

Republic of Zambia

# **OFFICE OF THE AUDITOR GENERAL**

## **2015 ADMINISTRATIVE REPORT**

*April 2016*

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## Foreword

The Office of the Auditor General is mandated by Article 250 (1) of the Constitution of the Republic of Zambia and the Public Audit Act No. 8 of 1980 to audit accounts relating to any expenditure charged by the Constitution or any other law on the general revenues of the Republic of Zambia.

This Administration Report highlights the major activities undertaken, achievements and the challenges faced during the year 2015. In operationalizing the 2015 annual work plan, the Office carried out all the major activities for the year which resulted in the finalisation of the Report of the Auditor General on the accounts of the financial year ended 31<sup>st</sup> December 2014, Auditor General's Report on Parastatal Bodies for the Financial Year Ending 31<sup>st</sup> December 2014 and Performance Audit Reports on . Six thematic areas.

During the period under review, the Office received overwhelming support from the Government and Cooperating Partners which made it possible for the Office to successfully implement Government policies and programmes. The leadership and guidance of the Auditor General and the two Deputies, the support of Senior Management and the combined efforts from all members of staff all made it possible to accomplish many activities as planned.

I would like to express my gratitude to staff in Ministries, Government Departments, Government agencies, Parastatal organisations, Cooperating Partners and those from the private sector with whom the Office had dealt with during the year for their support and assistance to the cause of the Office. Finally may I recognise the invaluable and continued support of the members of the Public Accounts Committee and other select committee that deliberated on the reports of the Office during the year under review.

It is now my pleasure to submit the 2015 Administration.



Davison K Mendamenda

**Deputy Auditor General-Corporate Services Division**



## **1.0 Introduction**

### **1.1 Establishment of the Office of the Auditor-General**

The Office of the Auditor General derives its mandate from Article 249 (1) of the Constitution of Zambia which states that “there shall be an Auditor General for the Republic whose Office shall be a Public Office and who shall, subject to ratification by the National Assembly, be appointed by the President”.

According to Article 250 (1) of the Constitution of the Republic of Zambia (Amendment Act No. 2 of 2016), the functions of the Auditor General are to:

- (a) Audit the accounts of:
  - i. State organs, State institutions, provincial administration and local authorities; and
  - ii. Institutions financed from public funds;
- (b) Audit the accounts that relate to the stocks, shares and stores of the Government;
- (c) Conduct financial and value for money audits, including forensic audits and any other type of audit, in respect of a project that involves the use of public funds;
- (d) Ascertain that money appropriated by Parliament or raised by the Government and disbursed:
  - i. has been applied for the purpose for which it was appropriated or raised;
  - ii. was expended in conformity with the authority that governs it; and
  - iii. was expended economically, efficiently and effectively; and
- (e) Recommend to the Director of Public Prosecutions or a law enforcement agency any matter within the competence of the Auditor-General that may require to be prosecuted.

The Auditor General is also mandated under the Public Audit Act No. 8 Cap 378 and the Public Finance Act No. 15 of 2004 of the Laws of Zambia to audit the accounts of:

- a. Every statutory corporation or public company;
- b. Every department in which funds and working accounts are established;
- c. Every private institution which receives government grants, subsidies or subventions in any financial year and;
- d. To carry out specialized audits such as performance and environmental audits in Government ministries and departments.

In fulfilling its role of promoting transparency and accountability, the Office of the Auditor General audits Ministries, Provinces and Other Spending Agencies (MPSAs) and reports to Parliament as required by the Constitution.

### **1.2 Management of the Office of the Auditor General**

The Office of the Auditor General is headed by the Auditor-General appointed in line with Article 249 (1) of the Constitution of Zambia.

The Auditor General is assisted by the Deputy Auditor General in charge of Audits and the Deputy Auditor General in charge of Corporate Services. The two Deputies are appointed by the President. However, unlike in the case of the Auditor General, the deputies are not ratified by Parliament. They are at the same rank as that of Permanent Secretaries.

During the year 2015, the Office experienced changes at top management level which were necessitated by the retirement of the then Auditor General Dr. Anna O. Chifungula who retired on 10<sup>th</sup> December 2015.

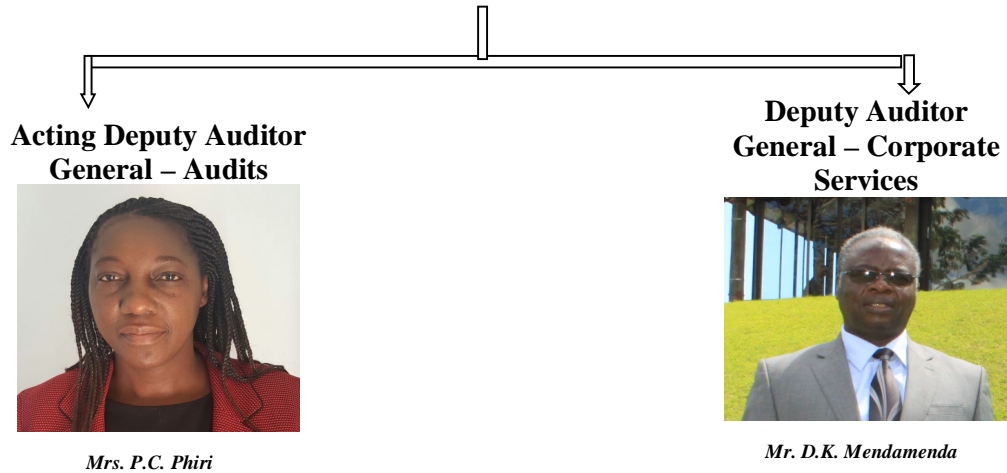
The Deputy Auditor General – Audits Mr. Ron Mwambwa was appointed to act as Auditor General for administrative convenience only effective 11<sup>th</sup> December 2015. Mrs Phales C. Phiri, Director – Ministerial Appropriation Audits, was appointed to act as Deputy Auditor General – Audits effective 11<sup>th</sup> December 2015

