

## **INTRODUCTION**

1. This Report on the audit of the accounts of the Government of the Republic of Zambia for the financial year ended 31<sup>st</sup> December, 2005 is submitted to the President for tabling in the National Assembly in accordance with provisions of Article 121(4) of the Constitution of Zambia.
  
2. According to the provisions of Article 118(1) of the Constitution, the Minister responsible for Finance shall cause to be prepared and shall lay before the National Assembly not later than nine months after the end of each financial year, a Financial Report in respect of that year. However, contrary to the provisions of Article 118(1) of the Constitution, the Financial Report was not prepared as at the date of this Report. Consequently, the Outturn and Appropriation Accounts could not be prepared.

### **CO-OPERATION WITH OFFICE OF THE AUDITOR GENERAL OF NORWAY**

3. In paragraph 3 of the Report of the Auditor General on the accounts for the financial year ended 31<sup>st</sup> December 2004, mention was made of the cooperation activities between the Office of the Auditor General of Zambia and Office of the Auditor General of Norway. The cooperation has continued being sound. To further enhance the quality of audit work and reports, in 2006, the Office with the help of the Office of the Auditor General – Norway (OAGN) under the Restructuring and Institutional Development Project (RIDP II) financed by the Norwegian and Netherlands Governments, sensitized all staff on the Financial Audit Manual , Quality Control guidelines and working papers and developed draft Performance and IT audit manuals. Further, the OAGN donated forty (40) laptop computers to the Office. However, the agreement for this cooperation has expired.

## **INSTITUTIONAL DEVELOPMENT**

4. In paragraph 4 of the Report of the Auditor General on the accounts for the financial year ended 31<sup>st</sup> December 2004, mention was made that construction of the new Provincial Offices would be done in 2005 by the Cooperating Partners, through the Public Expenditure Management and Financial Accountability (PEMFA) programme. These construction works have commenced. With the exception of the Headquarters and Mansa Office, works have reached advanced stages in Chipata, Kasama, Mongu and Solwezi

Following Cabinet's approval of the restructuring of the Office and the expansion of the establishment from two hundred and fifty (250) to five hundred and seventy (570) in line with the new structure, four hundred and thirty nine (439) officers have been recruited to date.

In 2006, under RIDP II, capacity building continued and officers attended various training programmes.

In the area of enhancing the Office's independence, good governance and public awareness, under the same support, the Office participated in the Agriculture and Commercial Show and launched a newsletter and a website ([www.ago.gov.zm](http://www.ago.gov.zm)) and sensitized some stake holders.

## **SCOPE AND AUDIT METHODOLOGY**

5. This Report is as a result of reviews, programmes of test checks, inspections and examination of accounting, stores, project and other records maintained by public officers and others entrusted with the handling of public resources. The audit programmes were designed to give reasonable assurance of financial management in the Government and to enable me express an opinion on the financial statements for the year. They were also intended to provide information that would assist Parliament in its oversight responsibilities over the application of resources and execution of programmes by the Executive.

Accordingly, the programmes were designed to highlight areas of weakness to facilitate formulation of recommendations by Parliament for remedial action by the Executive.

In the course of preparing this report, each Controlling Officer was sent appropriate draft paragraphs for comments and confirmation of the correctness of the facts presented. Where the comments varied with the facts presented, and where proved to be valid, the affected draft paragraphs were amended accordingly.

Previously, outstanding issues have been reported as an appendix to this Report. However, from this year and henceforth, a separate report on outstanding issues will be produced. This is in an effort to bring outstanding issues to the fore in order for corrective measures to be taken.

#### **LIMITATION IN SCOPE**

6. The execution of the audit programmes was limited by factors outside the control of the Office of the Auditor General. The main limiting factors were:

- (a) **Budgeting**

In 2006, the Office proposed a budget of K18,995,947,488 including an amount of K3,000,000,000 in respect of donor funding through the Restructuring and Institutional Development Project. In the Appropriation Act, this was however reduced to K16,951,758,074 made up of K3,000,000,000 donor funding and K13,951,158,074 from government. Of the K13,951,758,074 from government, K8,984,898,246 was for Personal Emoluments and K4,966,859,828 was for office operations (Recurrent Departmental Charges). Hence the work plan for the year had to be reduced accordingly.

- (b) **Transport**

Lack of transport imposed a very serious constraint on the operations of the Office. The Office has continued to operate with an old and unreliable fleet of vehicles. Though twenty four (24) vehicles were budgeted to be procured for the

Office under the PEMFA programme in 2004 (11) and 2005 (13), only three (3) had been delivered as of 31<sup>st</sup> December 2006.

**(c) Staffing**

With the recruited new staff the audit coverage increased in that one hundred and twenty (120) audits were undertaken as compared to one hundred (100) in 2005. However, the process of recruitment, induction and training was time consuming and negatively impacted on the operations of the Office.

Further, although one hundred and twenty (120) audits were undertaken, only forty five (45) as compared to twenty four (24) in 2004 are included in this Report as the quality of work was not yet up to the required standard and officers are undergoing on the job training.

**CONTROL, MANAGEMENT AND ACCOUNTABILITY OF PUBLIC FUNDS**

7. According to the Public Finance Act No. 15 of 2004, the Minister responsible for Finance shall, subject to the provisions of the Constitution and the Act, have the management, supervision, control and direction of all matters relating to the financial planning and the economic management of the Republic. The Minister is head of the Office of the Treasury established under the Act and shall make policy and other decisions of the Treasury except those delegated under section six (6) of the Act to the Secretary to the Treasury who shall exercise the powers of the Treasury. In exercising these powers, the Secretary to the Treasury designates in respect of each head of revenue of expenditure provided for in any financial year, an officer who shall be a Controlling Officer. The responsibilities of the Controlling Officers are outlined in sections 7 (3) to (9) of the Act and include the preparation and submission of financial statements to the Auditor General for audit and certification before inclusion in the Financial Report. The audited financial statements are then submitted to the Secretary to the Treasury to enable him/her prepare the Annual Financial Report for tabling in the National Assembly by the Minister responsible for finance in accordance with the provisions of Article 118(1) of the Constitution of Zambia

## **INTERNAL CONTROL**

8. In the previous Annual Audit Reports, mention has been made of the ineffective internal control systems obtaining in Ministries and Departments. The Public Accounts Committees (PAC) have also called upon the Ministry of Finance and National Planning (MoFNP) to improve the internal control mechanisms in the Government. In this regard, the MoFNP assured the PAC that measures were being taken to redress the situation especially following the restructuring of many government ministries and departments. However, inspite of the assurances made, it has been observed that cases of misappropriations, lack of reconciliations of bank accounts and unretired imprest, losses of stores, awarding of contracts without evaluating the capabilities of contractors, poor project management resulting in government paying huge amounts of interest and penalties and delayed implementation of projects and failure to follow procurement guidelines are prevalent as reflected in this Report.

In the course of audit it was also observed that there were delays in the banking of revenue collections, and in some cases, where revenue was banked; there was no evidence that the monies were credited to Control 99 at the Bank of Zambia and captured by MoFNP.

### **GENERAL REVENUES**

<b>HEADS:</b>	<b>201</b>	<b>Income Taxes (Other than MineralTax)</b>
	<b>202</b>	<b>Customs and Excise</b>
	<b>207</b>	<b>Value Added Tax</b>
<b>SUBHEADS:</b>	<b>Various</b>	

### **Revenue Collections- Zambia Revenue Authority (ZRA)**

9. In paragraphs 13 to 15 of the Auditor General's report for the financial year ended 31<sup>st</sup> December 2004, mention was made among others of the failure by Zambia Revenue Authority (ZRA) to collect tax arrears from defaulters, delays in crediting revenue to

control 99, non remittance of interest earned on repayment/refund accounts to control 99, refer to drawer cheques which had not been replaced and misappropriation of revenue by some members of staff. An audit carried out in February 2006 revealed that the weaknesses have persisted as detailed below:

**(a) Tax Collections**

During the year 2005, ZRA's gross revenue collections totalled K6,642,683,268,233 compared to K5,491,730,554,141 collected in 2004 representing an increase of 21% from the year 2004.

Details of revenue collections by the ZRA for 2005 are as shown below:

TAX TYPE	PROFILE(IMF)	PROFILE(GRZ)	GROSS COLLECTIONS	REFUNDS	NET COLLECTIONS	SURPLUS/(DEFICIT)
	K	K	K	K	K	K
Excise Duties	750,300,000,000	720,000,000,000	640,080,115,922	42,639,000,000	597,441,115,922	(122,558,884,078)
Fuel Levy	-	-	173,459,493,632	-	173,459,493,632	173,459,493,632
Import Duties	661,000,000,000	764,700,000,000	699,537,491,898	43,309,000,000	656,228,491,898	(108,471,508,102)
Import VAT	1,001,900,000,000	985,100,000,000	1,010,201,396,762	-	1,010,201,396,762	25,101,396,762
<b>Customs Total</b>	<b>2,413,200,000,000</b>	<b>2,469,800,000,000</b>	<b>2,523,278,498,214</b>	<b>85,948,000,000</b>	<b>2,437,330,498,214</b>	<b>(32,469,501,786)</b>
Company Tax	447,600,000,000	444,900,000,000	457,064,191,502	-	457,064,191,502	12,164,191,502
PAYE	1,756,500,000,000	1,732,800,000,000	1,726,831,874,582	8,180,000,000	1,718,651,874,582	(14,148,125,418)
WHT & Other Taxes	238,900,000,000	243,500,000,000	240,906,885,729	-	240,906,885,729	(2,593,114,271)
Extraction Royalty	26,300,000,000	4,100,000,000	38,864,752,308	-	38,864,752,308	34,764,752,308
Medical Levy	5,600,000,000	5,900,000,000	6,235,238,601	-	6,235,238,601	335,238,601
<b>Direct Tax Total</b>	<b>2,474,900,000,000</b>	<b>2,431,200,000,000</b>	<b>2,469,902,942,722</b>	<b>8,180,000,000</b>	<b>2,461,722,942,722</b>	<b>30,522,942,722</b>
<b>Domestic VAT Total</b>	<b>694,700,000,000</b>	<b>610,500,000,000</b>	<b>1,649,501,827,297</b>	<b>1,026,612,000,000</b>	<b>622,889,827,297</b>	<b>12,369,827,297</b>
<b>TOTAL</b>	<b>5,582,800,000,000</b>	<b>5,511,500,000,000</b>	<b>6,642,683,268,233</b>	<b>1,120,740,000,000</b>	<b>5,521,943,268,233</b>	<b>10,443,268,233</b>

Although the Authority had an overall surplus collection of K10,443,268,233, there was a total net deficit of K125,212,747,791 against a total target of K2,741,000,000,000 in respect of Import Duty, Pay as You Earn and Withholding Tax and other taxes as shown below:

TAX TYPE	PROFILE	NET COLLECTIONS	(DEFICIT)
	K	K	K
Import Duty	764,700,000,000	656,228,491,898	(108,471,508,102)
PAYE	1,732,800,000,000	1,718,651,874,582	(14,148,125,418)
WHT & Other Taxes	243,500,000,000	240,906,885,729	(2,593,114,271)
<b>TOTAL</b>	<b>2,741,000,000,000</b>	<b>2,615,787,252,209</b>	<b>(125,212,747,791)</b>

**(b) Tax Arrears**

A review of Tax arrears position revealed that a total of K2, 557.66 billion was outstanding as at 31<sup>st</sup> December 2005 compared to K2,743.76 billion outstanding as at 31<sup>st</sup> December 2004 representing a decrease of 6.8%. Details of the movements in tax arrears by type are shown below:

	<b>2005</b>	<b>2004</b>
	<b>K' billion</b>	<b>K' billion</b>
Company Tax	809.83	386.33
Back duty	0.59	0.21
Self Employed	91.42	92.79
PAYE	286.73	331.09
Customs & Excise	50.74	84.65
Domestic VAT	1,318.35	1,848.69
<b>TOTAL</b>	<b>2,557.66</b>	<b>2,743.76</b>

Although there was an overall reduction in arrears, company tax arrears increased from K386.33 billion in 2004 to K809.83 in 2005 representing an increase of 109.6% while back duty arrears increased from K0.21 billion to K0.59 billion representing an increase of 180.9%.

A further scrutiny of records revealed that the total outstanding arrears of K2,557.66 billion included among others the following:

**(i) Collections against Value Added Tax (VAT) Assessments**

Out of the VAT assessment amounting to K17,076,543,043 made during the period under review, K1,772,728,601 was collected and K1,806,232,200 was agreed to be paid under Time to Pay Agreements. It is not clear whether and how the balance of K13,497,582,242 will be collected.

**(ii) Warrants of Distress issued but not executed**

According to the VAT Act of 1995, tax and any interest due is a debt due to the Republic and has to be recovered. In this regard, any authorized officer may, under warrant by the Commissioner General levy distress upon goods and chattels of the defaulter. Such goods or chattels may be sold by public auction if the defaulter fails to pay the amounts due.

Records examined revealed that 92 warrants of distress were issued in 2005 for taxes amounting to K5,723,351,327. However the defaulters' goods had not been distrained and subsequently auctioned by the ZRA so as to recover the debts. In this regard, the defaulters were still using the goods contrary to the provisions of the Act.

In his response dated 6<sup>th</sup> July 2006, the Commissioner General stated that the disposal procedure was being reviewed to ensure that where warrants of distress were issued they were actually executed and goods sold.

**(iii) Value Added Tax arrears- Closed or Liquidated Companies**

In paragraph 13 (b) (i) of the 2004 report mention was made of the amount of K2,232,039,562 that was owed by 82 Companies in VAT. A review of the situation revealed that 24 companies which had closed down owed the Zambia Revenue Authority amounts totalling K4,808,217,017 in VAT as of March 2006.

Inquires revealed that these amounts are not likely to be recovered as no follow up had been made with the companies' liquidators.

**(iv) Outstanding Parastatal Debt**

As of 31<sup>st</sup> December 2004, twenty nine (29) quasi government institutions owed a total amount of K84, 626,693,274 which increased by K7, 558,483,783 bringing the total to K92,185,177,055 as of 31<sup>st</sup> December 2005. It was noted in this regard that although the companies were submitting

returns, they were not making any payments. As of August 2006, the Authority had not taken stringent measures to recover the money.

**(v) Uncollected Corporation Tax**

Contrary to Income tax Act Chapter 323, Corporation tax in amounts totalling K30,706,763,471 remained uncollected from thirty five (35) companies as of May 2006.

It was further noted that in some cases the arrears have been outstanding from as far back as 1997.

**(vi) Non Remittance of PAYE**

According to the provisions of the Income Tax Act Chapter 323, Pay as You Earn (PAYE) is payable on the 14<sup>th</sup> day of the month following the month in which deductions are made from the employees' salaries by their employers.

Records examined however revealed that as of 31<sup>st</sup> March 2006, twenty one (21) companies had not remitted PAYE amounting K60,230,335,361, contrary to the provisions of the Act.

In his response dated 6<sup>th</sup> July 2006, the Commissioner General stated that all such cases had been referred to the Internal Debt Collection Unit for enforcements.

**(vii) Failure to send Tax Quantifications and Tax Irregularities to the Debt Collection Unit (DCU)**

Quantified tax is tax that an institution deducts from its employees but fails to remit it to the ZRA. Tax on irregularities refers to tax not deducted from employees on certain taxable allowances. This is discovered after carrying out a PAYE audit of an institution.

A comparison made between cases sent to the DCU and cases purported to have been sent to the DCU by the Tax Central Unit of ZRA revealed differences. As a result, outstanding quantified tax and tax on irregularities amounting to K16, 387,818,682 and K1,488,660,618 respectively were not wholly sent to DCU for recovery. In this regard, only cases with a total amount of K4, 993,354,499 were sent.

**(c) Central Cash Office**

**(i) Unsupported Cancelled Receipts**

Contrary to the provisions of Financial Regulations No. 102, fifty (50) cancelled receipts in amounts totalling K827,307,177 issued to tax payers during the period from February to November 2005 were not supported by original receipts.

**(ii) Unreplaced Refer to Drawer Cheques**

During the period under review, a total of four hundred and thirty nine (439) cheques amounting to K14,918,400,420 were referred to the drawers. As of September 2006, three hundred and six (306) cheques amounting to K13,984,456,988 had been replaced leaving a balance of one hundred and thirty three (133) cheques amounting to K933,943,432 not replaced.

**(iii) Delayed Remittance to Control 99**

According to agreements between ZRA and commercial banks, money deposited in commercial banks is supposed to reach the Bank of Zambia within four (4) days for banks within Lusaka, five (5) for banks along the line of rail and seven (7) days for banks in other towns. Any bank that fails to meet these requirements is charged interest at the Bank of Zambia mid rate.

During the period under review, Zambia National Commercial Bank (ZNCB) delayed remitting revenue amounting to K7,511,576,190 to Bank of Zambia for periods ranging from eight (8) to fifty seven (57) days. It was observed

that although ZNCB was supposed to pay interest charge as penalty for the delayed remittance, as of August 2006 the interest had not been paid.

It was also noted that ZNCB had charged an amount of K2, 850,633 as bank charges on revenue deposits for the same period contrary to the banking arrangement.

**(d) Treasury Department**

The Authority maintains one hundred and thirty seven (137) bank accounts with commercial banks in all revenue collecting points where daily tax revenue collections are banked for onward transmission to the Bank of Zambia. Each station is required to submit source documents such as deposit slips, daily revenue cashbooks and station returns on a weekly basis to the ZRA Headquarters Treasury Department. The Department in return reconciles each station's accounts against commercial bank statements.

It was observed that out of the one hundred and thirty seven (137) bank accounts, only twenty (20) accounts had been reconciled as of May 2006. A further scrutiny of bank reconciliation statements revealed unresolved unidentified credits and debits totalling K12,630,165,761 and K222,004,764 respectively. It was noted that some of the items had been outstanding since 2001 and no explanation was provided.

**(e) Garnishee Orders**

A Garnishee is an instrument used to collect debt that targets a taxpayer's source of income. A Garnishee maybe served on a bank or a major client of the taxpayer.

In paragraph 13 (b) (iii) of the Auditor General's report for the year ended 31<sup>st</sup> December 2004, mention was made of the failure by the Authority to collect a total amount of K5,967,113,946 involving five (5) cases after garnishee orders had been served.

A review of the situation in 2006 revealed no improvements in that the amount of K5,967,113,946 owed as at 31<sup>st</sup> December 2004 were still outstanding. In addition, there were thirty seven (37) cases involving a total amount of K8,210,188,140 that had not been recovered even after Garnishee orders had been served for the year ended 31<sup>st</sup> December 2005.

**(f) Interest Earned On Tax Repayment/Refund Accounts**

In paragraph 13 (d) of the Audit Report for the financial year ended 31<sup>st</sup> December 2004, mention was made of the delays by the Authority in remitting a total amount of K2,137,668,876 that was earned as interest on four (4) payments accounts to control 99 at the Bank of Zambia.

A review of records for the period from January to December 2005 revealed that the practice had continued. It was noted in this regard that a total of K3,854,942,588 had been earned as interest on the VAT refund, Direct tax refund, Duty Draw Back and the Customs General Deposit accounts.

Out of the total interest earned, K3,085,310,001 was remitted to the Bank of Zambia, K115,436,333 was transferred to the ZRA operational account contrary to Financial Regulation No 117 while the balance of K654,196,253 was still held by the ZRA and not credited to control 99 as of August 2006.

**(g) Debt Collection Unit**

Although the DCU was created so as to make active follow up on all outstanding cases, it was observed that in most cases the Unit delayed in making follow ups. As a result, a number of cases had not been resolved as of August 2006 as shown below:

<b>No. of Cases</b>	<b>Status</b>	<b>Amount Outstanding</b>
		<b>K</b>
47	Missing Tax Payers	<b>178,140,505</b>
62	Under Objection	<b>774,867,420</b>
2	Liquidated/Closed Company	<b>503,823,233</b>
47	Pending Removal	<b>270,185,446</b>
28	Unvisited Tax Payers	<b>369,289,696</b>
70	Quasi Government	<b>9,746,643,270</b>
2	Time to Pay Agreement	<b>5,041,048,851</b>
		<b>16,883,998,421</b>

It is not clear as to whether some of the above debts will be recovered as some tax payers sent to the DCU as far back as May 2005 remained unvisited as of August 2006.

**HEAD: 206 Fees of Court or Office  
Ministry of Home Affairs**

**SUBHEAD: 52 Police**

#### **Weaknesses and Irregularities in Accounting for Revenue, Zambia Police**

10. The Zambia Police Service collects revenue from Fingerprinting fees, issuance of firearm licenses and Traffic fines, among others. During the financial year ended 31<sup>st</sup> December 2005, an estimate of K3,098,127,000 was made in the Estimates of Revenue and Expenditure out of which K2,678,810,763 was collected resulting in under collection of K419,316,237.

An examination of records relating to collections of revenue for the period from January 2005 to August 2006 at Police Headquarters and other selected Police Stations in Lusaka, and a review of internal audit reports revealed the following:

**(a) Headquarters**

**(i) Unaccounted For Revenue.**

Revenue in amounts totaling K215,695,400 collected between June 2005 and August 2006 was not accounted for contrary to Financial Regulation No. 117.

**(ii) Collections Not Credited to Control 99**

A test check of deposit slips for the period January 2005 to August 2006 revealed that out of K1,503,493,200 purported to have been banked in Control 99, amounts totaling K976,661,400 were not credited to Control 99 and the deposit slips relating to the K976,661,400 had a fake Bank of Zambia stamp.

**(iii) Delayed Banking**

Contrary to Financial Regulation No.38, amounts totaling K108,668,000 collected during the period from January to June 2005 were delayed in banking for periods ranging from two (2) to thirty (30) days.

Test checks conducted at various Police Stations and a review of Internal Audit reports revealed that the situation was similar to that obtaining at Headquarters as tabulated below:

Station	Overbanking	Delayed Banking	Under Banking	Misappropriation
Lusaka Central	-	194,833,000	1,027,500	-
Lusaka Division	3,884,500	162,285,500	-	53,152,500
Emmasdale	1,361,400	159,247,000	-	-
Woodlands	-	114,565,500	-	385,000
Kabwata	-	114,422,500	1,378,000	-
Chelstone	-	57,132,000	11,368,400	1,008,000
Matero	4,087,000	108,226,000	-	-
Manda Hill	459,500	94,567,500	-	-
Mindolo	-	-	-	19,977,000
Mufulira	-	-	-	8,458,000
Kalomo	-	-	-	24,269,500
Choma	-	-	-	5,116,000
Pemba	-	-	-	1,892,000
Kafue	-	-	-	23,658,000
Mkushi	-	-	-	771,000
Kapriir Mposhi	-	-	-	1,341,500
Mpulungu	-	-	-	3,357,000
Mongu Division	-	-	-	13,703,506
Mongu Central	-	-	-	7,865,000
Sesheke	-	-	-	2,683,000
	<b>9,792,400</b>	<b>1,005,279,000</b>	<b>13,773,900</b>	<b>167,637,006</b>

As can be seen from the table above, revenue collections totaling K1,005,279,000 were banked late, K13,773,900 was not banked and was not on hand, and amounts totaling K167,637,006 were misappropriated.

The review of Internal Audit report also revealed that there were twenty seven (27) general receipt books that were missing in respect of three (3) Police Stations (Kafue Police Station – 10, Kabwe Central Police Station – 11, Mpika Police Station – 6). It was therefore not possible to ascertain how much revenue was collected on the receipts.

**(iv) Appropriation -In –Aid**

According to the guidelines on accounting for Non-Tax Revenue and Appropriation-In-Aid issued by the Ministry of Finance and National Planning in March 2006, only ministries and departments that have been approved by Parliament shall have the authority to appropriate part of the revenue collected as per ceilings set by Parliament. Appropriation-In-Aid shall start on 1<sup>st</sup> April and end on 30<sup>th</sup> November during each fiscal year. Approved Ministries or Departments shall appropriate funds for programmes or activities relating to revenue operations.



