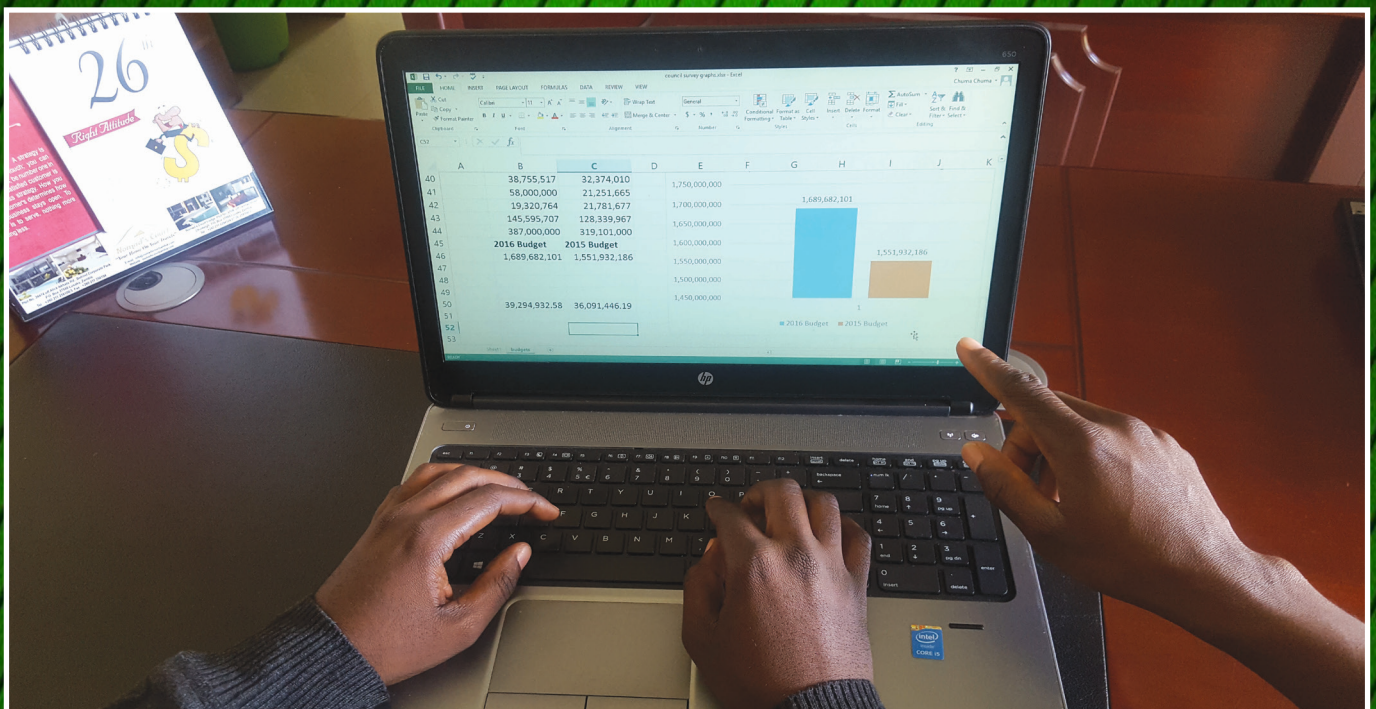




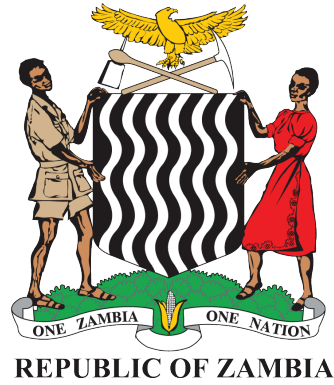
Republic of Zambia

OFFICE OF THE AUDITOR GENERAL

# 2016 ADMINISTRATIVE REPORT







# OFFICE OF THE AUDITOR GENERAL

## 2016 ADMINISTRATIVE REPORT

*May 2017*



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## Foreword

It gives me great pleasure to present the 2016 Administrative report of the Office of the Auditor General which demonstrates the value and benefits of the Office to stakeholders.

The Report highlights the functions of the Office of the Auditor General (OAG), major activities undertaken, challenges and achievements attained during the year. The performance during the period under review was based on the 2016 Annual Work Plan and budget. In fulfilment of the Constitutional requirements, the Office implemented budgeted programmes which resulted in the submission of the Report on the Accounts of the Republic for the Financial Year Ending 31<sup>st</sup> December 2015, the Report on Parastatal Bodies for the Financial Year Ending 31<sup>st</sup> December 2015, the Report on the audit of Local Authorities covering the period 2013 – 2015 and the Report on Road Projects under RDA for the period 2012 – 2015.

The Office received overwhelming financial support from the Government and Cooperating Partners which resulted into the implementation of most of the planned programmes. In addition, the Office is grateful to Ministries, Provinces and Spending Agencies (MPSAs) for cooperating well with the Office during the course of conducting our work. The Office is also grateful to the Treasury and Parliament for supporting the work of the Office and following up issues raised through deliberations held in Parliament and other fora on submitted reports.

Notwithstanding these enablers, the Office faced a number of challenges including delays in receiving responses from audited clients, reduced budget allocations and delayed releases of funds which affected the operations of the office.

In 2016, the Office engaged in knowledge exchange programmes with peer Supreme Audit Institutions (SAIs) in order to ensure that the Office was abreast with new developments in the auditing environment.

The Office also embarked on a number of programmes aimed at improving efficiency in the delivery of services. Such initiatives include the re-positioning of the Training Centre into the Learning and Innovation Centre. Short term training courses will be undertaken at the centre.

Further, the State Audit Commission Act and the Public Audit Act were enacted by Parliament. These Acts enhance the independence of the Office.

The audit of the accounts of the Office has continued to be undertaken by a Private Audit Firm appointed by the Auditor General. This is in line with the spirit of ISSAI 12 requiring SAIs to report on their performance. During the period under review, the private auditors conducted an audit on the Accounts for the Financial Year Ended 31<sup>st</sup> December 2015. The auditors issued an unqualified opinion; the extracts of the audit report are included as part of this Report.

In my conclusion, I hope this report will help the Legislature, the Executive and other External Stakeholders in appreciating the critical oversight role the Office plays in ensuring accountability and transparency in the use of public funds.



Davison K Mendamenda

**Deputy Auditor General - Corporate Services Division**

## 1.0 Introduction

This report highlights the performance of the Office of the Auditor General for the year ended 31<sup>st</sup> December 2016. It discusses the functions of the office, audits undertaken, general administration activities, human resources management and other stakeholder engagements. The report also outlines some of the challenges faced during the period under review as well as the outcomes for the period.

### 1.1 Office of the Auditor-General's Mandate

The mandate of the Office of the Auditor General is derived from Article 249 (1) of the Constitution of Zambia (Amendment) No.2 2016, 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”.

The functions of the Auditor General according to Article 250 (1) of the Constitution include:

- (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 functions of the Auditor General are also contained in the Public Audit Act No. 2 of 2016 and the Public Finance Act No. 15 of 2004 which includes to:

- a. Examine the public accounts of state organs, state institutions and private institutions;
- b. Express an opinion as to whether the public accounts of state organs, state institutions and private institutions are fairly presented and are in accordance with generally accepted accounting standards;
- c. To carry out specialized audits such as performance and environmental audits in Government ministries and departments.



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

The Auditor General is the head of the institution. Article 249 (1) of the Constitution of Zambia (Amendment Act No. 2 of 2016) states that “There shall be an Auditor-General who shall be appointed by the President, on the recommendation of the State Audit Commission, subject to ratification by the National Assembly.

The Office is divided into two divisions, namely Audits Division and Corporate Services Division. Each division is headed by a Deputy Auditor General appointed by the President.

Currently, the position of Auditor General is occupied by Mr. Ron Mwambwa who has been acting since 11<sup>th</sup> December, 2015. Mrs Phales C. Phiri is Deputy Auditor General – Audits who has also been acting since 11<sup>th</sup> December, 2015 while the position of Deputy Auditor General – Corporate Services is filled by Mr. Davison K. Mendamenda who is also Controlling Officer.