## Top Management Structure

### Acting Auditor General



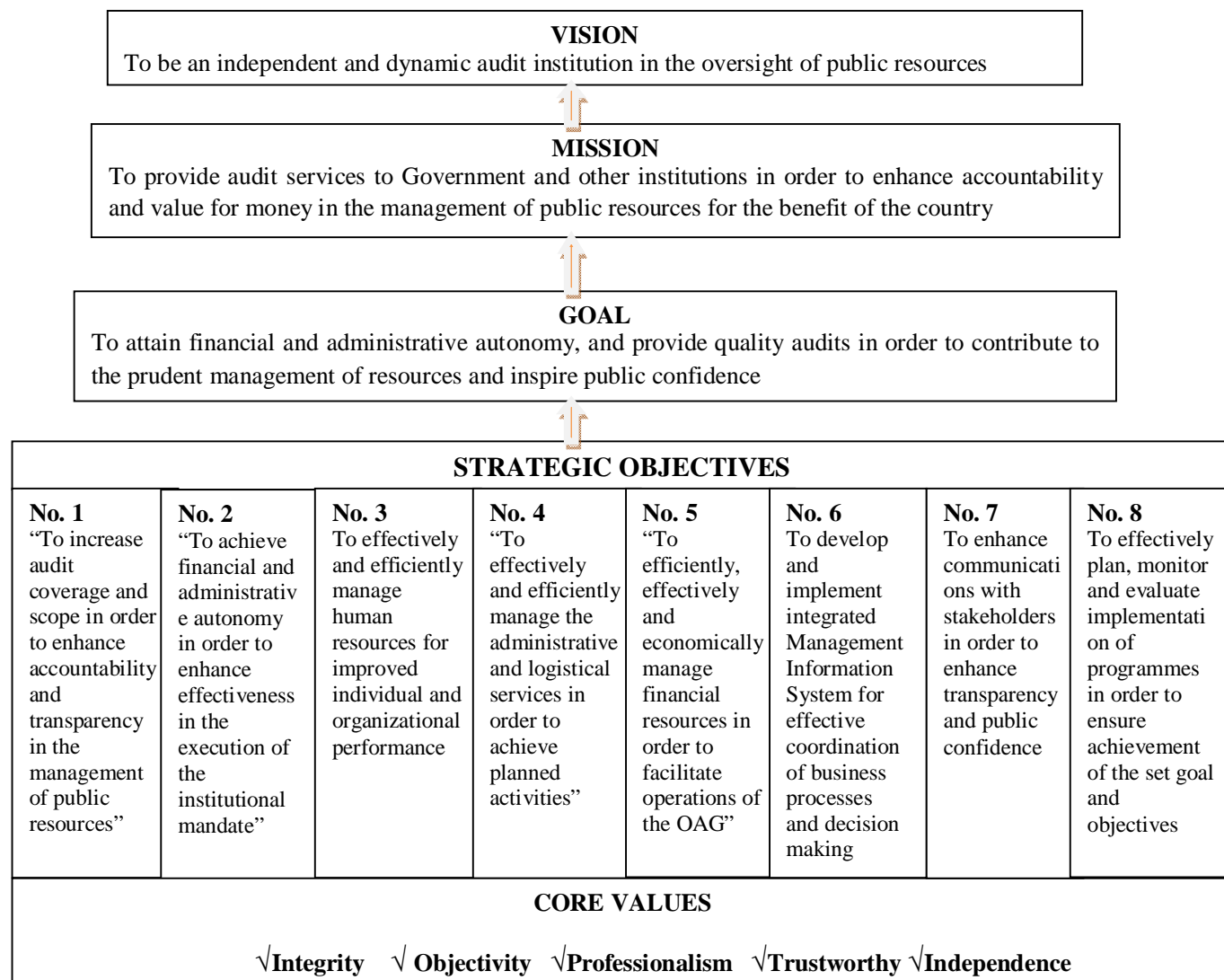
*Mr. Ron M. Mwambwa*



The Office of the Auditor General is made up of seven (7) directorates, out of which five (5) are under the Deputy Auditor General – Audits Division while the remaining two (2) are under the Deputy Auditor General – Corporate Services Division. The directorates are each headed by a director who reports to the Deputy Auditor General in charge of the respective division. The full organisational structure is included at Appendix IV.

### 1.3 The Vision, Mission, Goal, Objectives and Values

The diagram below shows the vision, mission, goal, objectives and values of the Office as outlined in the Strategic Plan 2014 – 2016.



The annual work plan implemented in 2015 was formulated based on the activities and targets set in the Strategic Plan 2014 - 2016. All the activities carried out were executed within the framework of the vision, mission, goals and strategic objectives contained in the Strategic Plan.

In order to ensure quality delivery of audit services to Ministries, Provinces and Other Spending Agencies, the Office endeavoured to adhere to its core values of integrity, objectivity, professionalism, trustworthiness and independence.

#### **1.4 Operating Environment**

During the year, the operations of the Office were, like any other entity, susceptible to the influences of various internal and external environmental factors. These environmental factors had an impact on the delivery of the core business of the Office. The following are some of the key environmental factors the Office was exposed to during the year:

##### **1.4.1 Political Developments**

As a public institution, the success of the work of the Auditor General largely depends on the support rendered to the Office by the Government of the Republic of Zambia. Such support includes among others, the provision of adequate financial resources and the political goodwill required to implement the recommendations of the Public Accounts Committee on the findings in the Auditor General's Report.

During the year, the Office was well supported by the Government in carrying out its mandate through the provision of a conducive political environment that enabled the Office to enhance its operational efficiency and effectiveness.

The Office also worked closely with Parliament and the Ministry of Finance in addressing various issues raised in the Reports of the Auditor General.

##### **1.4.2 Social Developments**

The Office recognises the need to address social issues that affect its staff as this has an effect on their productivity. Through the Human Resource Directorate, the Office has taken keen interest in the welfare of its employees by assisting officers faced with various social challenges.

During the year, the Office completed the review of the HIV/AIDS and Wellness Workplace Policy which guidance on HIV/AIDS support within the Office. The Office also took part in the World AIDS Day celebrations that were aimed at creating awareness on HIV/AIDS.

