

PMRC PARASTATAL ANALYSIS

Report of the auditor general on the accounts of parastatals bodies and other statutory institutions for the financial years ended 2013, 2014, 2015 and 2016.

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ABBREVIATIONS

AG	Auditor General
EWSC	Eastern Water and Sewerage Company
FRA	Food Reserve Agency
IDC	Industrial Development Corporation
MWSC	Mulonga Water and Sewerage Company
NAPSA	National Pensions Scheme Authority
OAG	Office of the Auditor General
SAP	Structural Adjustment Programs
SOEs	State Owned Enterprises
ZIMCO	Zambia Industrial and Mining Corporation Limited
ZPA	Zambia Privatisation Agency
ZRA	Zambia Revenue Authority

**WE ARE GLAD TO HAVE YOU BACK IN OFFICE.
HAVE YOU RETIRED YOUR IMPREST?**

**WHAT IMPORTANCE DOES IT HAVE....??
EVERYBODY IN THE OFFICE KNEW ABOUT
MY TRIP.....ISN'T THAT ENOUGH??**



**NO IT'S NOT. REGARDLESS OF PEOPLE'S KNOWLEDGE,
IT IS IMPORTANT TO RETIRE ONES IMPREST AS FAILURE TO DO
SO IS A SERIOUS AUDIT QUERY!!**

PMRC PARASTATAL ANALYSIS

**REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS
OF PARASTATALS BODIES AND OTHER STATUTORY
INSTITUTIONS FOR THE FINANCIAL YEARS ENDED 2013,
2014, 2015 AND 2016.**

GLOSSARY OF KEY TERMS AND WORKING DEFINITIONS

Failure to Submit Expenditure Returns - No details provided on expenditure, funds disbursed for a particular project or item but no further information provided.

Failure to Recover Loans - Fees or monies due but not collected effectively, reducing funds available.

Irregular Issuance of Fuel - Drawing fuel without authorisation, claiming fuel allowances twice through different systems, drawing fuel for incorrect vehicles.

Irregular Payments - Payments made outside the normal practice or acceptable regulations or norms, this includes payments or allowances inappropriately distributed or above allocated amounts.

Irregular Procurements - Procurement made outside the normal practice or acceptable regulations or norms, which includes procurement of items above allocated amounts.

Loss on Non Revenue Water - These are losses incurred as a result of the difference between the quantity of treated water distributed in the network and the quantity of water actually billed.

Missing Payment Vouchers - lack of signed payment vouchers, no receipt backing up payment voucher, no other supporting documents for an expenditure.

Non Preparation of Financial Statements - Failure to prepare a formal record of the financial activities and financial position of an entity.

Non Remittance of Statutory Contributions - Failure to pay tax obligations to Zambia Revenue Authority (ZRA) and National Pensions Scheme Authority (NAPSA).

Poor Financial Performance - Inability of an entity to use assets from its primary mode of business and generate revenues.

Unaccounted for Stores - Lack of receipt and disposal details for goods procured. Includes both fuel and stores.

Undelivered Stores - Stores not delivered to appropriate places when already paid for, or items not collected.

Unretired Imprest - Failure to retire funds or monies for audit because they are either missing or inadequately supported.

Unsupported Payments - Payment vouchers not availed for audit because they are either missing or inadequately supported. This includes the lack of payment voucher, lack of signed payment voucher, no receipt backing up payment voucher, no other supporting documents for an expenditure

Wasteful Expenditure - Expenditure incurred when there is no benefit derived.

Weakness in Procurement Procedures - Failure to implement a project, delays in projects, poor workmanship resulting in faults (structures/roads etc)



INTRODUCTION

Effective management of public resources is essential in the development of any nation. Public resources should therefore, be applied for the best possible public benefit. It is for this reason that the Zambian Government allocates public resources to Parastatal bodies and Statutory institutions as they have an important role to play in service delivery, which ranges from water and sanitation, electricity, education and transportation among others.

