was regrettable that the decision taken by the ZRL Board of Directors appointed by the Industrial Development Corporation (IDC) to increase the salaries and allowances for all staff was not in line with section 102 of the Railways Act. He further submitted that IDC had taken note of the contradiction with respect to the Railways Act, the Company's Act and the articles of association of ZRL. IDC had engaged Government to align the Railway Act with the current practice and the Companies Act.

Committee's Observations and Recommendations

The Committee finds it unacceptable that, ZRL board revised salaries, wages and allowances (housing and productivity allowances) upwards for the financial years ended 31st December, 2016 and 2017 without the prior approval of the Minister as provided for in the Railways Act. The Committee urges ZRL to expeditiously engage Government so as to sort out the contradiction that exists between the Railways Act and the Companies Act. The Committee will await an update on the matter.

(ii) Irregular Payment of Productivity Incentive Allowance K 4, 983,792

The Controlling Officer informed the Committee that the productivity incentive allowances for all staff were authorised by the ZRL Board of Directors appointed by the Industrial Development Corporation (IDC) in line with the Companies Act and the articles of association of ZRL .The Controlling Officer further informed the Committee that ZRL noted the concern with respect to the Railways Act on the contradiction it created. Management had engaged Government to align it with the current practice and the Companies Act.

Committee's Observations and Recommendations

The Committee notes with disappointment that contrary to section 8.08 of the conditions of service, ZRL paid out productivity allowances despite having incurred a loss. The Committee also observes that ZRL failed to meet the haulage target which should be a basis on which to negotiate for the payment of the productivity incentive allowances. The Committee strongly recommends that all the officers responsible for this anomaly should be disciplined. The Committee further directs that all documents in support of the submission should be submitted to the Auditor General for verification subject to which the matter should be closed and will be kept in view for future audits.

17.9 Non-Remittance of Statutory Contributions K 91,834,999

The Controlling Officer acknowledged the Auditor General's observation as correct The Controlling officer submitted that ZRL had entered into payment plans with respective to statutory bodies in order to deal with historical and legacy issues. He further explained that ZRL had made monthly commitments with ZRA and NAPSA. The Committee learnt that ZRL had since paid K 7.71 million and K 6.70 to ZRA and NAPSA respectively.

Committee's Observations and Recommendations

The Committee expresses displeasure at the non-remittance of statutory contributions by management despite having deducted the statutory contributions from the employee emoluments for the period under review. The Committee cautions management against such decisions and resolves to await a progress report on the matter.

17.10 Failure to Remit Funds Recovered on behalf of Financial Lending Institutions K 3,093,178

The Controlling Officer acknowledged that the Auditor General's observation was factual. He explained that ZRL had entered into payment plans with Standard Chartered Bank, Barclays Bank, ZSIC, Sanlam, Prudential and Zambia Building Society to liquidate the outstanding loan recoveries. He further submitted ZRL had fully paid up all the loans owed to Sanlam, Prudential and Zambia Building Society. The Committee was further informed that ZRL had remained with an outstanding balance owed to Bayport Financial Services, who were actively receiving a monthly payment from ZRL towards the current and old debt as per signed payment plan. ZRL had settled over K 2.25 million to Bayport from September, 2019 and targeted to settle the outstanding balance by August, 2020.

Committee's Observations and Recommendations

The Committee is saddened that the Controlling Officer failed to elucidate why the monies that were deducted on behalf of the financial lending institutions that had provided loan facilities to ZRL's employees were not remitted. The Committee urges the Controlling Officer to institute disciplinary measures against the officers responsible to deter others and strongly urges management to desist from such a practice. The Committee directs the Controlling Officer to submit for verification all documents in support of the submission to the Auditor General. The Committee will await a progress report on the matter.

17.11 Failure to Remit Staff Pension Contribution K 434, 871 and K 15, 353,850

The Controlling Officer submitted that ZRL managed two pension schemes namely Defined Benefits Pension Scheme and a Defined Contribution Pension Scheme. He informed the Committee that ZRL had agreed with the ZRL Pension Scheme which managed the Defined Contribution (DC) and Defined Benefit (DB) to reduce the contribution rate for both the employer and employee for a period until when the cash flows of the sponsor of the scheme (ZRL) had improved. The Committee was further informed that this measure was within the Pensions and Insurance Authority Regulations.

Committee's Observations and Recommendations

The Committee expresses displeasure at the non-remittance of staff pension contributions by management for the period under review and resolves to await an update on the matter.

17.12 Supply and Installation of Two Portable Weighbridges Complete with Computers and Printer Accessories

An analysis of the of the contract signed between ZRL and Tech Africa Zambia Limited to supply and install a portable weighbridge revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Irregular use of Purchase Order K 1,876,013

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He submitted that ZRL invariably ZRL should have had a contract but instead ran the supply, delivery and installation of the two portable weighbridges on a purchase order. He further submitted that, the observation of the Auditor General was regrettable and disciplinary action had been taken against the officers who had since separated from ZRL.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses disappointment that management used a purchase order to procure goods valued above the threshold of K500, 000. The Committee urges management to ensure that procurement procedures are strictly adhered to and resolves to close the matter but keep it in view of future audits.

(ii) Wasteful Expenditure – Failure to Utilise Weighbridges K 919,003

The Controlling Officer submitted to the Committee that management noted with regret the observation of the Auditor General. He added that the contractor did not deliver the full equipment to the site and ZRL had only paid amounts worth what was supplied. He further informed the

Committee that ZRL was in possession of the equipment that had been delivered. The Committee was informed that the commissioning was not done and funds for commissioning were not paid to the supplier. The matter was currently in court as the supplier had sued ZRL.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await a progress report on the matter.

17.13 Unsupported Payments K 418,949

The Controlling Officer noted with regret the observation of the Auditor General. He submitted that ZRL had retrieved and supported six of the nine vouchers that were available for verification. He further added that the suppliers for the three remaining payments could not be traced to provide receipts.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and recommends that punitive measures should be sanctioned on the erring officers by instituting deductions for the three remaining payments. The Committee will await a progress report on the matter.