HIV/AIDS has taken a centre stage on the social welfare platform in our country generally and therefore there is potential that employees in the Office may directly or indirectly be affected leading to loss of productive man hours.

It is an Office policy to provide food supplements to staff that are infected with the HIV virus. However, this support could not be rendered in 2015 due to financial constraints.

#### **1.4.3 Technological Developments**

The modern business and workplace environment is one that is continually affected by new and advanced technological developments and in order to survive in this kind of environment, organisations need to keep themselves abreast with the new IT developments. The Office is alive to this fact and has therefore embarked on various IT activities aimed at improving its work processes. The IT programmes are undertaken within the broad e-Governance framework.

In particular, the Office rolled out complete IFMIS connectivity to three (3) provincial offices. IFMIS connectivity to the remaining provincial offices was work in progress as of December 2015. In addition, upgrades of the internet and the intranet were carried out to facilitate communication within and outside the Office.

In order to automate the audit process, the Office embarked on the development of an Audit Management System (AMS). The completion of the development of the AMS will significantly improve the efficiency and effectiveness in carrying out audit assignments. This will consequently result in an improvement in the quality of the Report of the Auditor General.



#### **1.4.4 Legislative Developments**

During the year, the Office embarked on the review of the Public Audit Act of 1980. The review was undertaken in consultation with the Ministry of Justice. A draft Public Audit Bill has since been completed and awaits presentation to Parliament for approval. In addition, a draft State Audit Commission bill has also been finalised.

Following the signing of the new constitution by His Excellency the President of the Republic of Zambia, the operational organisation of the Office will change to conform to the requirements of the new Constitution.

#### **1.4.5 Environmental Considerations**

Sustainable development means development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs. Hence sustainable development is a continually evolving concept based on the integration of social, economic, and environmental concerns, and which may be achieved by, among other things, the integration of the environment and the economy.

The OAG has therefore taken keen interest in environmental issues and has therefore embarked on environmental audits. This is an emergent audit that has attracted worldwide interest in order to encourage Governments to adopt more environmentally friendly policies by embarking on corporate eco-literacy and exploration of given practices and ethical consumption.

#### **1.5 Types of Audits Undertaken**

The main types of audits undertaken by the OAG are regularity audits, financial audits and specialised audits such as performance, environmental, IT and forensic audits.

### **1.5.1 Regularity Audits**

Regularity Audit entails expressing an opinion as to whether or not the financial statements are prepared, in all material respects, in accordance with an identified and applicable financial reporting framework or statutory requirements.

The OAG carries out regularity audit of MPSAs to report instances of non-compliance with the applicable laws and regulations in the execution of Government programmes. In carrying out regularity audits, the Office also reports on the effectiveness of internal controls. An audit opinion on each audited institution is issued and included in the Financial Report issued by the Ministry of Finance.

### **1.5.2 Financial Audits on Donor Funded Projects**

A financial audit is an independent, objective evaluation of an organisation's financial reports and financial reporting processes. The primary purpose for financial audits is to provide reasonable assurance that financial statements are accurate and complete.

The OAG carries out financial audits of project accounts. These include donor funded projects and programmes for which certified accounts are required by 30<sup>th</sup> June of each year.

### **1.5.3 Specialised Audits**

Performance audit refers to an independent examination of a program, function, operation or the management systems and procedures of MPSAs to assess whether the MPSAs are achieving economy, efficiency and effectiveness in the employment of available resources.

Environmental audit is an assessment of the extent to which MPSAs are observing practices which minimise harm to the environment in carrying out their planned programmes.

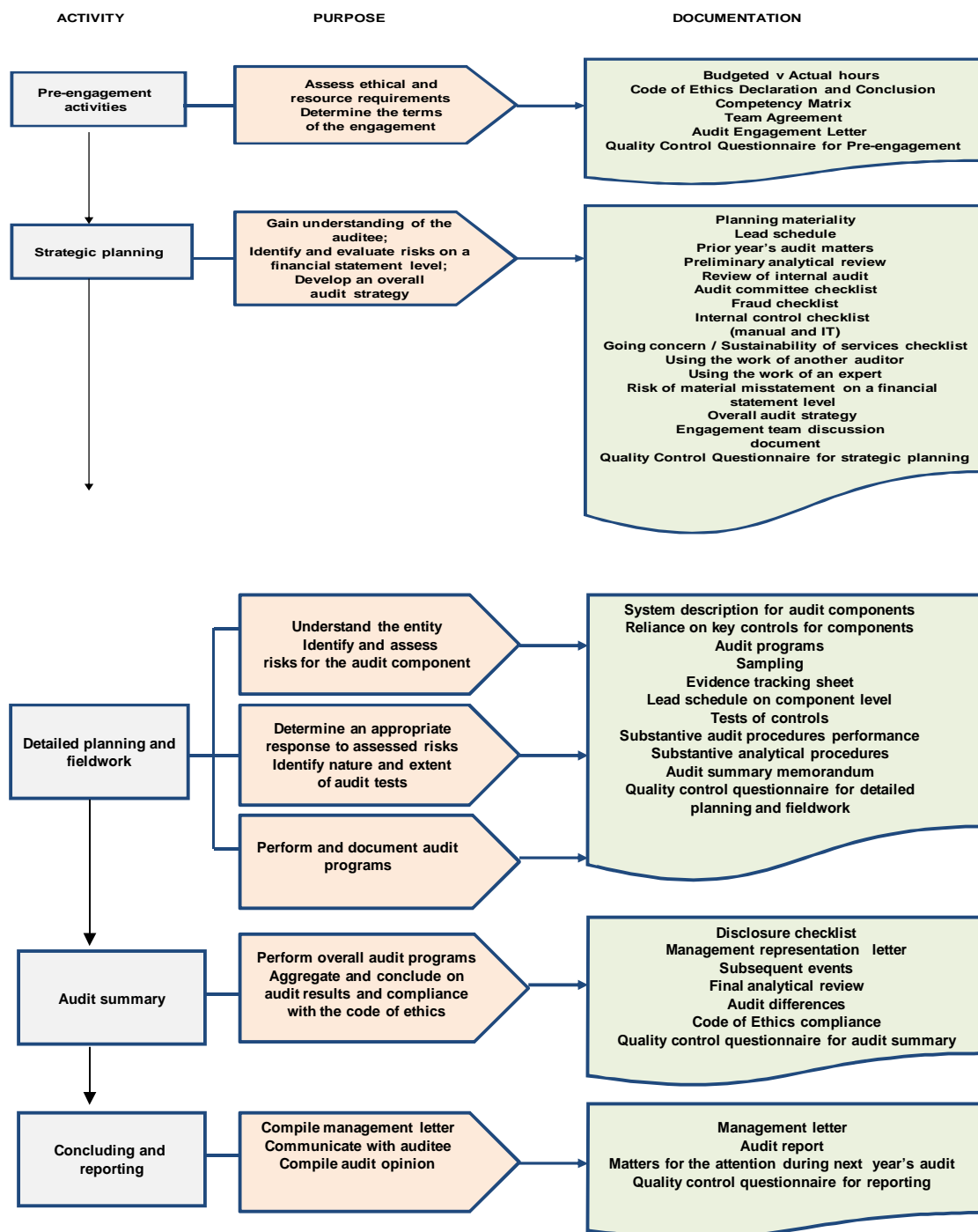
During the year, the OAG carried out performance audits (value for money) and environmental audits on various programmes implemented by MPSAs. In addition, the Office carried out special audits such as IT audits and forensic and investigation audits.

