



PMRC REVIEW OF THE STATE AUDIT COMMISSION BILL NO. 22 OF 2016

ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
AGSA	Auditor General- South Africa
AG	Auditor General
DFID	Department for International Development
EIZ	Engineering Institution of Zambia
LAZ	Law Association of Zambia
MPSAs	Ministries, provinces and other spending Agencies
NAO	National Audit Office
OAG	Office of the Auditor General
PSMD	The Public Service Management Division
SCoAG	Standing Committee on the Auditor General
ZAP	Zambia Accountancy Program
ZPPA	Zambia Public Procurement Authority
ZSPA	Zambia Society for Public Administration
ZICA	Zambia Institute of Chartered Accountants
ZIHRM	Zambia Institute of Human Resource Management

This document and trademark(s) contained herein are protected by the laws of The Republic of Zambia. This electronic representation of PMRC intellectual property is provided for non- commercial use only. Unauthorized posting of PMRC electronic documents to a non-PMRC website is prohibited. PMRC electronic documents are protected under copyright law. Permission is required from PMRC to reproduce, or reuse in another form, any of our research documents for commercial use. For information on reprint and linking permissions, please see PMRC Permissions .

(www.pmrzambia.org/copyright).

The PMRC is a nonprofit institution that helps improve policy and decision-making through research and analysis. PMRC's publications do not necessarily reflect the opinions of its research clients and sponsors.

PMRC REVIEW OF THE STATE AUDIT COMMISSION BILL NO. 22 OF 2016





INTRODUCTION

Establishing control mechanisms and creating a culture of accountability is central to how a democracy is organized. Democratic accountability is evident through the establishment of oversight authorities, that have a mandate to verify how public resources are utilised and how public officials working within the government administrations follow the rules and regulations.

Oversight authorities, such as the National Audit Office (NAO), are critical in defining the 'risk landscape' for public policy-making, both in the sphere of government and regulation as well as in the wider society in general.

In Zambia the NAO also referred to as the Office of the Auditor General (OAG) has a statutory responsibility 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, or that relate to:

- Every statutory corporation or public company;
- Every department in which funds and working accounts are established;
- Every private institution which receives government grants, subsidies or subventions in any financial year and;
- To carry out specialized audits such as performance and environmental audits in Government ministries and departments.
- State organs, State institutions, provincial administration and local authorities; and
- Institutions financed from public funds;
- The stocks, shares and stores of the Government;

In fulfilling its role of promoting transparency and accountability, the OAG audits Government Ministries, provinces and other spending agencies (MPSAs) and reports to Parliament as required by the Constitution.

It is the obligation of the OAG to 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. The OAG ascertains as to whether resources appropriated by Parliament or raised by the Government and disbursed:

- Were applied for the purpose for which they were appropriated or raised;
- Were expended in conformity with the authority that governs it; and Were expended economically, efficiently and effectively; and
- The OAG recommends 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.

PREVIOUS STUDIES:

A study titled “*Improving Public Sector Financial Management in Developing Countries and Emerging Economies*” was conducted by the Association of Chartered Certified Accountants (ACCA), across Botswana, Pakistan, Vietnam, Zambia and Zimbabwe. The main objective of the study was to highlight several key areas for change that can improve public financial management. Among these noted areas, the following were consistent with some of the key areas of change for improvement of Zambia’s public financial management which included:

- Skills deficit and staff retention issues
- Losses and waste in the public sector
- Use of antiquated accounting and auditing systems
- The need for improved efficiencies and effectiveness in service delivery



PMRC’s 2014 analysis of the performance of parastatals in Zambia, reviewed OAG’s reports over a three year period from 2010 to 2012. From this analysis, it was noted that public institutions are not audited consistently over consecutive years as institutions were audited based on selection criteria that included fund amounts associated with the institution (the higher the fund amount, the higher the perceived risk); date of the last audit, public interest in the institution as well as availability of resources at the Office of the Auditor General(OAG).