17.14 Wasteful Expenditure - Payment of Interest K103, 153

The Controlling Officer acknowledged the Auditor General's observation as factual. He submitted that the current financial position of ZRL made it impossible for ZRL to settle short-term liabilities whenever they fell due. Consequently some service providers engaged bailiffs with regards to amounts owed by ZRL. The costs and collection fees for the bailiffs were provided for in the law, and the company had to incur these costs due to delayed settlements. The Committee was also informed that to mitigate the above costs, management had embarked on a strategy of signing payment plans with several creditors. This led to a reduction in the number of bailiffs sent to the company.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and urges management to settle liabilities as they become due as this will help reduce the strain on the company considering that ZRL is already financially stressed. The Committee resolves to await a progress report on the matter.

18.0 ZSIC GENERAL INSURANCE LIMITED

Review of Operations

A review of the operations for the financial years ended 31st December, 2014, 2015, 2016 and 2017 revealed the following:

18.1 Administration of the Infoins Insurance System Contract-US$ 1,154,288

An analysis of the contract signed between ZSIC General Insurance (ZSIC GI) and Informatics International Limited of Sri Lanka entered for the development, supply, installation, commissioning and maintenance of a general insurance software system, revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Delayed Completion of the Project

The Controlling Officer submitted that the contract duration was eight months, from 25th November to 25th July, 2017 with the commencement date being contingent to ZSIC GI making the first installment. He further explained that ZSIC GI delayed to make the advance payment on account of cash flow challenges. Consequently, the initially set delivery target date of 25th July, 2017 was moved forward by the project steering committee to August, 2019.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and condemns the failure by management to adhere to the contract obligations. The Committee urges the Controlling Officer to ensure that management should only sign contracts when there is certainty of availability of funds. The Committee will await a progress report on the matter.

(ii) Lack of Escrow Agreement

The Controlling Officer acknowledged that the Auditor Generals observation was true. The Controlling Officer submitted that following full delivery of the system components in January, 2019, management had since signed the Escrow Agreement with the Zambia National Data Center being designated as the Escrow Agent.

Committee's Observations and Recommendations

The Committee expresses concern that ZSIC GI entered into contract without signing the Escrow Agreement. The Committee strongly cautions the Controlling Officer against such lapses in the management of contracts and recommends that all officers who were part to signing of the contract be cautioned. The Committee directs the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification, subject to which the matter should close be closed and be kept in view for future audits.

18.2 Statement of Comprehensive Income for the financial years ended 31st December 2014 to 2017

The Controlling Officer acknowledged that the Auditor General's observation was correct. He submitted that it was regrettable that the company performed poorly for the period 2014, 2015 and 2016 respectively. The Controlling Officer further submitted that efforts were being undertaken to ensure that the company generated sufficient income as the was in 2017 when a profit of K47, 388,000 was gained.

Committee's Observations and Recommendations

The Committee is disappointed that despite ZSIC GI being one of the oldest companies in the insurance business, ZSIC GI has continued to operate with consistent losses. The Committee finds this highly irregular considering that private companies operating in the same market are declaring profits and thriving. In this regard, the Committee strongly urges the Controlling Officer to ensure that the strategy to remodel the entity with a culture of being result oriented is strictly adhered to and all those who cannot deliver results must be separated from the company forthwith. The Committee will await a progress report on the matter.

18.3 Statement of Financial Position as at 31st December 2014, 2015, 2016 and 2017

An analysis of the statement of financial position as at 31st December, 2014, 2015 2016 and 2017 revealed a number of irregularities to which the Controlling g Officer submitted as outlined below.

(i) Liquidity

The Controlling Officer informed the Committee that it was unfortunate that ZSIC GI had a current ratio below 1 as at the time of audit. He explained that this was due to delayed remittances of insurance premiums by some clients including Government. However, going forward, management had since enhanced its credit policy to ensure collection of insurance premiums within agreed credit periods. Further, prompt collections of premiums would not only improve cash balances which constituted current assets but would also mitigate the risk of premiums becoming non-current receivables.

Committee's Observations and Recommendations

While noting the efforts undertaken by management, the Committee expresses displeasure that the company is operating with a negative working capital. The Committee finds it unacceptable that management is attributing the low current ratio to delayed remittances of premiums by clients. In this regard, the Committee urges the Controlling Officer to ensure that the company implements programmes and strategies that will ensure customer loyalty and prompt payment of premiums. The Committee will await a progress report on the matter.

(ii) The Solvency Ratio

The Controlling Officer acknowledged that the Auditor General's observation was correct. He submitted that ZSIC GI improved its solvency ratio to 80.62 per cent. He reiterated management's commitment on the management of the credit policy and collection of insurance premiums within agreed credit periods which in turn would help ZSIC GI meet the standard solvency ratio of 110 per cent.

Committee's Observations and Recommendations

The Committee expresses concern that ZSIC GI is operating in contravention of section 36(2) of the *Insurance Act. of 1997* (as amended). The Committee urges the Controlling Officer to ensure that all the earmarked strategies are implemented to improve the solvency ratio. The Committee directs the Controlling Officer to submit documents in support of the submission to the Auditor General for verification. The Committee resolves to await a progress report on the matter.

(iii) Receivables Collection Period

The Controlling Officer acknowledged that the Auditor General's observation was factual. He submitted that it was regrettable that the receivable collection day's period for ZSIC GI was above the approved limit of sixty days. He informed the Committee that included in the 2017 receivables was amounts totalling K 160,964,000. Out of this amount, Government ministries and departments accounted for 42.9 per cent. The Controlling Officer informed the Committee that ZSIC GI had continued to engage government through the Ministry of Finance to collect the outstanding premiums. Additionally, debt swaps were also actively being considered and as at 15th September, 2019, government had paid K 10, 000, 0000. The Committee learnt that ZSIC GI would cancel insurance cover for all defaulting customers.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and it is disheartened that the amount owed in receivables amounting to K 160,964,000 is colossal and management has not taken proactive measures to collect it, as evidenced by the meager payment of K 10,000,000 by government out of the owed amount of K 47,198000. The Committee observes with concern the inordinate time it has taken ZSIC GI to receive payments from its debtors. The Committee urges the Controlling Officer to impress upon management not to rely on debt swaps but instead, management should ensure that its clients pay for all the services provided for and that punitive measures should be instituted against those who default. The Committee resolves to await a progress report on the matter.