Statutory institutions are institutions established by Acts, which Parliament and State Legislatures can pass. They are generally established to perform specific functions which a Government considers effectively performed outside the traditional departmental executive structure. **Parastatal bodies**, which are also referred to as State Owned Enterprises (SOEs), are legal entities that undertake commercial activities on behalf of an owner Government. The management of public resources, however, remains a challenge in Zambia with some public entities failing to account for these funds or give full and accurate accounts of their activities which is in violation of the laws of Zambia.

The Office of the Auditor General (OAG) in accordance with the **Constitution of Zambia**, the **Public Finance Management Act** and the **Public Audit Act**, is mandated to audit all public and private institutions that receive Government funding. On the 30th of November 2017, the Report of the Auditor General on Accounts of Parastatals Bodies and other Statutory Institutions for the financial years ended 31st December 2013, 2014, 2015 and 2016 was released to the public. The report contained twenty-two paragraphs on Parastatals bodies and Statutory

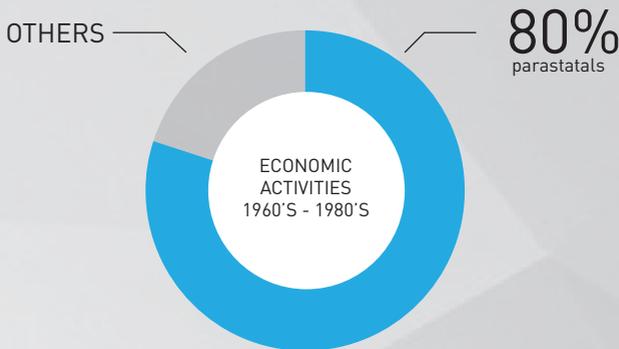
institutions that were audited or whose performance was reviewed but the issues remained unresolved as at the date of reporting. The twenty two paragraphs included two Parastatals bodies and twenty Statutory institutions.

This PMRC document provides an analysis of the Auditor General (AG) report on Parastatal bodies and Statutory institutions for the years ended 2013, 2014, 2015 and 2015. It begins by providing an overview of Parastatals bodies in Zambia, focusing on the current operations, ownership and economic performance of these institutions. It further provides insight on the most significant audit issues and internal control issues based on the AG report. Lastly, this analysis showcases the corporate governance issues faced by Parastatals bodies and Statutory institutions, prior to the efforts being made to address the inefficiencies of these institutions.

OVERVIEW OF PARASTATALS BODIES IN ZAMBIA

As with many other African countries, Parastatals in Zambia are seen as key institutions that facilitate economic growth and development. Economic reforms and nationalisation processes in the late 1960s led to the incorporation of the Zambia Industrial and Mining Corporation Limited (ZIMCO), established to maintain direct ownership and management of parastatals. These parastatals accounted for up to **80%** of the economic activity of the country at the time. However, by the 1980s, **poor management and changing economic circumstances meant parastatals had become largely unprofitable**, causing a significant drain on the national budget, and leading to repeated calls for privatisation and private-sector growth ¹.

Economic activities between the 1960s and 1980s



1. World Bank, 2008, Proposal for Strengthening the Governance and Performance Monitoring of Zambia's State Owned Enterprises

Consequently, from the early 1990s a substantial privatisation program was implemented. Following recommendations of the **Structural Adjustment Program (SAP)**, the **Zambia Privatisation Agency (ZPA) was established under the Privatisation Act in 1992, and ZIMCO was dissolved in 1995**. By 2005, around 280 of the total 320 state owned institutions had been privatised by ZPA ².



In January 2014, the Industrial Development Corporation (IDC) Limited was incorporated and it is wholly owned by the Government through the Minister of Finance, pursuant to the Minister of Finance (Incorporation) Act Cap 349 of the Laws of Zambia. *The IDC is charged with the mandate to spearhead the Zambian Government’s commercial investments agenda aimed at strengthening Zambia’s industrial base and job creation.* The IDC was established to create and maximise long-term shareholder value as an active investor and shareholder of successful state-owned enterprises, as well as undertake industrialisation and rural development activities through the creation of new industries ³.

Today, the *Government is the sole owner of 25 parastatals under the Industrial Development Corporation (IDC) portfolio in which the IDC holds 60.7 to 100 percent shareholding* as shown in **Table 1**. The institutions fall within various sectors of the economy which range from **Agriculture, Education, Energy, Financial Services, Infrastructure, Manufacturing, Medical, Mining, Real Estate, Technology, Tourism, Transportation and Logistics** as well as **Media and Telecommunication** ⁴.