**(a) Headquarters**

**(i) Revenue appropriated above the authorized Appropriation – in – Aid**

According to provision in the 2005 Estimates of Revenue and Expenditure, the Immigration Department was authorized to use K4,204,109,000 as Appropriation –in Aid. It was however observed that the department utilized K4,336,216,653, resulting in unconstitutional expenditure of K131, 595,310.

**(ii) Revenue deposited into the Ministry’s Control Accounts**

During the period under review, amounts totaling K120,960,000 were deposited in Control 15 belonging to the Ministry (K24,840,000), and the department’s operations account (K96,120,000) instead of Control 99, contrary to Financial Regulation No. 118.

**(iii) Unaccounted for Revenue**

A scrutiny of Admission of Guilty cash book, receipts and bank records revealed that out of K256,460,000 collected during the period under review, K2,140,000 was not accounted for.

**(iv) Accountable Documents not Produced for Audit**

One hundred and twenty eight (128) employment permits, eighteen (18) self employment permits, thirty six (36) entry permits and one (1) study permit from which K359,500,000 was collectable were not produced for audit contrary to Financial Regulation No. 28(n).

**(b) Lusaka Regional Office**

**(i) Temporal Permits and Re-entry Visas Not Presented for Audit**

There were twenty seven (27) temporal permits and seven (7) re-entry VISAS for which K54,035,000 was collectable, which were not presented for audit verification and no proper explanation was given. It was therefore not possible to ascertain how much was actually collected.

**(ii) Delayed Banking**

There were delays of up to 31 days in banking revenue collected between January and December 2005 amounting to K699,186,000 contrary to Financial Regulation No.38.

**(c) Lusaka International Airport**

**(i) Receipts Removed from Receipt Books**

According to Financial Regulation No. 102, all quadruplicate copies of the receipts should be kept in the receipt books. It was however observed that seven (7) United States Dollars fee receipts of US\$35 each and seven (7) British Pound VISA fee receipts of 25 British Pound each amounting to US\$245 (K1,131,900) and £175 (K1,508,325) respectively were removed from the books.

**(ii) Unaccounted for Revenue**

A scrutiny of the cash books, receipts and bank records revealed that revenue collected between September 2004 and August 2005 in amounts totalling US\$11,349, K9,079,080 and £1,121 could not be accounted for.

**(iii) Receipt books not presented for audit**

Contrary to Financial Regulation no. 28 (n), two (2) General Receipt books, serial Nos 1406901 – 1406950 and 147001- 1407050 and a General Revenue cash book serial number 154601-154700 were not presented for audit.

**(d) Kabwe Regional Office**

**(i) Misappropriation of Revenue**

During the period from January to November 2005, amounts totaling K269,485,000, US\$785 and British Pound 185 were collected in respect of visa fees out of which a total of K83,920,000 was misappropriated by the Revenue Collector. As of December 2006, no action had been taken against the officer.

**(ii) Delayed Banking**

There were delays of one (1) to thirty seven (37) days in banking of revenue amounting to K183,565,000 collected during the period from January to December 2005, contrary to Financial Regulation No. 38.

**(e) Kapiri-Mposhi**

**(i) Cash Shortage**

A cash count carried out on 21<sup>st</sup> January 2006 revealed a cash shortage of K345,500 and no explanation was given for the shortage. The shortage had not been made good as of December 2006.



**(a) Headquarters**

**(i) Passport sales not accounted for**

Although the Department had actual collections of K2,529,700,859 and K2,209,773,000 in 2004 and 2005 respectively, records for the sale of the passports indicated that total amounts of K2,697,915,000 and K2,452,472,000 were receivable during the years under review resulting in shortfalls of K168,214,141 and K242,699,000 for which no explanation was given.

**(ii) Misappropriation of Revenue**

During the period from January to December 2004, amounts totalling K855,507,800 were misappropriated by the Cashier but no action had been taken as of August 2006.

**(iii) Unaccounted for Revenue**

Revenue collections amounting to K16,728,000 made in June 2004 although supported by deposit slips, were not credited to control 99 at the Bank of Zambia.

**(iv) Delayed Banking**

There were delays ranging from two (2) to one hundred and five (105) days in banking revenue totalling K332,526,000 collected during the period from January 2004 to December 2005 contrary to Financial Regulation No.38.

**(b) Ndola Regional Office**

**(i) Cash Shortage**

A cash count carried out in July 2006 at the station revealed a shortage of K2,153,000 which had not been made good as of August 2006.

**(ii) Un accounted for Revenue**

Revenue collections totalling K139,278,000 made during the period from January to December 2004 were not accounted for in that they were neither supported by deposit slips nor credited to control 99 at the Bank of Zambia.

**(iii) Misappropriation Of Revenue**

During the period from January 2004 to December 2005, amounts totalling K24,706,888 were misappropriated by revenue collectors. As of August 2006, no action had been taken.

It was further observed that during the same period amounts totalling K133,013,000 were borrowed by members of staff and staff from other government departments contrary to Financial Regulations No.119 . As of May 2006, only K40,865,000 had been repaid leaving a balance of K92,148,000.

**(iv) Delayed Banking**

There were delays ranging from three (3) to one hundred and twenty two (122) days in banking revenue totalling K36,629,000 collected during the period from January 2004 to October 2006 contrary to Financial Regulation No. 38.

**(v) General Receipt Books Not Produced For Audit**

Three (3) general receipt books with serial numbers 634401-634450; 01088551-1088600; and 0801350-0801400 received between July 2004 and July 2005 were not produced for audit scrutiny contrary to Financial Regulation No. 28(n).

<b>HEAD:</b>	<b>206: Fees of Court or Office</b>
	<b>Ministry of Mines and Minerals Development</b>
<b>SUBHEADS:</b>	<b>092: Mining Licenses</b>
	<b>093: Other Revenues</b>
	<b>094: Fees and Surface Rental Charges</b>

### **Weaknesses and Irregularities in Accounting for Revenue**

13. In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2004 and 2005, total estimates of K959,539,368 and K1,050,000,001 were made against which collections of K943,415,760 and K1,163,250,003 were made respectively.

An examination of records relating to the collection of revenue at the Ministry Headquarters, Mines Development Department, Geological Survey Department, Mkushi Regional Mining Bureau and the Mines Safety Department in Kitwe, for the financial years ended 31<sup>st</sup> December 2004 and 2005 undertaken in January 2006 revealed weaknesses in internal controls as follows:

#### **(a) Ministry Headquarters and Mines Development Department**

##### **(i) Lack of control over revenue collections**

There were no registers maintained in respect of licenses issued, application forms issued, and area charges. In this regard, although K870,466,692 was receipted and banked during the period under review only K601,929,995 was supported by licenses and application forms among others. The source of the balance of K268,536,697 could not be ascertained, as no documentation was available.

**(ii) Surface Rental Charges**

The Ministry collects Surface Rental charges from the Mines. Area charges are annual levies charged on mines with licenses to carry out mining activities or excavations on a specified mining surface area. The charge is calculated per square kilometer or square meter depending on the size of the Mine.

It was noted however that no records were kept to show the Mines that had paid the Surface Rental charges and those which had not settled the charges as of March 2006. Consequently, although an estimate of K495,283,019 was made for 2005, only K91,835,260 was collected representing 18.5% of the estimate.

**(iii) Arrears of Revenue.**

A review of the internal audit report dated 19<sup>th</sup> December 2005 for the period from January to December 2005 showed that, gemstone miners in Eastern Province owed the Ministry a total amount of K377, 305, 734 in Surface Rental Charges, which as of March 2006, had not been paid.

**(iv) Delayed Banking**

There were delays ranging from eleven (11) to fifty seven (57) days in banking revenue totaling K166,681,343 collected during the period from January to July 2005 contrary to Financial Regulation No. 38.

**(v) Misappropriation of Revenue**

A cashier who has since passed away misappropriated a total amount of K32,019,300 collected between November 2005 and January 2006. It was noted however that as of June 2006, no loss report had been processed.

**(vi) General Receipt Books Not Produced For Audit**

There were four (4) General Receipt books with serial numbers 187801-187850; 187851-187900; 187601-187650 and 187701-187750 issued by the Ministry Headquarters in 2003 to the Mines Development Department that were not produced for audit scrutiny contrary to Financial Regulation No. 28 (n).

**(b) Geological Survey Department**

**(i) Misappropriation of Revenue**

During the period from January 2004 to February 2006, a total amount of K95,862,850 was collected from the sale of maps and reports. It was however observed that out of the amount collected, K27,355,400 was misappropriated by the cashier, and as of June 2006, no action had been taken against the culprit.

**(ii) Unaccounted for Revenue from Hiring of a Drilling Rig**

During the period under review, a total amount of K6,000,000 was collected from the hiring out of a drilling rig. A scrutiny of bank statements however, revealed that only K3,000,000 was credited to Control 99. The balance of K3,000,000 was not accounted for.

**(iii) Unaccounted For Scrap Metal Inspection Charges**

A total amount of K 77, 550, 000 was collected during the period March 2004 to November 2005 from scrap metal inspection charges. It was observed that out of the total collections, K64, 850, 000 was traced to the bank statements leaving a balance of K12, 700, 000 unaccounted for.

**(iv) Delayed Banking**

There were delays ranging from fourteen (14) to eighty six (86) days in banking revenue totalling K10,900,000 collected from scrap metal inspections during the period from March 2004 to November 2005 contrary to Financial Regulations No. 38.

**(c) Mkushi Regional Mining Bureau**

Revenue amounting to K3,888,000 collected between May 2005 and April 2006 had not been banked as of April 2006, in some cases close to a year after collection contrary to Financial Regulation No. 38.

**(d) Mines Safety Department – Kitwe**

**(i) Misappropriation of Revenue**

A total amount of K460,778,929 was collected as revenue between January 2004 and April 2006. Out of the total collections, K426, 350, 788 was banked, K16,017,370 was spent on Recurrent Departmental Charges (RDCs) without Treasury authority and the balance of K18,410,771 was misappropriated by the Assistant Accountant and as of June 2006, no action had been taken against the culprit.

**(ii) Delayed Banking**

There were delays ranging from 8 to 133 days in banking revenue collections amounting to K24, 890, 304 made during the period January 2004 to August 2005 contrary to Financial Regulation No.38.

**HEAD: 206 Fees of Court or Office  
Ministry of Lands**

**SUBHEADS: Various**

**Weaknesses and Irregularities in Accounting for Revenue**

14. In paragraph 22 of the Auditor General's Report for 2002, mention was made of the Lands Information Management System (LIMS). In particular, mention was made of the Permanent Secretary who, in April 1999 singularly sourced and engaged Grant Thornton Limited without obtaining authority from Zambia National Tender Board contrary to tender procedures and that the contract signed did not state the completion period and that although the system went live in 2002, installations had not been completed and this had serious implications on the security in the system. It was further mentioned that as a result, there was unauthorized entries into the system through the use of Structured Query Language (SQL), a computer package which was not authorized by the Ministry as this facilitated retrieval, alteration and deletion of information.

In the Estimates of Revenue and Expenditure for the financial years ended 31<sup>st</sup> December 2004 and 2005, estimates were made as shown below:

<b>YEAR</b>	<b>BUDGET</b>	<b>ACTUAL</b>	<b>PERCENTAGE</b>
	<b>K</b>	<b>K</b>	
<b>2004</b>	<b>3,857,314,477</b>	<b>3,631,463,645</b>	<b>(94%)</b>
<b>2005</b>	<b>15,631,463,645</b>	<b>6,205,681,333</b>	<b>(39%)</b>

As can be seen from the table above, whereas a total of K3,857,314,477 and K15,807,610,036 were estimated only K3,631,463,645 and K6,205,681,333 were collected respectively. The amounts collected represent 94% (2004) and 39% (2005) of budgeted amounts.

In her response dated 18<sup>th</sup> August 2006, the Controlling Officer attributed the under-collections to among others: incomplete land information management systems (LIMS), inadequate transport, and shortage of staff and non-availability of accounting staff at provincial offices.

A review of the system (LIMS) and examination of revenue records for the financial years 2004 and 2005 carried out in January 2006 at the Ministry of Lands headquarters, Livingstone, Kabwe, Ndola and Mongu Lands and Surveys departments revealed the following:

**(a) Headquarters**

The Ministry issues two types of receipts, computer generated receipts using the LIMS, and manual general receipts. When computer generated receipts are issued, the clients accounts are automatically updated, whereas the manual general receipts are subsequently posted to the LIMS in order to update the Client's accounts.

Once all the receipts have been entered into the system, a computer generated banking report that summarizes all the collections for the day is then printed before the bankings are made.

According to procedures in place, reversals of the entries made in the LIMS system can only be done with the authority of the Principal or Senior Accountant and where such reversals have been done an error report is generated.

A review of revenue records in respect of collections for the period from January 2004 to December 2005 revealed that:

**(i) Unauthorized Reversals in The LIMS System**

Out of a total amount of K7, 321, 902, 696 collected during the period from January to August 2003, entries on which a total amount of K19,880,211 was collected, were reversed in the system without the authority of either the Principal or Senior Accountant. The error report was also not produced. In this regard the amount of K19,880,211 was not banked and could not be accounted for.

**(ii) Unauthorized Reversals on Banking Reports**

A test check of banking reports generated for the period January 2003 to December 2004 showed that a total of K1,735,791,475 was collected. However, entries on which a total amount of K96,720, 268 was collected, were reversed without the approval of either the Principal or the Senior Accountant. As of January 2006, the amount had not been accounted for.

**(iii) Theft of Revenue Collections**

A review of the Revenue collections as reflected in the LIMS reflected that although one hundred and forty seven (147) receipts reflected zero amounts, a test check with three (3) clients revealed that payments were actually made to the Ministry as shown below:

DATE	RECEIPT NUMBER	DESCRIPTION	AMOUNT AS REFLECTED	AMOUNT AS
			ON THE RECEIPT GIVEN TO CLIENT K	REFLECTED IN THE LIMS SYSTEM K
8/16/2004	F7848	Annual rent	948,750	-
8/16/2004	F7845	Annual rent	2,000,000	-
8/16/2004	F7846	Annual rent	1,750,000	-
<b>Total</b>			<b>4,698,750</b>	<b>-</b>

It was further confirmed that the amount of K4,698,750 had neither been banked nor found on hand.

**(iv) Encashment of Personal Cheques from Revenue**

According to Financial Regulation No. 119, no government revenue should be used before banking. However, it was noted that nineteen (19) personal cheques in amounts totalling K31,625,560 were encashed from government revenue during the period from January 2004 to November 2005, contrary to

Financial Regulations. Included in the nineteen (19) cheques were six (6) personal cheques with amounts totalling K4,337, 360 that were referred to drawer and had not been replaced as of January 2006.

**(v) Refer to Drawer Cheques Not Reversed and Replaced**

According to the procedure in place, only bank certified cheques were to be accepted and any “refer to drawer” cheques were to be reversed in the system and the drawer requested to make a replacement. It was noted however that contrary to this procedure, the Ministry accepted twenty four (24) cheques issued between February 2003 and August 2005 in amounts totaling K343,656,730 that were not certified and were later referred to the drawer. As of January 2006, the refer to drawer cheques had not been reversed in the system and had not been replaced.

**(vi) Delayed Banking**

There were delays of five (5) to twenty (21) days in banking revenue amounting to K931,619,158 collected during the period from January to August 2005 Contrary to Financial Regulations No. 38.

**(vii) Map Sales**

The Ministry Headquarters has a Map selling point and according to the procedure in place, revenue collected is to be taken to the main accounts on a daily basis for subsequent banking into Control 99. A review of records relating to map sales revealed the following weaknesses: -

- **Non Maintenance of Records**

There were no ledgers or bin cards maintained to show the quantity of maps sold and balance in stock contrary to Stores Regulation No 22.

- **Irregular Deposit of Revenue in Third Party Account.**

Revenue collections totalling K17, 655, 000 made during the period from April 2004 to November 2005 were deposited into a Third Party account instead of Control 99 contrary to Financial Regulation No. 117.

- **Missing Original Blank Receipts**

A receipt book No. 0448601 – 0448650 issued to the Assistant Cartographer on 9<sup>th</sup> June 2005 for map sales had nine (9) original blank copies of receipts removed (receipt numbers 0448624, 0448625, 0448629, 0448631, 0448633, 0448641, 0448644, 0448649 and 0448650) from the receipt book. The removal of unused original receipts from the book was contrary to the provisions of Financial Regulation No. 96 and may have resulted in loss of Government revenue through fraudulent use by the officers.

- **Receipt Book Not Produced For Audit**

A receipt book with serial numbers ranging from 0448651 – 0448700 issued on 9<sup>th</sup> June 2005 to the Assistant Cartographer responsible for map sales was not produced for audit contrary to Financial Regulation No. 28 (n).

- **Rent of Government Premises**

The Ministry of Lands collects rent from properties and premises owned by the government. During the financial years ended 31<sup>st</sup> December 2004 and 2005 provisions of K14,342,737 and K91,236,584 were made in the Estimates of Revenue and Expenditure in respect of rent of government premises. However the rent due could not be ascertained as there were no registers maintained for this purpose.

**(b) Provincial Offices**

The departments of Lands and Survey collect revenue in form of ground rent and survey fees, which is remitted to the Ministry Headquarters for eventual updating to the LIMS and subsequent banking into control 99. The remittances must be accompanied by monthly revenue returns; duplicate receipts for collections made during the month, revenue cashbooks and monthly bank reconciliation statements. According to the procedure in place, revenues collected in the provinces are to be remitted to the Headquarters within the first week of each month.

Visits to the Provincial Lands and Surveys offices in Livingstone, Ndola, Kabwe and Mongu in January 2006 revealed the following: -

**(i) Livingstone**

There were weaknesses in the collection and custody of revenue in that Classified Daily Employees (CDEs) were involved in the collection of revenue and safe keys were transferred from one officer to another without following hand-over procedures, among others. In particular the following were observed:

**Provincial Survey Office**

- Out of a total amount of K121,059,395 survey fees collected between June 2005 and January 2006, an amount of K6,109,611 was not accounted for.
- There were fifteen (15) receipt books issued to Survey Department between January 2003 and June 2005 by the Provincial Administration Office that could not be produced for audit contrary to Financial Regulation No. 28 (n).

### **Provincial Lands Office**

- There were eight (8) receipt books issued to Lands Department between 1<sup>st</sup> January 2003 and 30<sup>th</sup> June 2005 by the Provincial Administration Office, which could not be produced for audit. It was further noted that four (4) receipt books issued by the Strong Room Superintendent on 25<sup>th</sup> April 2005 to Solwezi Provincial Office were instead found in Livingstone. The Auditor General was not advised of the transfers as required by Financial Regulations.
- During the period from June 2005 to January 2006 a total amount of K97, 147,255 was collected in respect of ground rent, out of which an amount of K3, 206, 171 was misappropriated and no action had been taken as of September 2006. In addition, amounts totaling K75,169,000 collected during the period from October to December 2005 and deposited into a Transit account had not been remitted to control 99 as of January 2006 contrary to procedures in place.

It was also noted that whereas a total amount of K1,621,338 was collected between February and November 2004 as recorded in the LIMS, a verification of computerized receipts with ten (10) selected property owners revealed that K20,766,755 was actually collected. The difference of K19,145,417 was misappropriated. No action had been taken as of September 2006.

### **(ii) Ndola**

#### **Provincial Lands Office**

During the period May 2005 and January 2006 a total amount of K443,662,774 was collected in respect of ground rent, out of which K29,310,623 was used before banking contrary to Financial Regulation No.109.

### **Provincial Survey Office**

- A general receipt book with serial Nos. 173901-173950 found on hand had twelve (12) original copies of receipts removed from the book, (Receipt Nos 73905, 173906, 173908, 173918, 173919, 173920, 173921, 173922, 173923, 173924, 173925, 173926) and were missing, contrary to Financial Regulations. As of 31<sup>st</sup> January 2006 it had not been established as to how the receipts were used. It is likely that the missing receipts were used for fraudulent activities.
- During the period from January to December 2005, a total of K90,837,960 was collected in respect of survey fees out of which K2,947,300 was misappropriated. No action had been taken as of September 2006.

### **(iii) Kabwe**

There were weaknesses in the internal control systems in that typists and secretaries were allowed to handle revenue; no monthly revenue returns and bank reconciliation statements were prepared, among others. Arising from these weaknesses, the following were observed:

### **Provincial Survey Office**

- A total amount of K90,162, 000 was collected between January 2005 and January 2006 out of which K1,325, 000 was misappropriated and no action had been taken as of September 2006.
- A Receipt book with serial numbers 574101 to 574150 issued on 5<sup>th</sup> September 2002 to a typist was not presented for audit and consequently the amounts collected could not be ascertained. Further, a receipt book with serial numbers 574150 to 574200 issued to survey

department on 5<sup>th</sup> September 2002 had the original of receipt number 574200 removed from the book contrary to Financial Regulation No.96.

#### **Provincial Lands Office**

- A total amount of K19, 629, 612 collected during the period from January 2005 to January 2006 in respect of ground rent was not accounted for as of January 2006.
- A cheque no. 630, dated 12<sup>th</sup> September 2005 for K2,558,000 that was referred to drawer in December 2005, had not been replaced as of January 2006.
- Out of amounts totaling K199,052,763 in respect of ground rent collected between January and December 2005, K144, 000, 000 was only remitted to the Ministry Headquarters in January 2006 resulting in a delayed remittance of revenue of more than one year in some cases. It was further observed that as of January 2006, an amount of K55,052,763 was still in the account.

It was also observed that an amount of K2, 000,000 cash received in December 2003 on receipt number 1086486 in respect of Ground rent was only remitted to Lusaka in January 2006 resulting in a delay of three years. The remittance was only done after the client complained that his account was not updated. As of September 2006, no reasons had been given for the delay.

#### **(iv) Mongu**

##### **Provincial Survey Office**

The department did not maintain its own Third Party account for survey fees. The fees were instead deposited into the general Third Party account

maintained by the Provincial Administration where it was commingled with other funds. It was observed in this regard that: -

- A total amount of K788,000 received on 8<sup>th</sup> July 2005 and receipted on receipt number 608146 was not banked and the money was not on hand as of February, 2006.
- The revenue returns for the period January to December 2005 had not been submitted to the Ministry headquarters as of January 2006.

It is clear from the above findings that the LIMS has not improved the accounting of revenue at the Ministry and therefore there is need to complete it's installation.

<b>HEAD:</b>	<b>206</b>	<b>Fees of Court or Office</b>
		<b>Ministry of Foreign Affairs</b>
<b>SUBHEAD:</b>	<b>114</b>	<b>Rent of Properties</b>

#### **Irregularities in Accounting for Rental Collections**

15. Due to financial constraints, the Government during the period from October 1990 to July 2003 closed several missions abroad including Rome, Bonn, Paris and Lisbon. Consequently, Government decided to lease out the properties and the rentals collected were to be deposited in Government designated bank accounts. In this regard, Government appointed estate agents to manage the properties.