18.4 Intercompany Indebtedness K 14.9 million

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Controlling informed the Committee that IDC could not write off the K14.9 million owed by ZSIC GI in isolation of the total indebtedness of ZSIC GI and ZSIC Life. He further submitted that IDC was yet to provide written guidance to ZSIC GI and ZSIC Life on the resolution of balances owed between the two entities and ZSIC Limited.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses concern that ZSIC GI is requesting to have the debt owed to ZSIC Holding written off. The Committee observes that as at

31st December, 2018, ZSIC Holding Limited had not been dissolved as a company, because it owed outstanding statutory obligations due to the Zambia Revenue Authority and NAPSA amounting to K136 million. In this regard, the Committee finds it difficult to comprehend why ZSIC GI requested for cancellation of the debt. In this regard, the Committee resolves that the debt owed should be cleared off and resolves to await a progress report on the matter.

18.5 Failure to Collect Rental Income K 1,330,491

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He explained that subsequent to the audit, ZSCI GI had enforced recovery of non-related parties through the issuance of warrants of distress and wrote physical rental reminders. He further submitted that Liso house and Butala house were occupied by ZSIC life with which debt swaps were in process.

Committee's Observations and Recommendations

The Committee is concerned with the trend of recovering debts for services provided by various parastatal bodies and statutory institutions through debt swaps as opposed to, clients paying for the services provided for as and when a service is rendered. The Committee is also concerned that it took the auditors to intervene for ZSIC GI to follow up on the outstanding rental payments which is highly unacceptable. The Committee recommends that all outstanding debt should be paid expeditiously and that the Committee will wait for an update on the outstanding debt of K 1,001,011.09 as at 31st December, 2018.

18.6 Absconded and Vacated Tenants K 5,848,013

The Controlling Officer submitted that the Auditor General's observation was correct. He explained to the Committee that out of K 5,848,013, a total of K 3,838,542 was current leaving an overdue balance of K 2,009,471. The Committee was also informed that of the cited amounts, K 1,728,282 representing 86 per cent was owed by related parties ZSIC Life and ZSIC limited. The process of debt swapping was under way and the management had sought the board's authorisation to set a provision for the untraceable absconded and vacated tenants who owed K 281, 189 representing 14 per cent.

Committee's Observations and Recommendations

The Committee finds it unacceptable that ZSIC GI has untraceable absconded and vacated tenants. The Committee is of the view that this is as a result of poor management of its estate. The Committee directs that going forward; management should undertake a proper due diligence before offering its properties for occupancy. The Committee resolves to await a progress report on the collection of the unpaid rentals.

18.7 Employees with Negative Net Pays

The Controlling Officer acknowledged the Auditor General's observations as factual. He explained that subsequent to the audit, thirteen employees had their pay normalised fully and only one employee was still earning a negative pay. The Committee learnt that IDC had since censured management for the weak control environment exhibited surrounding the payroll administration. Management had in turn instituted disciplinary action against the employee who was responsible.

Committee's Observations and Recommendations

The Committee finds it unacceptable that the company did not have prescribed conditions with regard to the minimum net pay to which the employees were entitled. This was in contravention of government's regulation on deductable income that an officer's net pay shall not be above 40 per cent. The Committee urges the Controlling Officer to ensure that the issue with respect to the remaining employee is resolved and directs that all documents in support of the submission should be submitted to the Auditor General for verification, subject to which the matter should be closed.

18.8 Failure to Deduct Tax – Disturbance Allowance K869, 884

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Committee also learnt that ZSIC GI conditions of service provided for payment of "Disturbance Allowance" to compensate an employee in part for the unavoidable incidental expenses incurred upon transfer from one station to another. The Controlling Officer further submitted that subsequent to the audit finding, ZSIC corrected the omission by grossing up amounts paid to employees for tax purposes and deducting tax due which was paid to the Zambia Revenue Authority in January, 2018.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs that all documents in support of the submission should be submitted to the Auditor General for verification, subject to which the matter should be closed.

18.9 Failure to Remit Insurance Levies K 1,800,000

The Controlling Officer submitted that it was regrettable that ZSIC GI owed Pensions and Insurance Authority (PIA) an insurance levy amounting to K1, 800,000. The Controlling Officer further submitted that the delay in remitting the insurance levy was due to liquidity constraints occasioned by low collection of insurance premiums from clients but that ZSCI GI had entered into a revised payment plan with PIA to remit K300, 000 per month and had since paid a total of K2, 100,000 for the period January, 2018 to January, 2019.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and cautions the Controlling Officer to impress upon management to put up measures to ensure that this query does not recur. The

Committee directs that all documents in support of the submission should be submitted to the Auditor General for verification, subject to which the matter should be closed.

18.10 Non Payment of Terminal Benefits and Gratuity K 12,651,206

The Controlling Officer acknowledged that the Auditor General's observation was correct. He informed the Committee that the delay in settling of terminal benefits was due to liquidity constraints. However, in compliance with the law ZSIC GI had maintained all separated staff on the payroll pending settlement of terminal benefits. He further submitted that subsequent to the reporting date of 31st December, 2017, ZSIC GI had paid K 4,309,721.74 and K 6,525,943.81 towards terminal benefits and gratuity respectively. Management had since sought the board's authority to convert the pension scheme from a defined benefit to a defined contribution scheme in order to contain unfunded deficits. The Committee also learnt that the IDC as shareholder was actively exploring ways to inject equity into the business by the second quarter of 2020.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and urges the Controlling Officer to ensure that all outstanding debts are liquidated. The Committee resolves to await a progress report on the matter.

18.11 Failure to Update Fixed Assets Register

The Controlling Officer submitted that it was regrettable that a Fixed Asset Register was not properly maintained contrary to the ZSIC Group Accounting and Finance Policies and Procedures Manual. The Controlling Officer further submitted that a Fixed Asset Register had since been updated with eighteen vehicles belonging to ZSCI GI which at the time of audit was in the Asset Register. Register. ZSIC GI had procured an information management system which would help maintain an updated assets record. The Committee learnt that IDC had censured management for the evident lapses in controls in the maintenance of the Fixed Asset Register and directed management to expedite the process to seek authority from the board to write off twenty one properties procured in 1978 and 2010 and also 3,857 vehicles which were acquired during the same period and were depreciated with a net book value of K 0.0.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses concern on the failure by management to maintain a Fixed Assets Register. The Committee observes that this failure can lead to questionable disposal of fixed assets by those in management through failure to follow the right procedure. The Committee resolves to await a progress report on the matter.