TABLE 1 ON NEXT PAGE

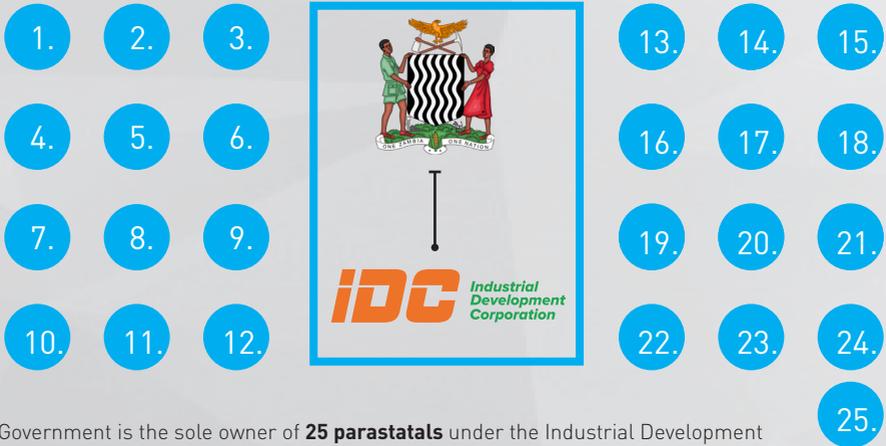
2. Ministry of Finance, 2012. Zambia: State Owned Enterprise Policy. Republic of Zambia
 3. <http://www.idc.co.zm/about-idc>
 4. <http://www.idc.co.zm/what-we-do/portfolio-management>

Table 1: Industrial Development Corporation Shareholder Percentage

NO.	STATE OWNED ENTERPRISE	SHARE HOLDING (%)
1	Mulungushi Village Complex Limited	100
2	Mulungushi Textiles Limited	100
3	Engineering Services Corporation	100
4	Indeni Petroleum Products Limited	100
5	Medical Stores Limited	100
6	Mpulungu Harbour Corporation Limited	100
7	MuPETWE Engineering Company	100
8	Mukuba Hotel Limited	100
9	Lusaka South Multi-Facility Economic Zone Limited	100
10	Nitrogen Chemicals of Zambia Limited	100
11	NIEC School of Business Trust	100
12	ZCCM Investments Holdings	60.7
13	Zambia Daily Mail	100
14	Times PrintPak Zambia Limited	100
15	ZESCO Limited	100
16	Zambia Forestry & Forest Industries Company	100
17	Zambia Educational Publishing House Limited	100
18	Zambia International Trade Fair	100
19	Zambia Printing Company	100
20	Zambia Railways	100
21	Zambia State Insurance Corporation Life Limited	100
22	Zambia State Insurance Corporation General Limited	100
23	Zamtel Limited	100
24	Zamcapital Enterprises	100
25	Mulungushi International Conference Centre	100

Source: Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial years ended 31st December 2013, 2014, 2015 and 2016.

Number of Parastatals owned by Government under the Industrial Development Corporation



Government is the sole owner of **25 parastatals** under the Industrial Development Corporation (IDC)

In addition, the Government has transferred its shares to the IDC in five institutions as shown below.

Table 2: Industrial Development Corporation Shareholder Percentage



Source: Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial years ended 31st December 2013, 2014, 2015 and 2016.

The financial performance of Parastatals in Zambia still remains unsatisfactory with the Auditor General’s report indicating that out of the 25 State-Owned Enterprises (SOEs) under the IDC portfolio, in which IDC holds 60.7 to 100 percent shareholding, only two (2) SOEs (*Mulungushi Village Complex Limited - K0.2 Million* and *Indeni Petroleum Products Limited - K7.4 Million*) declared dividends for the year 2016 in amounts *totalling K7,600,000*. In addition, out of the 7 institutions in which IDC had shareholding between *14.27 to 50%*, only two institutions (*Indo Zambia Bank Limited – K12.06 Million* and *Nanga Farms Limited K4.7 Million*) declared dividends in amounts *totalling K16.76 million*⁵.