A review of the financial and accounting records relating to the leased properties for the period from October 1990 to December 2005 and a physical inspection of the properties carried out in January 2006 disclosed the following:

##### **(a) Rome Mission**

The Mission owned two (2) properties, the chancery and the Ambassador's residence. The chancery was leased to the Ugandan Embassy while the residence

was leased to the Associazione International Medicina Ortomolecolare (AIMO). According to the instructions from the embassy, the rentals were to be deposited in an account called “Zambia Permanent Representative to FAO Account” by the estate agent (Studio Legale Giorgio (Messrs Pasquale/Giounni Giorgio)). It was however observed that:

- (i) Although there was no signed agreement between the Government and the Agent, the Zambian Ambassador to Belgium conferred powers of Attorney to the Agent for the two (2) properties. The propriety of the Ambassador conferring Powers of Attorney on the Agent without a signed agreement is questionable.
- (ii) Although the instructions in place required the Agent to deposit the proceeds from the rentals in the Government designated account called “Zambia Permanent Representative to FAO Account”, the rentals were instead deposited in the Agents account. In this regard, there was a delay of up to one (1) year for the funds to be transferred to the Government designated account.
- (iii) An amount of Lire 100,531,984 was spent on incidentals by the Agent on both properties but the expenditure was not verified by the Mission in Brussels to confirm its authenticity.
- (iv) Despite having engaged an Agent to look after the two properties, as of January 2006, the chancery and the residence were in a deplorable state.

#### **Chancery – Via Ennio Quirino Visconti, 8 Rome**

In November 1994, the chancery was leased to the Embassy of Uganda for a period of five (5) years with effect from 1<sup>st</sup> February 1995 at a monthly rent of 12,500,000 Lire. The parties agreed that the rental payments would be annually reviewed upon request of the landlord. The lease agreement also provided for the payment of interest on the ruling bank rate in case of delay in paying rent exceeding (6) weeks.

A scrutiny of records maintained at the Mission in Brussels in January 2006 revealed the following:

- (i) On 31 March 2004, the tenant vacated the premises leaving unpaid rentals totaling 793,500,000 Lire. Further, no interest was charged on the outstanding amounts as provided for in the agreement.
- (ii) During the five (5) years of lease to the Ugandan Embassy, the rentals were static at lire 12,500,000 per month despite the provision in the agreement to review the rentals annually. No reasons were given as to why the rentals were not reviewed.
- (iii) According to the records made available, in January 2006, an amount of US\$200,000 paid on Bank draft No. 256307685 dated 26<sup>th</sup> April 2000 to the London Mission could not be traced to the London High Commission bank statements. The purpose for which the amount was purported to have been transferred and the whereabouts of the funds could not be established.

**Ambassador's Residence – No. 68, Via Della Mendola, Rome**

In February 1995, the residence was leased to a local organisation for a period of (4) four years at a yearly rental of Italian Lire 120,000,000. The rentals were to be paid every second month to the landlord's elected domicile in six (6) equal installments of Lire 20,000,000.

Although neither party signed the lease document, the agreement was implied from the conduct of the two parties in that the tenant took occupation of the premises and the landlord received the rentals.

The Agreement further stated that repairs were at the tenant's expense regarding all installations pertaining to the rented properties. A scrutiny of the relevant records revealed the following:

- (i) The organisation had not paid rent for the period from March 2004 to July 2005 for which Euro 88,983 had accrued. It claimed that it was unable to pay the outstanding rentals because it had carried out improvements to building and the surrounding areas at a total cost of Euro 150,000.

However, that the works, to modify the building into living quarters and a surgery, were done without authority from the Landlord.

- (ii) Contrary to Financial Regulation No.123, the Ministry of Foreign Affairs in June 2005 permitted the abandoning of revenue collection due from rentals amounting to Euro 88,983 through a debt swap without the authority of the Secretary to the Treasury in the Ministry of Finance and National Planning.
- (iii) A physical inspection in January 2006 revealed that the residence was in a deplorable state.

**(b) Paris Mission.**

In January 1996, the property at No. 47 Rue de Chaveau 92200 owned by the Mission was leased out to the Government of the Peoples Democratic Republic of Korea for a period of four (4) years at an annual rent of 400,000 French Francs. The rentals collected were to be deposited in Credit Lyonnais Bank. A scrutiny of the relevant records and an inspection of the property revealed the following:

- (i) After the expiry of the 1996 agreement in 2000, there was no other agreement entered into with the Tenants despite the fact that they occupied the building up to June 2004.

In her response dated 6<sup>th</sup> October 2006, the Controlling Officer stated that the renewal agreement was the same as the principal agreement but there was an apparent omission to obtain the tenant's signature.

- (ii) In July 2003, the Zambian Embassy in Belguim engaged an agent to administer the property, at a fee of Euros 1,000 per quarter net of taxes.



During the financial years ended 31<sup>st</sup> December 2004 and 2005, estimates of K111,871,000 and K177,160,738 were made in the Estimates of Revenue and Expenditure, against which amounts totaling K145,230,460 and K184,602,120 were collected respectively.

An examination of records relating to the collection of revenue at the Ministry Headquarters and the Zambia News and Information Services Department revealed the following:

**(a) Media Fees**

Although amounts of K10,296,800 and K51,032,500 were collected as Media fees in 2004 and 2005 respectively, there were no estimates made in the Estimates of Revenue and Expenditure.

**(b) Misappropriation Of Revenue Collections**

Out of the total amounts collected of K145,230,460 in 2004, amounts totaling K24,695,200 were misappropriated by the cashier at the Ministry Headquarters.

**(c) Receipt books Not Produced for Audit**

Three (3) receipt books with serial numbers 562001-562050; 562051-562100; and 562151-562200 issued to Zambia News and Information Services Department by the Ministry Headquarters in April 2004 were not produced for audit contrary to Financial Regulation No.28 (n).

**(d) Counterfoil Receipts**

Contrary to Financial Regulations No 108, counterfoils for receipt numbers 1449849, 1449850, 422843, 562142 and 562350 were not retained in the books for audit purposes. In this regard, the collections made on the receipts could not be verified.

<b>HEAD:</b>	<b>206</b>	<b>Fees of Court or Office Ministry of Communications and Transport</b>
<b>SUBHEADS:</b>	<b>180</b>	<b>Air Service Permits</b>
	<b>181</b>	<b>Aviation and Landing Charges</b>
	<b>185</b>	<b>Civil Aviation</b>

### **Weaknesses in Accounting for Revenue**

17. In paragraph 19 of the Auditor General’s Report for 2004, mention was made of the weaknesses and irregularities in the collection of revenue at the Department of Civil Aviation. In particular, mention was made of the total collections of K27, 741,805, K97,367,904 (US\$23,216); and K5,075,151 (ZAR 7,409) made during the period January 2004 to December 2004 which though supported by bank deposit slips were not reflected on the control 99 bank statements and revenue collections totaling K7,505,450 made during the period November 2001 to July 2002 which was not banked.

In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2005, an estimate of K215,970,168 was made against which K1,020,614,736 was collected. The collections were 473% above the budget.

A review of revenue records carried out in February 2006 for the period under review at the Ministry Headquarters, Department of Civil Aviation (DCA) and Lusaka International Airport, revealed that the situation had not improved and in this regard, the following irregularities were observed:

#### **(a) Headquarters**

##### **(i) Unaccounted for Revenue**

During the year 2005, fifty five (55) Temporal Air Service Permits (TASP) were issued to various operators and a total amount of K 15,395,310 collected. It was observed that out of the total collections, only K 3,585,770 was credited

to Control 99 leaving a balance of K 11,809,540 unaccounted for contrary to Financial Regulation No. 117.

**(ii) Outstanding And Unaccounted For Air Service Permits Fees**

During the period under review, forty two (42) air operators were issued with annual air service permits valued at K 165,816,224. Out of the total amount due, K123,955,964 had been collected from twenty nine (29) operators, leaving a balance of K 41,860,260 from thirteen (13) operators as of February 2006.

It was further observed that out of the K123,955,964 received, only K48,186,000 was credited to control 99 leaving a balance of K75,769,964 unaccounted for as of February 2006 contrary to Financial Regulation No.117.

**(iii) Delayed Banking**

There were delays ranging from 2 to 125 days in banking revenue totaling K82,597,670 and K6,169,374 (US\$1,471) collected during the period from April to December 2005 contrary to Financial Regulation No. 38.

**(b) Department of Civil Aviation**

**(i) Unaccounted for Revenue**

Out of total collections of K42,855,226 made between January and December 2005, only K6,814,000 was banked leaving a balance of K36,041,226 unaccounted for contrary to Financial Regulation No.117.

**(ii) Irregular Transfer of Receipt Books**

The Ministry of Finance and National Planning Strong Room Superintendent issued the Department of Civil Aviation with ten (10) receipt books between January and December 2005. It was noted however that, three (3) books were

transferred to the Ministry of Communications and Transport headquarters without notifying the Auditor General and the strong Room Superintendent, contrary to Financial Regulation No. 91.

**(iii) Delayed Banking**

There were delays ranging from two (2) to sixty nine (69) days in banking revenue totaling K310,154,787 collected between January and December 2005 contrary to Financial Regulation No. 38.

**(c) Lusaka International Airport**

**(i) Unaccounted for Revenue**

According to procedures in place, revenue from Temporal Air Service Permits (TASP) are collected by National Airports Corporation officials on behalf of the department of Civil Aviation and handed over to the cashiers at the Ministry headquarters for banking the following morning.

A total amount of K16,044,898 was collected during the period January to December 2005. It was noted however that, contrary to the procedures in place, an amount of K 6,338,645 was found on hand while the balance amounting to K9,514,260 could not be accounted for contrary to Financial Regulation No. 117.

**(ii) Register of Accountable Documents**

It was observed that a register of accountable documents was not maintained contrary to Financial Regulation No. 90.

**HEAD: 206 Fees of Court or Office  
Ministry of Communications and Transport.**

**SUBHEAD: 182 Maritime Fees**

**Weaknesses and Irregularities in Accounting for Revenue**

18. The Department of Maritime and Inland Water Ways is responsible for the issuing of water licenses, conducting surveys of water vessels along the lakes and rivers of Zambia and collecting fees relating to surveys and registration of water vessels among others.

During the year under review, estimates were made in the Estimates of Revenue and Expenditure for the financial years ended 31<sup>st</sup> December 2004 and 2005 of K125,623,820 and K303,188,890, against which K179,796,710 and K131,164,743, respectively. The collections in 2005 were below target by 57%.

An audit of records pertaining to revenue collections at the Maritime Department in Lusaka for the period January 2004 to March 2006 revealed weaknesses in the internal control systems in that the Stores Officer who had no accounting knowledge was doing the collections. In addition, his supervising officers made no supervisory checks.

As a result of the above weaknesses, the following were observed;

**(a) Misappropriation of Revenue**

During the period from January 2004 to March 2006, amounts totaling K136,017,800 and US\$1,300 were collected as survey and registration fees. Out of the total collections, the Stores Officer misappropriated (K29, 531,000 and US\$1,300), while the Accounts Assistant misappropriated (K12,295,600), bringing the total misappropriated to K41, 826,600 and US\$1,300 respectively.

Although the matter was brought to the attention of the Controlling Officer, no action had been taken against the culprits as of April 2006.

**(b) Delayed Banking**

There were delays ranging from one (1) to ten (10) months in banking revenue amounting to K25, 657,000 collected during the period from May 2005 to January 2006, and had not been banked as of April 2006, contrary to Financial Regulation No. 38. The collections included cheque number 003084 dated 5<sup>th</sup> May 2005 for K1, 800,000, which had since become stale and had not been replaced as of April 2006.

**(c) Accountable Documents Not Produced For Audit**

There were twenty eight (28) books (fourteen (14) certificates of competence, one (1) receipt book accounts form 40 and thirteen (13) application for survey and registration of vessels books) that were not presented for audit as of April 2006, contrary to Financial Regulation No. 28 (n).

**(d) Outstanding Fees from Inspections of Water Vessels**

Out of two hundred and seventy five (275) inspections of vessels carried out between January and April 2005, thirty four (34) inspections valued at K4,590,000 had not been paid for as of April 2006.

**(e) Unaccounted for Revenue**

A review of returns from Mongu for 2004 revealed that Mongu harbour collected revenue amounting to K81,766,000 between May and December 2004. Out of K81,766,000 collected, only K1,754,500 was credited to Control 99. The balance of K80,11,500 was not accounted for contrary to Financial Regulation No.117.

Further, no returns were submitted to the Ministry Headquarters for the 2005, therefore total collections for the period could not be ascertained.

**HEAD: 206 Fees of Court or Office**

**SUBHEAD: 184 Road Traffic Collections**

### **Weaknesses In Control Over Revenue Collections**

19. In Paragraph 17 of the Auditor General's Report on the Accounts for the financial year ended 31<sup>st</sup> December 2004, mention was made of a number of weaknesses and irregularities in accounting for revenue. In particular it was mentioned that various officers at Road Traffic Commission headquarters, Lumumba Road, Chirundu, Livingstone, and Ndola offices misappropriated K13,114,895,208.

In their Report for the Fifth Session of the Ninth National Assembly, the Public Accounts Committee directed the Controlling Officer to minimize weaknesses in the accounting systems that were as a result of improper procedures. The Committee also directed the Controlling Officer to report progress on the case regarding the misappropriation of funds.

In December 2002, the Road Traffic Commission was transformed into the Road Transport Safety Agency (RTSA), but only became operational in 2005. An audit carried out in January 2006 at the RTSA Headquarters, Lumumba Road, Ndola, Livingstone and Kasumbalesa border posts revealed that the situation has not improved. In particular, the following were observed:

During the period from January to December 2005 the Agency collected revenue amounting to K35,571,116,135 as against an estimate of K44,700,840,941, resulting in an under collection of K9,129,724,806 for which no explanation was given.

#### **(a) Headquarters**

##### **(i) Unaccounted for Revenue**

Out of a total amount of K1,011,650,000 collected between July and December 2005 from one hundred and seventy two (172) identity certificate

books, a total amount of K629,089,400 was banked leaving a balance of K382,960,600 unaccounted for.

**(ii) Missing Identity Certificate Books**

There were twelve (12) identity certificate books for licensing private service vehicles from which revenue totalling K70,200,000 was receivable, that were not produced for audit verification contrary to Financial Regulation No.28(n).

**(iii) Missing General Receipt Books**

There were twelve (12) general receipt books issued to Ridgeway collection point that were not produced for audit verification contrary to Financial Regulation No. 28(n).

**(iv) Delayed Banking**

There were delays ranging from two (2) to one hundred and four (104) days in banking revenue amounting to \$7,904 (K30,035,200) collected as toll fees between July and December 2005 contrary to Financial Regulation No. 38.

**(b) Lumumba Road**

**(i) Delayed banking**

There were delays ranging from 2 to 11 days in banking revenue amounting to K945,918,900 collected during the period from July to December 2005 contrary to Financial Regulations No. 38.

**(ii) Revenue Collections Not Credited To Control 99**

There was no evidence that amounts totalling K3,554,000,000 collected by ZRA on behalf of the Agency in respect of motor vehicle registration fees were credited to Control 99 contrary to Financial Regulation No. 118(a).

**(iii) Security Paper Not Properly Accounted For**

The system for collecting revenue has been fully automated through the Zambia Transport Information Systems (ZAMTIS). According to this system, once revenue has been collected and receipted, the system produces a print out of the transactions showing the amounts receipted and the customer is given the certificate paid for. The printouts are made on a pre-numbered special paper that has certain inherent security features. The paper has stock code numbers that are used for stock tracking purposes.

In Paragraph 17(e) of the Audit Report for the accounts of the financial year ended 31<sup>st</sup> December 2004, mention was made of the weaknesses in the manner in which the special paper was being handled. In this regard, it was mentioned that the paper was not usually signed for whenever it was issued.

A recent review revealed a serious weakness in that the paper, despite being an accountable document being used as a receipt in the collection of Government revenue was no longer being stored by the Strong Room Superintendent at the Ministry of Finance and National Planning but by the system vendor at Lumumba RTC station.

It was observed in this regard that the RTC did not maintain any record of the movements in the stocks of the paper and issues to the individual cashiers were not recorded.

**Provincial and District Offices**

Visits to selected RTSA Offices in the Copperbelt and Southern Provinces revealed the following:

**(a) Ndola**

**(i) Cash shortage**

A cash count conducted on 17<sup>th</sup> March 2006 revealed a cash shortage of K13,409,300 out of which a total amount of K6,435,000 was paid back on 18<sup>th</sup> March 2006 leaving K6,974,300. As of August 2006, no action had been taken against the officers involved.

**(ii) Public Service Operators Scheme**

RTSA established a Public Service Operators scheme, whereby individuals or institutions that operate a fleet of Public Service Vehicles (PSV) are allowed to pay for their vehicle identity certificates in advance for a number of years.

It was however observed that amounts totalling K133,362,000, collected during the period July to December 2005 in Ndola were not accounted for.

**Unaccounted For Revenue**

A total amount of K409,045,200 was receivable from the issuance of pass driving certificates, motor vehicle fitness test certificates and identity certificates during the period from July to December 2005. Revenue records examined however revealed that only K270,487,900 was collected and banked while the balance of K138,557,300 was unaccounted for.

**(iii) Revenue Not Banked, ZAMPOST**

In paragraph 27(e) of the Auditor General's report for the financial year ended 31<sup>st</sup> December 2002, mention was made of the irregularities in the manner in which ZAMPOST was handling Government revenue. In particular, ZAMPOST did not account for revenue amounting to K8,755,500 collected at the Woodlands Post Office.

A reconciliation of daily collections by the ZAMPOST Ndola against bank deposit slips revealed that a total amount of K51,102,350 collected during the period August to December 2005 was not banked and was not on hand.

**(b) Kasumbalesa Border Post**

There were delays ranging from two (2) to thirty nine (39) days in banking revenue amounting to \$125,606 (K477,302,800) collected as toll fees at Kasumbalesa border post during the period from July to December 2005.

**(c) Livingstone**

**(i) Revenue Collections Not Supported By Bank Deposit Slips**

Revenue totalling K4,137,400 collected during the period from August to November 2005 was not supported by bank deposit slips.

**(ii) Delayed Banking**

There were delays ranging from nine (9) to forty eight (48) days in banking revenue totalling K350,535,080 from motor vehicle registration and US\$8,850 (K33,630,000) from toll fees collected during the period from August 2005 to January 2006 contrary to Financial Regulation No. 38.

**(iii) Delayed Remittances To Control 99 By Finance Bank (Z) Ltd**

There were delays ranging from nine (9) to ten (10) days in remitting revenue amounting to K420,750,500 and US\$13,880 (K52,744,000) from the Kwacha and Dollar transit Accounts respectively by Finance Bank to control 99. This was contrary to Circular No. 1 of 2005 issued to all Controlling Officers by the Permanent Secretary (FMA) that required all Controlling Officers to ensure that deposits into revenue transit accounts are remitted by commercial banks to control 99 within 24 hours.

**(d) Kitwe**

**(i) Unaccounted For Revenue**

Although two thousand one hundred and thirty (2,130) identity certificates were issued in 2004 and 2005 to Public Service Vehicle Operators, no receipts were issued. In this regard, revenue totaling K246,457,800 collected during the period 2004 (K162,652,900) and 2005 (K83,808,000) could not be accounted for.

**(ii) Missing Identity Certificates**

There were five (5) Identity Certificate books with total collectable revenue amounting to K25,000,000 issued to Kitwe station by the Strong Room Superintendent in June 2004 which were not produced for audit scrutiny contrary to Financial Regulation No.28(n).

**(iii) Duplicate General Receipt Books**

During the posting of accountable documents to the register, it was discovered that two (2) fake general receipt books were used to collect revenue. In this regard revenue totalling K3,393,000 collected using the two fake receipt books was misappropriated by the cashier.

**(e) Luanshya**

**Unaccounted for Revenue**

During the years 2004 and 2005, one thousand four hundred and forty nine (1,449) identity certificates were issued and a total amount of K166,460,400 was collectable. It was however not possible to verify whether the money was collected as no receipts were made available contrary to Financial Regulation No. 28(n).





## EXPENDITURES

**HEAD:** 15/28 **MINISTRY OF HOME AFFAIRS-CENTRAL  
PROVINCE-IMMIGRATION DEPARTMENT**

**PROGRAMME:** 1 **Personal Emoluments**  
2 **General Administration**

**ACTIVITIES:** **Various**

### **Weaknesses In The Administration Of Personal Emoluments And Other Irregularities**

22. An audit carried out in January 2006 at the Immigration department in Kabwe reviewed weaknesses in the internal controls in that there was lack of supervision, poor record keeping, among others, which resulted in loss of public funds and other irregularities.

In particular, the following were observed:

**(a) Payment Vouchers Not Produced For Audit**

One hundred thirty two (132) payment vouchers involving a total sum of K163,361,804.85 drawn from personal emolument funds were not produced for audit inspections contrary to Financial Regulation No. 28 (n).

**(b) Backing Sheets Not Produced For Audit**

Backing sheets on which twenty three (23) payments were made between June and July 2004 involving a total sum of K141, 549,661.74 were not produced for audit contrary to Financial Regulation No.28 (n).

**(c) Inadequately Supported Payments**

One hundred twenty nine (129) payment vouchers totaling K335, 959,311 had no supporting documents such as authority for the payments, local purchase orders, invoices and receipts, contrary to Financial Regulation Nos. 130, 137 and 141.

**(d) Misapplication of funds**

A test check made on payments relating to the salaries account involving ninety one (91) transactions revealed that amounts totaling K210,715,000 were misapplied during the period from February 2004 to July 2005, in that they were paid as imprest. It was also observed that no imprest registers were maintained and the imprest had not been retired as of December 2006.

It was further observed that amounts totaling K6,030,000 drawn from salaries account were misapplied in that they were used to pay house rentals.

**(e) Loans And Salary Advances**

Twenty one (21) payments for loans and salary advances totaling K 96,500,000 had no record to show that they were recovered as of October 2006.

**(f) Non Remittance Of Statutory Payments**

Contrary to the Income Tax Act cap 323, Pay As You Earn (PAYE) deducted for the years 2004 and 2005 was not remitted to Zambia Revenue Authority (ZRA).

Further tax withheld from payments to landlords amounting to K5,440,325 for the period from June 2006 to November 2005 was also not remitted to ZRA as of September 2006.

It was also observed that out of the twenty four (24) months period under review, only fourteen (14) monthly contributions amounting to K5, 828,669 were made towards pension contributions while the contributions not remitted for the ten (10) months could not be ascertained due to non availability of the payroll schedules.

**(g) Overpayments**

Although, claims in respect of imprest, advances and subsistence allowance involving three (3) transaction totalled K2,000,000, a total of K9,200,000 was paid to three (3) officers representing an over payment of K7,200,000 and no action was taken to recover the money as of December 2006.

**(h) Unauthorized Transfer of Funds**

An amount of K13,900,000 which was transferred from the salaries account to General Administration without authority from the Controlling Officer had not been refunded as of October 2006.

**(i) Failure to Produce Acquittal Sheets**

Acquittal sheets involving fourteen (14) in amounts totaling K788,960,000 were not produced for audit contrary to Financial Regulation No. 28 (n).

**(j) Unretired Imprest**

Imprest in amounts totaling K80,694,200 involving fifty nine (59) transactions issued during the period from January 2004 to December 2005 had not been retired as of October 2006 contrary to Financial Regulation No. 186.

**HEAD:** 17/03 **MINISTRY OF FOREIGN AFFAIRS  
MISSIONS ABROAD - WASHINGTON DC**

**UNIT** 2 **Administration**

**PROGRAMMES:** **Various**

**ACTIVITIES:** **Various**

**Irregularities in Procurement of Goods and Services and in the use of Revenue**

23. In the Estimates of Revenue and Expenditure for the Financial Year ended 31<sup>st</sup> December 2005, a provision of K6,361,387,780 was made to cater for the Mission’s operations. In this regard, amounts totaling K6,540,296,115 were released resulting in an excess release of K178,908,335.

A review of the financial records and a physical inspection of the properties carried out in July 2006 revealed the following:

**(a) Funding to the Mission**

There were some discrepancies between amounts funded to the Mission as per funding schedules from Ministry headquarters and the amounts actually received by the Mission as per bank statements for the months of February, April, August and December as shown below:

Month	Funding Schedule	Amount Received as per Bank Statement	Variance
	US\$	US\$	US\$
February	146,619	89,007	57,612
April	110,264	85,466	24,798
August	89,000	88,922	78
December	66,916	65,000	1,916

There was no satisfactory explanation given for the differences.