## **1.6 Audit Process**

The OAG Audit process is based on provisions of the Public Audit Act as well as International Standards for Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and customised by the African Organisation of Supreme Audit Institutions for English Speaking Countries (AFROSAI-E) and adopted by the Office. The Office undertakes audit assignments using a five-stage process outlined in the customised Audit Manual which was developed based on the ISSAIs.

The audit process being used at OAG is shown in figure 1 below:

**Figure 1 –The Audit Process**



*All individual audits undertaken in 2015 followed this process.*

## **1.7 Relationship with PAC**

Once the Report of the Auditor General is submitted, the PAC is tasked with the review of the accountability process for public funds. The PAC holds sittings where Controlling Officers and other stakeholders are requested to make submissions on the issues raised by the Auditor General. After deliberations, the PAC comes up with recommendations to address the issues raised. The Secretary to the Treasury has sixty (60) days in which to report progress made in implementing recommendations made by the PAC.

In 2015, PAC deliberated on the Auditor General's main report and the Parastatal Bodies on the 2013 Accounts. Performance Audit reports were subjected to a similar process but handled by other Special Committees that deal with Health, Environment as well as Local Government.

## **2.0 Major Activities During 2015**

### **2.1 Production of Auditor General's Report**

The Constitution requires the Auditor General to submit to Parliament, through the Republican President, a Report of the Auditor General on the accounts of the Republic each year.

In line the constitutional requirement, the Office met its target of submitting the Report of the Auditor General on the Accounts for the Financial Year ended 31<sup>st</sup> December, 2013 by the end of the year. The Report of the Auditor General for 2013 on the Accounts of Parastatal Bodies was also submitted within the timeframe prescribed by the Constitution.

In addition, there were six (6) Performance Reports that were produced and tabled in Parliament during the year. These were:

1. Management of Occupational Safety and Health
2. Sustainable Management of Fish Resources in Natural Waters
3. Management and Control of Livestock Diseases

4. Provision of Comprehensive Emergency Obsteric and New Born Care in Maternal Health.
5. Government's Measures to Reduce Road Traffic Accidents.
6. Youth Empowerment Programme of the Ministry of Youth and Sport.

## **2.2 Review of the Public Audit Act**

During the year, the Office embarked on the review of the Public Audit Act of 1980. The review was undertaken in consultation with the Ministry of Justice. A draft Public Audit bill and State Audit Commission bill have since been completed and await presentation to Parliament for approval.

## **2.3 Technical Cooperation**

The following are the key technical cooperation engagements the Office had during the year:

### **i. Restructuring and Institutional Development Programme**

#### **Phase Five (RIDP V)**

Following the expiry of the Restructuring and Institutional Development Programme Phase Four (RIDP IV) in December 2014, the Office and the Cooperating Partners agreed to sign a new corporation agreement.

Consequently, the Office prepared and finalised a Project Document on the new RIDP V which was agreed to by the Cooperating Partners. The main purpose of the project is assist the OAG build capacity in specialised audits (e.g IT Audits, Performance Audits, Extractive Industries Audits), increase audit scope/ coverage in all types of audits and improve on operational efficiency through various interventions. The total project funding requirements amounted to K113,749,329 out which the Government of Zambia is to provide counterpart funding of K37,431,420.

In this regard, two Bilateral Agreements which will expire in 2017 were signed. The first bilateral agreement signed between the Governments of Zambia (GRZ) and The Royal Kingdom of Norway signed on 29<sup>th</sup> June 2015 for Fourteen

Million Norwegian Krone (NOK14,000,000). The second Bilateral Agreement was between the Governments of Zambia (GRZ) and The Royal Kingdom of Sweden signed on 14<sup>th</sup> August 2015 for Thirty Three Million Swedish Krone (SEK33,000,000). The Office is expected to receive a total of K70,549,329 (\$5,842,493) in capacity building support during the period of the agreement. This leaves a funding gap of K43.2 million; **the cooperating partners urged the OAG to look for ways to fill the gap by re-engaging with Government as well as looking for other cooperating partners. So far the gap in the project is still outstanding.**

## **ii. Support to Forensic Auditing**

In its quest to improve on staff capacity to undertake forensic audits and fight against corruption, the Office managed to secure a funding for a capacity building project. This is a three-year project to be funded by the Republic of Ireland. The total project requirements amounts to Six Hundred and Seventy Five Thousand Euros (€75,000). The project which commenced in December 2015 and expected to run for three years was signed on 22<sup>nd</sup> September 2015.