AUDIT FINDINGS

The Report highlighted the following issues as clear indicators of internal control lapses:

- *Non preparation of financial statements,*
- *Failure to remit statutory contributions,*
- *Weaknesses in procurement procedures,*
- *Irregular payments and poor financial performance among other.*

5. Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial years ended 31st December 2013, 2014, 2015 and 2016.

The report also indicated 14 institutions (*12 Statutory bodies and 2 Parastatal*) that had not produced audited financial statements for the financial years ended 31st December 2013 to 2016 as detailed in table 3 below:

Table 3: Statutory bodies and Parastatals without audited financial statements

NO.	NAME OF INSTITUTION	CATEGORY	YEARS NOT AUDITED
1	Zambia Education Publishing House Limited	Parastatal	2016
2	Zambia Printing Company	Parastatal	2016
3	Mulungushi Textiles Limited	Parastatal	2016
4	Zambia Institute of Mass Communication	Statutory Body	2015 to 2016
5	Zambia Environmental Management Agency	Statutory Body	2016
6	Engineering Services Corporation Limited	Parastatal	2016
7	Citizenship Economic Empowerment Commission	Statutory Body	2013 to 2016
8	Food Reserve Agency	Statutory Body	2013 to 2016
9	Business Regulatory Review Agency	Statutory Body	2016
10	Nitrogen Chemicals of Zambia	Parastatal	2008 to 2016
11	Zambia Postal Services Corporation	Statutory Body	2014 to 2016
12	Luapula Water and Sewerage Co	Statutory Body	2008 to 2016
13	Kwame Nkrumah University	Statutory Body	2013 to 2016
14	Chambeshi Water and Sewerage Co	Statutory Body	2012 to 2016

Source: Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial years ended 31st December 2013, 2014, 2015 and 2016.

Failure to provide financial statements defies the *Public Finance Management Act and the Public Audit Act*. It also makes it impossible for the OAG to ascertain if the money used by each Statutory institution, Parastatal, Department and Private institution had been applied for its intended purpose. The non-production of audited financial statements is therefore, a contravention of the various enabling legislations governing the institutions and is contrary to good corporate governance.

Non preparation of financial statements also poses a challenge in the running of Parastatals and Statutory bodies as failure to provide financial statements entails that there is no formal record of the financial activities and financial position of an entity, which makes it difficult to account for transparency, dividends in the case of Parastatals and the entity’s ability to meet its short and long term obligations. Parastatals like any other profit making institutions aim at maximizing profits, failure to produce financial statements makes it difficult to assess if an entity is profitable or not.

Table 4, below, indicates twenty-two (*two Parastatals and twenty Statutory institutions*) with audit queries.

Table 4: Parastatals and Statutory Institutions with Audit Queries

NO	NAME OF INSTITUTION	CATEGORY
1	Eastern Water and Sewerage Company	Statutory Body
2	Electoral Commission of Zambia	Statutory Body
3	Food Reserve agency	Statutory Body
4	Indeni Petroleum Refinery Company Limited	Parastatal
5	The Judiciary	Statutory Body
6	The Local Authorities Superannuation Fund (LASF)	Statutory Body
7	Mpulungu Harbour Corporation Limited	Parastatal
8	Mulonga Water and Sewerage Company	Statutory Body
9	The National HIV/ AIDS/STI/TB Council	Statutory Body
10	The National Pensions Scheme Authority	Statutory Body
11	The National Savings and Credit Bank (NATSAVE)	Statutory Body
12	Ndola Lime Company Ltd (NLC)	Statutory Body
13	Nkana Water and Sewerage Company	Statutory Body
14	Pensions and Insurance Authority	Statutory Body
15	Public Service Pensions Funds	Statutory Body

TABLE 4 CONTINUES
ON NEXT PAGE

16	The Road Transport and Safety Agency	Statutory Body
17	The Rural Electrification Authority (REA)	Statutory Body
18	Workers Compensation Fund Control Board (WCFCB)	Statutory Body
19	Zambia Cargo and Logistics Limited	Statutory Body
20	The Zambia Institute of Mass Communications Education Trust	Statutory Body
21	The Medicines Regulatory Authority	Statutory Body
22	Zambia National Broadcasting Corporation	Statutory Body

Source: Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial years ended 31st December 2013, 2014, 2015 and 2016.