**(b) Mission Properties**

The Mission owns Five (5) properties, 2419 Massachusetts Avenue (chancery), 2300 Wyoming Avenue (residence), 1915 Spruce Drive, 8355 East Beach Drive and 5208 Linnean Avenue. Due to lack of regular maintenance, the properties were in a deplorable state.

**(i) 2419 Massachusetts Avenue-Chancery**

In December 2004 Ministry of Foreign Affairs authorized the Mission to use an amount of K803,130,500 (US\$ 191,221.55) from Revenue account on minor works. Consequently, the Ministry of Works and Supply Tender Committee conveyed its authority on 16 January 2006 to the Mission to use an amount of US\$182,850 (K660,271,350) on repairs.

In this regard, in February 2006, the Mission engaged a local contractor at a total cost of US\$189,600 (K684,645,600) to carry out the works which included removal of all windows, securing window guards, power washing the entire building and installing the main entrance door among others. The contract was for a period of six (6) months starting in February 2006.

It was observed that:

- Contrary to the authority given, the Mission signed a contract for US\$189,600 (K684,645,600) instead of the authorized amount of US\$182,850 (K660,271,350). As of October 2006, no retrospective authority had been obtained for the excess amount of US\$6,750 (K24,374,250).
- The contract did not provide for deduction of retention fees against future defects.

- Although the works were completed, there were still some serious leakages in some parts of roof which needed to be rectified. The picture below shows the damage to the ceiling due to the leakages.



*Damaged ceiling and peeling off paint due to defects in the roof*

**(ii) 2300 Wyoming Avenue – Ambassador Residence**

In September and November 2005 the Mission received a total of US\$15,400 (K62,447,000) for minor works at the residence. In this regard, three (3) contractors were engaged as follows:

- **Local contractor A**

In 2005 the Mission engaged a local contractor at a total cost of US \$ 5,556 (K22,529,580) to carry out repairs to the dining area, the kitchen door, the residence and office and replace the main entrance door. In October 2005, the contractor was paid a total amount of US \$ 4,306 (K17,460,830) leaving a balance of US \$ 1,250 (K5,068,750). As of July 2006 the contractor had not been paid the balance of US\$ 1,250 (K5,068,750) as the embassy was not satisfied with the workmanship and the quality of the door that was supplied.

- **Local contractor B**

In 2005 the Mission engaged another local contractor at a total cost of US\$7,450 (K30,209,750) to carry out repairs to the roof at the residence. In October 2005, the contractor was paid a total amount of US \$ 7,050 (K28,587,750) leaving a balance of US \$400 (K1,622,000). Although the contractor was paid for the repairs of the roof, leakages to the roof persisted and paint in the ceiling was peeling off. The contractor had not been called to rectify the defects as of July 2006.

- **Local contractor C**

In December 2005 the Mission engaged yet another local contractor at a total cost of US \$ 4,800 (K19,464,000) to install a new furnace at the residence. As of July 2006, the contractor had installed the furnace and had been paid the whole amount.

It was however observed that in all the three (3) cases above, no contracts were signed and no explanation was given.

It was further observed that the guesthouse was in a dilapidated state and was no longer in use as shown below.



*Inside the dilapidated Guest House*

**(iii) 1915 Spruce Drive NW**

The property which was abandoned in June 2000 was run down was in a deplorable state. It was further noted that, there were government mattresses, carpets and some furniture which were left in the house and were being destroyed by the animals that invade the house. The pictures below show the state of the disused house.



*Front View of the Disused House No.1915 Spruce Drive NW*



*A falling ceiling board in the disused house*



*Animal droppings inside the disused house*

**(iv) 8355 East Beach drive NW**

A physical inspection of the house showed that the basement allowed water to seep through the walls, the kitchen roof was leaking and it had a crack in the ceiling, the main entrance door frame was eaten up by termites, behind the house the foundation was sinking because the wood underneath was rotten and the stairs required replacement.

**(v) 5208 Linnaean Avenue NW**

A physical inspection of the house showed that the ceiling in the kitchen required replacement, the bath room ceiling was damaged due to leakages and the master bedroom wall had developed a crack. In the basement the bath room wood panels required replacement and the whole roof of the house needed to be redone.

**(c) Inventory**

An inventory carried out in July 2006 at the chancery, the ambassadors' residence and other Mission houses showed that there were inventory records maintained and government furniture was not labelled making it not possible to distinguish between the furniture belonging to Government and that belonging to the staff.

**(d) Irregular Disposal of Motor Vehicles**

A review of the monthly vehicle returns and enquiries into existence and ownership of the motor vehicles for the Mission disclosed that two (2) motor vehicles, a Dodge Van and Dynasty registration nos. DGG 016 and DGG 015, respectively were disposed off in 2005 without convening a board of survey.

**(e) Failure to procure a Motor Vehicle**

In 2005 the Mission received an amount of US\$ 100,000 (K405,500,000) for procurement of three (3) motor vehicles; two (2) utility motor vehicles and a representational car. As of July 2006, one (1) utility vehicle had not been procured although the funds were available and no explanation was given.

**(d) Revenue**

(i) During the period from 2004 to June 2006 amounts totaling US\$ 794,444 (K3,221,470,420) were collected in respect of VISA fees out of which the Mission used a total amount of US\$109,134 (K442,538,370) without authority. Included in the amount of US\$109,134 (K442,538,370) was US\$76,500 (K310,207,500) in respect of salaries to the locally engaged staff. Using revenue temporarily or otherwise is contrary to Financial Regulations no. 109. As of October 2006, a total of US\$76,500 (K310,207,500) had been reimbursed leaving a balance of US\$32,634 (K132,330,870).

(ii) Revenue totaling US\$9,370 (K37,995,350) involving nine (9) transactions for the period January and December 2005 was collected and within the same period a total amount of US\$9,910 (K40,185,050) banked resulting in an over banking of US\$540 (K2,189,700). No explanation was given for the over banking.

**HEAD:** 17/04 **MINISTRY OF FOREIGN AFFAIRS  
MISSIONS ABROAD - NEW YORK**

**UNIT:** 02 **Administration**

**PROGRAMMES:** Various

**ACTIVITIES:** Various

**Accounting and other Irregularities**

24. In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2005, a provision of K6,697,639,642 was made to cater for Mission's operations. In this regard, amounts totaling K7,045,826,967 were released resulting in an excess release of K348,187,325.

An examination of financial and other records and a physical inspection of the Mission's properties carried out in July 2006 reviewed the following:

**(a) Failure to Repair the Heating System – Permanent Representative's Residence**

In December 2004 and October 2005 amounts of US\$8,500 (K34,467,500) and US\$20,000 (K81,100,000) were released to the Mission for the repair of the heating system at the residence. As of October 2006, the US\$20,000 (K81,100,000) released in October 2005 had not been utilized and the heating system problem had not been rectified.

**(b) Installation of Carpets at the Permanent Representative's Residence**

In June 2005 a company was engaged to supply and install wall-to-wall carpets at the residence at a total cost of US\$7,200 (K29,196,000). Although the company was paid the full amount in July and August 2005, the carpets were not fully installed as of July 2006.

**(c) Outstanding Bills.**

Although amounts totaling US\$110,000 (K446,050,000) were released in 2005 towards the settlement of outstanding bills, as of December 2005 the bills stood at US\$143,925 (K583,615,875) and had risen to US\$193,675 (K785,352,125) as of July 2006. It was further observed that the outstanding bills did not include an amount of US\$ 300,905 (K1,220,169,775) in respect of parking violations offences committed by various diplomatic staff while driving mission vehicles. It was also observed that a bill from New York City Water Board of US\$10,000 (K40,550,000) incurred between 1996 and 1999 had not been settled as of July 2006.

**(d) Inventory**

There were various items such as beds, pots, mattresses and sofas that were stored in the basement of the chancery, which required boarding but this had not been done as of July 2006. An inquiry from the Mission staff revealed that the furniture came from the Ottawa mission when it was closed in December 1995. There were no handing and taking over records to show in detail the furniture which came from Ottawa Mission.

**(e) Renovation of the Chancery Building**

In August 2005 the Mission received a total of US\$47,040 (K190,747,200) for capital expenditure. In this regard, in December 2005 the Mission engaged a contractor to carry out the works which included patching and installing new capping on the roof and replacing of roof entrance at a total cost of US\$43,000 (K174,365,000).

It was however observed that:

- (i) The contract document did not provide for retention fees and duration of the contract was not specified.

- (ii) The contractor was paid amounts totaling US\$ 85,000 (K344,675,000) against the agreed contract price of US\$43,000 (K174,365,000) resulting into an overpayment of US\$ 42,000 (K170,310,000).

Although the works were done, water still leaked into some offices and damaged some tiles. It was also noted that the elevator was non operational and inquiries revealed that a total of US\$32,200 (K129,760,000) for labour and material would be needed for the service to resume.

**(f) Irregular Disposal of Motor Vehicles**

A physical count carried out in July 2006 revealed that out of the eight (8) vehicles owned by the Mission, three were disposed off irregularly as follows:

- (i) A Toyota Land Cruiser registration number 007 GGD purchased in 1987 was sold as a non-runner to a driver at the Mission at a cost US\$ 200 (K811,000). Although the ownership had changed into the driver's name in October 2003, no authority was obtained from the Ministry of Finance and National Planning and no payment had been made for the vehicle.
- (ii) A Jeep Cherokee registration number 017 GGD was given to the same driver by the Mission but there were no written instructions to confirm the transaction. The other vehicle, a Jeep Cherokee registration number 015 GGD was said while being driven by one of the drivers to have broken down and was abandoned.

However, as of July 2006, the vehicle could not be traced and in both cases no loss reports were processed.

**(g) Revenue**

**(i) Non Maintenance of Register of Accountable documents**

Contrary to Financial Regulation No.90, there was no register of Accountable Documents maintained.

**(ii) Revenue Not Accounted For**

Out of amounts totaling US\$52,921 (K214,594,655) collected as visa fees during the period from January 2004 to June 2006, amounts totalling US\$35,308 (K143,173,940) could not be accounted for contrary to Financial Regulation No. 117.

**(iii) Under-Collection of VISA fees**

In July 2005 visa fees were revised from US\$40 (K162,200) to US\$100 (K405,500) for the American nationals visiting Zambia. It was noted however, that three hundred and seventy four (374) Americans were issued with visas and paid at the old rate of US\$40 (K162,200) instead of US\$100 (K405,500). Consequently, a total of US\$14,960 (K60,662,800) was collected between July 2005 and June 2006 instead of US\$37,400 (K151,657,000) resulting into an under-collection of US\$22,440 (K90,994,200).

<b>HEAD:</b>	<b>17/08</b>	<b>MINISTRY OF FOREIGN AFFAIRS</b>
		<b>MISSIONS ABROAD – NAIROBI</b>
<b>UNIT:</b>	<b>02</b>	<b>Administrations</b>
<b>PROGRAMMES:</b>		<b>Various</b>
<b>ACTIVITIES:</b>		<b>Various</b>

### **Accounting and Other Irregularities**

25. In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2005, a total provision of K3,265,138,028 was made to cater for the Mission's operations.

An examination of accounting and other records maintained at the Mission in June 2006 revealed the following:

**(a) Excess Funding**

A total amount of K3,713,927,164 was released out which K3,093,220,658 was spent. The amount released was K448,789,136 more than the authorized provision and no supplementary provision was obtained.

**(b) Delayed Remittance of Revenue**

The Missions collect revenue from the issue of visas, travel documents and passports. According to procedures in place, the Ministry is required to give instructions to the Missions from time to time authorizing them to utilize the revenue collections after consultations with the Secretary to the Treasury. The equivalent amounts are then deducted from the monthly funding to the missions and credited to control 99.

During the period under review, a total amount of US\$66,180 (K104,658,485) was raised from the issue of visas, travel documents and passports.

As of June 2006, no instructions were issued in respect of collections amounting to US\$23,855 (K83,257,963) made from September to December 2005 and as of June 2006 were still held in the revenue account.

**(c) Outstanding Bills**

As of June 2006, the Mission had outstanding bills totaling US\$33,043 (K115,321,780) some of which dated as far back as 2004 for various goods and services rendered to the Mission. Included in the bills was a total amount of US\$14,121 (K49,283,127), which was in respect of telephone bills. In this regard, out of the eight (8) telephone lines maintained by the Mission, service was suspended on seven (7) lines leaving only the High Commissioner's line.

It was further noted that despite being paid a telephone allowance of US\$300 per month for his residential telephone, the former High Commissioner had bills amounting to US\$458 (K1, 289,745) settled by the Mission in April and July 2005.

**(d) Irregular Expenditure**

In July 2005, a total amount US\$5,570 (K25,956,200) was paid to the then High Commissioner when he attended the Ambassador's conference which was held from 12<sup>th</sup> to 26<sup>th</sup> July 2005 in Lusaka. The amount was broken down as follows:

	<b>US\$</b>
14 nights allowance @ US\$ 225	<u>3,570</u>
Accountable imprest	<u>2,000</u>
	<u><u>5,570</u></u>

It was noted however that on return to his station, the High Commissioner claimed US\$2,040 (K7,466,400) covering the period from 27<sup>th</sup> July to 3<sup>rd</sup> August 2005, out of which an amount of US\$1,020 (K3,733,200) covering four (4) days was not authorized.

In addition, whilst in Lusaka, the High Commissioner hired his own vehicle at a cost of US\$1,120 (K5,219,200) at the rate of US\$80 per day for 14 days. He further used a total amount of US\$291 (K1, 356,060) for refueling the same vehicle for which hire charges were paid. The amounts were paid using the accountable imprest of US\$2,000. The balance of US\$589 (K2,744,740) was retired.

**(e) Third Party Payments**

In July 2005, an amount of US\$1,197 (K5, 577,127) was paid to a local hotel in Nairobi for food and accommodation from 30<sup>th</sup> May to 4<sup>th</sup> June 2005 in respect of some Zambia Army Officers who were on a peace mission to Sudan.

It was observed that as of June 2006, the embassy had not claimed for a refund from the Ministry of Defence.

**(f) Property Management**

The Mission had three properties comprising the chancery, the residence and the Deputy High Commissioner's house. During the year 2005, amounts totaling US\$23,099 were released for the rehabilitation of the properties.

A physical inspection of the properties conducted in June 2006 revealed the following:

**(i) The Chancery - 48741 Nyerere Road**

In March 2005, the Mission engaged a local contractor to carry out maintenance works that included scrapping off the sand/cement that was screed on the rooftop, laying new sand/cement screed and finishing with appropriate waterproofing on the rooftop. The contractor was paid a total amount of Ksh221, 870 (K13, 984,885) between March and October 2005 although no formal contract was entered into. In this regard, the terms and conditions of the contract could not be ascertained.

It was further noted that despite the Mission paying K13,984,885 to the contractor, the works were poorly done and the chancery still had leakages.

Consequently, in June 2006 the Mission engaged another contractor to undertake similar maintenance works at a total cost of US\$8,268 (K28,855,320). At the time of audit in June 2006, the works were still going on and a total of US\$8,202 (K29,940,585) had been paid to the contractor. The picture below shows the works being undertaken:



*Workers working on the roof*

**(ii) The Residence - 74 Riverside Road,**

In March 2006, the Mission engaged a local contractor to carry out maintenance works which included among other things repair of the roof, flooring and paving slabs at the residence at a total cost of US\$7,624 (K26, 607,760). This amount did not include the cost of renovating the kitchen, which was estimated at US\$14,660 (K51, 163,749).

It was noted that although the High commissioner wrote to the Permanent Secretary in March 2006 over the need to have the kitchen renovated no response had been received as of June 2006.

At the time of the audit, the renovation works excluding the kitchen were still going on and the contractor had been paid a total of US\$7,228 (K26,382,711). The picture below shows part of the roof that needs repair:



*Part of the roof that needs repair*

**(iii) 154, Ngong Road, Nairobi.**

The ceiling was damaged due to leakages in the roof, the gutters were blocked, the timber members were heavily infested with termites and the area had poor drainage. Further, the large portion of bare land behind the house was at risk of being occupied by squatters as it is not secured with a fence.

The pictures below show the leaking ceiling, damaged roof and the bare land behind the house:



*Damaged ceiling as a result of the leaking roof*



*Damaged roof*



*Bare land behind the house*

Due to the poor state of the house and the heavy leakages from the roof, the then Deputy High Commissioner vacated the house in September 2001 and the house has never been occupied since then. The Deputy High Commissioner sought alternative accommodation and was paid a total amount of US\$23,000 as housing allowance (US\$1000/month) from October 2001 until his transfer to New York in September 2003.

It was further noted that when the new Deputy High Commissioner was transferred from Addis Ababa to Nairobi in January 2005, the house had still not been repaired due to lack of funds. Consequently, the Deputy High Commissioner had to go into a rented house and rentals amounting to Ksh1,080,000 (K76,853,769) for the period from January 2005 to January 2006 including a security deposit of Ksh90,000 (K6,980,000) had been paid as of June 2006.

The mission had made representations since 2003 to the Ministry of Foreign Affairs to have the house rehabilitated. In this regard, the Mission in March 2006 recommended that Frankam Builders undertakes the works at a total cost of US\$71,812 (K249,269,760). The works to be carried out included the rehabilitation of the roof, construction of a 200mm perimeter wall with electric fence on top, and the rehabilitation to plumbing and electrical systems.

Further, there was a recommendation for the construction of a block of flats on the large space behind the house at an estimated cost of Ksh338,882,000

(K2.628billion). The flats were meant to house the Embassy staff and ultimately save on rent payments.

It was observed however that despite the numerous submissions made to the Ministry of Foreign Affairs about the poor state of the house, the need to construct a perimeter security fence to have the plot secured and the recommendations on the construction of a block of flats on the idle land no action had been taken by the Ministry as of June 2006.

**(h) Failure to Record Stores Items**

Three items namely, a Deep freezer, an LG upright fridge and a Nokia 7270 mobile phone though on the inventory list were not recorded in the Asset Register. It was further noted that the items had no GRZ numbers contrary to Stores Regulation No.90 (2) .

**(i) Advances**

**(i) Medical**

According to existing Foreign Service regulations, an officer shall contribute 40% towards medical bills for him/herself and members of his/her family.

It was noted that the Mission paid medical bills on behalf of staff but did not recover the 40% as required by the regulation although the amounts were shown as advances to the officers. In this regard, a total amount Ksh63,408 (K6,780,430) had not been recovered.

**(ii) Other**

As per Foreign Service regulations, the Mission is required to clear the goods belonging to staff transferred to the Mission.

The advances register revealed that a total amount of Ksh21600 and US\$2964 (K12,404,596) in respect of personal advances issued to three officers during the period was outstanding. Included in the K12,404,596 was an amount of US\$2,500 (K9, 000,000) owed by the Deputy High Commissioner as a result of the advances he obtained in order to clear his goods when he came on transfer from Addis Ababa.

As at June 2006, the officer was claiming a refund of US\$7,738.51 including an amount of US\$5,238.51 that had been recovered from his allowances for the earlier advances obtained to clear his goods.

<b>HEAD:</b>	<b>17/23</b>	<b>MINISTRY OF FOREIGN AFFAIRS MISSIONS ABROAD -NEW DELHI</b>
<b>UNIT:</b>	<b>2</b>	<b>Human Resource and Administration</b>
<b>PROGRAMMES:</b>	<b>Various</b>	
<b>ACTIVITIES:</b>	<b>Various</b>	

**Accounting and Other irregularities**

26. In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2005, a total provision of K3,193,615,595 was made to cater for the Mission's operation and K3,431,954,596 was released resulting in an excess funding of K238,339,001. No supplementary provision for the excess funding had been obtained as of August 2006.

An audit carried out at the Mission in June 2006 for the period under review revealed the following:

**(a) Revenue**

Out of amounts totalling INR1,622,503 (K138,131,044) collected by the Mission in 2005, amounts totaling INR715, 265 (K60, 893,739) were utilized by the Mission without authority from the Secretary to the Treasury and no evidence was produced to show that deductions had been made from the Mission's funding by the Ministry Headquarters.

**(b) Missing Visa Fee books**

According to Financial Regulation No.90, all accountable documents are supposed to be well secured for accountability purposes. An inspection of the register of accountable documents revealed that ten (10) Visa fee books issued between October 2000 and December 2004 could not be produced for audit verification as of June 2006.

In her response dated 13<sup>th</sup> September, the Controlling Officer stated that the visa fee books could not be located.

**(c) Education Allowances**

According to Foreign Service Regulation No.41, education entitlement shall be paid directly to the identified school on behalf of the officer. Contrary to the provisions of the regulation, a total amount of US\$4,817 (K22, 241, 926) was paid to two officers as refunds for private lessons provided to their children outside their normal school curriculum. This was in addition to the normal education bills paid to the schools for the children.

**(d) Transport**

The Mission had four (4) vehicles, two Mercedes Benz cars, a Cressida Grande and a Toyota corolla. One Mercedes Benz car which was purchased in 2004 was the representational car while the remaining three were utility vehicles that constantly broke down and had become costly to run. Repair costs for the three vehicles during the year under review amounted to US\$5,421 (K24, 802, 670).

A physical inspection of the vehicles revealed that the cars were in a bad state. Due to the poor state of the utility vehicles, the Mission was often forced to hire cars whenever there was a visiting delegation and as of December 2005, a total amount of US\$3,553 (K16, 087, 556) had been paid for hire of cars.

**(e) Rent of Properties**

Apart from the High Commissioner's residence, the Mission does not own any property in New Delhi. All the buildings occupied by the Mission including the chancery are rented. It was observed in this regard that:

In June 2006, the Mission shifted from D-5/4, Vasant Vihar to Plot 86 Paschini Marg, Vasant Vihar. The monthly rentals at the new chancery were pegged at US\$13,000 (K42,462,140) compared to US\$6,374 (K20,523,088) for the old chancery. The payments were to be made six (6) months in advance. The Mission only paid for one month effective from 20th June 2006 leaving a balance of US\$65,000 (K209, 300, 000).

In her response dated 13<sup>th</sup> September 2006, the Controlling Officer stated that the balance of US\$65,000 (K209,300,000) was paid in June 2006 and that the Ministry was writing for supplementary provision to normalize the expenditure and avoid unconstitutional expenditure for 2006.

**(f) Inventories**

In September 2002, the Board of Survey recommended that several unserviceable stores that included office machinery, cutlery, furniture and fittings at the Mission valued at Rs 273,000 (K25,600,000) be disposed off. As of July 2006, the Mission had not yet disposed them off.



*Boarded items not disposed off*

As can be noted from the above picture, the items were being wasted and any further delays in disposing them off will lead to further deterioration and loss to Government.

**(g) The Residence -7 Panchsheel Marg**

A review of records and a physical inspection of the property revealed the following:

- (i)** Contrary to Foreign Service Regulation No. 99, the building had not been insured as of June 2006.

(ii) The building was in poor state of disrepair in that:

- The exterior façade had a visible horizontal crack at the first floor parapet, which was also visible from inside
- The Dining Room ceiling was damaged due to leakages and the carpets had been removed due to damage caused by water;

The pictures below show the damaged ceiling in the dining due to the leaking roof and the crack at the first floor parapet:



*Leakages in the dining room*



*The crack in the first floor parapet*

**(h) Fuel Register**

There were no receipt and disposal details in respect of fuel worth US\$9,497(ZK40,941,070) purchased during the period under review.

**(j) Unretired Imprest**

During the period under review, imprest issued to seven (7) Officers, in amounts totaling US\$14,685 (K64,960,775) had not been retired as of June 2006 contrary to Financial Regulations No. 186.