## Top Management

### Acting Auditor General



*Mr. Ron Mwambwa*

### Acting Deputy Auditor General - Audits



*Mrs. Phales C. Phiri*

### Deputy Auditor General – Corporate Services Division



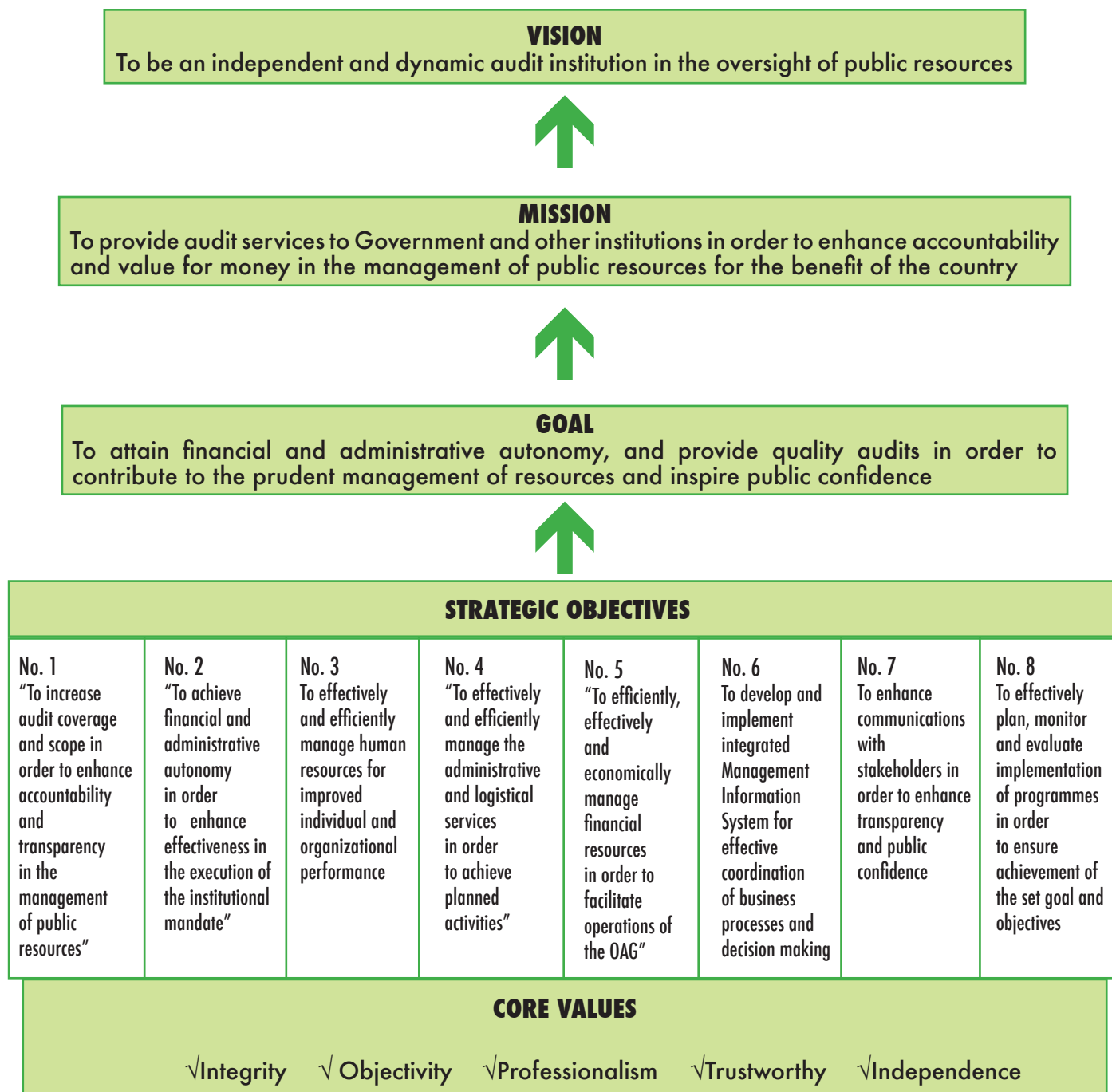
*Mr. Davison K. Mendamenda*

The office is divided into 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 full organisational structure is included as **Appendix IV**.

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

During the period under review, all OAG operations were guided by the 2014 – 2016 Strategic Plan. This plan contains a vision, mission, goal, eight (8) objectives and five (5) values. The outline of the plan is shown below.



The 2016 annual work plan was formulated based on the Strategic Plan for the period 2014-2016. The implementation of the plan was facilitated through GRZ funding as well as support from Cooperating Partners (CPs).



## **1.4 Operating Environment**

During the period under review, the operating environment for the Office was influenced by the following factors:

### **1.4.1 Political Developments**

There was political will by the Government of the Republic of Zambia despite being an elections year. All reports produced by the Office were tabled in Parliament and deliberated on by the Public Accounts Committee and other portfolio committees.

The office also received overwhelming support from the executive as well as worked closely with the Ministry of Finance and the National Assembly in addressing recommendations made to improve the financial management system in government.

### **1.4.2 Economic Development**

The unfavourable economic developments in 2016 affected operations of the Office. Due to the challenges faced in the economy generally, the Office's budget was cut and could not access all appropriated funds. As a result, some programmes had to be scaled down while others could not be undertaken.

### **1.4.3 Social Developments**

During the year, the Office continued to support its members of staff to live healthy. This was done through the dissemination of the HIV/AIDS and Wellness Workplace Policy which among other things provide guidance on HIV/AIDS support within the Office. The Office also bought and distributed food supplements to members of staff across the whole institution.

### **1.4.4 Technological Developments**

With IFMIS rolled out to most of the sites in Ministries, Provinces and Spending Agencies (MPSAs), the Office was faced with the challenge of auditing within the computerised environment. In this regard, auditors had to be trained in auditing within the computerised environment and in the use of Computer Aided Audit Techniques (CAATs) such as the ACL and IDEA in order to facilitate for the analysis of huge volumes of data.

The Office also migrated to the Government Wide Area Network (GWAN) and was able to access internet services paid for by the Government this is as a result of SMART Zambia initiative by Government.

### 1.4.5 Legislative Developments

During the year, three (3) main pieces of legislation were enacted to strengthen the independence of the Office. These included:

- a. The Constitution of Zambia (Amendment Act) No. 2 of 2016
  - i. Article 212 of the Constitution states that ‘The Auditor-General shall, not later than nine months after the end of a financial year, submit an audit report to the President and the National Assembly, on the accounts of the Republic audited in respect of the preceding financial year’. The Constitution now requires the Auditor General to submit the Annual Auditor General’s Report to the President and the National Assembly at the same time.

- ii. Article 250 (1) (a) (i) of the Constitution states that “The Auditor-General shall audit the accounts of state organs, state institutions, provincial administration and local authorities and institutions financed from public funds”.

In this regard, the Auditor General shall now undertake full audits of all Local Authorities in the country in line with the provisions of the Constitution.

- iii. Article 250 (1) (e) of the Constitution states that “The Auditor-General shall 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 collaboration of the Auditor General with other law enforcement agencies has now been strengthened through a Constitutional provision.

- iv. Article 234 (1) of the Constitution states that “There is established the State Audit Commission”. The Constitution further outlines the functions of the State Audit Commission under Article 234 (2) which states that “The State Audit Commission shall—

(a) subject to Article 249 (2) oversee the operations of the office of the Auditor-General, as prescribed;

(b) make recommendations to the President on the appointment of the Auditor-General; and

(c) perform such other functions as prescribed”.

The State Audit Commission is a new establishment through which the administrative operations of the Office shall be overseen in line with the above Constitutional provision.

- b. The Public Audit Act No. 29 of 2016.

