

MINISTERIAL STATEMENT
ON
**THE ENGAGEMENT BY THE GOVERNMENT OF A NUMBER OF PRIVATE
AUDIT FIRMS TO VERIFY ZAMBIA'S PUBLIC DOMESTIC DEBT**
BY
**THE MINISTER OF FINANCE AND NATIONAL PLANNING (DR
MUSOKOTWANE), MP**

Madam Speaker, thank you for giving me the opportunity to clarify the engagement by the Government of a number of private audit firms to verify Zambia's Public Domestic Debt.

Madam Speaker, public domestic debt has significantly increased in the recent years, thus contributing to Zambia debt un-sustainability. The debt has for instance, increased sharply between 2016 and 2022, rising from K51.8 billion to K76.4 billion as at end of June 2022. The increase in domestic public debt was driven by increased national external debt service which impacted funding to other areas, higher borrowing requirements mainly to finance the Farmer Input Support Programme (FISP), refinancing of fuel arrears and partly due to increased Budget financing requirements following limited external financing resources. Domestic arrears also increased due to over procurement of roads projects and possibly overpricing.

Madam Speaker, as part of the process of resolving our debt unsustainable position, this Government engaged multilateral organizations in verifying the country's external debt, which was done, and decisions have been taken on this front to resolve the problem through cancellations, recouping and undertaking actual debt restructuring. Similarly, it was necessary that this rapid increase in domestic arrears be equally verified. The verification, like the one we undertook on external debt, had to be undertaken using independent and specialised services, which the Government identified should come from a private sector player as they possess expertise and are independent to verify the authenticity of the debt. Like I said, this process was similar to what Government undertook as it was validating the external debt, only that this process is being undertaken using local human resources. The firms we engaged are meant to

establish and verify the authenticity of arrears owed to domestic supply of goods and services and on infrastructure projects.

Procurement Process Followed for the Firms

Madam, this Government promised transparency and good governance in the management of public funds. In line with this pledge, the firms that have been contracted were engaged through a selective tender process that involved twelve reputable firms that bid for the different lots, that is, the different categories of outstanding arrears. The tenders were floated on 31st January, 2022 and awarded on 12th May, 2022. The firms were engaged by the Ministry of Finance and National Planning with the authority of the Auditor-General in line with Section 6 of the Public Audit Act Chapter 378 of the Laws of Zambia, which stipulates:

“Whenever the exigencies of public audit services so require, the Minister responsible for finance may, at the request of the Auditor-General, engage such agents or specialist consultants as are necessary to assist the Auditor-General in the execution of his duties.”

In addition, the Public Finance Management Act No. 1 of 2018 Section 7(1)(z) states that the Secretary to the Treasury can:

“Carry out any other functions that may be prescribed by the Minister or that may be considered reasonably necessary for proper financial management of the Republic.”

Madam, the bidders were evaluated on technical capabilities, after which the successful firms were evaluated on their financial competitiveness. The total contract cost for the work is K16.8 million. The process resulted in six firms being selected and allotted arrears categories as follows:

<i>Consultant</i>	<i>Sector</i>
Grant Thornton	Goods and Services
PwC	Road Contracts
CYMA	Farmer Input Support Programme
Mark Daniels	Value Added Tax Refund
Client Focus	Awards and compensation
EY Advisory Services	Fuel

Terms of Reference for the Consultants

Madam, the terms of reference for the review covers all Government entities and is not limited to defence and security wings. Further, for the defence and security wings, the firm allotted for verifying arrears relating to goods and services is verifying debt relating to goods and services such as food rations only.

It does not cover their operations or equipment supplies. Specifically for Grant Thornton and PwC that have attracted public scrutiny, their terms of reference are as follows:

Verification of Domestic Supply of Goods and Services by Grant Thornton:

- (a) review and evaluate contracts for supply of goods and services by having procurement entities supply backup documents for the debts;

- (b) establish the competitiveness of goods supplied and whether the Government obtained value for money from them;
- (c) establish that goods delivered notes were obtained in accordance with contracts;
- (d) review the procurement process through which suppliers were contracted with a view to establish transparency and compliance to existing laws for all players involved; and
- (e) establish whether the interest rate chargeable on arrears reflect market fundamentals

Verification of Road Contracts by PwC:

- (a) check the adequacy of the bidding documents and conformity to the law;
- (b) conformity of contracts to competitiveness bidding;
- (c) where an addendum was issued, the conformity to the law and confirmation that the basis is justified;
- (d) verify contracts that were granted down payments against the works done;
- (e) in cases where single source was used, whether proper authority was obtained, that is, ascertain the quality of works against amounts paid, includes sample site visits or physical inspection;

- (f) for project funds, determine whether the project funds were used for the purposes intended;
- (g) review and analyse the potential red flags that may indicate inappropriate financial management, misappropriation of assets and inappropriate use of funds; and
- (h) identify expenditures which may have been made for ineligible projects.

Use of the Reports

Madam, the reports, once finalised will be submitted to the office of the Secretary to the Treasury. They are exclusively meant for management use. They will augment the reports of the Controller of Internal Audits and are meant to aid decision-making as we make payments and develop strategies for dismantling bigger volumes of arrears such as fuel.

The post audit services of the Auditor General continue post expenditures. In that, his office continues to audit public institutions in line with his mandate and based on schedule as supported by the valuable expert human resources. Further, these reports augment the internal audit report which is used by the Auditor General's office as a reference points when conducting their own points.

Madam Speaker, in conclusion, the process of engaging auditing firms was done consistent with Government undertakings to ensure that there are no fraudulent payments and that when payments are made they are done so on account of value having accrued to the Public.

Madam Speaker, the scrutiny is necessary as we know that already some categories of arrears have incomplete documentation or certificates issued without works being delivered, such as those under the Ministry of Local Government and Rural Development and of course many

others. So, to avoid this situation where money is paid without having verified that in fact value was delivery there has been necessary to verify these contracts before we dismantle the arrears.

Madam Speaker, I am sure you will agree with me that this is a very noble assignment that is meant to protect the Republic of Zambia from fraud and other crimes.

Madam Speaker, I wish to thank you.