## **iii. World Bank Support Proposal**

The Office, among other things, planned to undertake an institutional assessment using a tool called “Supreme Audit Institutional Performance Measurement Framework (SAI PMF) developed by the International Organisation of Supreme Audit Institutions Development Initiative (IDI). The office also planned to complete the development of an Audit Management System (AMS) aimed at improving audit efficiency as well as tracking of audit process as well as undertake a review of the strategic plan 2014 to 2016 in readiness for preparation of the 2017 to 2022 strategic plan.

In order to facilitate the above activities, the office approached the World Bank to fund these items. These will now be funded through the Public Financial Management Reform Programme (PFMRP) at a total cost of US\$226,800.

## **2.4 Renewal of Cooperation with Office of the Auditor General - Norway**

The Office of the Auditor General – Norway (OAG-N) and the Office of the Auditor General – Zambia (OAGZ) signed a cooperation agreement that will run from May 2015 to May 2017. The purpose is to cooperate on capacity building in audit methodology in three main areas of Performance Auditing, IT auditing and Audit of Extractive Industries. The cooperation is meant to facilitate hands-on skills transfer for auditors in a faster and more effective manner.

## **2.5 Construction of Office Block for Muchinga Office**

Following the declaration of Muchinga as a new Province, the office, like all other Government Departments, commenced construction works for a new office block for newly recruited staff to undertake audit in the province at a total cost of K12,864,180.10 beginning 15<sup>th</sup> July 2014 and was expected to have been completed in April 2015. Wah Kong Enterprises was engaged to carry out the works. The progress on the project is that a super structure has been completed and roofed as of 31<sup>st</sup> November 2015. However, due to lack of funds, the project had stalled and is now expected to be completed during the year 2016. As of December 2014, a total of K4,877,697.45 had been paid to the contractor who has now completed plastering works inside walls while tiles, windows, partitions, plumbing, electric lift, electrical fittings, water reticulation and landscaping among others are expected to be completed during 2016 funds permitting.





*Super structure of Construction of Muchinga Audit Office Block has been completed*

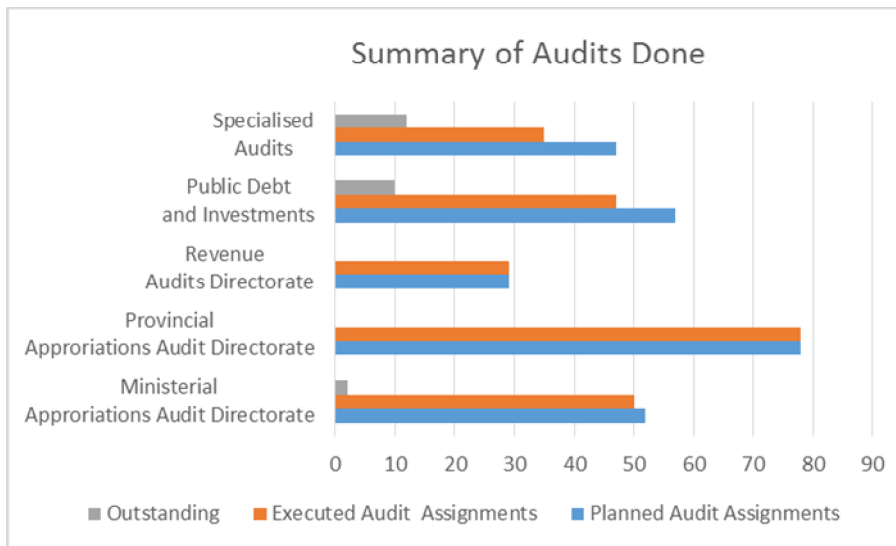


*Inside walls plastering completed*

### **3.0 Performance of the Office**

#### **3.1 Audit Activities**

The Office planned to undertake 263 audits out of which 239 were completed representing a completion rate of 91% of the planned activities for year. The graph below illustrates the number of assignments carried out by each directorate.



Details of the work undertaken in 2015 are shown in table1 below:

**Table 1 – Directorate Performance with reasons for achievements made**

	Directorate	Planned Audit Assignments	Executed Audit Assignments	Outstanding	Level of Achievement	Challenges	Planned Action
1	Ministerial Appropriations Audit Directorate	52	50	2	96%	- Delayed funding -Delayed provision of information by clients	-To liaise with Ministry of Finance for timely release of funding. -To continue engaging clients so that queries are answered within acceptable time limits set.
2	Provincial Appropriations Audit Directorate	78	78	0	100%	-Insufficient transport logistics and poor condition of vehicles -Inadequate printers and laptops. -Vacant positions not filled	-Source funds to buy more vehicles, laptops and printers which can be allocated to provincial audit offices. -Liaise with PSMD to fill in the vacant positions
3	Revenue Audits Directorate	29	29	0	100%	- Delayed funding -Delayed provision of information by clients	-To liaise with Ministry of Finance for timely release of funding. -To continue engaging clients so that queries are answered within acceptable time limits set.
4	Public Debt and Investments	57	47	10	82%	-Delays in clients responding to queries, -Delays by clients to respond to management letters issued.	-To continue engaging clients so that queries and management letters are responded to within acceptable time limits set
5	Specialised Audits	47	35	12	74%	-Inadequate motor vehicles, laptops and printers. -Delayed response to audit queries by clients -Delays in funding	-To provide more vehicles and laptops. -To continue engaging clients so that queries are answered within acceptable time limits set. -To liaise with Ministry of Finance for timely release of funding.
	<b>Total</b>	<b>263</b>	<b>239</b>	<b>24</b>	<b>91%</b>		

In addition, the office carried out a number of special assignments that were not part of the annual work plan. This scenario resulted in the failure by the Office to complete all

the planned activities in the year as time had to be spared to attend to special adhoc assignments that were requested for by some stakeholders.

From the audits carried out, the following reports were produced:

1. Report of the Auditor General on the Accounts of the Republic of Zambia for the Financial Year ended 31<sup>st</sup> December 2014;
2. Report of the Auditor General on the Accounts of the Parastatal Bodies for the year 2014;
3. Six (6) Performance Audit Reports

A summary of the findings in the Auditor General's main report is at Appendix I while that of the Auditor General's Report on Parastatal Bodies is at Appendix II. Appendix III shows a summary of Performance Audit Reports issued.