There were several factors that attributed to the queries indicated in the report, which amounted to K927,182,568.

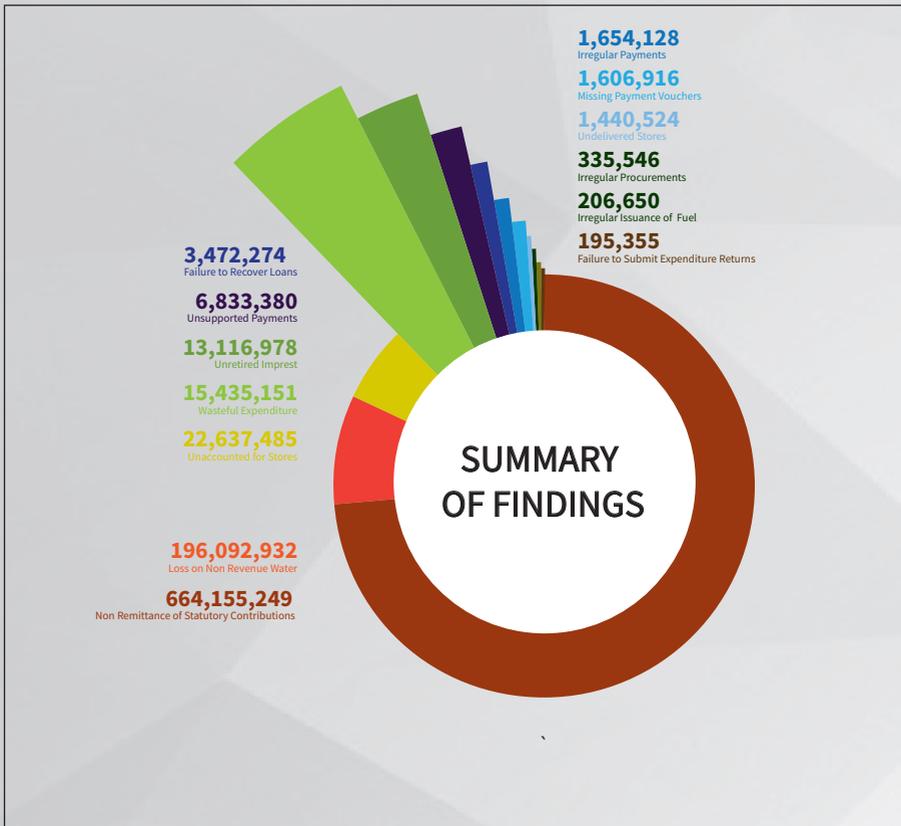


Table 5: Summary of Findings

Summary of Findings	Amount K
Non Remittance of Statutory Contributions	664,155,249
Loss on Non Revenue Water	196,092,932
Unaccounted for Stores	22,637,485
Wasteful Expenditure	15,435,151
Unretired Imprest	13,116,978
Unsupported Payments	6,833,380
Failure to Recover Loans	3,472,274
Irregular Payments	1,654,128
Missing Payment Vouchers	1,606,916
Undelivered Stores	1,440,524
Irregular Procurements	335,546
Irregular Issuance of Fuel	206,650
Failure to Submit Expenditure Returns	195,355

Source: Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial years ended 31st December 2013, 2014, 2015 and 2016.

The most significant query which was also indicated as an internal control lapse was the ***Non Remittance of Statutory contributions amounting to K664,155,249***. In view of expediting domestic resource mobilization, it is expected of all institutions be it Parastatals or Statutory bodies to be tax compliant. The amount that was non remitted to Zambia Revenue Authority (ZRA) and National Pensions Schemes Authority (NAPSA) could have been invested in social amenities that would have benefited the general citizenry.