HUMAN RESOURCES MANAGEMENT FOR THE PUBLIC SECTOR

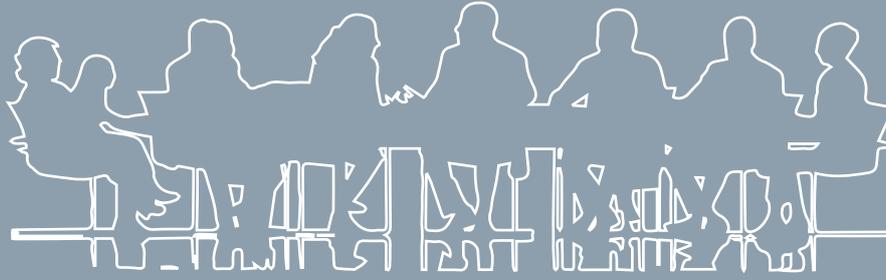
The Public Service Management Division (PSMD) is a Government institution that is charged with the overall responsibility of Human Resource Management in the Public Service. The PSMD mandate includes:

- Recruitment and Placement of Human Resources;
- Human Resource Development;
- Formulation and Interpretation of Terms and Conditions of Service;
- Strategic and Performance Management Services; and
- Developing, and coordinating implementation, of Records Management policies and systems in the Public Service.

There are noted challenges with a centralised system of recruitment. These largely include delays in recruitment and replacement of staff for public institutions, also noted at the AOG.

THE STATE AUDIT COMMISSION

According to State Audit Commission Bill, the State Audit Commission subject to Article 249 (2) will be mandated to oversee the operations of the office of the Auditor-General as prescribed by the Bill, and make recommendations to the President on the appointment of the Auditor-General, as well as oversee the undertaking of the functions by the National Audit Office. The Commission will also appoint auditors and other staff as are necessary to assist the Auditor General in the performance of the Auditor Generals functions and perform such other functions as prescribed by the Bill.



ADVANTAGES OF THE STATE AUDIT COMMISSION

Establishing the State Audit Commission would be beneficial to the national audit processes as it will:

- Provide for a decentralised mechanism of ensuring efficient financial and administrative management in the National Audit Office, which is in line with the current decentralisation policy
- Enhance the core business of the National Audit Office as less resources would be devoted to addressing the institutions financial and administrative management challenges
- Compliment the effective implementation of the Public Service Reforms

Despite the noted advantages of the State Audit Commission, the following were noted as areas of concern for establishing the Bill.

1. WORDING OF THE DRAFT BILL

This implies that the Commission will supervise the functions of the National Audit Office. Yet under Article 250 (2) of the Constitution of Zambia, the Act that establishes the National Audit Office (OAG) states that “*the Auditor General shall not be subject to the direction or control of a person or an authority in the performance of the functions of office.*” (This shows lack of harmonisation in this context).

- **PMRC recommendation:** Revision of the wording of the draft Bill to qualify the form of oversight to be rendered by the Commission or re-word the statement altogether.
- Oversee the administrative and financial functions by the national audit office
- Oversee the administrative and financial functions by the national audit office; or
- Provide for the administrative and financial function of the national audit office

2. COMPOSITION

The State Audit Commission will be responsible for providing technical guidance to the secretariat.

The composition of the part-time members of the Commission is stated in the draft Bill as follows:

- Zambia Institute of Chartered Accountants (ZICA) 
- Law Association of Zambia (LAZ) 
- Zambia Institute of Human Resource Management (ZIHRM) 
- Engineering Institution of Zambia (EIZ) 
- The Auditor General (as an ex- Officio) (OAG) 

Therefore, PMRC's recommends that composition of the members of the Commission needs to be reconsidered. While the first three listed institutions (Zambia Institute of Chartered Accountants - ZICA, Law Association of Zambia-LAZ, Zambia Institute of Human Resource Management -ZIHRM) are key for the Commission, the inclusion of the Engineering Institution of Zambia was not ideal and appropriate for the Commission. PMRC recommends the consideration of alternative institutions such as the Zambia Public Procurement Authority (ZPPA), Public Service Management Division(PSMD), or National Institute of Public Administration (NIPA) or the Zambia Society for Public Administration (ZSPA).

3. FUNDING FOR ESTABLISHMENT

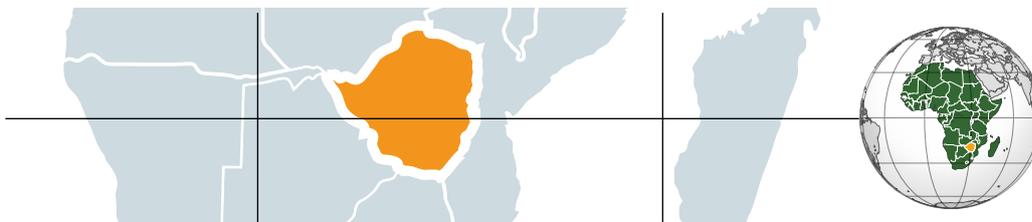
PMRC is cognizant that the establishment of the Commission will require extensive start up resources, PMRC recommends that Development Partner Resources focused on supporting Good Governance be leveraged on. Initiatives such as Zambia accountability Program (ZAP), Department for International Development (DFID), EU, The Swedish Government, GIZ and FES are the traditional supporters of Good governance in Zambia.