## **3.2 Human Resource Management**

### **3.2.1 Retirement of the Auditor General**

During the period under review, the Office bade farewell to Dr. Anna O. Chifungula who was Auditor General and welcomed Mr. Ron Mwambwa who took over from her in an acting capacity. Mr. Mwambwa is the substantive Deputy Auditor General – Audits.

### **3.2.2 . Staffing Levels**

Staffing levels during the period under review were as illustrated in the table below:

***Table 2 – Staff Establishment***

<b>Job Category</b>	<b>Positions</b>	<b>Filled</b>	<b>Variance</b>
Audit Cadre	410	312	98
Information Technology Cadre	15	10	5
Human Resources Cadre	21	11	10
Accounts Cadre	19	16	3
Procurement Cadre	6	6	-
Secretarial Cadre	39	28	11
Registry Cadre	31	31	-
Drivers	37	43	(6)
Classified Employees	73	66	7
<b>Total</b>	<b>651</b>	<b>523</b>	<b>128</b>

During the period under review forty (40) officers were recruited as shown in the table below:

***Table 3 – Officers Recruited During the Year 2015***

<b>Position</b>	<b>Number Recruited</b>
Purchasing and Supplies Officer	1
Network Telecom Analyst	1
Systems Analyst	1
Assistant Auditor	17
Registry Clerk	4
Office Orderly	8
Watchman	5
Typist	1
Station Handman	2

Staff attrition during the year included the following:

- i. Three (3) resignations
- ii. Two (2) deaths
- iii. One (1) retirement
- iv. One (1) dismissal

### 3.2.3 Staff Development

The Office facilitated the participation of officers in various Continuous Professional Development Programmes (CPD) in fulfilment of the mandatory requirement for all professional accountants and other professionals within the Office. In this regard, the Office collaborated with, among other professional bodies, the Zambia Institute of Chartered Accountants (ZICA).

In order to keep auditors abreast with new developments in the auditing profession, the Office also sponsored its staff to attend short term training workshops on audit methodology and other audit related subjects conducted by the African Organisation for Supreme Audit Institutions – English Speaking Countries (AFROSAI-E).

In addition, a number of officers were sponsored to study various accounting and other professional qualifications on short and long term basis in order to upgrade their professional qualifications and improve their efficiency in carrying out their Workshops and seminars were also organised and delivered by staff within the office as well as external facilitators at the Training Centre and in the provincial offices.

A summary of training activities facilitated included the following:

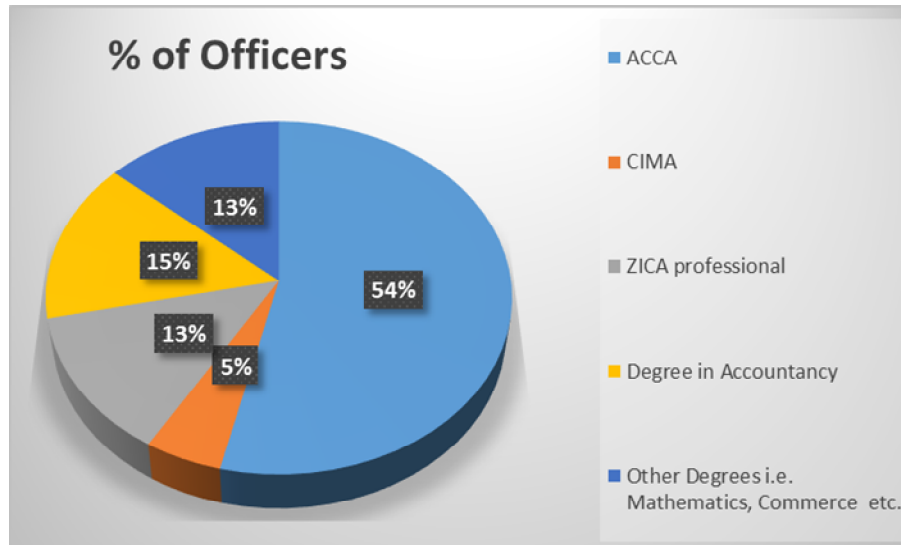
**Table 4 – Capacity Building Programmes Undertaken**

S/n	Course Name	No. of Officers	Nature
01	ACCA, CIMA & ZICA	9	Local
02	Other Degree Programmes	9	Local
03	Secretarial w/shop	27	Local
04	CDEs	60	Local
05	AFROSAI-E/ INTOSAI Working groups and other workshops	61	External
	<b>Total</b>	<b>166</b>	

*The OAG engenders all programmes and provides equal training opportunities to all members of staff. This is done in line with the Three Year Rolling Training Plan updated annually in line with the needs assessment conducted annually.*

As a result of various training interventions, the Office has improved its capacity tremendously. As of December 31, 2015, the Office had a total of one hundred and sixty two (162) audit staff with full professional and degree qualifications as depicted in the chart below.

### Summary of Audit Staff with Full Professional and Degree Qualifications



Source: Human Resource and Administration Directorate.

In recognition of the contribution of the OAG in promoting transparency and accountability as a professional and credible Supreme Audit Institution, the Office was, during the year, conferred with the following employer status by the Association of Chartered Certified Accountants (ACCA)

- ✓ Approved Employer Status (No. 10674840);
- ✓ Approved Employer – Trainee Development –Platinum Status;
- ✓ Approved Employer – Practicing Certificate: General;
- ✓ Approved Employer – Continuing Professional Development – covering ACCA Members.



*Approved  
Trainee  
Development  
Platinum  
Employer*

### 3.2.4 Annual Events

The office participated in various annual events such as:

- Gender activism week and match past;
- Women's day;
- Labour day;
- Youth day;
- World AIDS Day Cerebrations;
- Secretaries' Day; and
- African Public Service Day.

## 4.0 Other Corporate Support Services Activities

### 4.1 Financing

An analysis of the Office proposed budget, approved budget and funding received over the last three (3) years is shown below:

***Table 5 -Proposed Against Approved Budget***

	2013	2014	2015
Proposed Budget	117,120,105	115,000,000	138,227,025
Approved Budget	93,343,759	97,144,035	111,407,579
Approved Budget as a % of Proposed Budget	80%	84%	81%

In preparing the 2015 budget, the Office made wide consultations and conducted risk assessment before coming up with the final proposed budget. However, the budget of OAG has to be within the MoF ceiling.