The second most significant audit issue was the ***loss of non revenue water which amounted to K196,092,932***. By its definition, loss of non revenue water refers to losses incurred as a result of the difference between the quantity of treated water distributed in the network and the quantity of water actually billed. Zambia is yet to have cost reflective water billing, with these inefficiencies, the water utility companies will continue to incur losses which may result in a reduction in the quality, of the treated water distributed. In view of the Cholera crisis that the country experienced at the beginning of the year, the quality of water and sanitation in the country should not be compromised.

CORPORATE GOVERNANCE ISSUES IN THE MANAGEMENT OF PARASTATALS

Corporate governance, accounting and accountability in the public management of Parastatals and Statutory bodies can not be over emphasized, and this is all because service provision and budget consolidation cannot be realized effectively and efficiently without good governance and management. Ineffective corporate governance has led to the fall of many State owned and private owned enterprises around the world. It is for this reason that corporate governance principles should be embedded in the running of any institution be it public or private. The Auditor General's report highlighted some corporate governance issues that lead to some inefficiencies in the running of some of the institutions that were under query as listed below.

Lack of Board of Directors

Contrary to the Companies Act 1994, Section 215 (1) which requires that a company should be managed by a Board of Directors. For example, the Eastern Water and Sewerage Company (EWSC) operated without a Board of Directors from March 2016. As at 31st August 2017, the Board had not been put in place. Other institutions without a complete composition of Board of Directors included; Indeni Petroleum Refinery Company Limited which operates without the Board of Directors during the period from 20th May 2016 to July 2017 and Mulonga Water and Sewerage Company Limited (MWSC) whose Board had been dissolved since December 2015, and had not been appointed as at 30th September, 2017.

Failure to Convene Annual General Meetings

Mpulungu Harbour Corporation Limited failed to Convene Annual General Meetings which is contrary to Part IV, Section 138 (1) of the Companies Act of 1994, which states that "Subject to this section, a company shall hold, within three (3) months after the end of each financial year of the Company, a meeting to be called the Annual General Meeting of the Company.

Failure to Prepare Annual Reports

Contrary to Clause 12 (3) and 13(1) – (3) of the Food Reserve Act (Cap 225) under Part II of Financial Provisions, The Management of the Food Reserve Agency (FRA) had not prepared financial statements and annual reports for the period under review as at 31st August 2017.

Expiry of the Tenure of the Board

Contrary to Clause 12 of the Articles of Association which required that the term of the Board shall be three (3) years and will be liable to retire at the end of the three (3) year term from the date of appointment and subject to review of the individual performance at every annual general meeting, it was observed that the Nkana Water and Sewerage Company's Board of Directors were appointed in May 2013 and as of 31st August 2017, were still serving, fifteen (15) months after expiry of their tenure. Also Included in the Board of Directors were three (3) members who were not eligible to be Board members due to the fact that they no longer held the positions in the institutions that they were representing.

Frequency of Board Dissolutions and Re-appointments

A scrutiny of annual reports for the National Pensions Schemes Authority (NAPSA) for the period under review revealed that there was no Board that operated for the stipulated tenure of office as provided in the Act. The frequent change of boards can lead to inconsistency in the long term planning and implementation of organisation strategies.

Excessive Number of Board Meetings

*According to the Board Charter, the Board was allowed to meet six (6) times in a year and that meetings shall be scheduled in accordance with the Board Calendar. The Charter further provided that Special or Extra Ordinary Board meetings shall be held if deemed necessary. It was however observed that during the period under review, the Board of Public Service Pensions Fund held a total of 247 meetings at a total cost of **K8,817,846**.*

MEASURES PUT IN PLACE TO STRENGTHEN THE EFFECTIVE RUNNING OF PARASTATALS AND STATUTORY INSTITUTIONS

The Zambian Government through Parliament made a revision of the 1994 Public Audit Act which was enacted to make certain provisions relating to the duties and powers of the Auditor-General, and to provide for matters connected therewith or incidental thereto⁶. The Act was revised in 2016 to enhance the independence and autonomy of the National Audit Office and strengthen its functions; which include providing a framework for promoting efficiency, accountability, effectiveness and transparency of public administration through effective oversight and audit of public funds and performance; domesticate the principles of *United Nations Resolution A/66/209* on promoting efficiency, accountability, effectiveness and transparency of supreme audit institutions; provide for guiding principles of public finance and performance audit; repeal and replace the Public Audit Act, 1980; and provide for matters connected with, or incidental to the foregoing⁷.