<b>HEAD:</b>	<b>17/35</b>	<b>MINISTRY OF FOREIGN AFFAIRS MISSIONS ABROAD - OTTAWA</b>
<b>UNIT</b>	<b>2</b>	<b>Administration</b>
<b>PROGRAMMES:</b>	<b>Various</b>	
<b>ACTIVITIES:</b>	<b>Various</b>	

**Accounting and other Irregularities**

27. The Ottawa Mission was closed in December 1995 but was later reopened in February 2005. In this regard, during the financial year ended 31<sup>st</sup> December 2005, a provision of K2,469,927,219 was made in the Estimates of Revenue and Expenditure to cater for the Mission's operations but K3,238,517,102 was released resulting in an excess release of K768,589,883.

An examination of financial and other records maintained at the Mission and a physical inspection carried out in July 2006 revealed the following: -

**(a) Failure to account for Mission Assets and Liabilities**

The Statement of Affairs, which should have shown among others the position of the Mission's assets and liabilities at the time of the closure in 1995, was not produced for audit verification contrary to Financial Regulation No. 28 (n).

It was explained that on closure of the Mission, the furniture was shipped to Lusaka and boarded while an unspecified amount of cash balance was surrendered to the Mission in Washington DC. Contrary to explanation given some furniture was found in New York in July 2006, which came from Ottawa Mission.

**(b) Failure to follow Tender Procedures**

In 2005, the Mission received a total amount of US\$120,000 (K486,600,000) for the purchase of a representational car (Mercedes Benz S320 Series) and a utility vehicle (Toyota Sienna).

In this regard, in February 2006 the Mission procured a utility Vehicle Toyota Sienna at a cost of US\$37,280 (K117,926,057) and a representational car a Mercedes Benz S420 series at the cost of US\$91,107 (K308,894,984). This resulted in over expenditure of US\$8,387 (K28,435,820) which had not been normalized as of July 2006

**(c) Failure to record Stores Items**

Furniture costing C\$74,325 (K301,387,875) procured for the Mission, was neither recorded in the stores register nor labeled contrary to Stores Regulations No. 90 (2).

**(d) Lease of 9 Mission Inn Grove**

Amounts totaling C\$283,000 (K1,147,565,000) earned from leasing the property during the period from March 1997 to October 2003 could not be accounted for as no expenditure records were made available for audit.

It was further observed that although an agent was engaged to manage the property, it was in a dilapidated state.

**HEAD: 18/01 JUDICIARY HEADQUARTERS**  
**PROGRAMMES: Various**  
**Activities: Various**

**Weaknesses in Accounting for Special Imprests and Other Irregularities**

28. During the two financial years ended 31<sup>st</sup> December 2004 and 2005 provisions of K86,227,971,280 and K61,034,195,402 were made in the Estimates of Revenue and Expenditure, out of which total funding in amounts of K50,771,463,859 and K63,314,997,096 respectively were released for operations.

An examination of financial and stores records carried out in August 2006 at the Judiciary headquarters for the period under review revealed weaknesses in internal controls, poor record keeping in that imprest registers were not updated, very few imprest transactions had been captured and no journal numbers were entered to provide an audit trail, among others: Arising from these weaknesses the following was observed:

**(a) Questionable Retirement Of Imprest**

Imprests in amounts totaling K479,292,341 and K453,245,475 involving one hundred and nine (109) and sixty (61) transactions issued in 2004 and 2005 respectively could not be verified as retired as retirement details were not made available for audit contrary to Financial Regulation No. 28 (n).

**(b) Failure To Account For Cash.**

In April 2005, imprests totaling K105,790,464 were issued to two (2) officers to meet the facilitation of an induction course for the newly appointed magistrates in Siavonga. The imprests were to cater for lodging and out-of-pocket allowance for the participants.

However, PSCAP had initially paid for the lodging of the participants thereby creating a saving of K 60,000,000 which was subsequently retired through the cashier in May 2005. However, the cashier failed to account for the K60,000,000 in that there was no evidence that the money was banked nor was it on hand. No action had been taken as of August 2006.

**(c) Missing Payment Vouchers**

Seventy-seven(77) payment vouchers for the year ended December, 2004 and twenty six(26) payment vouchers for the year ended December, 2005 in amounts totaling K835,652,138 and K138,285,575, respectively were missing.

**(d) Failure to account for stores**

There were no receipt and disposal details in respect of stores items costing K117,150,100 and K1,110,611,840 involving ten(10) and thirty-four transactions(34) for the years 2004 and 2005, respectively.

**(e) Irregular Payments**

**(i) Judiciary Football Club**

A total of K71,439,000 (K35, 569,000 for 2004 and K35,870,000 for 2005) was paid to a club formed by the Judiciary as a social club for its staff from General Administration to meet its expenses without budgetary provision.

The payments were in form of imprest whose retirements could not be verified due to poor record keeping.

**(ii) Trust Fund Account**

The Trust Fund Account was established to cater for trust funds remitted by various institutions and individuals for minor beneficiaries of the deceased persons. Funds received are initially deposited into a current account

maintained at a commercial bank and later transferred to individual investment accounts such as savings and fixed deposits for the purpose of earning interest. In order to effect payments to beneficiaries, funds are transferred from the investment accounts to the current account on instruction from Judiciary Headquarters.

During the financial year ended 31<sup>st</sup> December, 2005, Judiciary paid a total of K363,908,783 to the beneficiaries of the Trust Fund Account involving thirteen (13) transactions from General Administration, contrary to the Appropriation Act. As of August 2006, the funds had not been reimbursed.

**HEAD: 21/01 LOANS AND INVESTMENTS-MINISTRY  
OF FINANCE AND NATIONAL  
PLANNING**

**PROGRAMME: 7 Projects - (PRP) 1**

**ACTIVITIES: 01 Zambia Social Investment Fund**

#### **Zambia Social Investment Fund**

29. The Government and International Development Association (IDA) of the World Bank signed a Development Credit Agreement on the 14<sup>th</sup> June, 2000 in order to provide sustainable and improved basic social services for beneficiary communities and specific vulnerable groups in the Republic of Zambia. In order to manage the activities of the project, the Government established the Zambia Social Investment Fund (ZAMSIF).

The objective of the project was to support the Government's efforts to achieve improved, expanded and sustainable use of the services provided in a governance system where local government and communities would become mutually accountable.

The Government through the International Development Association (IDA) was entitled to receive an amount of Special Drawing Rights (SDR) 48.3 million for the purpose of the project.

During the financial year ended 31<sup>st</sup> December 2005, an amount of K60,776,594,700 was provided in the Estimates of Revenue and Expenditure under ZAMSIF.

An examination of financial and other project records and physical inspection of projects carried on between February and March 2006, revealed the following:

**(a) Eastern Province**

**Kapata Market Improvement**

In December 2003, ZAMSIF and Kapata Market Committee signed an agreement for the construction of a market at a contract sum of K493,694,941.

Although the project progress reports and stage completion certificates indicated that the project was 100% complete and payment made in full, a physical inspection carried in March 2006, indicated that the works were not completed in that the market stands were partially erected, the fittings to the ablution block such as toilet pans, sinks, windows, doors were not fitted; and the floor and walls were not completed, among others. In addition as of March 2006, the market was not operational.

**(b) Lusaka Province**

**(i) Chanyanya Rural Health Centre Expansion**

In 2003, ZAMSIF and Chanyanya Rural Health Centre Expansion Committee signed an agreement at a contract sum of K264,184,801 for the expansion of the rural health centre, sinking of a borehole and mounting of a tank amount, among others.

A physical inspection of the project revealed that while the rural health centre was expanded, the borehole and water tank for the clinic were not functional as of February 2006.

**(ii) Chongwe District Hospital – X Ray Building Project**

A financing agreement was signed in January 2003 between ZAMSIF and Chongwe District Council for the construction of an X-Ray building at a contract sum of K199,807,981.

A physical inspection of the x-ray building revealed that although the funds had been completely utilized, the works were not complete in the floor, electricity wiring and plastering of the building had not been done.

**(c) Southern Province - Kazungula District Council Office Block**

In September 2004, a financing agreement was signed between ZAMSIF and Kazungula Council Office Block Project for the construction of an office block and a three bedroom house at a contract sum of K664,500,391.

A site inspection carried out in February 2006 revealed that while the office block and house were completed, they were both not connected with electricity despite ZAMSIF having paid Zambia Electricity Supply Corporation (ZESCO) a total amount of K20,236,611 for electricity connection in September 2005. As of March 2006, the office block was not in use.

**HEAD: 21/01 LOANS AND INVESTMENTS-MINISTRY OF FINANCE AND NATIONAL PLANNING**

**PROGRAMME: 7 Projects**

**ACTIVITIES: 04 Zambia National Response to HIV/AIDS**

- 30.** The Zambia National Response to HIV/AIDS (ZANARA) project is a country program within the context of the second phase of the multi-country AIDS program for the Africa Region which was approved on 7 February 2002 in amounts totalling US\$ 42 Million (SDR 33.7 million).

The project development objective of the ZANARA was to significantly increase access to, and use HIV/AIDS prevention, care and impact mitigation programs with

particular emphasis on vulnerable population (e.g. youth women of childbearing age, orphans, widows and widowers, child or women- headed house holds, people living with HIV/AIDS and other groups at increased risk of infection or being affected).

The project has four components namely Community Response to HIV/AIDS (CRAIDS), National HIV/AIDS Council (NAC) and its secretariat, line ministries and Programme Administration Unit

During the financial year ended 31<sup>st</sup> December 2005 a total authorised provision of K91,155,648,200 was made in the Estimate of Revenue and Expenditure for the activity.

An examination of financial and other project records and site visits to projects made to three provinces namely Copperbelt, Luapula and Lusaka revealed the following:

### **Copperbelt Province**

#### **Nkwazi Support Group-Ndola**

The project did not maintain an asset register for assets valued at K18,183,900 and the assets were not given identification marks. It was also observed that the project did not submit expenditure returns to ZANARA.

### **Luapula Province**

#### **(i) Regional Office, Mansa**

- Imprests in amounts totalling K10,527,400 issued to ten (10) officers between January and June 2005 had not been retired as at January 2006.
- A payment of K1,500,000 drawn on cheque number 1825 for office expenses was not adequately supported in that it lacked receipts, invoices and quotations.

**(ii) Namwande Orphans and Vulnerable Children and the Aged – Mansa**

The main purpose of the project was to help orphans, vulnerable children and the aged.

A scrutiny of the register for orphans and vulnerable children revealed that there were fifty four (54) registered children out of which twenty four (24) had their school fees paid for leaving 30 unpaid for. However, the project management paid for twenty six (26) children who were not registered with the project.

Inquiries made with the project officials as to why they paid for children not registered with them proved futile as the committee members could not give a satisfactory answer.

**(iii) Samfya DAPP – Samfya**

The project was made up of ten (10) committee members and was funded a sum K130million in October 2004. Out of the funds released, the project trained forty (40) people in positive living with HIV/AIDS and forty (40) trainers of trainees and purchased ten (10) bicycles and twenty (20) mattresses. Due to poor record keeping, the exact amount spent on training members and purchase of project materials could not be ascertained.

It was also observed that the assets were not given identification marks contrary to Stores Regulation No.90 (3).

<b>HEAD:</b>	<b>37/01</b>	<b>MINISTRY OF FINANCE AND NATIONAL PLANNING - HUMAN RESOURCES AND ADMINISTRATION</b>
<b>UNIT:</b>	<b>02</b>	<b>Accounts Unit</b>
<b>PROGRAMME:</b>	<b>07</b>	<b>Accounting</b>
<b>ACTIVITY:</b>	<b>06</b>	<b>Compensations and Awards</b>

**Payments of Compensations and Awards**

31. In paragraph 31 of the Auditor General’s Report for the financial year ended 31<sup>st</sup> December 2003, mention was made of the inadequate provision in the Estimates of Revenue and Expenditure to meet payments of compensations and awards.

In their recommendations to the Fourth Session of the Ninth National Assembly, the Public Accounts Committee expressed concern on the rising compensations and awards debt stock and requested the Controlling Officer to report progress on the subsequent reduction in the arrears.

During the financial year ended 31<sup>st</sup> December 2005, a provision of K54 billion was made in the Estimates of Revenue and Expenditure to cater for compensations and awards and the whole amount was released.

An audit that was conducted at ministries of Justice and Finance and National Planning in January 2006 revealed the following:

(a) **Movements in the Compensation and Awards Debt Stock**

	<b>K</b>
Balance as at 1st January 2005	57,409,405,085
Compensation incurred during the year	84,935,749,032
	<b>142,345,154,117</b>
Payments during the year	53,877,892,945
Balance as at 31st December 2005	<b>88,467,261,172</b>

As shown in the table above, the debt stock had increased from K57, 409,405,085 at 1<sup>st</sup> January 2005 to K88, 467, 261,172 as at 31<sup>st</sup> December 2005. The debt stock is made up of K51, 880, 881, 374 principal and K36, 586, 379, 798 interest involving eighty two (82) claims.

Although this matter was brought to the attention of the Controlling Officer, there was no response as of September 2006.

**(b) Irregular Payment**

In October 2005, the Ministry of Finance and National Planning paid K2,250,000,000 (US\$ 500,000) to Norsad as compensation.

However, there was no budget line for Compensations and Awards under Head 21 and therefore, the payment was irregular.

**(c) Delayed Payments**

In October 1997, the Prison Service Department engaged a local supplier for the supply of foodstuffs and other requisites. In this regard, supplies worth K5, 606,327,380 were made during the period October to November 1997 for which a down payment of K500,000,000 was made leaving a balance of K5,106,327,380 as of November 2000.

Due to delays in settling the balance, the company sued the Government claiming the outstanding amount plus interest all totalling K13, 112,793,699. Consent judgement was entered against the Government and consequently, the plaintiff was awarded K2,878,607,220 with interest thereon of 25% per annum starting from October 1997 and thereafter a statutory rate in terms of the judgement Act to the date of payment.

It was observed however that although the Government owed the company a total of K15,727,513,379 as of December 2005, the Ministry paid a total

amount K16,405,313,881 between February 2003 and December 2005 resulting in an over payment of K677, 800,502.

It was further noted that the supplier disputed the over payment and subsequently sought judicial review. A consent order was awarded to the supplier in April 2006 and the Government was to pay K4, 078,439,180 exclusive of all amounts paid to the plaintiff by the defendant as of April 2006. The Government however took the matter back to Court.

In May 2006, the Solicitor General wrote to the Secretary to the Treasury advising him to settle the amount on account of weak arguments from the State. However, the amount had not been settled as of June 2006.

In his response dated 14<sup>th</sup> August 2006, the Controlling Officer, Ministry of Finance and National Planning reported that the Solicitor General had since signed a consent order with the plaintiff for the sum of K4.2billion citing the Ministry's base of dispute as weak. In this regard, whole amount of K4, 078,439,180 had since been paid as of September 2006.

It is clear from the above that if no stringent measures are taken to minimize claims on the Government and ensure all cases in the courts of law are adequately represented; the Government will continue losing huge amounts of money through payments of compensations and awards.



**(c) Hammer Mills**

There were no disposal details in respect of four (4) hammer mills purchased from a local company in December 2005 at a total cost of K59,876,000.

**(d) Inadequately Supported Payments**

There were sixty two (62) payments in amounts totaling K532,743,854 that were inadequately supported by cash sale receipts or invoices contrary to Financial Regulation No.141.

**(e) Non Recovery of Staff Loans and Advances**

There was no loans and advances register maintained at the Ministry. A test check carried out on seventy five (75) payments revealed that no recoveries had been effected in respect of 24 payments totalling K106,970,000 as of July 2006.

Included in the twenty four (24) payments was a household loan of K15,000,000 paid to the then Deputy Permanent Secretary who was not on the Ministry's payroll, and has since left the Public Service.

**(f) Misapplication of Funds - Hammer Mill Loan Revolving Fund**

The hammer mill loan revolving fund was created in December 1993 to provide loans to women in peri urban and rural areas who could not secure loans from lending institutions to secure hammer mills. This was in an effort to empower the women economically and ensure household food security.

It was however observed that during the period under review, amounts totalling K1,049,203,504 were used contrary to the Fund's guidelines, in that:

- Amounts totalling K549,203,504 were paid out as imprest,
- K400,000,000 was transferred to the Ministerial Staff Loan Revolving Fund account,
- K100,000,000 was transferred to the Salaries Account for payment of other emoluments such as Long Service bonuses,

**(g) HIPC Funds – Non Submission of Expenditure Returns**

There were no expenditure returns in respect of K3,567,598,553 paid to sixty eight (68) District Welfare Schemes during the period under review contrary to HIPC guidelines.

<b>HEAD:</b>	<b>45/02</b>	<b>MINISTRY OF COMMUNITY DEVELOPMENT AND SOCIAL SERVICES – SOCIAL WELFARE DEPARTMENT</b>
<b>UNIT:</b>	<b>1</b>	<b>Human Resource and Administration</b>
<b>PROGRAMMES:</b>	<b>3</b>	<b>Support to Institutions</b>
<b>ACTIVITIES:</b>	<b>02</b>	<b>Public Welfare Assistance Scheme (PWAS)</b>

**Accounting and Other Irregularities**

33. Public Welfare Assistance Scheme (PWAS) is a scheme of assisting the vulnerable people throughout the country administered by the Department of Social Welfare in the Ministry. A provision of K10,350,901,822 was made in the Estimates of Revenue and Expenditure for PWAS out of which an amount of K 9,485,009,321 was released.

An examination of financial and other records pertaining to the scheme revealed the following:

**(a) Misapplication of Funds**

Contrary to PWAS guidelines, a total amount of K30,763,158 was misapplied on activities outside the scheme such as payment of commutation of leave days, leave travel benefits, golf tournament and air tickets.

**(b) Non Submission of Expenditure Returns**

A total of K7,696,113,835 was disbursed to the nine (9) provinces in the country to cater for social welfare activities as shown below:

PROVINCE	DISBURSEMENT K
Central	729,836,569
Copperbelt	1,044,462,174
Eastern	1,074,209,527
Luapula	668,229,987
Lusaka Urban	510,922,157
Northern	1,165,195,816
N/Western	539,832,799
Southern	1,162,135,023
Western	801,289,783
Total	<u>7,696,113,835</u>

However, there were no expenditure returns submitted to headquarters to show how the funds were utilised contrary to PWAS guidelines.

**(c) Unretired Imprests**

Amounts totalling K250,770,925 were issued to thirty-one (31) officers as imprests during the period under review. It was observed however, that as of July 2006, only an amount of K82, 790,000 had been retired leaving a balance of K167, 980,925 contrary to Financial Regulation No. 186.

<b>HEAD:</b>	<b>46</b>	<b>MINISTRY OF HEALTH</b>
	<b>/01</b>	<b>Human Resource And Administration</b>
	<b>/02</b>	<b>Directorate Of Planning &amp; Development</b>
<b>PROGRAMMES:</b>	<b>3</b>	<b>Support To Institutions – (PRP) 1</b>
	<b>8</b>	<b>Support To Sector Wide Approach – (PRP) 1</b>
	<b>9</b>	<b>Implementation Of Various Poverty Reduction Programmes – (PRP) 1</b>
<b>ACTIVITIES:</b>		<b>Various</b>

### **Accounting Irregularities**

34. During the financial year ended 31<sup>st</sup> December 2005, provisions totaling K437,970,162,429 (Support to Institutions – K44,425,205,622, Support to Sector wide Approach – K363,950,054,293, Implementation of Various Poverty Reduction Programmes – K29,594,902,514) were made in the Estimates of Revenue and Expenditure to cater for the above programmes out of which amounts totaling K83,069,679,363 were released (Support to Institutions – K47,482,151,993, Support to Sector wide Approach – K6,049,849,262, Implementation of Various Poverty Reduction Programmes – K29,537,678,108).

An examination of financial and other records maintained at the Ministry revealed the following:

#### **(a) Misapplication of Grants**

Although K44,425,205,622 was approved in the Estimates of Revenue and Expenditure, the Ministry of Finance and National Planning released K43,180,029,048, leaving a balance of K1,245,176,575. Out of the released amount of K43,180,029,048, K36,283,675,683.42 was paid out to grant aided institutions, while the balance of K6,896,353,365 was misapplied at the Ministry headquarters on administrative services.

**(b) Overpayment of Management Contract Fees**

During the period from March 2004 to March 2005, amounts totaling K3,946,278,647 were paid to a consultant for consultancy over the management of Medical Stores Ltd. It was however observed that though K7,500,019,119 was owed to the consultant, the consultant had outstanding taxes amounting to K4,678,205,050 which were offset by the government leaving a balance of K2,821,794,900 due to the consultant. This resulted in an overpayment of K1,124,464,577 to the consultant which had not been recovered as of June 2006.

**(c) Unaccounted for Fuel**

There were no receipt and disposal details in respect of fuel costing K795,295,656 procured during the period under review.

**(d) Unaccounted for Stores**

There were no receipt and disposal details in respect of stores items costing K480,313,500 procured during the period under review.

**(e) Wasteful Expenditure**

In March 2005, K21,612,500 was paid to a local company to print 650 Christmas cards at a cost of K33,250 each.

**(f) Irregularities in Payment of Mobile Telephone Bills**

Contrary to circular number 1 of 2000 which prescribes thresholds on expenditure regarding mobile and telephone services for officers at the rank of Permanent Secretary and above, the Ministry paid K59,319,960 in respect of cell phone bills for three (3) senior government officials thus exceeding their entitlements of K18,000,000 per year by K27,092,760.

**(g) Unretired Imprest**

Imprests in amounts totaling K781,585,580 involving thirty seven (37) transactions issued during the period from March to December 2005 had not been retired as of June 2006 contrary to Financial Regulation No. 186.

**(h) Student Allowances**

Although K1,419,944,500 was due to students as allowances, amounts totaling K1,633,053,500 were drawn resulting in an excess of K213,109,000. As of June 2006, there was no evidence to show how the excess money had been utilized, nor was there any evidence to show whether the money had been receipted or banked. In addition, no loss report had had been raised.

**HEAD:** 46 /14 **MINISTRY OF HEALTH  
LUSAKA PROVINCE**

**PROGRAMME:** Various

**Accounting Irregularities.**

35. During the financial year ended 31<sup>st</sup> December 2005, Lusaka Provincial Health Office received a total amount of K2,976,772,945 to cater for the operations of the Office. In addition amounts totaling K10,737,213,969 were received to cater for the payment of housing allowances.

A review of records held at Lusaka Provincial Health Office carried in September 2006 revealed the following:

**(a) Unsupported Payments**

Out of the K10,737,213,969, only K230,300,000 was supported by payment vouchers, leaving K10,506,913,970 unsupported by payment vouchers or any form of acquittal sheet contrary to Financial Regulation No. 156, making it not possible to ascertain how the balance was spent.

It was also observed that during the period between 30<sup>th</sup> November 2004 and 18<sup>th</sup> July 2006, fourteen (14) cheques amounting to K1,788,971,863 were drawn from this account. These were paid in the cashier's name but the purposes for which these payments were made were not availed as payment vouchers and other relevant records were missing.

**(b) Irregular Payments**

Amounts totaling K11,960,000 were paid to two officers who claimed to have had travelled to pay housing allowances when in fact they had not.

It was observed that K6,035,000 was recovered while the balance of K5,925,000 remained outstanding as of November 2006.

**(c) Questionable Payments**

(i) In December 2005, an amount of K9,500,000 was paid to six (6) officers as costs for investigating an officer based at Central Prison Health Centre who had been reported to Anti – Corruption Commission to have been drawing his monthly salary while absconding from duty. It is not clear why such payments were made to the officers.

(ii) Retirement details in respect of amounts totaling K34,145,000 which were purported to have been paid towards accommodation and meals during a workshop to review action plans in September 2005, were questionable in that they did not reflect the names of the service provider. It was further observed that amounts totaling K1, 350,000 were paid for air time to officers below the rank of Permanent Secretary contrary to Cabinet Office circular number 1 of 2000

(iii) In August 2005, an amount of K32,550,000 was paid to a lodge for accommodation and meals for participants attending a workshop . In addition, imprest amounting to K66,125,000 was drawn to cater for expenses during the workshop.