ALTERNATIVE APPROACHES ADOPTED BY OTHER COUNTRIES:

There are a number of country comparisons that were made within the region and across the world in order to understand how and why other countries have established state audit commissions. The following section provides a brief discussion some selected countries that have established state audit commissions.



ZIMBABWE



The Audit Commission was established to deal with the perennial problems of serious delays in tabling annual audit reports before Parliament. In addition, the Zimbabwean government was faced with an acute shortage of qualified professionals within the public sector. Therefore, to address some of the noted challenges, the auditor general (AG) became an approved employer with the capacity to train auditors. Furthermore, mentoring for trainees was provided by qualified staff as well as by the external audit firms that undertook subcontracted work.

Overall, the Audit Commission was established as part of a range of reforms introduced by Treasury to give more teeth to the office of the Controller and Auditor-General. The Audit Office Commission was established under the the Audit Office Act of 2011.

Its functions include:

- Appointing persons to the Audit Office on a permanent or contract basis,
- Assigning and promoting them through performance appraisals
- Setting conditions of service among others.

Membership of the Commission includes:

- A retired judge of the High Court or Supreme Court who shall be the chair
- A member of the Public Service Commission
- The Controller and Auditor-General and two members who shall be Deputy Auditors-General; and
- Five members appointed by the President on recommendation from the Minister of Finance.



SOUTH AFRICA

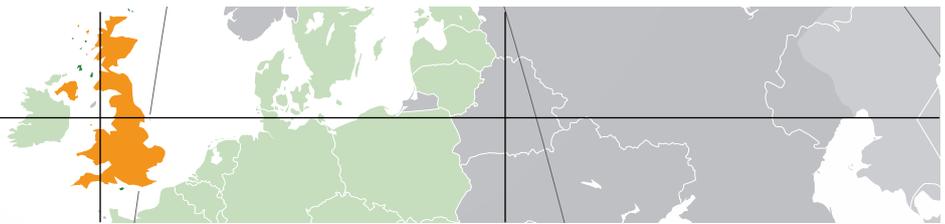


The South African approach varies from Zimbabwe and Zambia in that the National Assembly through a Standing Committee on the Auditor General (SCoAG) coordinates the appraisal and review of the Auditor General- South Africa (AGSA). The SCoAG was established in 2005 to replace the Audit Commission that was operational from 1991-2004. The Committee oversees the performance of the AGSA and protects the Auditor-General in ensuring its impartiality, independence, dignity and effectiveness. Some of the functions of the SCoAG include:

- Approving the amount of surplus, if any, to be retained for working capital and general reserve
- Receiving the Annual Report of the AG in August to September, scrutinising it and submitting recommendations to the National Assembly
- Assisting the AG in collecting outstanding audit fees
- Appointment or confirmation of the external auditor
- Ensuring the recommendations of the AG are implemented through its oversight and follow-up mechanisms.



UNITED KINGDOM



In the case of the United Kingdom, the Audit Commission was established in 1982, as a statutory corporation, under the Local Government Finance Act 1982, to appoint auditors to all local authorities in England and Wales. After 30 years in existence, the Commission was abolished due to cost saving reforms. The Functions of the Commission were transferred to private independent company called Public Sector Audit Appointments Limited that was created by the Local Government Association. The company is responsible for overseeing the Commission’s current external audit contracts that are held with private audit firms from the 1st of April 2015 until December 2017 or up to 2020.

SUMMARY OF RECOMMENDATIONS:

The following section provides a summary of PMRC’s recommendations on the State Audit Commission as presented to the Estimates Committee on the 29th of April 2016.

- To maintain the integrity, objectivity and autonomy of the OAG, PMRC recommend a revision in the current wording of the draft Bill to qualify the form of oversight to be rendered by the Commission.
- In the interest of effective and efficient technical support to the Commission’s Secretariat, PMRC recommends a revision of the composition of the part-time members of the Commission.
- To ensure timely and responsive establishment of the Commission in a context of limited resources, PMRC recommends that development partnerships with development agencies whose work has traditionally centred on good governance be leveraged on for the establishment of the Commission.