The following are some of the new inclusions in the Public Audit Act No. 29 of 2016:

- i. The name for the Office has been changed from ‘Office of the Auditor General’ to ‘National Audit Office’ through Article 4 (1) which states that “There is established the National Audit Office which is a public office in the Republic”.
- ii. Article 26 (1) states that, “The Auditor-General may, during the course of an audit of a State Organ, State institution or private institution surcharge a person or disallow expenditure by a person if the expenditure was incurred in contravention of the this Act, the Public Finance Act, 2004, or any other written law”.

The Auditor General is now empowered to surcharge or disallow irregular expenditure in line with the provisions of the Public Audit Act No. 29 of 2016. This was not the case prior to the revision of the Act.

- iii. Article 32 (2) (b) states that “The National Audit Office may charge and collect fees for services provided by the National Audit Office”.

This provision will enable the Office to raise funds to meet its operational expenses in addition to the funds that will be appropriated by Parliament or raised by way of donations or loans.

#### **1.4.6 Environmental**

Due to environmental factors such as global warming which has affected the climate, the country has experienced shortfall in rainfall. This has had an impact on the generation of hydro power hence electricity power shortages. The Office therefore resorted to using costly and less environmentally friendly energy sources such as generators. This is detrimental to the sustainable development of the environment.

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

In line with the Office mandate, the types of audits undertaken during this period included:

#### **1.5.1 Regularity Audits**

The Office is required to issue an opinion as to whether or not the financial statements are prepared, in all material respect, in accordance with an identified/applicable financial reporting framework and/or statutory requirements.

In addition, regularity audit include audit objectives such as:

- Reporting instances of non-compliance with authorities including budget and accountability, and/or;
- Reporting on the effectiveness of internal control.



Regularity Audits formed the bulk of the audits undertaken during the year. All MPSAs are subjected to Regularity Audits based on the annual risk assessments done. Article 212 of the Constitution (Amendment Act No. 2 of 2016) requires that a report resulting from the audits undertaken be submitted to the President and the National Assembly simultaneously by 30<sup>th</sup> September (not later than nine months after the end of each financial year).

In addition, the Office conducts financial audits on various donor funded projects and issues audit reports on the accounts by 30<sup>th</sup> June of each year in line with requirements of different agreements.

### **1.5.2 Specialised Audits**

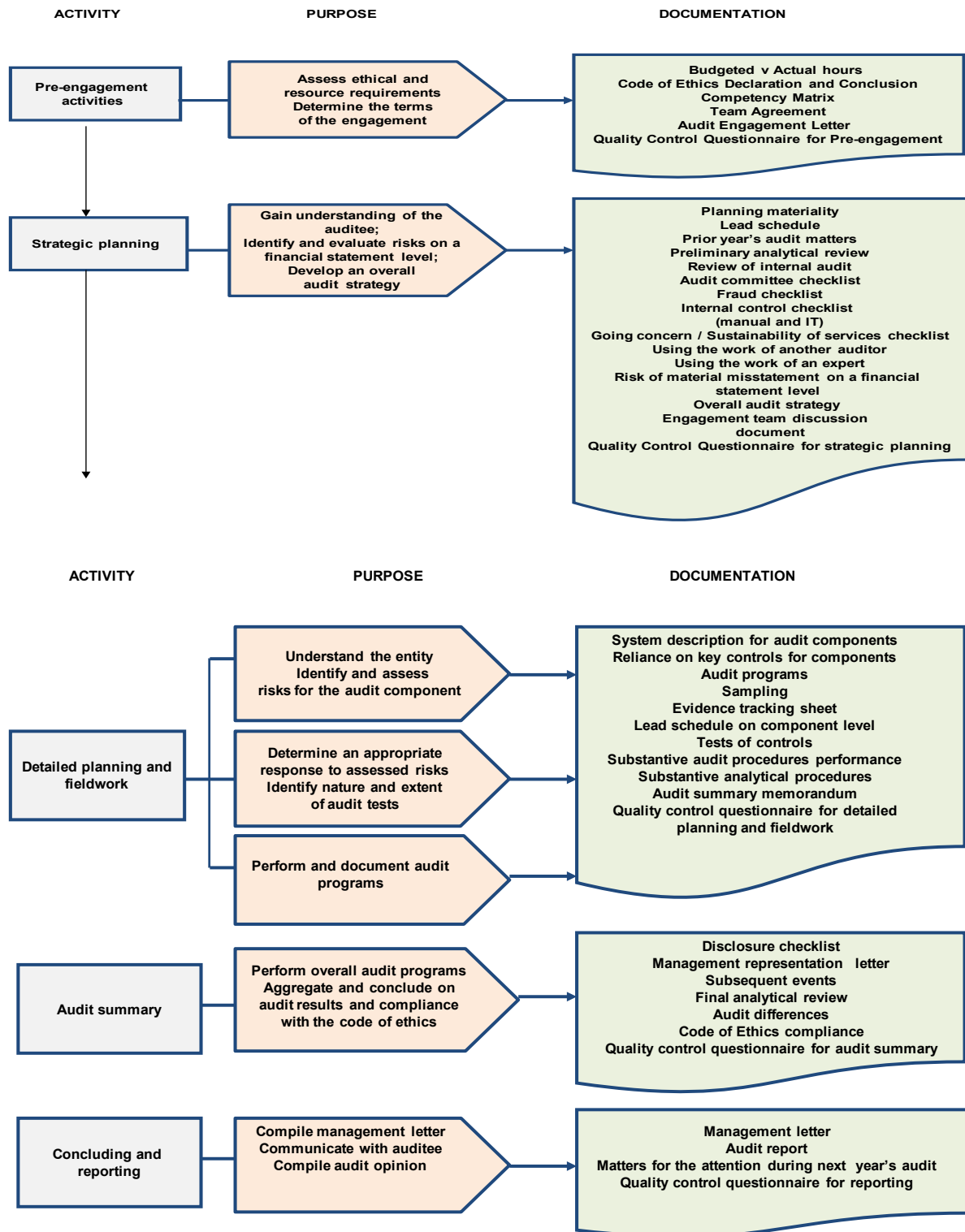
These audits include Performance Audits to evaluate how well a programme is implemented in relation to economy, efficiency and effectiveness. In addition, IT Audits are conducted in MPSAs that use Information Technology and Communication (ICT) platforms for their business processes. Further, the Office conducts forensic audits in cases of suspected fraud.

## **1.6 Audit Process**

The OAG Regularity Audit process is based on International Standards for Supreme Audit Institutions (ISSAIs) developed by the International Organisation of Supreme Audit Institutions (INTOSAI). The Office undertakes audit assignments using a five-stage process outlined in the Regularity Audit Manual.

The Regularity Audit process used at OAG is shown in figure 1 on the next page:

*Figure 1 –The Audit Process*



All individual regularity audits undertaken in 2016 followed this process as per the above diagram.

## 1.7 Performance Highlights

- i. In line with the 2016 Annual Operational Plans and Annual Audit Plans, the major outputs include:
  - Main Report on the Accounts of the Republic
  - Report on the Parastatal and Statutory Bodies
  - RDA report covering the period 2012-2015
  - Report on selected Local Authorities covering the period 2013 - 2015
- ii. To measure the performance of the Office, including its development, the Office has been using the Institutional Capacity Building Framework (ICBF) developed by the African Organisation for Supreme Audit Institutions - English Speaking Countries (AFROSAI-E). The office decided to use the Supreme Audit Institutions Performance Measurement Framework (SAI PMF) as a one off assessment. The SAI PMF was developed by the International Organisation of Supreme Audit Institutions (INTOSAI) to give an international best practice framework within which a SAI's level of development can be assessed. It is envisaged the Office will be able to establish its level of developments as well as identify its gaps which will be used to develop capacity development initiatives to bring in line with international best practice. The SAI PMF assessment which commenced in December 2016 is yet to be completed.