However, retirement details of the K66,125,000 as reflected on retirement voucher No. 738 dated 21<sup>st</sup> October 2005 included a supposed cash payment of K29, 583,000 for accommodation and meals for which payment had already been effected on 4<sup>th</sup> August 2005. The supposed cash payment of K29,583,000 was not supported by cash receipt contrary to Financial Regulations 134 and 156 and inquiries with the lodge revealed that no payment was made to them as confirmed in their letter dated 13th November 2006.

- (iv) A deposit of K20,000,000 was paid to a lodge to cater for accommodation and meals for training of private sector staff on management of Sexually Transmitted Infections against a total quotation of K42, 525,000.

In addition, an imprest of K90, 970,000 was issued to an accountant to meet allowances and other expenses for the above training.

However, retirement details as reflected on an unnumbered retirement voucher dated 15<sup>th</sup> July 2005 which was prepared whilst the workshop was still in progress indicated that K22,462,250 (balance from K42,525,000) was paid in cash for services rendered by the lodge but no cash receipt was issued. The training took place between 12<sup>th</sup> and 17<sup>th</sup> July 2005. Enquiries at the lodge in November 2006 revealed that no such payment was made.

**(d) Inadequately Supported Payments**

Contrary to Financial Regulation No. 156, eleven (11) payments amounting to K24, 035,386 were not adequately supported in that they lacked invoices, local purchase orders, among others.

**(e) Un acquitted Payments**

Contrary to Financial Regulation No. 156, four (4) transactions amounting to K11, 660,000 paid between February 2005 and July 2005 were not acquitted.

**(f) Unretired Imprest**

Imprest in amounts totaling K22,020,000 involving three (3) transactions issued to three (3) officers during the period under review, had not been retired as of September 2006, contrary to Financial Regulation No. 186.

**(g) Inventory**

An inventory conducted in September 2006 revealed that a laptop computer (serial number CNU 5161517) and a Samsung digital camera (serial number 5346564) were missing as they were not produced for verification.

**HEAD: 51/01 MINISTRY OF COMMUNICATIONS AND  
TRANSPORT HEADQUARTERS**

**PROGRAMMES: Various**

**ACTIVITIES: Various**

**Accounting and Other Irregularities**

36. In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2005, a total provision of K32, 130,344,339 was made out of which a total of K20, 654,021,397 was released to cater for the various programmes. The Ministry also benefited K5, 891,981,711 in the form of Appropriation-In-Aid bringing the total funding to K26, 546,003,108.

An examination of financial and stores records maintained at the Ministry headquarters carried out in March 2006 revealed the following:

**(a) Misappropriation of Funds**

During the period from June 2004 to April 2006 amounts totaling K607,606,931 involving forty- three (43) transactions were misappropriated by various officers and as of September 2006, the Police were investigating the matter.

**(b) Misapplication of Appropriation-In-Aid**

According to the Ministry of Finance and National Planning guidelines, Appropriation-In-Aid funds are to be used on programmes or activities relating to revenue collections. It was noted however, that contrary to the guidelines, K5,248,555,000 out of K5,891,981,711 received as Appropriation-in-Aid was used to pay loans to members of staff.

**(c) Review of Internal Audit Report on Revolving Funds**

A review of the Internal Audit report dated 23<sup>rd</sup> March, 2005 relating to the management of the revolving fund account revealed that no deductions had been effected in respect of loans amounting to K463,500,000 paid to five (5) officers as they were not yet on the payroll.

A review of the status in March 2006 revealed that the situation had not changed, as the deductions had not yet been effected.

**(d) Un-delivered Goods**

In November 2005, the Ministry entered into a contract with a local hardware company for the supply eight thousand (8,000) Temporally Registration Number plates for Road Traffic Safety Agency at a contract price of K800,000,000. The terms of the contract stipulated that the company was to receive a down payment of 80% of the contract price and the balance upon delivery of the number plates. Although the down payment of 80% (K640,000,000) was made in December 2005, the plates had not been supplied as of March 2006.

**(e) Unretired Imprest.**

Imprest totaling K1,271,247,149 involving one hundred and sixty one (161) transactions issued between January and December 2005 had not been retired as of March 2006 contrary to Financial Regulation No. 186.

**(f) Weakness in the Management of Transport**

A Toyota Hilux registration No. GRZ 618 BH, belonging to Department of Civil Aviation was cannibalized by removing the engine and gear box when it was taken for repairs in August, 2005 at a local garage and the whereabouts of the engine and gearbox whose value could not be determined were unknown as of March 2006.

A seven (7) tonne Mitsubishi Truck, registration No. GRZ 149 BN, belonging to Mweru Water Transport Board under the Department of Maritime and Inland Waterways in Nchelenge was taken in a running condition, for engine overhaul in 2003 at a local garage. The total cost of repairs as assessed by the garage was K39,480,000. In this regard, in October and November 2003, the Ministry paid the garage a total amount of K25,000,000 (vide cheques No. 000248 and 000266) towards the cost of repairs. However, during a physical inspection carried out in March 2006, the status of repair on the engine could not be ascertained as it was not made available for inspection and its whereabouts were not known.



*GRZ 149 BN Mitsubishi with engine and other parts removed*

A Nissan Terrano, registration No. GRZ 348 BS was involved in a road traffic accident in 2004 while being driven by a Deputy Minister. He was charged for careless driving by the police and consequently, the Standing Accident Board

surcharged him 100% of the total repair costs amounting to K48,608,105. Although the Ministry paid the amount in full, as of April 2006, no recoveries had been effected from the Deputy Minister.

**HEAD: 51/01 MINISTRY OF COMMUNICATIONS AND  
TRANSPORT- HEADQUARTERS**

**UNIT: 1 Human Resource and Administration**

**PROGRAMME: 3 Support to Institutions**

**ACTIVITY: 01 Government Communication Flight**

**Government Communication Flight**

37. During the Financial year ended 31<sup>st</sup> December 2005, a provision of K1,000,000,000 was made for the operations of the Government Communication Flight (GCF). An examination of financial and other records maintained at the institution and physical inspections carried out in April 2006 revealed the following:

**(a) Non Release of Funds to GCF by Ministry Headquarters**

Although Ministry of Finance and National Planning released amounts totaling K1,041,666,667, K41,666,667 above the total authorized provision to the Ministry headquarters as a grant to GCF, the Ministry however, disbursed amounts totaling K917,007,045 leaving a balance of K124,659,622 unaccounted for.

**(b) Aircraft Lease Agreement**

In September 1998, GCF entered into a three (3) year Aircraft Lease Agreement with local company. The agreement provided for among other things, that the lessee, would recover the costs of bringing the aircraft into an airworthy condition by utilizing the aircraft commercially in accordance with

air service permit requirements. The agreement further stated that the lessor acknowledged and confirmed that maintenance of the aircraft and supply of spares would be done by the lessee during the lease period.

A review of the operations and a physical inspection of the aircraft in April 2006 revealed the following:

- (i) Although the lease agreement had expired in 2001, the aircraft was not brought to an airworthy condition.
- (ii) In 2003 the engine and the hot section component of the aircraft were taken to an aviation engineering firm in South Africa for engine overhaul. However, as of February 2006 the engine had not been returned and the firm was demanding a payment of US\$35,000 as repair costs and storage charges.



*GCF Aircraft whose right engine was taken to South Africa in 2003 for repairs*

**HEAD: 51/06 MINISTRY OF COMMUNICATION AND  
TRANSPORT – ROAD TRAFFIC COMMISSION**

**UNIT: 1 Human Resource and Administration**

**PROGRAMME: 9 Traffic Information System**

**ACTIVITY: 02 Computerisation of Road Licensing System**

**Delays in the Completion of the Zambia Transport Information System (ZAMTIS) Project.**

38. In paragraph 36 of the Auditor General’s Report on the accounts for the financial year ended 31st December, 2003, mention was made of the delays in the completion of the ZAMTIS project. A review of the project carried out in March 2006 revealed that the contractor had been paid a total of K17,778,877,450 (US\$3,919,171) representing 88% of the contract sum of K19,875,000,000 leaving a balance of K2,470,537,000. According to the terms of the contract, the contractor was to refurbish 16 regional offices and construct new offices in border areas and install satellite equipment in all offices and link it with Headquarters. However, as of March 2006, only six (6) regional offices had been refurbished, representing 38% of the contracted works. It was further observed that of the six (6) offices that were refurbished, only four (4) were in use.

It was also observed that the contractor had made a variation by transferring equipment, which was meant for Victoria Falls Border office to Road Traffic Commission (RTC) Headquarters without the approval of the Ministerial Tender Committee.

**Status of Lumumba RTC Offices**

In paragraph 37 of the Auditor General’s Report on the accounts for the financial year ended 31st December, 2003, mention was made about the high amount of dust which accumulates inside the building posing a threat to equipment and that the drainage system around the premises was poor leading to the buildings surroundings flooding during the rainy season.

In their Report for the Fourth Session of the Ninth National Assembly, the Public Accounts Committee requested for progress on the matter. A review of the situation in March 2006, revealed that the road leading to ZAMTIS offices was still in a deplorable state as no major works had been done to improve the drainage system as evidenced by the picture below.



*Flooded road in front of RJC building along Lumumba Road*

**HEAD: 64/03 MINISTRY OF WORKS AND SUPPLY –  
ROADS DEPARTMENT**

**PROGRAMME: 8 Rural Development and Road Rehabilitation**

**ACTIVITY: 41 Mbesuma Bridge**

**None Construction of Mbesuma Bridge**

- 39.** In paragraph 93 of the Report of the Auditor General for the financial year ended 31<sup>st</sup> December 2000, mention was made of the none construction of Mbesuma bridge despite the awarding of the works to a local contractor at a contract price of K7,419,117,936 in April 2000.

During the financial years ended 31<sup>st</sup> December 2001 to 2005, total provisions of K9,286,233,572 were made in the Estimates of Revenue and Expenditure for the construction of Mbesuma bridge.

An examination of financial and other related records maintained at the Ministry of Works and Supply and Provincial Roads Engineer, Kasama revealed that between April 2002 and December 2005, a total amount of K4,408,438,400 was paid, K2,700,000,000 to the contractor and K1,708,438,400 to the consultant.

A physical inspection carried out in October 2006 revealed that no works had been done (see picture below), and the contractor was not on site.



*Mbesuma Bridge site still being operated by Pontoon - October 2006*

**HEAD: 80 MINISTRY OF EDUCATION**

**UNIT: Various**

**PROGRAMME: 2 General Administration  
Sector Plan Implementation**

**ACTIVITIES: Sector Plan Implementation**

#### **Weaknesses in Accounting for Sector Plan Support Funds**

40. In paragraph 33 of the Auditor General's Report on the accounts for the financial year ended 31 December, 2004 mention was made of weaknesses in accounting for Sector Funds.

In their Report for the Fifth Session of the Ninth National Assembly, the Public Accounts Committee observed and recommended among other things that the Controlling Office should:

- Continue to impress upon the donors to fund the Sector Plan;
- Provide an update on the data capturing that will assist clear the unretired imprest backlog and further directed that the Controlling Officer should ensure that recoveries are instituted from concerned officers' salaries.

An examination of the financial and other records carried out in June 2006 at the Ministry Headquarters and various Provincial and District Offices revealed the following:

### **Financing**

During the financial year under review, the Cooperating Partners released a total sum of K273,191,589,804 while the Government released K254,795,800 bringing the total amount available to cater for activities under the Sector Plan to K273,446,385,604 as detailed below:

Source of funding	TYPE OF FUNDING	PLEDGES		RELEASES	
		USD	ZMK	USD	ZMK
DCI (incl. ADP for NP)	Direct funding	7,124,000	34,550,091,000	7,291,820	27,816,807,422
NORWAY	Direct funding	15,098,000	73,225,824,000	16,727,197	69,804,824,287
DFID	Direct funding	9,000,000	43,650,000,000	6,669,300	28,777,701,000
NETHERLANDS	Direct funding	10,200,000	49,470,000,000	10,143,704	42,258,540,705
FINLAND	Direct funding	3,068,000	14,878,830,000	3,194,040	13,675,702,800
DENMARK	Direct funding	7,000,000	33,950,000,000	7,291,820	32,504,630,404
CIDA	Direct funding	1,623,000	7,871,589,000	720,135	3,312,620,034
USAID/SPAA	Direct funding	500000	2,425,000,000	0	0
<b>Sub-total</b>		<b>53,613,000</b>	<b>260,021,334,000</b>	<b>52,038,016</b>	<b>218,150,826,652</b>
IDA	Designated	9,845,000	47,748,103,000	4,198,930	18,189,564,297
EC	Designated	5,912,000	28,673,978,000	6,543,221	28,407,247,756
ADB	Designated	2,584,000	12,533,709,000	1,906,489	8,432,280,083
UFD/MOEZ	Designated	902000	4,374,176,000	0	0
<b>Sub-total</b>		<b>19,243,000</b>	<b>93,329,966,000</b>	<b>12,648,640</b>	<b>55,029,092,136</b>
UNICEF	Other Support	3,278,000	15,898,300,000	2,494	11,671,016
USAID (EQUIP2, CHANGES, QUESTT)	Other Support	4,951,000	24,013,218,000	0	0
FINLAND (TA 2005) <sup>#</sup>	Other Support	767,000	3,719,950,000	0	0
JAPAN/JICA	Other Support	6,892,000	33,425,800,000	0	0
DFID (2005) PRP <sup>#</sup>	Other Support	540,000	2,619,000,000	0	0
DFID (TA)	Other Support	360,000	1,746,000,000	0	0
CIDA ZESP II Counterp	Other Support	412,000	2,092,000,000	0	0
UNICEF/WB <sup>#</sup>	Other Support	50,000	242,500,000	0	0
EC-EMIS (max) <sup>#</sup>	Other Support	500,000	2,425,000,000	0	0
<b>Sub-total</b>		<b>17,750,000</b>	<b>86,181,768,000</b>	<b>2,494</b>	<b>11,671,016</b>
<b>SUB-TOTAL DONOR</b>		<b>90,606,000</b>	<b>439,533,068,000</b>	<b>64,689,150</b>	<b>273,191,589,804</b>
<b>GRZ COUNTERPART</b>				54,825	250,000,000
				1,126	4,795,800
<b>GRAND TOTAL</b>		<b>90,606,000</b>		<b>64,745,101</b>	<b>273,446,385,604</b>

As can be seen from the table above, the Cooperating Partners in 2005 pledged to release US\$90,606,000 (K439,533,068,000) but only released US\$ 64,689,150 (K 273,191,589,804). It was also observed that although some cooperating partners pledged more funds they released less than pledged while others released more than pledged. There was another category of partners whose pledged amounts were not released to the pool but controlled by the Cooperating Partners themselves.

## Expenditure

### Headquarters

### Management of Contracts

#### (a) Construction of Six (6) Basic Schools in Luapula Province

In October 2003, the Ministry entered into a contract (contract no. ADF/BESSIP/03/9) with a local contractor for the construction of six (6)

primary schools in Luapula Province at a contract price of US\$928,913.14 (K4,180,109,130) with a completion period of thirty-six (36) weeks. The works which involved the construction of six (6) 1x3 classroom blocks, six (6) 1x2 classroom blocks, twenty-one (21) teacher's houses, twenty-one (21) VIP single pit latrine/washroom and thirty-six (36) VIP double pit latrines were to commence in October 2003 with a completion date of July 2004 and a defects liability period of 270 days.

As of June 2006, the contractor had been paid a total amount of US\$551,834.88 representing 59.4% of the contract price.

A review of the contract and other available documentation revealed that:-

- The works which started in October 2003 with a contract period of 26 weeks ending July 2004 had not been completed as of June 2006, the project had gone 102 weeks beyond, the contract duration of 26 weeks as at the time of audit;
- Although the contract provided for termination of the contract in the event of poor performance, this was not done by the Project Manager at the Ministry of Education School Infrastructure Section when it became apparent that the contractor was failing to meet the contractual time frames, but instead, continued extending the contract periods;

The table and pictures below illustrate the status of the works at the six (6) sites:

Construction of six (6) Basic Schools In Luapula Province					
School	Works to be done				Comments
	1*2 CRB	1*3 CRB	VIP Latrines	Staff Houses	
Chifunabuli Basic	X	X	X	X	The CRBs had reached roof level and were partly roofed. The staff houses had reached roof level while the VIPs were at slab level.
Masanta Basic	X	X	X	X	The CRBs had reached roof level. Out of the 6 VIP latrines four (4) were at foundation level, one (1) was at roof level and the others were at slab level. No works had been done since August 2005
Musangu Basic	X	X	X	X	The 1*2 CRB was at window level, the 1*3 CRB was at lintel level, the four staff houses were at window level while the VIPs were at slab level
Kanyembo Basic	X	X	X	X	The 1*2 and 1*3 CRBs were at window level, 3 staff houses were at window level while 1 house and 6 VIPs were at slab level
Mununga Basic	X	X	X	X	Both CRBs were abandoned at lintel level, the six (6) VIPs were abandoned at foundation level while the four (4) staff houses were at window level.
Myengele Basic	X	X	X	X	Roofing on the 1*2 CRB was condemned by the buildings officer, 1*3 CRB was at ring beam level, the six (6) double VIPs were at foundation level, two (2) staff were at roof level, one (1) staff house was at ring beam level, three (3) single VIP latrine/washrooms were at slab level

**Legend:**

**CRB = Classroom Block**

**VIP = Ventilation Improved Pit Latrine**

**√ = Works completed**

**X = Works not completed**



*Incomplete double pit latrines  
– Chifunabuli Basic School*



*VIP latrines at foundation level  
– Masanta Basic School*



*Staff houses at window level  
– Musangu Basic School*



*Uncompleted Classroom Blocks structure  
– Kanyembo Basic School*



*Abandoned VIP structures at foundation level  
– Mumunga Basic School*

**(ii) Improvement of Water Supply System – Chibombo High School**

In 2005 the Ministry engaged a local company to drill and equip two boreholes, build two pump houses and rehabilitate the water tank at a total cost of K88,000,000.

A visit to the school in June 2006 revealed that:

- Although the two boreholes were drilled, only one was equipped. It was also observed that only one pump house was built and that the 1.5 HP capacity pump installed was suitable for domestic use and not for a school population.
- The contractor was to mend the tank and paint it together with its stand using two coats of aluminium metallic paint at a cost of K15,000,000. However, the contractor used oil paint instead of metallic paint and no repairs were done to the tank as the tank did not require such attention contrary to what the Ministry Headquarters had alleged and paid for on Cheque no 13675 dated 4<sup>th</sup> August 2005.

**(b) Procurement, Storage and Distribution of Textbooks**

The Ministry of Education engaged three (3) suppliers to supply 508,184 books at a total cost of K 3,057,918,017. It was however observed that 61,200 books

costing K357,594,521 were not supplied while 12,012 books costing K80,711,600 were stolen as shown in the table below:.

Date of contract	Supplier	Amount Paid K	Quantity				Unit cost K	Value of books not supplied K	Value of books stolen K
			Quantity of books paid for	Quantity of books supplied	Quantity of books not supplied	Quantity of books stolen			
Feb-05	Mc Millan Publishers	596,176,500	79,000	79,000	-	6,886	7,547	-	51,968,642
Dec-05	Mc Millan Publishers	2,383,271,467	424,984	364,984	60,000	5,126	5,608	336,480,000	28,746,608
n/a	ZEPH	21,120,000	1,200	-	1,200		17,600	21,120,000	-
n/a	Insaka Press	57,350,050	3,000	3,000	-		19,117	-	-
		<b>3,057,918,017</b>	<b>508,184</b>	<b>446,984</b>	<b>61,200</b>	<b>12,012</b>		<b>357,600,000</b>	<b>80,715,250</b>

**(c) Unretired Imprests**

Contrary to Financial Regulation No. 186, imprest in amounts totalling K17,361,523,021 (Institutional Imprest – K11,128,585,585 and Travel Debtors – K6,232,937,436) issued before and during the period under review had not been retired as of December 2005.

**(d) School Infrastructure**

In 2005, the Government embarked on a programme to construct portal frame supported classrooms, VIP toilets and drill and equip boreholes in four (4) provinces namely, Central, Copperbelt, Luapula and Northern provinces. In this regard, eight (8) contractors were engaged to carry out the works. Test checks carried out at selected sites in Luapula and Northern Provinces revealed the following:

**(i) Northern Province**

The contract for the construction of 1x2, 1x3 portal frame classroom blocks, six (6) VIP double toilets and drilling of a borehole at each one of

the 38 primary schools was awarded to a local contractor at a contract price of K 18,718,933,000 for the following durations and estimated completion dates:

- Lot 1,2,3,8 & 9      13<sup>th</sup> December 2005 (38 weeks)
- Lot 6                      10<sup>th</sup> January 2006 (42 weeks)
- Lot 4,5, & 7              22<sup>nd</sup> February 2006(48 weeks)

As of June 2006 the contractor had been paid amounts totalling K9,187,536,143.

A review of progress reports from the School Infrastructure Section and visits to thirteen (13) schools revealed that works at two schools had been completed while very little progress was recorded at most of the remaining sites as shown in the table and pictures below:

School	Date of commencement as per contract	Works to be done				Comment
		1*2 CRB	1*3 CRB	VIP Latrines	Boreholes	
<b>NORTHERN PROVINCE</b>						
Chilekwa Mwamba	Mar-05	√	√	√	X	Soak away for drainage on 1*2 CRB was sinking while a crack had developed across slab of the 1*3 CRB
Nambuluma Basic	Mar-05	X	X	X	X	All construction works were at slab level while the borehole had not been drilled
Chabola	Mar-05	X	X	X	√	Only the borehole has been drilled
Bwalya Chokwe	Mar-05	X	X	X	√	Only the borehole has been drilled
Vyonga Primary	Mar-05	X	X	X	√	Only the borehole has been drilled and fitted with a hand pump
Mufubushi Basic	Mar-05	X	X	X	X	Only trenches for the foundations for the CRBs and VIP Latrines had been dug
Mukungule Basic	Mar-05	X	X	X	X	Status as per progress report-only trenches had been dug for the CRBs and VIPs
Kantimba Basic	Mar-05	X	X	X	X	Status as per progress report-only trenches had been dug for the CRBs and VIPs
Kapilya Basic	Mar-05	X	X	X	X	Status as per progress report-only trenches had been dug for the CRBs and VIPs
Muyembe Basic	Mar-05	√	√	√	√	The contractor completed works
Mukolwe Basic	Mar-05	√	√	√	√	The contractor completed works
Bweupe Basic	Mar-05	X	X	X	X	Only trenches for the foundations for the CRBs and VIP Latrines had been dug
Lusengwa Basic	Mar-05	X	X	X	X	Only trenches for the foundations for the CRBs and VIP Latrines had been dug
Cholwe Basic	Mar-05	X	X	X	X	No works had been done
Kashitu Basic	Mar-05	X	X	X	X	No works had been done
Chongoyo Basic	Mar-05	X	X	X	X	No works had been done

**Legend:**

CRB = Classroom Block  
VIP = Ventilation Improved Pit Latrine

√ = Works completed  
X = Works not completed



*Foundation stage of 1\*3 classroom block  
– Nambuluma Basic*



*The current classroom block – Vyonga Basic.*



*Inside the dilapidated classroom block – Vyonga Basic*

## **(ii) Luapula Province**

### **Contract “A”**

In September 2005, the Ministry entered into a contract with a local contractor for the construction of portal frame classroom blocks in fifteen (15) schools in Luapula Province at a contract price of K 8,523,653,148. The works comprised a 1x2 class room block, 1x3 class room block and six (6) double VIP toilets and a borehole at each one of the fifteen (15) school sites. The contract had duration of thirty six (36) weeks.