The most recent legislature governing public resources is the recently revised Public Finance Management Act of 2018, which is an Act to provide for an institutional and regulatory framework for management of public funds; the strengthening of accountability, oversight, management and control of public funds in the public financial management framework; responsibilities and fiduciary duties of controlling officers and controlling bodies. Other aspects are enhancement of cash management systems to ensure efficient and effective utilisation of cash for the Government; the processes for efficient production of the Financial Report for the Republic; the management and control of public assets and stores; the repeal of the Public Finance Act No. 15 of 2004; and matters connected with, or incidental, to, the foregoing.

Part (V) of the Act which articulates the control of Statutory Bodies and Parastatals states that the Minister of Finance shall;

- a. Develop a **supervisory** and **performance** monitoring framework;
- b. Put in place an appropriate institutional arrangement for the **coordination** and **supervision of statutory corporations and state owned enterprises**;
- c. Develop a code of Government governance guidelines;
- d. Develop a regulatory framework for the establishment and management of the **Sovereign Wealth Fund**; and
- e. Formulate any other specific legislation relevant to control of statutory corporations and state owned enterprises

⁶ The Public Audit Act of 1994

⁷ The Public Audit Act No.29 of 2016

The Act also makes clear mention of the roles of Board of Directors of any Statutory Body and Parastatals, which aims at improving corporate governance as follows;

1. The Board of Directors of any statutory corporation or state owned enterprise referred to in section 57 shall through the appropriate executive authority, furnish the Secretary to the Treasury with reports covering the operations of such statutory corporation and state owned enterprise financial affairs at the end of every financial year
2. The responsibilities of a Board of Directors for statutory corporations and state owned enterprise under this section shall include;
 - a. Submission to the Secretary to the Treasury, through the executive authority of financial statements for each financial year prepared in accordance with the applicable accounting reporting framework;
 - b. Submission of financial statements within one month after the end of the financial year to the auditors of the statutory corporation or state owned enterprise for auditing;
 - c. The financial statements referred to in paragraphs (a) and (b) shall include details of financial performance for a statutory corporation or state owned Enterprise, its subsidiaries and other investments, if any; and
 - d. Submission to the Secretary to the Treasury, through the executive authority responsible for that statutory corporation or state owned enterprise within four months of the end of a financial year and, if the Auditor-General did not perform the audit of the financial statements, to the Auditor-General;
 - i. An annual report on the activities of that statutory corporation or state owned enterprise during that financial year;
 - ii. The audited financial statements for that financial year; and
 - iii. The report of the auditors on those statements.

RECOMMENDATIONS

In view of improving the management of Parastatals and Statutory Bodies, PMRC recommends the following;

1. An effective routine mechanism should be put in place by ZRA and other regulating authorities to ensure that all Parastatals and Statutory Bodies remit their statutory contributions.
2. The principles of corporate governance such maintaining a full board composition, ensuring accountability and transparency as well as the existence of a fully functioning audit committee must be embedded in the running of all Parastatals and Statutory Bodies. To this effect it would be important to have refresher corporate governance training offered to all Parastatals and Statutory institutions.
3. Staff members of Parastatals and Statutory bodies that fail to produce financial statements, or record audit queries must in accordance with the Public Finance Management Act, be made to account for their failures.
4. All Parastatals and Statutory bodies should implement the **Internal Control Integrated Framework** which is expected to help organizations design and implement internal controls in light of many changes in business and operating environment.
5. There should be a thorough assessment that should be undertaken to assess the status and performance of Parastatals. This would further assist the Industrial Development Corporation with planning for the Parastatals on how they can be efficient in areas of concern.

CONCLUSIONS

There exists huge potential for the efficient administration of Parastatals and Statutory Bodies in Zambia. The enactment of the **Public Finance Management Act** will tremendously improve transparency and accountability of public resources, which will lead to improved service delivery. Therefore, there is dire need for Government to ensure that the Public Finance Management Act is effectively implemented and that there is total compliance by all officers managing public funds. It is envisaged that with the development of a **Code of Corporate Governance Guidelines** for the public sector, there will be effective monitoring of the performance of Boards of Parastatals and Statutory Bodies, which will help lessen the queries incurred by various institutions.