18.12 Failure to Dispose of Motor Vehicles

The Controlling Officer acknowledged that Auditor General's observation was correct. The Controlling Officer submitted that the delay in effecting the disposal was in line with the directive from IDC to all its subsidiaries not to dispose-off any asset until further guidance was provided. Subsequently, IDC approved the sale of disused assets and all the motor vehicles had since been disposed off through an auction.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and directs that all documents in support of the submission be submitted to the Auditor General for verification, subject to which the matter should be closed.

18.13 Irregular Settlement of Claim-Ndola Branch K 27,000

The Controlling Officer submitted that it was regrettable that a claim amounting to K 27,000 was paid to a client who had outstanding premiums of K 2,712 for a period of over eighteen months. The Controlling Officer submitted that this was because ZSIC GI had a dispute with the client in question. He explained that the client had earlier paid premiums and the dispute was with respect to which specific account the premiums were paid into, as the client had a fleet of vehicles. Consequently the client insisted that the premiums previously paid on a fleet be allocated to the vehicle that was involved in the accident and claimed that at the time of processing the payment, ZSIC management had erroneously allocated the premium to a different vehicle. The Committee was also informed that the branch manager ultimately paid the claim on justification that he wanted to preserve the relationship and future business. IDC had since censured management on the lack of proper controls in capturing and recording of premiums hence exposing the company to a loss due to settling claims in relation to a vehicle which no premium had been paid. Further, the manager was cautioned in writing for failure to follow laid down processes and procedures.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission with displeasure. The Committee finds it unacceptable that management decided to flout the regulations on justification that the officer in question wanted to preserve the relationship and future business. The Committee urges the Controlling Officer to impress upon management to strictly follow all laid down processes and procedures in the execution of business. Further, all documents in support of the submission should be submitted to the Auditor General for verification subject to which the matter should be closed.

18.14 Lack of Salvage Policy

The Controlling Officer submitted that the Auditor General's observations were correct. He further submitted that the concerns will be incorporated into the existing Underwriting and Claims Manual which was being revised. He explained that it was expected that the revision of the procedures manual would be concluded before the end of 2019.

Committee's Observations and Recommendations

The Committee expresses disappointment that failure to have a salvage policy which is supposed to give guidance on what procedures should be followed when a motor vehicle has been declared salvage, creates a platform for abuse of office and may end up being abused to the benefit of those in management. The Committee urges the Controlling Officer to expedite the process of revising the procedures manual which is expected to be concluded before the end of 2019 and will await a progress report on the matter.

18.15 Questionable Disposal of Salvage – Land Rover Discovery

The Controlling Officer submitted that the Auditor General's observation was correct. The Controlling Officer submitted that the claimant was dissatisfied with the repair works done on his vehicle and at that point the company had already accumulated a repair bill of K 256,500.00 with a further supplementary quote of K35, 960.00. In this regard, management selected an option which was going to cost the company a total outlay of K495, 000 as opposed to K715, 500.

Committee's Observations and Recommendations

The Committee expresses disappointment on the manner the disposal of the Land Rover was undertaken and directs that a forensic audit be instituted to establish the facts of the matter. The Committee further directs that all officers who will be found to have acted contrarily should be disciplined so as to deter other. The Committee resolves to await an update on the matter.

18.16 Poor State of Infrastructure

The Controlling Officer submitted that the Auditor General's observation was correct. He informed the Committee that at the time of audit, maintenance works had not been undertaken due to budget constraints. He further submitted that budget proposals were made in 2019 and a total of K 1,795,724 was approved for maintenance repairs. Subsequent to the report, Liso House was repaired including waterproofing works as well as repair of the sewer system; painting works at Butala House and repair of convenience rooms. Further works including, painting, trunking of electric cables and rehabilitation of convenience rooms was undertaken at Liso House.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and strongly urges the Controlling Officer to caution management against keeping ZSIC GI structures in untenable and deplorable state. The Committee directs the Controlling Officer to submit all the documents in support of the submission to the Auditor General for verification, subject to which the matter should be closed.

18.17 Unsupported Payments K 149, 364

The Controlling Officer acknowledged that the Auditor General's observation was correct. He further explained that management was able to provide retirement documents for K 79,887. He further submitted that a full break down of the outstanding balance was being awaited from the Auditor General's Office.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and strongly urges him to ensure that going forward; deductions should be effected on staff who fail to provide retirement documents with respect to the financial rgeulations. The Committee resolves to await a progress report on the balance amounting to K 69,477, which the Controlling Officer failed to substantiate as to why they had no supporting documents, failure to which the matter should be reported to the police for further investigation.

19.0 ZSIC LIFE LIMITED

Review of Operations

A review of operations for the financial years ended 31st December 2014 to 2017 revealed the following:

19.1 Failure to Avail Appointment Letters for the Board of Directors

The Controlling Officer acknowledged that he Auditor General's observation was factual. He explained that the appointment of the previous board was done by ZSIC limited which used to be the holding company. Additionally, considering the appointments were made in 2009, records of such appointments may have been archived given that these records had exceeded the statutory time limit for record maintenance. The Committee was also informed that following the change in shareholding of ZSIC Life, the IDC board regularised the position by making the appointment for which letter were available for verification.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission. However, the Committee is concerned about the time frame of ten years in which the board membership was not changed. In this regard, the Committee requests that documentation which stipulates the tenure of office for board members and the letters of appointment be submitted to the Auditor General for verification, subject to which the matter should be closed.

19.2 Outstanding Claims

The Controlling Officer submitted that the main cause of the increase in the outstanding claims was due to mismatch of assets in which investments were made mainly comprising property, as it took longer to realise into liquid assets to provide cover for claims falling due in the short term. In order to re-align the assets to the liabilities, the board and management were actively exploring ways of improving liquidity, including listing of the company by the second quarter of 2020.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves await a progress report on the matter.