## 1.8 Relationship with Parliament

All reports issued by the Auditor General are submitted to the President and the National Assembly. Once the reports are tabled in the House, the reports become public documents and deliberations commence through the Public Accounts Committee (PAC) sittings and other portfolio committee. During the sittings, Controlling Officers and other stakeholders make submissions on the issues raised by the Auditor General. At the end of this process, the PAC comes up with recommendations which are adopted by the main House through the PAC Report issued. The Secretary to the Treasury has up to sixty (60) days within which to give a status of the progress made in implementing recommendations made by the PAC.

During the period under review, PAC deliberated on the Auditor General's main report and the Parastatal Bodies for the financial year ended 31<sup>st</sup> December 2016. The committee also deliberated on the Outstanding Issues report for the Auditor Generals reports for the financial years ended 31<sup>st</sup> December 2009, 2010 and 2011.



## 2.0 Major Programmes During 2016

### 2.1 Production of Audit Report on the Accounts of the Republic

The Constitution requires the Auditor General to, not later than nine months after the end of a financial year, submit an audit report to the President and the National Assembly, on the accounts of the Republic audited in respect of the preceding financial year. In this regard, 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, 2015 by 30<sup>th</sup> September 2016. In addition, the Report of the Auditor General for 2015 on the Accounts of Parastatal Bodies was also submitted within the timeframe prescribed by the Constitution.

As a result of the work carried in 2016, 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 2015. The report was deliberated on by PAC;
2. Report of the Auditor General on the Accounts of the Parastatal Bodies and other Statutory Institutions for the financial year ended 31<sup>st</sup> December, 2015. The report was deliberated on by PAC.
3. Report of the Auditor General on the Accounts of the Local Authorities covering the period 2013 - 2015. The report was published in 2017 and is yet to be deliberated on.
4. Special Report on Accounts of the Road Development Agency (RDA) covering the period 2012-2016. The report was published in 2017 and is yet to be deliberated on.

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**.

### 2.2 Review of the Public Audit Act

The Public Audit Act of 2016 was enacted to replace the Public Audit Act of 1980. Article 26 of the Act empowers the Auditor General to surcharge a person or disallow expenditure by a person if the expenditure was incurred in contravention of the Act, the Public Finance Act, 2004, or any other written law.

The Public Audit Act of 2016 under Article 32 (2) (b) mandates the Auditor General to raise funds for its operations by charging a fee for the services it renders to its clients. Article 32 (a) (i) and (ii) also mandates the Office to raise funds through grants or donations from any source within or outside the Republic.

The Office of Auditor General can invest its excess funds, if any, in accordance with Article 32 (4) which states that ‘The National Audit Office may, with the approval of the Minister, invest in such manner as it considers appropriate such funds of the National Audit Office that it does not immediately require for the discharge of its functions’.

## **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**

The Office received financial support under the Restructuring and Institutional Development Programme Phase Five (RIDP V) funded by Governments of the Royal Kingdoms of Norway and Sweden. The Norwegian Government contributed a total of K11,433,898 (NOK9,000,000) while Sweden contributed a total of K15,388,683 (SEK13,000,000). The funds were utilised on capacity building programmes. These programmes have helped officers keep up-to-date with the ever changing standards and skills in the audit profession. The Office was able to participate in various working groups on development and implementation of best practices and auditing standards. The office used part of the RIDP V funds in auditing big ministries requiring wider coverage such as ministries of Agriculture (FISP Programme), Ministry of Health (District Community Medical Officers), Ministry of Education (National Implementation Fund), and Ministry of Local Government (Constituency development Fund) among others.

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

The Office received total of €225,000 financial support from the Republic of Ireland towards capacity development of forensic auditing function. In this regard, officers have been trained in use of various tools and ACL licenses have been acquired to improve the officers’ investigative and analytical skills. It is envisaged that at the end of the project, the office will be able to probe further any cases identified from audits undertaken and be able to present compelling evidence for cases requiring prosecution.

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

The World Bank supported the office with US\$226,800 for institutional assessment through the Public Financial Management Reform Programme (PFMRP). Through this support, the Office commenced a self-assessment using the Supreme Audit Institutional Performance Measurement Framework (SAI PMF) developed by the International Organisation of Supreme Audit Institutions (INTOSAI). It is anticipated that the results of the assessment would help the Office identify its level of development while at the same time identify any weaknesses in view of the international best practice contained within the framework. In addition, the results of the SAI PMF assessment

would help inform the strategic planning process for the period 2017-2021. Further, the Office was able to complete testing of the pre-engagement stage of Audit Management System (AMS) System which is still under development. In order to speed up development of the AMS, the process to engage a consultant to provide additional programming capacity was embarked on and is to be funded through the PFMRP project.

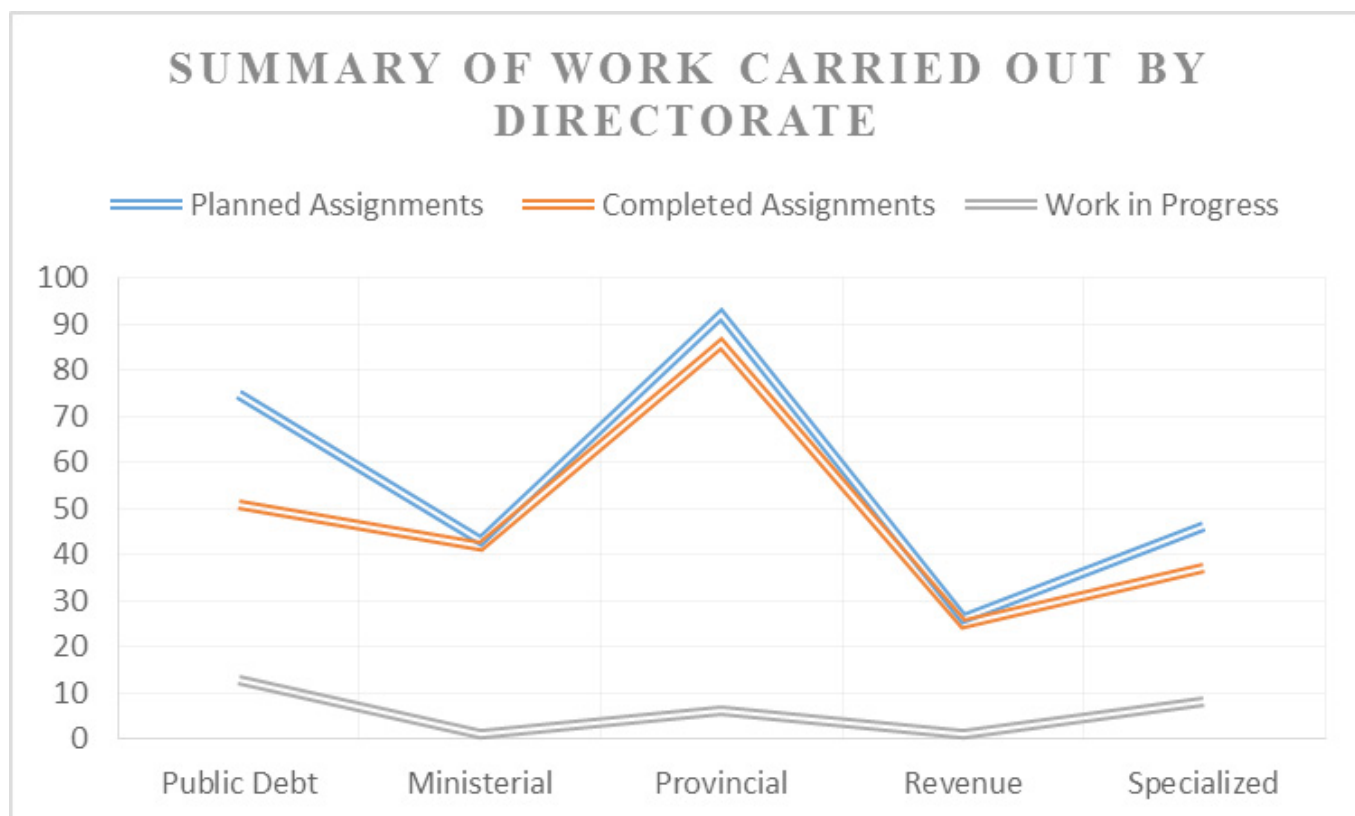
#### **2.4 Bilateral Cooperation with Office of the Auditor General - Norway**

The Office of the Auditor General – Norway (OAG-N) and the Office of the Auditor General – Zambia (OAGZ) continued to engage in skills exchange and development programmes. This was done through short term visits of technocrats from the OAGN who provided practical hands on training in various areas including Performance Auditing, IT auditing and Audit of Extractive Industries. The cooperation is based on the need to share mutual experiences in order to ensure the highest standards are attained by both the OAGZ and the OAGN.