During the year the Office received funding amounting to K98,473,852 representing 88% of the approved budget.



**Table 6 - Approved against Releases**

	2013	2014	2015
Approved Estimate	93,343,759	97,144,035	111,407,579
Amount Released	93,337,637	96,297,499	98,473,852
% of Approved Estimate Released	100%	99%	88%

Releases during the period under review were on time although 12% of the approved budget for 2015 was not released as can be seen in Table 5 above. The non release of the funds had a negative impact on audit coverage as some audit clients were either not audited or the scope of work done had to be reduced to match the available financial resources.

#### **4.2 Audit of 2014 Financial Statements**

Although the Constitution of the Republic of Zambia provides that the Auditor General shall be the auditor of all public funds, since 2012, the Office has been appointing private audit firms to audit its operations and financial statement. This is in response to the famous question ‘who audits the Auditor General’.

In light of the above, the financial statements for the Office for the year ended 31<sup>st</sup> December 2014 were audited by the audit firm EMM Corporate Partners. An unqualified audit report was issued, implying that in the auditors’ opinion, “Statement C” presented fairly, in all material respects, the financial performance of the Office of the Auditor General for the year ended 31<sup>st</sup> December 2014.

#### **4.3 Regional and International Relationships**

The Office as a member of the International Organisation of Supreme Audit Institutions (INTOSAI), the African Organisation of Supreme Audit Institutions for English – Speaking Countries (AFROSAI-E) and the Commonwealth Auditors General participated in their numerous knowledge sharing activities.

In particular, the Office engaged more with AFROSAI-E through participation in workshops and other training programmes aimed at enhancing capacity, work skills and techniques.

In addition, the Office participated in various workshops and seminars organised by the following:

- INTOSAI working groups on various subject matters;
- Association of Commonwealth Auditors
- Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC).

## **5.0 Interaction with Other Stakeholders**

In carrying out its mandate, the Office interacts with a number of other stakeholders. The various stakeholders with which the Office interacts have an influence on the quality of audit services offered by the Office. In view of this, the Office considers other stakeholders' concerns and views as important inputs in improving the delivery of audit services.

In particular, the Office has taken time to interact with the public and other interest groups and has on many occasions adopted their suggestions and views on issues of audit, transparency and accountability. Suffice to say the Office is pleased with the cordial working relationship experienced with audit clients who are the key stakeholders in the audit process. It is hoped that such cooperation will continue into the future.

The Office has a documented communication policy that is based on the Government Communication Policy. The communication policy guides our interaction with external stakeholders.

### **5.1 PAC Verifications**

During the period under review, the Office in conjunction with the Public Accounts Committee (PAC) undertook a physical inspection of various road and infrastructure projects in Central, Western and Southern provinces. This was done to accord the PAC members an opportunity to verify facts in the Report of the Auditor General on the sampled projects. The projects that were inspected are shown in the table below:

**Table 7 - Projects Inspected by the Public Accounts Committee**

S/N	PROJECT/ACTIVITY	PARAGRAPH/PAGE NUMBER (AG REPORT)
1	Works at Mumbwa High School	AG (2013) Para 53 Page 201
2	Regional Veterinary Laboratory	AG (2013) Para 74 Page 266
3	New Mongu Stadium Construction site	AG (2013) Para 74 Page 319
4	Lecture Theatre at Lewanika School of Nursing	AG (2013) Para 46 Page 174
5	Mongu – Kalabo Road	RDA report (2009) Para
6	Limulunga – Ushaa Road	AG (2013) Para 76 Page 328
7	Nakanya High School	
8	Livingstone Intercity Bus Terminus	AG (2013) Para 89 Page 374
9	Livingstone Ultra-Modern Market	AG (2013) Para 86 Page 376
10	Rehabilitation works at the fire station	AG (2013) Para 86 Page 362
11	Rehabilitation works at Maramba Stadium	AG (2013) Para 86 Page 362
12	Rehabilitation works at the Provincial Office	AG (2013) Para 89 Page 374
13	Kalomo hospital phase 1	AG (2013) Para 46 Page 174
14	Construction of Security Wire Fence, Duty Room and Ablution Block at Monze State Prison.	AG (2013) Para 86 Pages 360 – 361
15	Construction works at Harry Mwanga Nkumbula Stadium	AG (2013) Para 86 Page 363

## **5.2 Preparation of Annual Work Plan and Budget**

During the year, the Office undertook the preparation of the Annual Work plan and Budget for the year 2016. The budget was prepared in line with the Medium Term Expenditure Framework (MTEF 2015 – 2017) and with reference to the Government’s key priority areas.

In order to facilitate effective and efficient implementation of programmes, individual directorates and units prepared their annual work plans detailing the programmes and activities to be carried out in 2016. In January 2016, the Office held its annual planning meeting at which the consolidation of all the directorate work plans and budgets was taking into consideration the expectations of its key stakeholders. In attendance at this meeting was the Auditor General as Chairperson and senior management staff from head office and the provincial offices.



*Participants of the Annual Meeting listening to deliberations*



*Acting Auditor General addressing the annual planning meeting*

## 6.0 Major Achievements

The following is a brief highlight of what the office achieved in 2015;-

- i. Finalised and submitted to Parliament the following Reports.
  - Report of the Auditor General on the Accounts of the Republic of Zambia for the Financial Year ended 31<sup>st</sup> December 2014;
  - Report of the Auditor General on the Accounts of the Parastatal Bodies for the year 2014;
  - Six (6) Performance Audit Reports
- ii. Review of the Public Audit Act – The office provided inputs to the Layman's Draft by the Consultant. The revised draft was received from the Consultant on 28th December 2015 for further review;
- iii. Development of Audit Management System – with the assistance from OAGN, the pre-engagement phase of the AMS was completed and piloted at Head Office in conjunction with auditors;
- iv. Finalised the Performance Audit Manual which was launched on 5th October 2015; Improved compliance levels in provinces due to regular internal audits.