19.3 Gaps in Sequence of Policy Numbers

The Controlling Officer informed the Committee that the gaps arose due to the cancellations, withdrawals and maturities. He further explained that ZSIC Life provided an active file of policies as requested by the auditors, and the files did not contain any inactive policies. A complete file for both active and inactive policies was available for inspection.

Committee's Observations and Recommendations

The Committee cautions the Controlling Officer against providing verifiable documentation after an audit exercise and that going forward this will not be accepted. This Committee directs the Controlling Officer to submit documents in support of the submission to the Auditor General for verification subject to which the matter should be closed.

19.4 Questionable Payments K 989, 789

The Controlling Officer acknowledged that the Auditor General's observation was correct. He explained that the matter was a fraud case which management detected prior to the audit process. He further submitted that the claim amount was part of the K 1.2 million which was under investigation by the Drug Enforcement Commission (DEC) who had sized some of the properties believed to have been proceeds of crime. Management had since taken disciplinary action and terminated the employment of the employee involved in the IT fraud. The Committee was further informed that to mitigate possible frauds in future, management had its administration system audited and reviewed by the Information Systems Audit and Control Association (ISACA) whose recommendations were being implemented. ISACA had recommended that ZSIC Life should procure a new system and this was under way.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and expresses concern that it has taken such an inordinate time to conclude the case. The Committee further recommends that management should tighten the administration system of the Information Systems and expedite the procurement of a new system. The Committee resolves to await a progress report on the conclusion of the matter by DEC and the purchase of a new system.

19.5 Statement of Comprehensive Income for the financial years ended 31st December 2014 to 2017

The Controlling Officer acknowledged that the Auditor General's observation was correct. The Controlling Officer submitted that it was regrettable that ZSIC Life made a loss of K31, 147,000 in 2015. He explained that this arose due to the change in the reporting format of Life Assurance Funds to policyholder's liabilities which required the inclusion of actuarial deficits. This change was necessitated by the instruction from Pensions and Insurance Authority (PIA).

Committee's Observations and Recommendations

The Committee expresses concern on the poor state of comprehensive income which stood at a bare K 8,536,000 by the time of the audit. The Committee strongly urges the Controlling Officer to impress upon management to come up with tenable strategies that will enable the company to generate profits. The Committee resolves to await a progress report on the matter.

19.6 Statement of Financial Position for the financial years ended 31st December 2014 to 2017

An analysis of the statement of financial position for the financial years ended 31st December 2014 to 2017 revealed a number of irregularities to which the Controlling Officer responded as outlined below.

(i) Solvency Ratio

The Controlling Officer submitted that the observation by the Auditor General was correct. He submitted that the IDC as shareholder had implemented transformational strategies which were aimed at meeting the solvency statutory requirements. Additionally, ZSIC Life was actively pursuing one of the key strategies to raise capital on the Lusaka Securities Exchange (LuSE). The two-pronged strategy would commence with being quoted on LuSE during the fourth quarter of 2019and to be upgraded to a full listing by the second quarter of 2020. He further informed the Committee that the exact amount of capital to be raised would be determined by valuation fundamentals at the time.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and resolves to await a progress report on the matter.

(ii) Receivable Turnover Days

The Controlling Officer acknowledged that the observation of the Auditor General was correct. He informed the Committee that the significant portion of the receivables related to government aided institutions and other quasi-government institutions which accounted for 90 per cent while 10 per cent was accounted for by the private institutions. The Committee learnt that ZSIC Life had no challenges to collect the 10 per cent premiums from the private institutions as compared to the government institutions. ZSIC Life had implemented payment plans, including debt swaps with quasi-government institutions that had agreed to recover both current and outstanding premiums which led to an improvement in receivable days from 106 in 2017 to sixty nine days in 2018.

Committee's Observations and Recommendations

The Committee is saddened by the revelation that ZSIC Life has challenges to collect the 90 per cent premiums from government institutions. The Committee strongly urges the Controlling Officer to ensure that ZSIC Life management implements the payment plans including debt swaps with quasi-government institutions that have agreed to recover both current and outstanding premiums. Further, the Committee urges the Controlling Officer to engage the Secretary to the Treasury to intervene by deducting the outstanding amounts at source. The Committee will await an update on the matter.

19.7 Failure to Collect Rental Income K 2,738,036

The Controlling Officer acknowledged that the observation by the Auditor General was correct. The Controlling Officer submitted that ZSIC Life management had since engaged external debt collectors and increased staffing levels in the Estates department to accelerate the collections of outstanding rentals. Further, management had also conducted evictions and undertaken ligations on defaulting tenants which resulted into a collection of K 2.3 million. Additionally, debt swaps had been implemented between ZSIC Life and ZSIC General and reduced the outstanding figure by K 600,658.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await a progress report on the matter.

19.8 Failure to Change Ownership of Properties from ZSIC Limited to ZSIC Life

The Controlling Officer submitted that the observation by the Auditor General was correct. He further explained that the process of transfer of ownership of property had commenced and expected to be concluded within the fourth quarter of 2019.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and strongly urges management to ensure that titles are acquired for the properties belonging to ZSIC Life without any further delay. The Committee will await a progress report on the matter.

19.9 Poor state of Infrastructure–ZSIC Life

The Controlling Officer regretted that the properties for ZSIC Life located in Mansa, Luanshya, Ndola, Kitwe, Chililabombwe and Livingstone were in a state of disrepair due to lack of maintenance. The Controlling Officer further submitted that the poor state of infrastructure in some areas was due to insufficient liquidity to finance the repair and maintenance. Going forward, ZSIC Life Management had prioritised maintenance of properties. In this regard, the maintenance works had been completed for Kitwe's Insurance House while works were in progress on the Mansa flats and the flats were available for the auditors to inspect.

Committee's Observations and Recommendations

The Committee expresses concern on the high prevalence of dilapidated infrastructure and urges the Controlling Officer to expedite the process of re-aligning the portfolio in an effort to revamp some of the properties, following the submission that it has been difficult to market the properties at a competitive market value. The Committee resolves to await a progress report on the matter.

19.20 Unsupported Payments K 2,390,800

The Controlling Officer acknowledged the Auditor General's observation. He informed the Committee that subsequent to the review by the auditors, seventeen documents out of the 245 cited had been located. IDC had since censured and directed management to locate the outstanding documents within the fourth quarter of 2019.