## 3.0 Performance of the Office

### 3.1 Audit Activities

The Office planned to undertake 282 audits out of which 241 were completed representing a completion rate of 85% of the planned activities for year. The graph below illustrates the number of assignments carried out by each directorate.



The key audits among others, include:

- MPSAs that receive huge budget allocations;
- Audit of arrears on various taxes and Value Added Tax (VAT) Refunds;
- Collections by Road Transport and Safety Agency, Zambia Police and Immigration department;
- Infrastructure Development-Newly created districts and new universities;
- Procurement and distribution of essential drugs;
- Road Infrastructure;
- Eurobond funds.

Details of the work undertaken by each directorate in 2016 are shown in table1 on the next page.

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

	Directorate	Planned Audit Assignments	Executed Audit Assignments	Outstanding	Level of Achievement	Challenges	Way forward
1	Ministerial Appropriations Audit Directorate	43	42	1	98%	-Late completion of most assignments due to failure by clients to provide Financial Statement 'C' such as Ministry of Agriculture and Livestock, - Delayed funding and in some instances, drivers not available due to having been issued with more than one cheque. - Some officers do not have Laptops.	-To liaise with Ministry of Finance on timely completion of financial statements -Lobby for release of funds on time -Procure more laptops
2	Provincial Appropriations Audit Directorate	92	86	6	93%	-Vacant positions still not filled - Delayed and inadequate funding - Poor internet services after being connected to E - government - Lack of telephone switchboard - Intermitent IFMIS Connectivity - Inadequate laptops	-Liaise with PSMD to fill in the vacant positions -Procure more ICT equipment -Ensure maintenance is carried frequently to ensure connectivity to Internet and IFMIS
3	Revenue Audits Directorate	26	25	1	96%	- Inadequate funding/ delayed funding -Inadequate staffing -Inadequate laptops and printers -Delayed implementation of Extractive Industries guidelines.	-Combine assignments -Complete headquarters assignment and move to next assignment -Repair of old laptops and printers or procure new ICT equipment -Engage standards committee to finalize EI guidelines
4	Public Debt and Investments	75	51	24	68%	-Delayed Funding on client funded assignments -Delayed Provision of information including draft accounts	-Early engagement of client on funding -Execute component of audit not requiring funding and move to other clients whilst awaiting funding -Engagement of the controlling offices on
5	Specialised Audits	46	37	9	80%	-Partial release of funds -Inadequate staff compliment compared with the number of audit clients especially forensic and IT audit assignments. -Inadequate budget provided for the audit of Local Authorities -Lack of computers	-Follow up with MoF to release funds in full -Co-opt staff from other directorates to undertake more specialised and lobby for expending the number of staff -Lobby for more funds to cover audit of more local authorities -Procure more ICT equipment
	<b>Total</b>	<b>282</b>	<b>241</b>	<b>41</b>	<b>85%</b>		



## 3.2 Human Resource Management

### 3.2.1 . Staffing Levels

During the period under review, the Office had a total staff establishment of six hundred and thirty nine (639) against which there was a variance of ninety five (95) when compared to the staff assignment. A total of five hundred and thirty nine (539) officers were employed while there were twelve (12) vacancies giving a total of five hundred and fifty one (551) active positions. In addition, seven (7) positions were reported to be excess over and above the establishment for particular position. The total number of frozen positions were one hundred and fifteen (115). Details of the staffing levels per directorate are shown in **Appendix III**.

During the period under review seven (7) officers were recruited as shown in the table below:

***Table 3 – Officers Recruited During the Year 2016***

<b>Position</b>	<b>Number Recruited</b>
Audit Cadre	3
Secretarial	2
Librarian	1
Classified Employees	1
<b>Total</b>	<b>7</b>

Staff attrition and transfers during the year were as follows:

- i. Five (5) resignations;
- ii. Two (2) deaths;
- iii. Two (2) dismissals;
- iv. Fifteen (15) transfers to and from other Institutional within the Government

### 3.2.2 Staff Development

In order to maintain high standards in quality, 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).

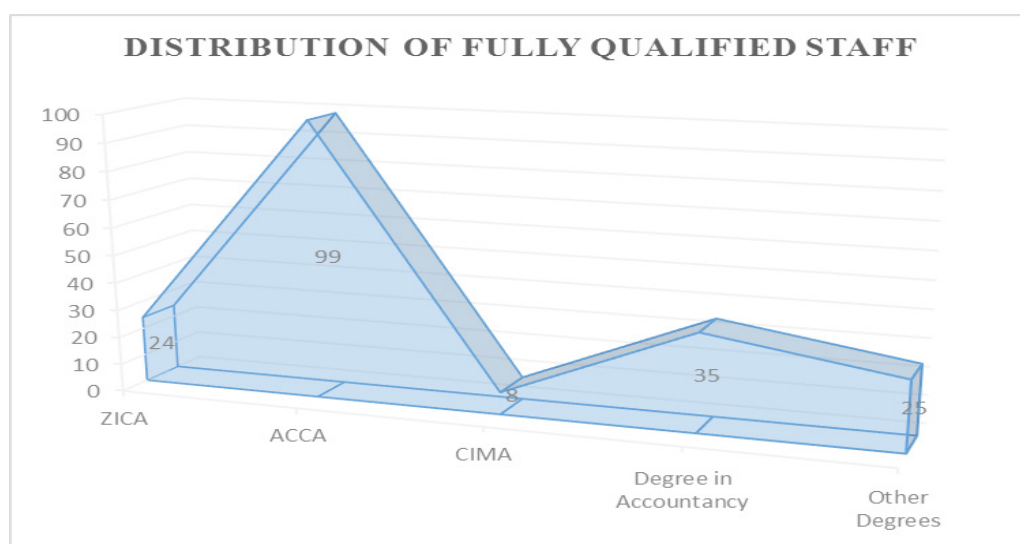
In addition, a number of officers were sponsored to study various accounting and other professional qualifications on short and long term basis in order to upgrade their professional qualifications and improve their efficiency in carrying out their Workshops and seminars were also organised and delivered 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	Category of Training	No. of Officers
01	In house Training	212
02	International Workshops	49
03	Short Term (Secretarial, ACCA, CIMA, ZICA)	23
04	Long Term	17
05	Paid Study Leave (Self Sponsored)	3
06	Unpaid Study Leave	1
	<b>Total</b>	<b>305</b>

As a result of various training interventions, the Office has improved its capacity tremendously. As of December 31, 2016, the Office had a total of one hundred and ninety one (191) audit staff with full professional and degree qualifications as depicted in the chart below. The most commonly held qualification during the period under review was the ACCA followed by First Degrees in Accountancy and other fields. It was satisfying to note that the number of staff with ZICA qualification in the Office had continued to increase from twenty two (22) to twenty four (24).



**Source:** 2016 Human Resource and Administration Directorate Progress Report.

### **3.2.3 Annual Events**

During the period under review the Office participated in the following events:

- Women's day;
- Labour day;
- Youth day;
- Secretaries' Day;
- Gender activism;
- World AIDS Day Cerebrations;
- Agriculture and Commercial Show.

## 4.0 Other Support Services Activities

### 4.1 Financing

The Office prepares its budgets after conducted risk assessments and making consultations. In 2016, the initial prioritised budget submitted to the Ministry of Finance amounted to K 123,647,772. However, only K 88,546,178 representing 72% of the initial proposal. As can be seen from the analysis of the approved budget over the last three (3) years shown below, the approved budget reduced from K111,407,579 in 2015 to K88,546,178 in 2016. This affected our operations.