### **Contract “B”**

In February 2005, the Ministry entered into a contract with a local contractor for the construction of portal frame classroom blocks in five (5) schools in Luapula Province at a contract price of K1,565,548,569. The scope of works at

each school comprised a 1x2 class room block, 1x3 class room block and six (6) double VIP toilets and a bore hole. The contract duration was twenty six (26) weeks and the works were to end in September 2005.

A review of progress reports from the School Infrastructure Section and visits to six (6) schools revealed that works at two schools had been completed while work was still in progress at most of the remaining sites as shown in the table and pictures below:

School	Date of commencement as per contract	Works to be done				Comment
		1*2 CRB	1*3 CRB	VIP Latrine	Boreholes	
Mwaba Basic	Sep-05	√	√	√	√	The slab for 1*3 CRB has developed cracks, the borehole was not functional and walls to the VIPs had caved in.
Chinsanka Basic	Sep-05	√	√	√	√	The borehole was not functional and the six VIPs were caving in.
Chisheta Basic	Feb-05	√	X	X	X	Drainage works on the 1*2 CRB and plastering of VIPs were still in progress
Kalundu Basic	Feb-05	X	√	X	√	1*2 CRB and 2 VIPs yet to be constructed, Borehole though completed produces dirty water.
Munwa Basic	Feb-05	X	√	X		1*2 CRB and 2 VIPs yet to be constructed,
Tente Basic	Feb-05	X	√	X		1*2 CRB and 2 VIPs yet to be constructed,

**Legend:**

CRB = Classroom Block

VIP = Ventilation Improved Pit Latrine



One of the VIPs base caving in – Mwaba Basic



Classroom block at slab level – Chisheta Basic

## Provincial Offices

### Grants to the Provinces

41. During the period under review, amounts totalling K265,812,174,632 were disbursed as grants to the provinces as shown below:

<b>Province</b>	<b>Amount Disbursed</b>
	<b>K</b>
Lusaka	26,528,928,530
Copperbelt	42,968,072,969
Central	27,869,043,923
Northern	34,406,866,033
Western	25,726,917,202
Eastern	32,156,683,410
Luapula	19,954,620,746
North Western	19,115,218,443
Southern	37,085,823,374
<b>Total</b>	<b>265,812,174,632</b>

An examination of expenditure records pertaining to the disbursed amounts revealed the following:

**(a) Northern Province**

**(i) Provincial Education Office**

There were thirty-eight (38) payment vouchers in amounts totalling K305,874,580 that were un-vouched in that they had no supporting documents contrary to Financial Regulation No. 156.

**(ii) Mporokoso District Education Board**

**• Misapplication of Funds**

Amounts totalling K146,109,722 were misapplied in that they were used to pay outstanding arrears for teachers in respect of repatriation,

travel benefits and settling in allowances. As of June 2006, the funds had not been re-imbursed.

- **Fraudulent Withdrawal of Cash**

A total amount of K16,304,000 was fraudulently drawn as shown below:

<b>Cheque No.</b>	<b>Date</b>	<b>Amount Authorised as per Payment Voucher K</b>	<b>Amount Drawn K</b>	<b>Amounts Fraudulently Withdrawn K</b>
000842	25-May-05	4,010,000	15,704,000	11,694,000
000902	Sep-05	680,000	2,970,000	2,290,000
000915	Oct-05	680,000	3,000,000	2,320,000
				<b>16,304,000</b>

**(c) North Western Province**

**Provincial Education Office**

In May 2005 an amount of K8,000,000 was paid as part payment towards the supply and installation of a Panasonic Digital Telephone system whose total cost was K15,000,000. However, as of June 2006, the supplier had not delivered the equipment although the Local Purchase Order was signed acknowledging receipt of the equipment and the supplier's whereabouts were unknown. Although the matter was reported to the police, no recoveries had been made.

**(d) Lusaka Province**

**(i) Chongwe District Education Board**

A scrutiny of accounting records at Chongwe DEBS for the year ended 31<sup>st</sup> December 2005 revealed the following:

- Out of 17,035 various titles of text books allocated to the District, only 11,440 books were delivered as of June 2006 leaving a balance of 5,595 undelivered;
- 3,290 Books allocated to community schools had not been received by Chongwe District Education Board as of June 2006.

**(ii) Chongwe High School**

In May 2005 a local contractor was engaged to rehabilitate five (5) science laboratories at a contract price of K15,600,000 out of which amounts totalling K14,800,000 had been paid to the contractor leaving a balance of K800,000. A site inspection in June 2006 revealed that most of the works had not been done despite the contractor having been paid 95 percent of the contract price.

Although the requirements for the school were 200 stool tops, the DEBS procured 1,000 stool tops, 800 more than the requirement resulting in wasteful expenditure of K28,000,000.

**(iii) Kafue District Education Board**

- 2,515 textbooks of various meant for community schools were not delivered to the District Education Board Secretary's office as of June 2006;
- Out of 17,035 text books of various titles allocated to the district only 12,712 text books had been delivered leaving a balance of 4,323.

**(iv) Luangwa District Education Board Secretary**

Luangwa District Education Board Secretary's office was allocated 17,035 various text books at ZEPH warehouse. These books were

supposed to have been delivered to the District Education Board Secretary's office in 2005 but only 5,853 books were delivered as at the date of audit leaving 11,182 text books which had not yet been delivered. A scrutiny of stores and other records disclosed the following:-

- A total of 320 books allocated to Community Schools had not yet been received by DEBS' office as of June 2006;
- Communication between the Ministry of Education and the District Education Board Secretary's office to facilitate smooth delivery of school requisites was lacking;
- There were no records of receipt and distribution of books costing K14,922,400 procured from a local company in respect of five (5) zone 'B' schools,
- Books valued at K 1,492,500 were not supplied by a local company although they were paid a sum of K 8,206,500 on cheque number 000052 to supply school text books to five (5) zones 'A' schools .

**(v) Recovery of Misappropriated BESSIP Funds**

In paragraph 53 of the Auditor General's Report for the financial year ended 31<sup>st</sup> December 2003, mention was made of the misappropriation of K25,897,807 BESSIP funds by the Assistant Accountant at DEBS office in Luangwa. In their recommendations the Public Accounts Committee requested to be given an update on the outcome of investigations on the officer who misappropriated K25,897,807.

A review of the situation in 2006 revealed that the District Education Board Secretary had withdrawn the case and indicated that K200,000 would be recovered monthly until the whole amount was liquidated. As

at date of audit, the Assistant Accountant had only paid back K2,200,000 into the BESSIP account as recoveries.

It was not clear why the District Education Board Secretary withdrawing the case is questionable.

**(e) Southern Province**

**(i) Livingstone District Education Board**

The District was allocated a total of 17,826 cartons of books of various titles from ZEPH out of which 12,742 cartons had been delivered, leaving a balance of 5,084 cartons undelivered.

**(ii) Maramba Basic School**

The District Education Board procured building materials costing K19,872,400 on behalf of the school for the rehabilitation of two (2) staff houses. In this regard, a labour only contract was awarded to a local contractor in February, 2005 at a contract price of K9,000,000. A visit to the school revealed that both houses were leaking and the old cracks had resurfaced a few months after works had been carried out.

**(iii) Kalomo District Education Board**

Out of 17,826 cartons of books of various titles allocated to the district only 12,802 cartons were delivered leaving a balance of 5,024 cartons unaccounted for.

**(iv) Kalomo High School**

A review of accounting records revealed that a sum of K72,554,500 was paid to individuals and companies for the supply of stationery and building

materials. It was however observed that the payments were split to avoid tender procedures.

**(f) Western Province**

**Phelim O'Shea High School**

The construction works commenced in October, 2004 and were near completion. However, the roof which was partially complete was blown-off by a strong wind in December 2005 resulting in the destruction of eighty-eight (88) iron roofing sheets costing K14,920,000.

**(g) Luapula Province**

**(i) Twingi Basic School**

A physical inspection of the school revealed that the basic school which was established in 1934 had only one (1) chair for the teacher and fourteen (14) damaged desks to cater for about four hundred and twenty (420) pupils. The infrastructure was dilapidated.

**(ii) Mwaba Basic School**

A physical inspection of the infrastructure at the school disclosed that the infrastructure was dilapidated and required total rehabilitation. It was also observed that the pupils were sitting on the floor as the school had no desks.



*Pupils sitting on the floor due to lack of desks*

**(iii) Mansa College of Education Board.**

In November 2005, the college engaged a local contractor to construct one staff house at a price of K 96,067,857 out of which K67,250,713 had been paid to the contractor leaving a balance of K28,817,144. The contract was for a period of twelve (12) weeks commencing in December 2005 with an estimated completion date of March 2006.

A site inspection conducted in June, 2006 revealed that the works had not been completed although the Controlling Officer in her response dated 20<sup>th</sup> September 2006 stated that the house was completed in stipulated time and the contractor wrote to the Provincial Buildings Engineer on 28<sup>th</sup> April 2006 who acknowledged completion of the house.

**(iv) Delivery of furniture from the Ministry of Education**

A verification exercise of furniture procured by the Ministry of Education Procurement and Supplies Unit and delivered to schools in Samfya district for the period under review revealed that most of the items listed on the delivery notes were received. However the following were observed:

- **Chifunabuli Basic School.**

A visit to the school revealed that thirty (30) desks received by the school were not in use as they could not be assembled due to lack of bolts and nuts as of June, 2006.

- **Masanta Basic School**

A visit to Masanta Basic School disclosed that pupils were still sitting on the floor as the teachers were waiting for the completion of the new classroom blocks before assembling the furniture. It was noted that the completion of the school infrastructure was delayed as the works had been abandoned by the contractor.

- **Bombawamenshi Basic School**

A visit to the school in June 2006 disclosed that the school which was established on 1999 only had 4 members of staff and neither had desks nor teachers tables.

<b>HEAD:</b>	<b>80/38</b>	<b>Ministry of Education – High Schools – Northwestern Province</b>
<b>UNIT:</b>	<b>24</b>	<b>High Schools – Northwestern Province</b>
<b>PROGRAMME:</b>	<b>2</b>	<b>General Administration (High School Education) – (PRP) 2</b>
<b>ACTIVITIES:</b>	<b>01</b>	<b>Grants to High Schools</b>

**Solwezi Technical High School Board.**

42. During the financial year ended 31<sup>st</sup> December 2005 a provision of K890, 854,574 was made in the Estimates of Revenue and Expenditure for grants to high schools in the province. Out of the provision, an amount of K81,107,000 was allocated to Solwezi Technical High School Board and the whole amount was released.



An examination of expenditure records carried out at Provincial Administration and a physical inspection in March 2006 revealed the following:

**(a) Construction of District Offices in Kafue**

A total amount of K253,000,000 was provided for and released under infrastructure development for the construction of Kafue District Offices.

In May 2005, the Provincial Administration entered into a contract with a contractor for the construction of the offices at a contract price of K 963,206,205, and the works were to be executed within a period of four (4) months.

As of December 2005 a total of K 743,684,231 had been paid to the Contractor. It was observed however that the contract amount was K 710,206,250 in excess of the approved provision and there was neither evidence that variations had been made nor a supplementary provision obtained.

A physical inspection of the project undertaken in March 2006, eight (8) months after the date of completion revealed that the project was not completed.

It was however observed that as of March 2006, no claims were made for liquidated damages due to government for the delayed work even when the contract provided for such claims.

**(b) Construction of Mortuary at Luangwa Boma**

In 2005, the Provincial Administration had provided K345,000,000 in the Estimates of Revenue and Expenditure for the construction of a mortuary in Luangwa and the whole amount was released. The Provincial Administration requested for a supplementary of K476,415,808 which was approved and provided bringing the total to K821,415,808.

In September 2005, the Provincial Administration engaged a local contractor at a contract sum of K132,982,446. The construction was to run for a period of 12 weeks commencing October 2005 up to January 2006.

It was observed however that although the supplementary provision of K476,415,808 was obtained the contract sum was only K132, 982,446. On this regard, the propriety of obtaining a supplementary provision was questionable. It was also not clear as to how the balance of K695, 482,452 would be utilized. A physical inspection carried out in March 2006, ten weeks after the estimated completion period, revealed that construction works were still in progress and was estimated to be at 75% complete stage.

It was also observed that as of March 2006, no claims were made for liquidated damages due to government for the delayed work even when the contract provided for such claims.

**(c) Rehabilitation of Luangwa Boma Clinic**

In September 2005, the Provincial Administration contracted a local contractor to rehabilitate Luangwa Boma Clinic at a Contract price of K188, 187,530. As at March 2006, the contractor had been paid a total amount of K56, 456,259 for the works.

It was observed however that the project had not been provided for in the Estimates of Revenue and Expenditure for the financial years ended 31<sup>st</sup> December 2004 and 2005 and therefore the expenditure was unconstitutional.

**(d) Drilling of Borehole for water supply at Kasisi Health Centre.**

The Provincial Administration contracted local contractor to drill two water boreholes at Kasisi Rural Health Centre in Chongwe at a contract price of K208,994,400 with a completion period of five (5) weeks.

Out of the total contract price, the contractor had been paid a total amount of K136,412,300 as of March 2006, leaving a balance of K72,582,100. It was observed however that the project had not been provided for in the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2005 and therefore the expenditure was unconstitutional.

**HEAD:** 92 **OFFICE OF THE PRESIDENT  
CENTRAL PROVINCE**

**PROGRAMME:** Various

**ACTIVITIES:** Various

#### **Weaknesses in Control over Bank Accounts**

44. An examination of three (3) bank accounts maintained by the Provincial Administration and other expenditure records for the period carried out in March 2006 at the Provincial Administration revealed that there were weaknesses in internal controls, in that commitment ledgers were not maintained, filing was poor among others. Arising from these weaknesses, the following in particular were observed:

**(a) General Administration**

**(i) Unacquitted Payments**

A total of K108,275,568 involving fifteen (15) transactions drawn from the account for payment to various officers involved in the implementation of various programmes such as road maintenance and drilling of boreholes under the Office of the President relating to February to November 2005, had no supporting acquittal sheets, contrary to Financial Regulation No.156.

**(ii) Unretired Imprest**

Imprest amounting to K558,679,223 involving one hundred and forty-seven (147) transactions issued in the period under review out of the Recurrent Departmental Charges was not retired as of June, 2006, contrary to Financial Regulation No.186.

**(iii) Failure to account for Fuel**

There were no disposal details in respect of fuel costing K101,466,318 procured during the period under review contrary to the Public Stores Regulation No. 16.

**(b) Poverty Reduction Programmes**

**(i) Unretired Imprest**

A total of K326,140,950 involving eighteen (18) transactions issued during the period under review was not retired as of June, 2006.

**(ii) Misapplication of Funds**

A total amount of K148, 447,000 was spent on programmes and activities not related to the poverty reduction programmes such as purchase of a building, subsistence allowances, telephone bills, among others, in 2005 and K590, 000,000 in 2004 was not reimbursed as of June 2006.

**(iii) Irregular Payment**

In December 2004, an outbreak of cholera was reported in Waya area of Kapiri Mposhi and a budget for cholera intervention amounting to K21,580,000 was drawn by the Provincial Health Office for subsistence allowances, granular chlorine, water pumps, fuel and contingency.

A scrutiny of related transactions revealed that the above budget was irregularly altered at the Provincial Administration to K91,200,000 and consequently an amount of K77,700,000 was paid to an accounting officer on cheque number 000314 dated 20<sup>th</sup> December 2004.

It was further revealed that another cheque amounting to K60,000,000 was again paid to the same officer as additional imprest to carry out Cholera interventions in all the six (6) districts though no outbreaks were reported.

Therefore a total of K137, 000,000, K116, 120,000 in excess of the initial budget of K21,580,000 was spent while the imprest remains unretired as of June 2006.

**(iv) Failure to Account for Programme Funds**

An amount of K45,000,000, accountable imprest paid to the senior accountant from Provincial Administration meant for mobilization and sensitization of mushroom propagation, a poverty reduction programme, on 28<sup>th</sup> October 2004 on cheque number 000111 could not be accounted for at the Forestry Department and the provincial administration while the imprest remained unretired as of September 2006.

A further amount of K77,230,000 paid to another accountant at the provincial administration on 28<sup>th</sup> December 2004 on cheque number 000334 for allowances and fuel for the community mushroom training could not be ascertained as to what the funds were used for as the payment voucher was still missing as of review date in September 2006.

K30,000,000 additional imprest paid to the above accountant on cheque number 000341 dated 11<sup>th</sup> January 2005 to facilitate training of local communities was not requested by the Principal Extension Officer who

also confirmed not using the money at Forestry Department remained unaccounted for as of September 2006.

A further amount of K8, 750,000 used to procure assorted stationery from Probitry Trading on Cheque number 000335 dated 29<sup>th</sup> December 2004 purported to be for Forestry Department was not received at the Department.

**(c) Accounting for Third-Party Funds**

During the period under review, amounts totaling K437,541,792 were received from various Ministries to cater for various activities on their behalf in the Province.

An examination of accounting records revealed that there were no separate records maintained in respect of the funds remitted

**(d) Unacquitted Payments**

An amount of K22,830,000 paid to an officer meant to pay various officers involved in the implementation of various programmes such as Road Maintenance and Drilling of Boreholes under the Office of the President could not be accounted for in that the acquittal sheet could not be produced for audit verification.

**(e) Unretired Imprests**

Contrary to Financial Regulation No. 180, Imprests paid to officers amounting to K76, 157,000 involving twenty two (22) transactions made in 2005 from General Deposits were not retired as of June, 2006.

**(f) Housing Allowance**

During the period under review amounts totalling K2,373,123,220 were received from the Ministry of Finance and National Planning for payment of housing allowances. A further amount of K762,587,207 was transferred into the account by the provincial administration bringing the total to K3,135,710,427. It was however, observed that K2,908,228,595 paid to various officers were not supported by acquittal sheets making it difficult to verify the validity of the expenditure.

In addition, the source of the extra amount of K762,587,207 being the difference between the funded amount and the transferred amount to the deposit account could not be explained.

**HEAD: 92/08 OFFICE OF THE PRESIDENT - CENTRAL PROVINCE – ROADS DEPARTMENT**  
**UNIT: 1 Human Resource and Administration**  
**PROGRAMME: 8 Maintenance of Feeder Roads – (PRP) 1**  
**ACTIVITIES: 01 Rehabilitation of Feeder Roads**

**Road Rehabilitation**

45. During the financial years ended 31<sup>st</sup> December 2004 and 2005 provisions of K2,221,184,000 and K4,805,626,329 were made in the Estimates of Revenue and Expenditure, respectively for the rehabilitation of feeder roads. The total provisions for 2004 and 2005 were released. Out of the total amounts released, an amount of K1,805,625,329 was spent in 2004 leaving a balance of K415,558,671, while in 2005, a total amount of K3,540,560,325 was spent.

An examination of financial and other records maintained at the Provincial Accounting Control Unit revealed weaknesses in the internal controls in that commitment and expenditure ledgers were not maintained and that no specific guidelines were given to regulate how much of the funds could be allocated to other activities other than road rehabilitation. Consequently, it was not possible to establish how much money was

available for each programme and how much was available for other activities, in particular the following were observed:

**(a) Headquarters**

- (i)** Although the Provincial Administration received a total amount of K4,721,184,000 in 2004 and 2005 for rehabilitation of feeder roads, K4,200,000,000 was allocated to relevant activities leaving a balance of K521,184,000 unaccounted for.
- (ii)** Although amounts of K155,680,000 and K149,736,013 were provided for in the Estimates of Revenue and Expenditure for 2004 and 2005 respectively for monitoring of projects in the province, the Provincial Administration allocated amounts totalling K550,000,000 from the funds received for road rehabilitation to supervision and monitoring and evaluation activities.
- (iii)** Although in January 2004 there was a brought forward balance of K1,261,031,827, and an additional K2,221,184,000 was released in October 2004 to the province, bringing the total available funds to K3,482,215,827, no roads were rehabilitated during the year.

It was further observed that during the period under review, K588,548,386 was spent by the Provincial Administration on repair of graders.

- (iv)** A grader which broke down while working on the Mulungwe – Mboroma road was abandoned on site in December 2004. Consequently, it was vandalised, parts worth K123,000,000 stolen and what remained was gutted by fire. As of July 2006, no loss report had been processed.



*Grader which was abandoned and later vandalised*

**(v) Mpunde-Ngabwe Road**

Though no budget was allocated for the rehabilitation of the Mpunde – Ngabwe road, in February 2005, a local contractor was contracted at a contract sum of K115, 885,080 to carry out the works within a period of eight (8) weeks commencing in February 2005. The works involved heavy grading and spot gravelling. As of June 2006, the contractor had been paid a total amount of K109, 328,016 out of the total contract sum.

A physical inspection carried out in June 2006 revealed that works had not been completed, ten (10) weeks after the expiry of the completion period and the contractor was not on site. No action had been taken against the contractor for delaying the works.

**(b) Serenje District**

- (i)** The District received K180,000,000 in 2005 for rehabilitation of feeder roads out of which amounts totalling K82,067,500 were spent on unrelated activities such as payment of allowances and wages (K55,177,500); inspections (K14,140,000); repair of the District Commissioners' vehicle (K7,750,000) and repair of the District Council vehicles (K5,000,000). Although the district explained that the activities were related to the road rehabilitation project no evidence was produced to this effect.

- (ii) Out of the total amount of K161,300,000 spent on the procurement of fuel, only fuel costing K84,142,377 was by the grader that was used for road maintenance, leaving a balance of K77,157,623 that could not be accounted for.

**(c) Mkushi District**

- (i) In April 2005, the Director of Works, Mkushi District Council diverted a grader working on the Luanshimba - Miloso road to work on a private road on an individual's farm covering a stretch of 6km using government resources valued at K6,874,000. As of July 2006, the Luanshimba – Miloso road had not been done.
- (ii) Although K90,000,000 was spent on the Fibanga-Chitina road, a review of a report from the District Road Foreman dated 9<sup>th</sup> June 2006 and a site inspection carried out in July 2006 revealed that the works were poorly done in that road formation, back slopping and grabbing among others were poorly done.
- (iii) Although K90,000,000 was spent on the Tuyu - Mpale Road, a review of a report from the District Road Foremen dated 9<sup>th</sup> June 2006 and a site inspection carried out in July 2006 revealed that the works were poorly done in that road formation, back slopping and grabbing among others were poorly done.
- (iv) There were no receipt and disposal details in respect of fuel costing K72,722,500 procured for rehabilitation of feeder roads.

**(d) Kapiri Mposhi District**

- (i) In 2005, the District was funded K180,000,000 out of which K20,100,000 was misapplied on repair of equipment while K8,408,000 was borrowed by the council and had not been refunded as of July 2006.

- (ii) There were no receipt and disposal details in respect of fuel costing K77, 083,000 purchased during the period under review.

**(e) Chibombo District**

**Chiyuni/Ipongo Road**

In 2004, the Provincial Roads Engineer assessed that the works to be undertaken on the Chiyuni/Ipongo road were vegetation control, road formation, mitre drains, side drains and spot gravelling. Though no cost estimates were made for these works, a total of K104,636,825 was spent.

A further amount of K60,000,000 was allocated on the same road in 2005 but no works were carried out and no explanation was given. It was however observed that the works were undertaken in April 2006.

A physical inspection of the road carried out in July 2006 revealed that the road was still in a bad state and needed to be redone, as can be seen from the pictures below: -





**(a) Funding**

- (i) Although the activities such as rehabilitation of canals and road maintenance and other construction works are ordinarily undertaken between April and October each year, it was observed that K3,016,344,648.50 of the total releases of K4,446,484,629, was released and deposited in the account on 12<sup>th</sup> December 2005, two weeks to the year end .