Committee's Observations and Recommendations

The Committee finds it unacceptable that management failed to maintain a proper record keeping system. Further, the Committee is disappointed that out of 245 misplaced retirement documents only seventeen documents where located which the Committee deems to be a sign of laxity on the part of management. In this regard, the Committee strongly urges the Controlling Officer to institute disciplinary action through deductions and resolves to await an update on the matter.

19.21 Unretired Imprest K 46,960

The Controlling Officer submitted that the observation by the Auditor General was correct. He informed the Committee that subsequent to the review by the auditors, four retirement documents valued at K 40,400 out of nine totalling K 46,960 cited by the auditors had since been located. IDC had directed management to locate the outstanding five documents valued at K6, 560 within the fourth quarter of 2019.

Committee's Observations and Recommendations

The Committee finds it unacceptable that documents were only located after the audit. The Committee observes with concern the tendency to submit documents after an audit, as this renders the documents to be unauthentic as it's always perceived that such documents are forged for the purposes of satisfying the audit process. In this regard, the Committee recommends that stringent disciplinary measures are instituted through deductions for any imprest unretired beyond the stipulated financial regulations. The Committee will await an update on the deduction for the outstanding documents valued at K 6,560.

19.22 Missing Payment Vouchers K 5,546,688

The Controlling Officer acknowledged that the Auditor General was true. He further informed the Committee that subsequent to the review by the auditors, thirty documents amounting to K 2, 763,934.82 out of 162 cited by the auditors had been located. IDC has censured and directed management to locate the outstanding documents within the fourth quarter of 2019.

Committee's Observations and Recommendations

The Committee expresses concern on the failure to provide supporting documents for the payment. Further the Committee doubts the competency of the staff in the finance department as failure to keep accounting details is prevalent at ZSCI Life .The Committee further notes that subsequent to the review by the auditors, thirty documents amounting to K2, 763,934.82 162 were located which is an unacceptable. The Committee strongly recommends that deductions should be effected on all the outstanding retirement documents that were not located and resolves to await an update on the matter.

19.23 Zambia State Insurance Pension Trust Fund

A review of accounting and other records for the Zambia State Insurance Pension Trust Fund (ZSIPTF) for the period January 2014 to December 2017 revealed a number of irregularities to which the Controlling Officer responded as set out below.

(i) Valuation of Pension Schemes – Failure to Undertake Actuarial Valuations

The Controlling Officer submitted that ZSIC Life Pension Trust Fund managed 12 active defined benefit schemes for which at the time of audit management had not concluded the valuation of the schemes.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission that valuation of the Pension Schemes is up to date. The Committee directs that the documents in support of the submission should be submitted to the Auditor General for verification, subject to which the matter should be closed and be kept in view for future audits.

(ii) Underperforming Pension Schemes

The Controlling Officer informed the Committee that the cause of underperforming pension schemes was as a result of non-payment of outstanding contributions and unfunded actuarial deficits relating to government aided institutions, which had liquidity challenges.Management engaged the sponsors of the schemes and actuarial deficit funding plans had been agreed, resulting into ZESCO/ Kariba North Bank and Tata paying their liabilities. He further added that management had also engaged clients to freeze Defined Benefit schemes with an option to convert to a Defined Contribution plan to avoid further accumulation of actuarial deficits. The following clients had commenced the process of converting, Zambia Environmental; Management Agency, ZSIC Life, TAZAMA and Namwianga.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and cautions the Controlling Officer against flouting provisions of the *Pension Scheme Regulation Ac. Of 1996 (As amended by Act No.27 of 2005)* and recommends that interest should be charged as stipulated in the law. Further, the Committee resolves to await a progress report on the ongoing discussion regarding the shift from Defined Benefit Scheme to Defined Contribution Scheme.

(iii) Inactive Pension Schemes K33,561,875

The Controlling Officer submitted that there were schemes that either had no scheme sponsors or scheme sponsors had stopped meeting their obligations. He explained that most of such schemes were former ZIMCO subsidiaries sponsored pension funds. According to the pension scheme provisions, assets of the scheme had to be administered and managed until the last member in the scheme had accessed his/her benefits. He further explained that these funds had been kept in the multi-employer fund and were being invested together with other scheme's funds that were still active. As a result, over time these amounts had grown due to the interest earned.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await a progress report on the matter.

(iv) Failure to Settle Benefit Claims K111,675,000

The Controlling Officer acknowledged that the Auditor General's observation was correct. He further explained that in as much as failure to liquidate pensions as they fell due was contrary to the provisions of section 18. (1) (a) of the *Pension Scheme Regulation Act of 1996*, this related to defaulting pension schemes. Management had engaged the scheme sponsors on payment plans and the conversion to defined contribution plans had been concluded.

Committee's Observations and Recommendations

The Committee expresses concern on the failure by the pension schemes to remit pension contributions and urges management to be proactive and not to wait for auditors to identify and make them aware of lapses in the management of the schemes. The Committee further directs the Controlling Officer to submit all documents in support of the submission to the Auditor General's Office for verification, subject to which the matter should be closed and will be kept in view for future audits.

(v) Issuance of Loans

An analysis of the issuance of loans from the Zambia State Insurance Pension Trust Fund with respect to the framework for due diligence revealed a number of irregularities to which the Controlling Officer responded as outlined below.

a) Questionable Due Diligence US$ 17,785,011.83 AND K 3,600,000

The Controlling Officer acknowledged that the observation by the Auditor General was correct. He submitted that evidence of having undertaken a due diligence was not availed at the time of the audit because the files were with Drug Enforcement Commission, as the matter was still under investigation.

Committee's Observations and Recommendations

The Committee notes the Controlling Officer's submission and resolves to await an update on the matter.

b) Failure to Recover Loans K (US$4,044,400.00) and K773,349

The Controlling Officer submitted that it was regrettable that the Fund was owed amounts totalling K45, 297,280 (US$4,044,400.00) and K773, 349 by five companies that had defaulted on their loan repayments. The Controlling Officer further submitted that this was as a result of non-performance of investee companies and that some recoveries had since been made.