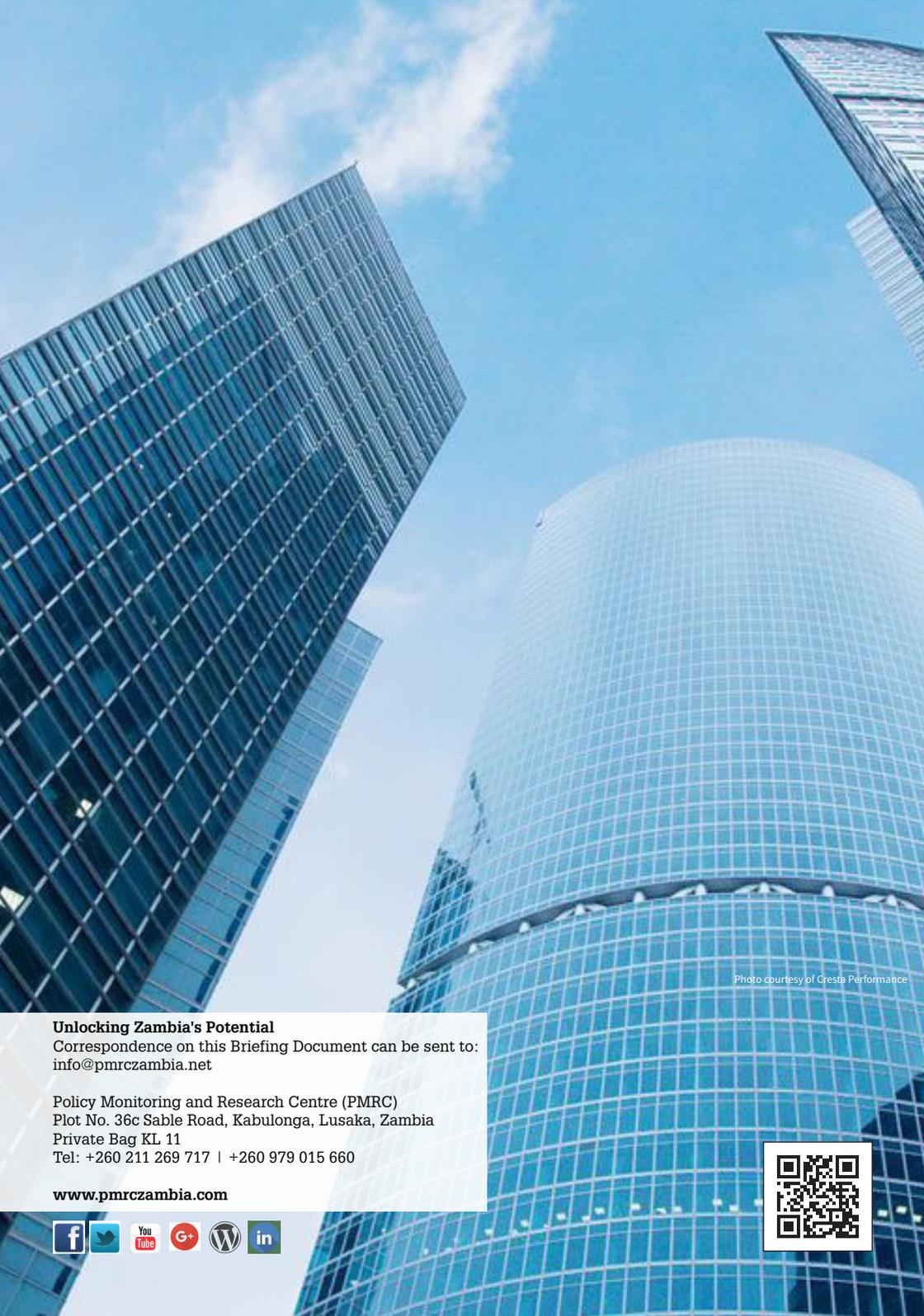


Photo courtesy of Cresta Performance

Unlocking Zambia's Potential

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