In response to the observation the Controlling Officer stated that due to the late release of funds coupled with the onset of the rains, most of the projects could not be executed in the year they were planned.

It was also observed that the PRP account had a balance of K5,583,111,320 brought forward from 2004. It is therefore not clear why most of these projects were not implemented in the period they were planned for.

- (ii) As at 31<sup>st</sup> December 2005, the account had a credit balance of K5,684,068,919. However, according to the financial statements for 2005, PRP projects recorded a total expenditure of K2,895,202,583 representing 33.8 per cent of the approved budget of K8,552,457,556 during the year. It is therefore not clear why projects such as rehabilitation of canals, construction of rural health posts and road maintenance works, etc could not be fully implemented in 2005 when adequate funds were available in the account and remained unutilized during the year under review.

**(b) Hire of Motor Vehicles**

Amounts totaling K281,288,450 involving thirty-three (33) transactions were paid from the account to private transporters for hire of transport for project supervision and monitoring, and transportation of materials for various construction and maintenance works, mostly on behalf of Roads Department.

It was observed however that:

- (i) Out of the 33 contracts entered with the transporters, sixteen contracts involving K69,550,000 were awarded without obtaining at least three competitive quotations contrary to procurement guidelines.
- (ii) According to the agreements, the cost of hiring the vehicles and the cost of fuels and lubricants were treated separately. In this regard, the Roads Department and Provincial Administration incurred costs totaling K61,546,640 on fuels and lubricants.

**HEAD: 93/19 OFFICE OF THE PRESIDENT –  
NORTHERN PROVINCE  
WATER AFFAIRS DEPARTMENT**

**PROGRAMME: 7 Water Management – (PRP) 1**

**ACTIVITIES: 01 Office Administration  
02 Drilling of boreholes  
03 Dam Rehabilitation**

**Wasteful Expenditure & Other Irregularities**

- 47. During the financial Year ended 31<sup>st</sup> December 2005 a provision of K1, 400,001,000 was made in the Estimates of Revenue and Expenditure under the Water Affairs Department.

An examination of records carried out at the Provincial Administration Office and Water Affairs Department and physical inspections of the selected projects in February 2006 revealed the following:

**(a) Variance in Funding**

A comparison of schedule of funding obtained from the Department of Water Affairs (DWA) in Lusaka and funding shown on the bank statements for PRP account maintained by the Provincial Water Office in Kasama revealed that a

total amount of K812,229,367 was released to the DWA, between May and December 2005 whereas the bank statements only showed K777,299,367 leading to unexplained variance of K35,000,000

**(b) Unauthorized Expenditure**

In 2005, the Department embarked on a number of projects such as Presidential Park Spring water project, Kapata and Musa water well projects, Kalupwa dam construction and Luwingu Parish water supply project. There was however no feasibility studies undertaken and no treasury authority (variation) obtained to use the funds for such projects. This resulted in planned for activities such as rehabilitation of Kakwisha Dam (Mporokoso), Mwanduzi Dam (Mbala), Ikawa Dam (Nakonde), among others, not being fully implemented and completed in the year under review.

It was further observed that there was no close supervision and monitoring of activities at the Provincial Water Office by both Ministry Headquarters and the Provincial Administration Office resulting in wasteful expenditures as evidenced below:

**(i) Presidential Park Spring Water Development Project - Kasama**

The objective of the project was to develop the source of Mulilansolo stream at the presidential park with the view of supplying water to the low lying areas of Kasama by gravity through the Chambeshi water and Sewerage line. In this regard, a total amount of K58,089,409 was spent in respect of payments for wages and imprests and other related costs.

A visit to the site in February 2006, revealed that the project had been abandoned due to its non viability as the water to be tapped was found to be inadequate and that the human settlement above the spring coupled with septic tanks meant that the quality of water was compromised. The only works that had been done were the excavation of a trench through which the water was to be channelled.



*Trench which was excavated at the site*

Consequently, in September, 2006 the Provincial Administration engaged the Zambia National Service to cover the trench at a cost of K1,447,460 comprising fuel (K1,247,460) and lunch allowance for ZNS staff (K200,000).



*View of the site after the trench was covered*

The expenditure incurred on the project is therefore wasteful

**(ii) Kapata and Musa water wells Construction Project**

The projects involved the digging of fifty (50) wells up to water table level in Henry Kapata Village in Milima area (47 wells) and Musa Farming area (3 wells). As of October 2006, a total of K171,101,764.40 (K111, 021,664.40 for wages to dig the wells and mould rings for the

wells, K15,000,000 for fuel, K25,660,000 for purchase of well windlasses and K19,419,900 for tools and building materials) had been spent.

A site inspection carried out in October 2006, revealed that all the fifty (50) wells had been dug to water table level. It was however observed that the project had stalled due to lack of funds. Inquiries and scrutiny of the annual report for 2005 revealed that project needed a budget of K335,000,000 to be fully implemented.



*Unsecured 30metre well at Kapata Village*

Forty-four (44) windlasses meant to be fitted to the wells were found lying in stores . See picture below:



*Some of the Windlasses lying idle in the Stores*

It was further observed that out of a total of forty four (44) windlasses meant for the wells, sixteen (16) of these costing K10,940,000 were bought on credit from a local company which remained unpaid as of October, 2006.

The expenditure incurred on the project is therefore wasteful

**(iii) Kalupwa Dam Construction**

The project, which involved making an embankment in order to trap water commenced in November 2005. As of October 2006 a total expenditure of K14,924,088 in respect of wages had been incurred.

A physical inspection carried out in October 2006 revealed that the project remained abandoned due to lack of funds as can be seen from the picture below:



*Dam foundation partly filled with stones- abandoned project*

According to the Annual Report for 2005 by the Provincial Water Engineer, the project needed K1,200,000,000 to be completed.

**(iv) Luwingu Parish Water Project**

In October 2005 DWA, released K60,000,000 to rehabilitate the existing network and supply line but it was later changed to develop the source of a water spring about 1.2km from the parish. In this regard, further K168, 000,000 was released from the Dam rehabilitation funds under PRP to the project.

Scopes of works involved developing the source of the spring by constructing a spring chamber where water could be trapped and

gradually flow into pipes using gravity and laying of a 1.1km pipeline to the parish. The line was supposed to supply water to the hospital.

A physical inspection carried out in October 2006 revealed that the spring chamber was not completed.

The hospital and the whole Luwingu town had no water supply. Due to critical water problem, patients and residents resorted to drawing dirty water at the parish from the spring chamber for use, see the pictures below:



*Open spring chamber exposed to dirty*



*Women & children washing clothes at the spring chamber. The dirty water flows back in the spring chamber.*

Inquiries with the Acting Provincial Water Officer revealed that the project was viable and just required a fresh injection of funds which as of October 2006 was estimated at K80,000,000.

**(c) Other Irregularities**

**(i) Unretired Imprest**

Contrary to Financial Regulation No.186, imprest in amounts totaling K83,261,400 involving sixteen (16) transactions issued during the period from June to November, 2005 had not been retired as of August, 2006. It was also observed that imprest register was not maintained for the period under review.

**(ii) Un-acquitted Payments**

Seven (7) payments amounting to K17,596,673 in respect of wages for the period from November to December, 2005 were not supported with acquittal sheets making it not possible to establish whether the moneys were paid to the beneficiaries.

**(iii) Missing Payment vouchers**

Eight (8) payment vouchers in amounts totaling K13,308,000 relating to the period July to December, 2005 were missing and could therefore not be verified

**(iv) Stores**

There were no receipt and disposal details in respect of materials costing K72,843,136 procured during the period October to December,2005.

<b>HEAD:</b>	<b>95</b>	<b>OFFICE OF THE PRESIDENT-EASTERN PROVINCE</b>
<b>UNIT:</b>		<b>Various</b>
<b>PROGRAMME:</b>	<b>1</b>	<b>Personal Emoluments</b>
<b>ACTIVITIES:</b>		<b>Various</b>

**Irregularities In The Management Of Personal Emoluments**

48. During the financial year ended 31<sup>st</sup> December 2005, a provision of K6,551,974,484 was provided in the Estimates of Revenue and Expenditure to cater for personal emoluments out of which amounts totalling K6,042,160,831 were released.

An examination of the expenditure records carried out in March 2006 at the Provincial Accounting and Control Unit (PACU) revealed the following:

**(a) Outstanding Bills-Staff Claims**

In 2005, K1,282,418,962 was provided for in the Estimates of Revenue and Expenditure for Other Emoluments out of which only K200,000,000 was released representing 15.5 percent of the provision leaving a balance of K1,082,418,962. The provision was required to pay Allowances, Long Service Bonus and Leave Travel benefits to officers. It was however, observed that the amount released was not adequate to settle the claims which had accumulated to K1,125,027,046 as of December 2005.

**(b) Delays In Remitting Statutory Contributions**

According to the National Pensions Scheme Authority (NAPSA) Act, statutory contributions should be remitted to the Authority on the 10<sup>th</sup> of each month. However, a review of records at NAPSA revealed that, PACU delayed in remitting the employees contributions resulting in the Authority levying the Government penalties amounting to K67, 932,530, which remained unsettled as of March 2006.

**(c) Payment of Housing Allowances**

During the year 2005, the Provincial Administration received a total of K1,125,064,944 from the treasury for payment of housing allowances to staff who were not accommodated by the Government. It was observed that:

- (i)** There were eighty-four (84) payments in amounts totalling K33,915,000 that were not acquitted by the respective beneficiaries.
- (ii)** Sixty one (61) employees who were to be paid housing allowances totalling K69,579,425 and were appearing on the original approved list from Ministry of Finance and National Planning, were deleted and another twenty one (21) officers not on the original list were added and paid housing allowances amounting to K18,872,066. However, there was no authority provided to support the changes and no explanation given.



- (ii) A total amount of K23,930,000 was paid in allowances to Officers who worked during the presidential visit. However, an amount of K3,700,000 was not acquitted and it was not on hand.

In addition, in September 2005 amounts totalling K25, 000,000 paid to an Assistant Accountant during the Vice President's visit to Mambwe District were not acquitted.

- (iii) In June 2005 an amount of K3,000,000 was irregularly paid as an advance to a senior Government official. As of July 2006 the amount had not been recovered.

- (iv) Contrary to Financial Regulation No. 186 which stipulates that imprest is to be retired within forty eight (48) hours when an officer returns from duty, it was observed that amounts totalling K116,360,000 involving thirty-eight (38) transactions issued as imprest during the year under review had not been retired as of March 2006.

**(v) Payments Not Supported By Funding**

In December 2005 payments in amounts totalling K31,426,600 involving twelve (12) transactions were made without corresponding funding, contrary to existing regulations governing the operations of the General Deposit Account.

**(b) Rehabilitation of Roads**

A total amount of K1,050,000,000 was released in November 2005 by Ministry of Works and Supply for the rehabilitation of four (4) roads, Mtenguleni-Kasenengwa (K250,000,000), Lundazi-Mwase (K375,000,000), Nyimba-Luembe (K375,000,000) and Lundazi-Chama (K50,000,000).

As of November 2005, works had only commenced on two (2) roads Mtenguleni- Kasenengwa and Lundazi- Chama roads. The Roads Department

and the Zambia National Services were carrying out the works and as of February 2006 a total amount of K65,459,580 had been spent on the two (2) roads. The works commenced on 4th November and were to take a month up to 4<sup>th</sup> December 2005. It was not clear as to why works had not commenced on the other two roads despite the availability of funds.

It was further noted that as of 19<sup>th</sup> March 2006 the works on the two roads were still going on and a physical inspection carried out on the Mtenguleni-Kasenengwa Road revealed that out of the planned activities the construction of three culverts and the repair of six (6) headwalls and aprons had not yet been done.

**HEAD:** 96/01 OFFICE OF THE PRESIDENT  
LUAPULA PROVINCE- HEADQUARTERS

**UNIT:** 1 Provincial Administration

**PROGRAMME:** 10 Improvement of Health Services – (PRP) 1

**ACTIVITIES:** Various

**Delays in Completion of Rehabilitation Works at Mansa General Hospital,**

50. During the financial years ended 31<sup>st</sup> December 2003, 2004 and 2005, provisions totalling K2,750,000,000 were made in the Estimates of Revenue and Expenditure under the Poverty Reduction Programme for the rehabilitation of infrastructure at Mansa General Hospital which included the kitchen, laundry and out patient building. Out of which an amount of K1,231,436,193 was released to the Provincial Administration leaving a balance of K1,518,563,807.

In this regard, in December 2003, a local contractor was engaged to do the works at a contract price of K856,207,578 for a duration of twenty two (22) weeks commencing December 2003. The estimated date of completion was May 2004.

An examination of financial and other records maintained at Mansa General Hospital revealed that although the contract stipulated a completion period of twenty two (22)

weeks ending May 2004, as of May 2006, the works had not been completed and the contractor had been paid amounts totaling K942,822,041. The amount paid to the contractor was K86,614,463 over the contract price.

**HEAD: 97 OFFICE OF THE PRESIDENT  
NORTH-WESTERN PROVINCE**

**Units: 1 Administration**

**Programmes: 1 Personal Emoluments**

**Activities: Various**

**Misappropriation of Personal Emoluments and other Irregularities**

51. In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December, 2005, a total provision of K4,960,665,942 was made to cater for Personal Emoluments. In this regard, amounts totaling K6,277,889,447 were released for personal emoluments (K4,960,665,942) and housing allowances (K1,317,223,505) in the province as shown below

<b>Purpose</b>	<b>Amount Released</b>
	<b>K</b>
Payroll	4,960,665,942
Housing Allowanc	1,317,223,505
Other Emoluments	-
	<b><u>6,277,889,447</u></b>

An examination of records pertaining to the utilization of funds carried out between February and April 2006 revealed that there were weaknesses in the management of the Personal Emoluments account in that:

- Internal control was weak in that there was only one member of staff in the internal audit department out of the establishment of three (3).
- Cash books for the year under review were not up to date and bank reconciliation were not correctly done.

- Payment of unclaimed wages was done without a written request by the claimant. Furthermore payments were mostly made in the name of accounting officers instead of the claimants.
- The salary inputs were not scrutinized by senior officers.
- The housing allowance schedules were not regularly reviewed in order to introduce or delete staff who had qualified or no longer qualified to get housing allowance.
- There were no regular checks on the accounting officers paying out housing allowances. Paying officers were allowed to keep money and schedules for a period of up to twelve (12) months without being checked contrary to Financial Regulation No.40.

As a result of the above weaknesses among others, the following were observed.

**(a) Bank Reconciliation**

A test check of the January and February 2005 reconciliation statements revealed errors in that the opening balance for January 2005 was over stated by K176,285,785 and the reconciliation for January and February did not balance by K 44,282,818 and K 158,101,211 respectively.

**(b) Misappropriated unclaimed Salaries**

A total amount of K8,102,847 in respect of unclaimed salaries was misappropriated by an accounting officer during the period from August to December 2005. As of August 2006 no disciplinary action had been taken.

**(c) Un-authorized Salary Allowances**

Three (3) accounting Officers paid themselves salary related allowances amounting to K10,165,130 during the period from April 2004 to March 2005, without authority from Public Service Management Division (PSMD).

**(d) Irregular Leave Commutation**

Contrary to Terms and Condition of Service number 106, which states that “A responsible officer may authorize an officer going on leave to commute up to one hundred and twenty (120) days of his or her leave for cash”, a Senior Accountant was allowed to commute one hundred and sixty (160) days, forty (40) days in excess of one hundred and twenty (120) allowed, this resulted in an over payment of K2,134,898.

**(e) Non remittance of Statutory Payments**

Contrary to the Income Tax Act chapter 323 of the laws of Zambia, tax amounting to K16,161,547 in respect of commuted leave totaling K55,871,825 was not deducted and remitted to the Zambia Revenue Authority (ZRA).

In addition, pension contributions for the months of June, July, and September 2005 totaling K81,797,851 had not been paid to National Pensions Scheme Authority (NAPSA) as at 31<sup>st</sup> March 2006.

**(f) Misappropriated Housing Allowances**

Unclaimed housing allowances totalling K26,693,447 were misappropriated by four (4) accounting officers during the period from April 2004 to March 2006.

In addition, it was observed that unclaimed housing allowances totalling K11,490,000 were kept outside the safe in office cabinets.

**(g) Un-acquitted Payments**

Contrary to Financial Regulation No.156, nine (9) transactions totalling K58,279,803 paid during the period from March to December 2005 relating to salaries and housing allowances were not supported by acquittal sheets.

**(h) Misapplication of Funds**

According to Government procedures in place, no salary advance can be paid from the salaries account. However, contrary to the procedure in place, salary advances amounting to K30,600,000 were irregularly paid from the salaries account to officers during the period from February 2005 to December 2005. As of March 2006, no recoveries had been instituted.

**(i) Outstanding Personal Emoluments**

Amounts totaling K 1,437,612,606 in respect of long service bonus, leave travel benefit, leave terminal benefits and commutation, some dating as far back as 2001, were outstanding as of March 2006.

**HEAD: 97/01 OFFICE OF THE PRESIDENT  
NORTH-WESTERN-PROVINCE-HEADQUARTERS**

**Programmes: 2 General Administration**

**Activities: Various**

**Accounting and Other irregularities**

52. In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2005, a provision of K2,153,070,598 was made and K2,217,820,623 was released resulting in excess funding of K64,750,025.

An examination of records carried out in March 2006 at the provincial headquarters revealed the following:

**(a) Weaknesses in Procurement and Stores Management**

There were weaknesses in procurement and stores management in that

- Staff manning the department were not trained in Procurement and Stores management,
- There was no segregation of duties, among others.

**(b) Unaccounted for stores.**

There were no disposal details for stores items costing K 117,264,418 procured during the period under review contrary to Public Stores Regulation No.16.

**(c) Disposal of Unserviceable Stores**

Contrary to Public Stores Regulation No. 132, which states that sale of public stores, shall be made on a cash basis and such public stores shall not be handed over until payment has been received, various stores items valued at K34,204,000 auctioned in 2004 though collected had not been paid for as of March, 2006.

**(d) Un-retired Imprest**

Imprests in amounts totalling K610,225,991 involving One hundred thirteen (113) transactions issued during the year under review had not been retired as of March 2006, contrary to Financial Regulation No. 186.

**HEAD:** 97/08 OFFICE OF THE PRESIDENT  
NORTH WESTERN PROVINCE – ROADS  
DEPARTMENT

**UNIT:** 1 Human Resource and Administration

**PROGRAMME:** 7 Rehabilitation of Roads – (PRP) 1

**ACTIVITIES:** Various

**Rehabilitaiton of Roads - North Western Province**

53. In the Estimates of Revenue and Expenditure for the financial year ended 31<sup>st</sup> December 2005, a provision of K2,656,856,376 was made and released in full to cater for rehabilitation of roads in the province.

An examination of financial and other records maintained at the provincial accounting unit revealed the following:

**(a) Zambezi District**

**(i) Construction of Kalwilo Road Culvert**

A contract was awarded to Roads Department in May 2005 for the construction of Kalwilo road culvert at a contract price of K50,000,000 for a period of two (2) months. As of February, 2006 the contractor had been paid in full. Although the progress report on the works by the Provincial Roads Engineer indicated that the works were completed, a physical inspection revealed that one (1) head wall of the culvert had not been constructed.

It was further observed that ten (10) casual workers who worked on Kalwilo culvert were still owed an amount of K1,970,000 for the months of August, October and November 2005 as of February 2006.

**(ii) Construction of Lutadi Mukenge Bridge**

A contract was awarded to a local company in October 2005 for the construction of Lutadi Mukenge Bridge at a contract price of K172,811,362. However, the contract period was not specified and as of March, 2006 the contractor had been paid an amount of K172,695,635 and the progress report on the works by the Provincial Roads Engineer indicated that the works were completed.

A physical inspection carried out in March 2006 revealed that though the bridge was less than one year old it was being washed away on both sides.

**(b) Mufumbwe District**

**(i) Tunga west road - Construction of Culverts and Embankment**

In the year 2005 a contract was awarded to a local contractor for the construction of six (6) culverts and embankment on Tunga west road at a contract sum of K91, 926,713. However, the contract period was not specified and as of February 2006 the contractor had been paid total of K76, 492,500 leaving a balance of K15, 434,213.

A physical inspection carried out in March 2006 however, revealed that the gravel had been washed away at three points along the 500 metre stretch worked on by the contractor. This was attributed to none compacting of the gravel on the stretch according to the contract specifications i.e. (150mm thick). The contractor had since abandoned the site.

**(ii) Kalengwa Mine Road - D773**

In December 2004 a contractor was awarded a contract to maintain Kalengwa Mine Road at a contract sum of K688,521,330 to do 30 kilometres of heavy grading, gravelling, vegetation control and drainage works for a period of Nine (9) months. The road was done and paid for at K687,553,600.

A physical inspection carried out in March 2006 revealed that overloaded trucks carrying copper ore from the Kalengwa mine to the Copperbelt, had damaged the road. There is need to upgrade the road to be in line with the mining activities in the area.

**(c) Kasempa District**

**Kabele Culvert Constructions**

In 2005 a contract was awarded to a local contractor for the installation of 1 x 900mm culvert to reinforce the existing one (1 x 600mm) at a contract sum of K32,000,000. However, the contract period was not specified and as of February 2006 the contractor had been paid total of K32,000,000.

A physical inspection carried out in March 2006 revealed that the two culverts were fitted on different ground levels as a result water had washed away the apron foundation on the eastern wing of the culvert.

<b>HEAD:</b>	<b>98/01</b>	<b>OFFICE OF THE PRESIDENT SOUTHERN PROVINCE HEADQUARTERS</b>
<b>PROGRAMME:</b>	<b>25</b>	<b>LIVESTOCK RESTOCKING - (PRP) 1</b>
<b>ACTIVITY :</b>	<b>01</b>	<b>CATTLE RESTOCKING</b>

#### **Irregularities In The Procurement Of Cattle**

54. In paragraph 37 of the Auditor General's Report for the financial year ended 31 December 2004, mention was made of the irregularities in the procurement of cattle. In particular, mention was made of the failure to supply and account for animals paid for.

A follow up made in April 2006 revealed that the situation has not improved in that seven hundred and twenty two (722) herds of cattle distributed to Sinazongwe (four hundred and two (402)) and Siavonga (three hundred and twenty (320)), costing K466,200,000 could not be accounted for due to lack of receipts and disposal details.

During the financial year ended 31<sup>st</sup> December 2005, a provision of K1,900,000,000 was made in the Estimates of Revenue and Expenditure for cattle restocking, out of which amounts totaling K1,784,635,245 were released leaving a balance of K115,364,755.

An examination of records pertaining to cattle restocking carried out in April 2006 revealed that:

- (a) In November 2005, an amount of K114,400,000 was paid to Magoye Small Holder Dairy Farm for the supply of eighty eight (88) Heifers for Mazabuka District. However, as of April 2006, seventy five (75) heifers had been supplied leaving a balance of thirteen (13) heifers costing K15,600,000.
- (b) Out of the total amount of K1,784,635,245 released during the year under review, K1,670,235,245 was misapplied by the Provincial Administration on activities not related to the programme, such as payment of telephone bills and subsistence allowances.

**Recommendations of The Public Accounts Committee Which Have Not Or Have Partly Been Implemented**

55. During the year under review the Committee of Officials from the Office of the Clerk of the National Assembly, Office of the Auditor General and the Ministry of Finance and National Planning met to resolve the outstanding issues.

In the past, it has been a practice to include an appendix of such issues in this Report. However, this year and henceforth, a separate report for outstanding issues will be issued.

**AUDIT HOUSE  
HAILE SELASSIE AVENUE  
LUSAKA**

**ANNA O CHIFUNGULA FCCA,FZICA  
AUDITOR GENERAL  
REPUBLIC OF ZAMBIA**

**31<sup>st</sup> December 2006**

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