Committee's Observations and Recommendations

The Committee is saddened with the rate of default on loans and strongly urges the Controlling Officer to impress upon management to ensure that proper due diligence is done before the issuance of loans. Additionally clients must provide proof of collateral so that in the event that there is a default, the company can recover its funds from sale of the collateral. The Committee strongly urges the Controlling Officer to purse the companies that still owe to ensure that the loans are paid off, failure to which the matter should be reported to the police.

c) Failure to Collect Rental Income K49,481,562

The Controlling Officer informed the Committee that the non-collection of rentals in the past had been due to structural challenges in terms of staffing levels. ZSIC Life management had since engaged external debt collectors and improved staffing levels in the estates department to accelerate the collection of outstanding rentals. Further evictions and litigations had been effected on defaulting tenants from which K 1.4 million had been collected as at 31st August, 2019 and debt swap arrangements had also been implemented where K 700,000 in relation to property rates was collected from the Lusaka City Council.

Committee's Observations and Recommendations

The Committee observes the strides made in collecting the outstanding rentals. However, the Committee is concerned that the uncollected rental income is huge compared to what the company has since recovered. In this regard, the Committee urges management to ensure that it continues to pursue its creditors and will await an update on the matter.

d) Failure to Comply with Investment Guidelines

The Controlling Officer submitted that the failure to comply with the provisions of SI 141 by ZSIC Life management was caused by two factors: one being that the issue was historic as the fund investments were skewed towards investment in property; and the other was due to annual fair value valuation of investment properties. He explained that management had developed a property re-alignment strategy, which lead to the disposing off of Anchor house and reduced the property allocation threshold in line with SI 141.

Committee's Observations and Recommendations

The Committee takes note of the Controlling Officer's submission and directs the Controlling Officer to submit all documents in support of the submission to the Auditor General for verification, subject to which the matter should close.

e) Deteriorating Infrastructure –ZSIPTF

The Controlling Officer submitted that it was regrettable that the real estate portfolio which was a strategic asset pool for the pension fund to provide stable returns in terms of rental income and portfolio growth through reevaluations gains and profit disposal was in a deplorable state. He further submitted that the properties were affected by insufficient rental income to finance the repair and maintenance budget. To mitigate this, ZSIC Life had prioritised maintenance of properties and had since completed rehabilitation of Insurance House in Kitwe, while works were in progress on the Mansa Flats.

Committee's Observations and Recommendations

The Committee resolves to await an update on the matter.

PART III

20.0 GENERAL RECOMMENDATIONS

In order for Government to maximise its wealth and returns from investments in state owned enterprises (S.O.Es), generate future wealth as well as achieve its social objectives, improve financial management and accountability in statutory bodies, the Committee recommends the following.

i. The Industrial Development Corporation should develop a framework for monitoring the performance of SOEs to ensure that the objectives for which they are created are met,

ii. The SOEs and other statutory bodies should devise and implement innovative and cost cutting measures to improve their operational efficiency and to ensure self-sustainability,
iii. The SOEs and other statutory bodies should ensure that their statutory obligations are timely paid,
iv. The IDC should consider recapitalising viable SOEs and restructuring those which are loss making,
v. The Boards of Directors of respective institutions should ensure that all positions key to the operations of their institutions are filled, so that the institutions can optimise their operations,
vi. The boards should ensure that remunerations and conditions of service are commensurate with the performance of the institutions,
vii. IDC and supervising ministries should ensure that corporate governance practices in the state owned enterprises and statutory bodies respectively are improved by ensuring that:
   a) Clear Board Charters are developed,
   b) Board of Directors are in place at all times to drive their respective strategic directions,
   c) Boards have a robust process to evaluate their performance on a regular basis,
   d) Strategic plans are developed and linked to the national development plans.

viii. The IDC and respective supervising ministries should ensure that audited financial statements are one of the key deliverables for boards of SOEs and statutory bodies respectively. This will ensure compliance with the *Companies Act No 10. of 2017* and their respective enabling Acts. In addition, IDC and supervising ministries should develop timelines within which all the institutions under their charge should be up-to-date with their financial reporting,
ix. Institutions with substantial audit findings on non-compliance with financial rules, high levels of unaccounted for stores and revenue, unsupported payments and unretired imprest should improve their management through strengthening their internal control systems to prevent and detect non-compliance with financial rules,
x. Institutions should improve their record keeping and take specific measures to safeguard documentation in order to reduce concerns about possible fraud or irregularities where documentation cannot be produced for auditing.
xi. All the institutions should ensure that their properties are insured and on title.
xii. The Committee observes that cases reported to the investigative wings are taking inordinately too long to conclude. In this regard, the Committee strongly recommends that investigation wings/agencies should be appearing before it, in-camera, to update the committee on the investigations.
xiii. The Committee observes that failure to pay statutory obligations as and when they fall due is an overarching challenge, and statutory institutions are opting to abrogate the law and agreeing on separate time to pay periods. The Committee strongly condemns this and urges the Secretary to the Treasury to ensure that the provisions of the law are adhered to.

20.1 SUBMISSION BY THE SECRETARY TO THE TREASURY ON THE GENERAL RECOMMENDATIONS

The Secretary to the Treasury expressed gratitude to the Auditor General for bringing to light the weaknesses in state owned enterprises with respect to public financial management. Their findings and recommendations will go a long way in strengthening the controls in the institutions cited in the report.

In order for Government to maximise wealth generation in State Owned Enterprises, achieve social objectives and improve financial management and accountability in Statutory Bodies, the Treasury recommended therefore that the following actions be undertaken as soon as possible in order to enhance accountability in the management of public resources in statutory corporations and state owned enterprises:-

a) The Treasury will undertake evaluations to establish how statutory corporations and state owned enterprises were complying to the contents of the Treasury and Financial management Circular No. 11 of 2018 that required all public bodies to obtain financial clearance from the Treasury before signing contracts to commit public funds
b) The Treasury will scale up the sensitisation of boards and management teams in statutory corporations and state owned enterprises on the contents of the *Public Finance Management Act No. 1 of 2018.* The Treasury had so far sensitised Pacra, Zesco, Workers Compensation Fund Control Board, and Public Service Pension Fund among others. Further, the Treasury had sensitised six out of the ten provinces in the country namely; Lusaka Province, North-western Province, Luapula Province, Northern Province, Muchinga Province and Eastern Province. All the four remaining provinces will be sensitised by the end of January 2020.The Treasury will then extend the sensitisation to all other statutory corporations and state owned enterprises in the country.
c) Based on the Committee's recommendations, the Treasury will write to all boards of statutory corporations and state owned enterprises appearing in the Report advising them to take appropriate action on offenders and to ensure total compliance to relevant laws.
d) To mitigate the risk of failure to pay statutory obligations by state owned enterprises, the Treasury had directed all SOEs to ensure gross salaries were budgeted for and released every month.
e) National Road Fund Agency which constituted the biggest component of wasteful expenditure indicated in the report, occurred before the issuance of Circular No. 11 of 2018. Following the issuance of this circular all Public bodies were expected to submit their contracts to the Treasury for clearance including NRFA.