*Table 5 -Proposed Against Approved Budget*

	2014 K	2015 K	2016 K
Proposed Budget	115,000,000	138,227,025	123,647,772
Approved Budget	97,144,035	111,407,579	88,546,178
Approved Budget as a % of Proposed Budget	84%	81%	72%

During the year the Office received funding amounting to K61,888,310 representing 70% of the approved budget. This was the lowest in the last three (3) years. *See table 6 below.*

*Table 6 - Approved against Releases*

	2014 K	2015 K	2016 K
Approved Estimate	97,144,035	111,407,579	88,546,178
Amount Released	96,297,499	98,473,852	61,888,310
% of Approved Estimate Released	99%	88%	70%

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 2015 Financial Statements

The Office's 2015 financial statements were audited by our external auditors, EMM Corporate Partners. The appointment of a private audit firm to audit financial statements is provided for in the State Audit Commission Act and is meant to enhance credibility and transparency in the institutions operations.

The auditors issued an unmodified opinion stating that the financial statement presented fairly in all material respects the expenses incurred by the OAG for the period 1<sup>st</sup> January to 31<sup>st</sup> December 2015

in accordance with the financial reporting framework (IPSASs). The 2015 Statement 'C' for the Office and the External Auditors' Audit Report on Statement 'C' for the Year Ended 31<sup>st</sup> December 2015 are attached as **Appendix V** and **Appendix VI** respectively.

### 1.3 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.



*Acting Auditor General (middle) addressing the 2017 annual planning meeting*



*Participants of the Annual Meeting pose for a photo*



## 5.0 Interaction with Key Stakeholders

The primary stakeholders of Office are the parliament and Public. For Parliament, there is PAC which examines audit reports submitted by the office. Other key stakeholders include audited entities, Civil Society and Cooperating Partners who provide financial and technical support to the office. Communication with our stakeholders is a continuous and dynamic process. During the period under review, the Office interacted with various stakeholders through discussions on radio, show exhibitions and various sector group meetings. The Office also issued press releases on various reports on audits issued during the year. Our interaction with stakeholders helps us in understanding the expectations that the stakeholders have from the office and gives meaning to the assurance and accountability work we do. We have a documented communication policy that guides our interactions with stakeholders.

### 5.1 Regional and International Relationships

In order to remain up-to-date with recent developments and knowledge sharing in the public sector auditing, the Office maintained its membership with the International Organisation of Supreme Audit Institutions (INTOSAI), the African Organisation of Supreme Audit Institutions for English – Speaking Countries (AFROSAI-E), Southern Africa Development Community Organisation of Public Accounts Committees (SADCOPAC) and the Commonwealth.

The Office participated in working groups, workshops and other training programmes in order to enhance capacity of its staff through acquiring skills and audit techniques in various field.

There the Office belonged and participated in six (6) working groups namely:

- Working group on Performance Audit;
- Working group on IT Audit;
- Working group on Extractive Industries Audit;
- Working group on Forensic Audit and Fight Against Corruption Audit;
- Working group on Key National Indicators Audit; and
- Working group on Procurement Audit.

#### Interaction with Audited Entities

Our audited entities are one of the key stake holders in the audit process. Our interaction with them takes place on a continuous basis before, during and after the audit. All audit teams conduct entry and exit meetings at the beginning and closure of the audits. At every stage of the audit the audited entity is given an opportunity to respond to audit queries and findings.

Officials from audited committees are also given opportunities during the PAC hearing to respond to the findings in the Auditor General's report after which we interact with audited entities in verifying that the Public Accounts Committee recommendations are implemented.

### **Interaction with the with Public Accounts Committee.**

The Public Accounts Committee (PAC) is our main partner in ensuring public financial accountability. The Auditors General audit reports that are tabled in parliament stand referred to PAC. OAG assists in the working of the committee by preparing a memorandum of important points for discussion on the Audit Reports. The AG and his representatives assist PAC in their examination of witnesses during meetings. The executive is required to report on the action taken on the recommendations of the committee. Arising from the Auditor General's reports tabled for the financial year ended 31<sup>st</sup> December 2015, PAC held 30 days meetings to deliberate on the Auditor General Report on the Accounts of the republic and parastatal reports and held 5 days meetings to review the outstanding issues of the main report for the period 2009 to 2011.

### **Interaction with Cooperating Partners.**

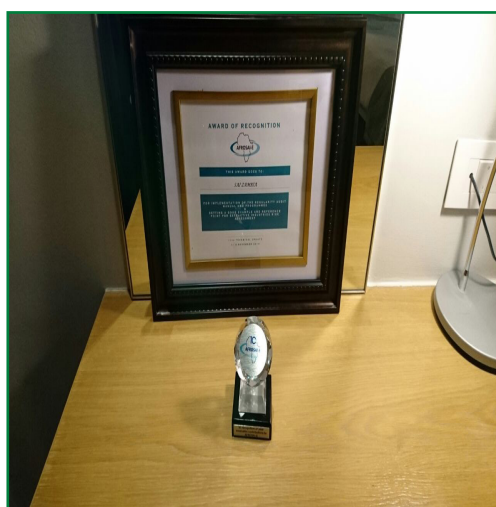
The Office engaged with various cooperating partners (CPs). Some of the engagements included discussions on the role of the Auditor General in monitoring developmental projects and extent to which audit recommendations are implemented by the auditees. Some of the CPs engaged with included the DFID, European Union (EU), Swedish Embassy and Irish Embassy among others

## **6.0 Major Achievements**

The following are the achievements by the Office:

- 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 2015;
  - Report of the Auditor General on the Accounts of the Parastatal Bodies for the year 2015;
  - Report of the Auditor General on the Road Projects under the Road Development Agency for the period January 2012 to December 2015;
  - Report of the Auditor General on the review of operations of Local Authorities for the financial years ended 31 December 2013, 2014 and 2015.
- ii. Revised Constitutional Provisions – The Constitution (Amendment) Act No. 2 of 2016 brought a number of key changes. These included:
  - a. Article 212 brought a change in reporting period to not later than nine (9) months after the end of each financial year from 12 months previously. In this regard, the Auditor General's annual report is required to be submitted by 30<sup>th</sup> September simultaneously to the President and the National Assembly.

- b. Article 249: Creation of the State Audit Commission. The Commission is expected to enhance administrative autonomy of the Auditor General's Office which will now be referred to as the National Audit Office.
  - c. Article 250 (1) (a) provides for the audit of Local Authorities by the Auditor General. Prior to the inclusion of this new provision, the audit of Local Authorities was being done by Auditors from the Ministry of Local Government and Housing.
  - d. Article 250 (1) (e) provides for the Auditor General recommending to the Director of Public Prosecutions (DPP) or a law enforcement agency any matter that may require prosecution.
- iii. Enactment of the Public Audit Act No. 29 of 2016 – The new Act has extended Auditor – General's mandate to include audit of Local Authorities, disallowing expenditure and surcharge of persons.
  - iv. Enactment of the State Audit Commission No. 27 of 2016 – The new Act empower the State Audit Commission (SAC) to preside over administrative issues of the OAG. All matters administrative previous handled by the Public Service Commission and Public Service Management Division will now be handled by the SAC. This will bring efficiency in the manner in which staff matters are handled. The SAC will be able to handle all issues relating to the staffing, promotion, discipline and remuneration of the Office.
  - v. In November 2016, AFROSAI-E recognised the Office with an award for the implementation of the Regularity Audit Manual (RAM) and programmes and setting a good example and reference point for extractive industries risk assessment. The award is a clear indication of the quest by the Office to maintain up-to-date auditing standards.