## **7.0 Challenges and Constraints**

A summary of the challenges faced by the Office in 2015 are listed below;

- i. Reduced and delayed disbursement of funding to the Office;
- ii. Inadequate transport (the fleet was old).
- iii. Other logistics were inadequate - laptops, printers and office furniture;
- iv. Constant power outages and lack of power generators.

## **8.0 Conclusion**

In conclusion, it is hoped that this Report provides useful information to all our stakeholders. This is in compliance with the International Standards for Supreme Audit Institutions (ISSAI) No. 12 which requires the Office to disclose all the salient matters of its operations.

***Appendix I – Summary of Auditor General’s Main Report for the Year Ended 31<sup>st</sup> December 2014***

During the year 2015, the Office carried out the audit of accounts for the financial year ended 31<sup>st</sup> December 2014. During the audit process, there were various levels at which the Office interacted and communicated with Controlling Officers whose accounts were audited. The purpose of this interaction was to provide an opportunity for the Controlling Officers to clarify and take corrective action on the findings of the audits. Accordingly, institutions where satisfactory responses and corrective actions were undertaken do not appear in this report.

This report contains one hundred and three (103) paragraphs, ninety six (96) paragraphs on audit findings and seven (7) on other matters. It however, does not include the Opinion of the Auditor General as this is contained on each head of Expenditure in the Financial Report.

The ninety six (96) paragraphs in the Report reflect issues that could not be resolved during the audit process and whose corrective actions were not undertaken as of December 2015.

A summary of the major categories of findings from the 2014 report is given in the table below:

*Table 8 – Summary of findings*

<b>Issue</b>	<b>2014 K</b>	<b>2013 K</b>	<b>2012 K</b>
Unaccounted for Revenue	3,251,333	1,220,260	1,860,280
Unaccounted for Funds	506,354	4,767,666	3,624,276
Misapplication of Funds	73,637,561	65,158,686	38,738,763
Unretired Accountable Imprest	12,585,194	8,170,462	25,558,789
Unvouched Expenditure	389,905,333	67,139,852	553,142,716
Unaccounted for Stores	26,400,272	72,371,091	43,063,044
Irregular Payments	26,358,488	14,467,146	1,438,527
Non Recovery of Advances and Loans	2,877,442	2,744,814	7,195,233
Failure to Follow Procurement Procedures	2,720,434	8,406,729	121,438,503
Undelivered Materials	522,904	19,959,462	1,232,211
Non Submission of Expenditure Returns	1,232,749	1,792,192	107,765,376
Wasteful Expenditure	8,354,290	354,939	1,195,270
Overpayments	1,578,571	360,684	206,914
Misapplication of Funds	4,767	44,500	463,632

In addition, there are issues related to the failure to undertake activities that were funded in amounts totalling K55,393,996 under the Constituency Development Fund and failure to remit statutory contributions by various institutions in amounts totalling K53,952,228.

Further, the Report contains observations on infrastructure projects that were either delayed in being completed or whose executions were not done in accordance with the contract terms.

These issues, among others, arise as a result of the failure to adhere to regulations, poor financial management and weaknesses in the implementation of internal control systems.

***Appendix II – Summary of Auditor General’s Report on Parastatal Bodies for the Year Ended 31<sup>st</sup> December 2014***

The audit and review of operations of selected parastatal bodies and other statutory institutions for the periods up to the year ended 31<sup>st</sup> December 2014 was conducted in accordance with the provisions of Article 121 of the Republic of Zambia, the Public Audit Act Cap 378 of the Laws of Zambia and the Public Finance Act No. 15 of 2004.

The Report contains twenty five (25) paragraphs out of which eighteen (18) are paragraphs on parastatal bodies and other statutory institutions that were audited and remained with unresolved issues as at 31<sup>st</sup> December 2015.

The eighteen (18) institutions that appear in this Report either had their operations reviewed or accounts audited for periods longer than one financial year as in most cases, their books of accounts are primarily audited by appointed auditors in line with the appropriate pieces of legislation. However, it is necessary that such accounts are reviewed and the results of such reviews submitted in compliance with the Republican Constitution and the Public Audit Act.

The Report also includes results of the audits of Information Communication Technology (ICT) systems that the organisations have implemented in order to improve on the efficiency and effectiveness of service delivery. Notable observations included the failure to comply with the international standards on information technology and failure to adopt IT policies which could guide the operations of the institutions.

Some of the issues raised in this report are;

- i. Weaknesses in corporate governance,
- ii. Weaknesses in the implementation of Information Communication Technology (ICT) systems
- iii. Failure to produce financial statements,
- iv. Poor financial and operational performance,
- v. Lack of title deeds for properties that should be owned by various institutions,



vi. Weaknesses in contract management.

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

*Table 9 – Summary of Findings*

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

### ***Appendix III - Summary of Performance Audit Reports Issued***

During the year under review, the OAG undertook a number of specialized audits in line with the Public Audit Act of 1980 and the Public Finance Act of 2004. These specialized audits, are commonly referred to as Performance Audit as their main objective is to assess the efficiency, economy and effectiveness (commonly referred to as 3E's) of programmes being implemented by various Government institutions. Performance Audits are conducted on specific topical issues identified through a pre-study process.

The office has a dedicated unit that carries out Performance Audits. However, it is planned that in future more Performance audits will be carried out by the office. In this regard, capacity building in performance auditing has been extended to other units in the entire organisation in order to increase the number of auditors with performance audit skills. This initiative is being done with the cooperation of our international partners such as the INTOSAI, AFROSAI-E and the Office of the Auditor General of Norway (OAGN).

During the period under review, the office published and submitted to Parliament Six (6) performance audit reports on the following topics:

1. Management of Occupational Safety and Health
2. Sustainable Management of Fish Resources in Natural Waters
3. Management and Control of Livestock Diseases
4. Provision of Comprehensive Emergency Obsteric and New Born Care in Maternal Health.
5. Government's Measures to Reduce Road Traffic Accidents.
6. Youth Empowerment Programme of the Ministry of Youth and Sport.

## Appendix IV - Organizational Structure