20.2 SUBMISSION BY THE SECRETARY TO THE TREASURY ON THE OUTSTANDING DEBT PORTFOLIO OF K 1,034,287,181.72 IN RESPECT TO DEVELOPMENT BANK OF ZAMBIA (DBZ)

Following the submission by the Development Bank of Zambia on the outstanding debt portfolio of **K 1,034,287,181.72** cited in **Paragraph 5** of the Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the Financial Year Ended 31st December, 2017, the Committee sought further clarity from the Secretary to the Treasury.
Arising from the interaction with the Secretary to the Treasury, the Governor Bank of Zambia, DBZ's Board Chairperson and the acting Managing Director for DBZ, the Committee makes the following observations and recommendations:

(i) The Committee observes with concern that DBZ does not have a strategic plan that outlines how the institution will resolve its financial challenges to ensure that it achieves the mandate for which it was established.

The Committee strongly recommends that DBZ should be restructured expeditiously and that his should include a review of the staff establishment and the employee's conditions of service which should be commensurate to the institutions performance.

(ii) The Committee observes with concern the lack of consistent oversight on DBZ by the Ministry of Finance who are the major share holders. Further, the Committee observes that the poor performance of DBZ has lead to the failure to attract other investors to invest in DBZ.

In this regard, the Committee strongly urges the Ministry of Finance to play a proactive role in ensuring that DBZ should be audited intermittently by the Auditor General as opposed to having a wholesale audit that is usually undertaken after a three year period.

(iii) The Committee observes with concern the high number of debtors who obtained loans from DBZ. The Committee further notes that most of the debtors are prominent person in society.

The Committee strongly urges the Secretary to the Treasury and the newly established Board to exhaust all possible measures to recover the outstanding loans with impartiality.

(iv) The Committee observes that there is a growing trend for companies and individuals to borrow colossal sums of money from the Government institutions operating in the financial market on the pretext that these individuals will establish viable business and create jobs. However, it is noteworthy that most of these borrowers have tended to be tricksters and have most often failed to honour their loan obligations.

The Committee strongly urges the Secretary to the Treasury and the Bank of Zambia to ensure that players in the financial market and those entrusted to superintend over these institutions are not used as channels or platforms to defraud the people of Zambia.

(v) The Committee observes that the non- performing loan ratio has increased from 77 per cent as at 31st December, 2017 to 89.4 per cent as at 31st January 2020. The Committee further notes that this entails that DBZ should be liquidated as it cannot profitably operate at 10 per cent.

The Committee recommends that the Secretary to the Treasury should ensure that the Government supports DBZ to ensure that its operations are revamped, considering that DBZ is supposed to be an initiator of development as a development financer especially that Zambia is still a developing country.

21.0 SUBMISSION BY THE SECRETARY TO THE TREASURY ON THE AUDITOR GENERAL'S CONCLUSION.

The Secretary to the Treasury submitted that the Report of the Auditor General had yet again revealed glaring financial irregularities in state owned enterprises. Most of the categories for the queries recorded a decrease in trends when compared to the year ended 2014 that had been taken as a baseline for this report. However, through his Report, the Auditor General had highlighted weaknesses in management of statutory obligations and curbing of wasteful expenditure. The Treasury vowed to undertake corrective measures to enhance internal controls in Public bodies cited in the Report. Efforts by the Auditor General to bring to light the weaknesses in state owned enterprises with respect to public financial management were appreciated. Their findings and recommendations would go a long way in strengthening the controls in the institutions cited in the Report.

22.0 CONCLUSION

The Committee wishes to pay tribute to all the witnesses who appeared before it and made both oral and written submissions. It also wishes to thank you, Mr Speaker for your invaluable guidance throughout the Session. The Committee also expresses gratitude to the Office of the Clerk of the National Assembly and her staff for services rendered to it during the Session. The Committee is confident that the observations and recommendations contained in this Report will be favourably considered and fully implemented by the Executive, in the interest of the Nation.

23.0 APPENDICES

Appendix I

Committee's Recommendations on the Report on Outstanding Issues on the Reports of the Committee on the Reports of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Years Ended 31st December, 2012 to 2016.

Appendix II – List of Witnesses

i. Ministry of Finance
ii. Copperbelt University
iii. Development Bank of Zambia
iv. National Road Fund Agency
v. Zambia Building Society
vi. Industrial Development Corporation
vii. Medical Stores
viii. Time Printpak Zambia Limited
ix. Zambia Daily Mail Limited
x. Zambia International Trade Fair
xi. Zambia Railways Limited
xii. ZSIC General Insurance
xiii. ZSIC Life Limited
xiv. National Housing Authority
xv. Zambia Education Publishing Houses
xvi. Zambia Airports Corporation
xvii. Industrial Development Corporation
xviii. Judiciary

Appendix III – List of National Assembly Officials

i. Ms C Musonda, Principal Clerk of Committees
ii. Mr H Mulenga, Deputy Principal Clerk of Committees (FC)
iii. Mrs C K Mumba, Senior Committee Clerk (FC)
iv. Mr E I C Chilimboyi, Committee Clerk
v. Mrs S B Nyirongo, Committee Clerk
vi. Mr A Himululi, Intern
vii. Mrs V B Tembo, Typist
viii. Mr M Chikome, Committee Assistant
ix. Mr D Lupiya, Committee Assistant
x. Mr M Kantumoya, Parliamentary Messenger