*AFROSAI-E Award received for implementation of the RAM*



*Acting Director Sally Ross receives award on behalf of the Office from AFROSAI-E Chief Executive Mr. Wessel Pretorius*

## 7.0 Challenges and Constraints

Although the most the planned programmes were implemented, the Office faced a number of challenges. These included:

- i. Reduced overall budget when compared with the previous year;
- ii. Funds in the approved budget were not released in full by Ministry of Finance;
- iii. Late commencement of assignments due to failure/delay by clients to provide information;
- iv. Inadequate logistics;
- v. Low funding affected operations of the Office such as servicing of motor vehicles;
- vi. Low staffing levels when compared to expanded mandate. The problem was compounded further by failure to re-activate frozen jobs on the payroll;
- vii. Most staff lacking critical skills in IT, thereby relying on the few IT Auditors to audit IFMIS.

## 8.0 Conclusion

In an effort for the Office of the Auditor General to comply with ISSAI 12 “Value and Benefits of SAIs” (making a difference to the citizens), the Office will continue to be transparent and accountable in the way it conducts its work. The Office will also continue to provide that assurance that the monies appropriated by Parliament have been used on the intended purposes for the benefit of the citizens of Zambia. In doing so, the Office will continue to add value to society and ensure public confidence in the Office of the Auditor General.

The Office will endeavour to build on the achievements, gains and also build on the lessons learnt in the past year in order to improve its performance in the years ahead.

## ***Appendix I – Summary of Auditor General’s Main Report for the Year Ended 31<sup>st</sup> December 2015***

The Office carried out the audit of accounts of the Government for the financial year ended 31st December 2015. A number of issues were raised during audits and brought to the attention of Controlling Officers. This gave Controlling Officers an opportunity to seek clarifications and to take corrective action on the findings of the audits where practical. Accordingly, institutions where satisfactory responses and corrective actions were undertaken, the issues were dropped. Those issues that remained outstanding were included in the final report.

The 2015 Auditor General’s report contained ninety (90) paragraphs (84 paragraphs on audit findings and six (6) on other matters. The Opinion of the Auditor General on each separate were included in Financial Report issued by the Ministry of Finance.

A summary of the major categories of findings from the 2015 report which remained outstanding at the end of the year is given in the table below.

***Table 8 – Summary of findings***

<b>Issue</b>	<b>2015 K</b>	<b>2014 K</b>	<b>2013 K</b>
Unaccounted for Revenue	558,449	3,251,333	1,220,260
Unaccounted for Funds	193,910	506,354	4,767,666
Misapplication of Funds	28,153,997	73,637,561	65,158,686
Unretired Accountable Imprest	12,659,892	12,585,194	8,170,462
Unvouched Expenditure	349,306,160	389,905,333	67,139,852
Unaccounted for Stores	13,460,323	26,400,272	72,371,091
Irregular Payments	115,350,860	26,358,488	14,467,146
Non Recovery of Advances and Loans	2,352,451	2,877,442	2,744,814
Failure to Follow Procurement Procedures	35,701,492	2,720,434	8,406,729
Undelivered Materials	251,523,804	522,904	19,959,462
Non Submission of Expenditure Returns	6,308,762	1,232,749	1,792,192
Wasteful Expenditure	39,854,959	8,354,290	354,939
Overpayments	26,559,013	1,578,571	360,684
Misapplication of Funds	0	4,767	44,500

Notwithstanding capacity issues raised relating to low financing and capacity, there was a decline in some of the irregularities observed during the period under review. The major areas where performance worsened related to Irregular Expenditure and Undelivered Materials.



## ***Appendix II – Summary of Auditor General’s Report on Parastatal Bodies for the Year Ended 31<sup>st</sup> December 2015***

The Office conducted audits selected parastatal bodies while in others only review of operations was done. The audits were carried out pursuant to the Article 250 of the Constitution, Public Audit Act No. 29 of 2016 and the Public Finance Act No. 15 of 2004.

The Report contains twenty five (25) paragraphs. There are seventeen (17) institutions out of which four (4) are under the Industrial Development Corporation (IDC) and three (3) water utility companies and the Water Resources Management Authority (WARMA). It also includes paragraphs on two (2) Universities (Kwame Nkrumah University and Mulungushi University) among other institutions.

The Report also listed twenty seven (27) institutions that had not produced audited financial statements for the financial years up to 31<sup>st</sup> December 2015 contrary to their enabling Acts and the tenets of good corporate governance.

It has raised issues of non-remittance of statutory contributions, (to NAPSA and ZRA), unsupported payments, unaccounted for stores, questionable procurement of motor vehicles, irregular procurements, questionable payments and failure to recover loans among other issues.

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

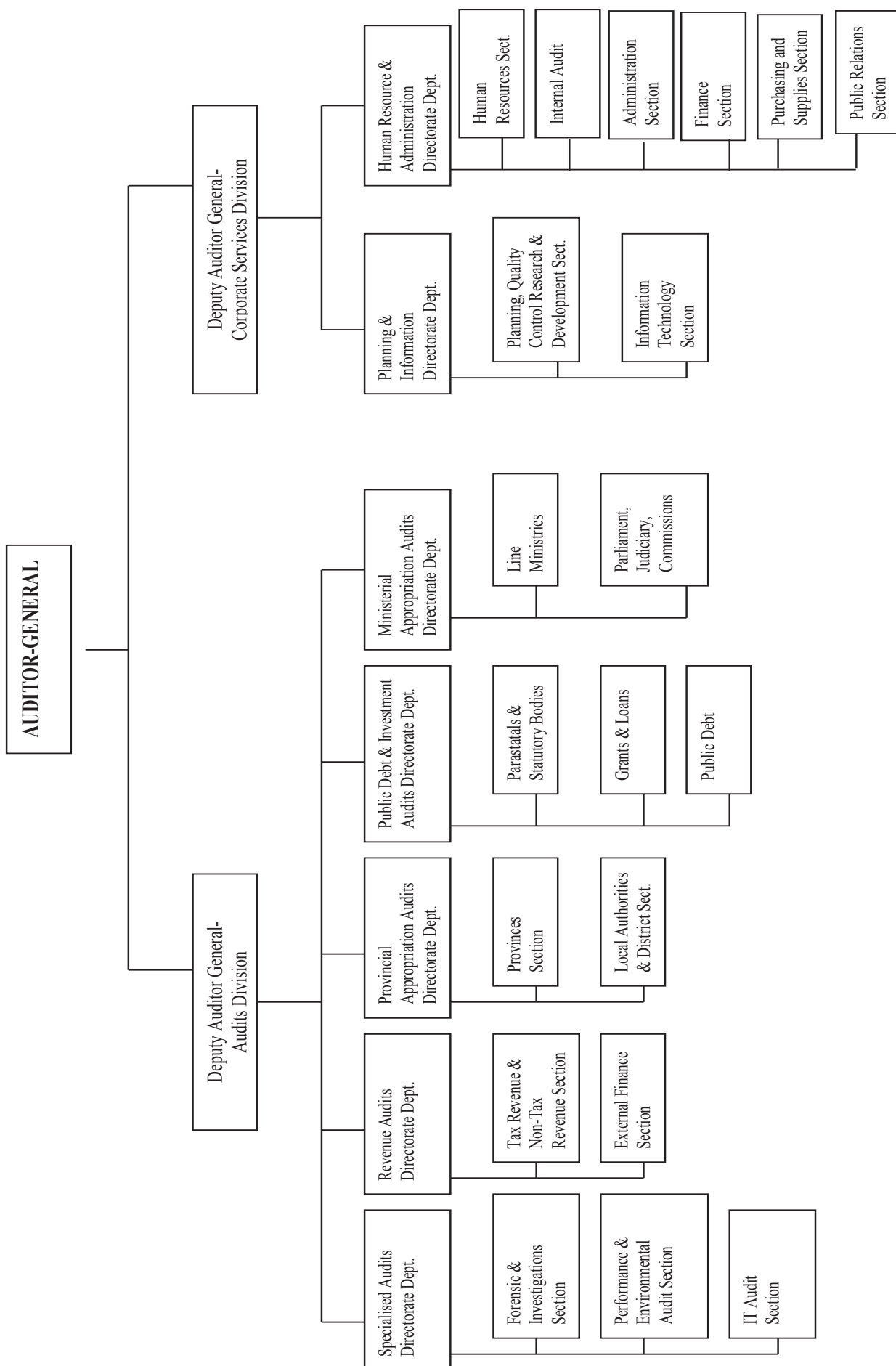
***Table 9 – Summary of Findings in the Auditor General’s Report on Parastatal Bodies***

<b>Summary of Findings</b>	<b>Amount K</b>
Non Remittance of Statutory Contributions	1,219,671,599
Unsupported Payments	5,557,547
Unaccounted for Stores	20,245,512
Unretired Imprest	1,135,994
Missing Payment Vouchers	1,614,675
Wasteful Expenditure	258,640
Questionable Board Expenses	183,075
Failure to submit expenditure returns	436,923
Unacquitted Payments	72,178
Irregular Issuance of Fuel	93,314
Questionable Procurement of motor vehicle	4,377,066
Unexplained Bank Debits	226,075
Irregular Procurements	2,292,133
Undelivered Stores	1,243,692
Questionable Payment of Leave Comutation	145,233
Questionable Payments	23,733,573
Delayed banking	2,379,597
Unaccounted for Revenue	676,506
Failure to recover loans	4,394,978



### Appendix III – Staff Establishment

Job Category	Establishment Positions	Variance on staff assignment	Filled positions	Vacancies	Excess
Deputy Auditors General	2	0	2	0	0
<b>Audit Cadre</b>	<b>394</b>	<b>73</b>	<b>313</b>	<b>8</b>	<b>0</b>
Planning	15	3	12	0	0
Information Technology	15	4	11	0	0
Human Resources & Administration	23	7	15	1	0
Accounts Cadre	17	1	16	0	0
Internal Audit	1	0	1	0	0
Procurement	6	0	6	0	0
Secretarial Cadre	36	6	28	2	0
Registry Cadre	31	3	27	1	0
Drivers	36	0	43	0	(7)
Classified Employees	64	(2)	65	1	0
<b>Total</b>	<b>639</b>	<b>95</b>	<b>539</b>	<b>12</b>	<b>(7)</b>
<b>Source:</b> 2016 OAG Establishment Register The December, 2016 Staff Assignment					



## Appendix V – Statement “C” Extract

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OFFICE OF THE AUDITOR GENERAL

(ESTABLISHED UNDER ARTICLE 249 OF THE CONSTITUTION OF ZAMBIA)

AUDIT REPORT ON STATEMENT “C”

FOR THE YEAR ENDED 31 DECEMBER 2015

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### STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL REPORT

The Statements of Expenses (Statement “C”), assets, and cash position are the responsibility of the Controlling Officer (Deputy Auditor General-CSD) who is responsible for:

1. Management of all resources allocated to the Office of the Auditor General OAG. In this capacity, the Deputy Auditor General-CSD is accountable to the OAG for the entirety of OAG funding resources under their management.
2. Maintaining a sound accounting system that contains records and controls sufficient to ensure the accuracy and reliability of organisational financial information and reporting. The accounting system must also ensure that the receipt and disbursement of GRZ funds is properly identified and that approved budgetary categories are not exceeded.
3. Accounting and keeping track of the advances received and disbursed and recording of expenses in the appropriate ledgers.
4. Maintaining an inventory recording the acquisition and disposition of property and equipment that contains information on all property and equipment, whether purchased directly by the OAG agent from funds advanced to it by GRZ or purchased by others on behalf of the OAG.

The Controlling Officer confirms that in his opinion the financial reports for the year ended 31<sup>st</sup> December 2015 from which the Statement C is drawn are fairly drawn up in line with GRZ accounting requirements.

Controlling Officer:

Date : 24/05/16

Signature: K. K. K.

Name : Davison K. Mendamenda

Title : Deputy Auditor General-CSD

OFFICE OF THE AUDITOR GENERAL  
(ESTABLISHED UNDER ARTICLE 249 OF THE CONSTITUTION OF ZAMBIA)

AUDIT REPORT ON STATEMENT "C"  
FOR THE YEAR ENDED 31 DECEMBER 2015

*Amounts are stated in Zambia Kwacha*

SUMMARY OF STATEMENT OF EXPENDITURES (FROM STATEMENT C) FOR THE YEAR ENDING 31<sup>ST</sup> DECEMBER 2015

No of Head	Institution	Yellow Book	Supplementary	Appropriation Act	Funded Amounts	Variance
1	Head Office	76,917,958	10,542,463	87,460,421	70,216,297	17,244,124
2	Lusaka Province	3,647,947	-	3,647,947	3,224,265	423,682
3	Kabwe Province	3,360,847	-	3,360,847	2,854,860	505,987
4	Ndola Province	3,771,668	-	3,771,668	3,063,537	708,131
5	Livingston Province	3,578,874	-	3,578,874	2,966,157	612,717
6	Chipata Province	3,585,069	-	3,585,069	3,058,686	526,383
7	Kasama Province	3,129,079	-	3,129,079	2,530,579	598,500
8	Mansa Province	3,287,856	-	3,287,856	2,679,663	608,193
9	Solwezi Province	3,360,050	-	3,360,050	2,712,560	647,490
10	Mongu Province	3,012,266	-	3,012,266	2,636,394	375,872
22	Muchinga Province	3,755,965	-	3,755,965	3,005,339	750,626
		111,407,579	10,542,463	121,950,042	98,948,338	23,001,704

# EMM Corporate Partners

Chartered Accountants and Management Consultants



**CPAAI**

CPA ASSOCIATES INTERNATIONAL

## A MEMBER OF CPAAI-EMEA

CPA Associates International (CPAAI) is a worldwide association of accounting and consulting firms with its head office in New York, USA. EMM is a proud CPA Associate of the Europe, Middle East and Africa (EMEA) region of CPAAI.

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### REPORT OF THE INDEPENDENT AUDITORS TO THE AUDITOR GENERAL ON THE STATEMENT "C" OF OFFICE OF THE AUDITOR GENERAL

We have audited the accompanying Statement of Expenses – Statement C of the Office of the Auditor General, for the period 1<sup>st</sup> January 2015 to 31<sup>st</sup> December 2015.

#### Respective Responsibility of the Controlling Officer and the Auditors

The Controlling Officer is responsible for the preparation of the statement for the OAG and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error. Our responsibility is to express an opinion on the Statement C based on our audit. We conducted our audit in accordance with *International Standards for Supreme Audit Institutions ("ISSAIs")*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statements are free from material misstatement.

#### Scope of the Audit

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organisation's preparation of the statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organisation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the attached statement of expenses, "Statement C", presents fairly, in all material respects, the expense of ZMK98,948,338 incurred by the Office of the Auditor General for the period 1<sup>st</sup> January 2015 to 31<sup>st</sup> December 2015 in accordance with agreed upon accounting policies (IPSAs) and were:

- (i) In conformity with the approved budgets;
- (ii) For the approved purposes of the organisation;
- (iii) In compliance with the relevant laws and regulations and rules, policies and procedures; and
- (iv) Supported by properly approved vouchers and other supporting documents.

## EMM Corporate Partners

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### Report on Other Matters

In accordance with the terms of reference for this audit, we have also reviewed the Organisation's internal controls and its compliance with applicable laws and regulations. In this regard, we have no *material* matters to report other than the *significant* and *minor* areas for improvement referred to in our letter of recommendation accompanying this audit report



EMM CORPORATE PARTNERS

*Chartered Accountants and Management Consultants*



Elasto Mambo  
*Partner*

PC: No AUD1183/MPC: 000132

24/5/16

*Date*







## **MISSION STATEMENT:**

“To provide quality audit and related consultancy services to government and other institutions in order to enhance accountability and value for money in the management of public resources for the benefit of society”.

## **GOAL STATEMENT:**

“To enhance accountability in the collection and utilization of public resources in order to contribute to sustainable development”.

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### **ADDRESSES FOR PROVINCIAL AUDIT OFFICES**

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