

ANALYSIS OF THE AUDITOR GENERAL'S SPECIAL AUDIT ON GOVERNMENT PAYROLL

2017 - 2020



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1.0 Introduction.

Being a supreme audit institution in Zambia and as part of its mandate, the Office of the Auditor General published the special audit of Government payroll for the financial year ended 31st December 2017 to 2021 on 6th September 2022. This is in line with Article 250 of the Constitution (Amendment) No. 2 of 2016, the Public Finance Management Act No.1 of 2018 and the Public Audit Act No. 13 of 1994.

The report covers Ministries, Provinces and Agencies (MPAs) on allocations budgeted in the Estimates of Revenue and Expenditure for the financial years ended 2017 to 2021. The special audit was conducted to ascertain that the funds appropriated by parliament for emoluments were adequately accounted for.

In recent weeks, a Transparency International Zambia (TI-Z) investigation revealed the misuse of government funds at the Ministry of Finance amounting to an estimated ZMW100 million between 2019 and 2021. According to evidence gathered, officials within the ministry would receive payments for fictitious undertakings according to their positions, with some senior officers receiving gratuities of more than ZMW5 million in specific cases. This investigation also revealed how members of staff within the Ministry of Finance from 2019 to date have received and continue to receive payments from accounts 0021 and 0037 of the government's Integrated Financial Management Information System (IFMIS). This siphoning of government funds which were mostly in form of sitting allowances in the parliamentary accounts committee, newly reconstituted committees and Daily Subsistence Allowances (DSAs) were for activities that were either not worked for at all by members of staff, or were received in excess compared to what was due and, in some cases, were not applicable and entirely fictitious.

Thus, it is clear that there seem to be a well-coordinated and intricate network and so it is alarming that such intricate networks of fictitious and organized public theft have continued unabated from previous governments to date. The creation of imaginary committees for payment of allowances has become the norm used to justify fictitious payments which are then misappropriated. TI-Z, in its investigation raised the alarm that this level of mismanagement of public funds is not only common to the Ministry of Finance but this mismanagement has spread to other government ministries, departments, agencies and commissions as more of our investigations, will reveal in due time.

Last week the Office of the Auditor General (OAG) released a special audit of Government payroll for the financial year ended 31st December 2017 to 2021, in which findings show glaring and alarming levels of public funds mismanagement across Government, Ministries, Departments and Agencies (GMDAs). The audit findings therefore confirm TI-Z's fears and alarm about the apparent and coordinated cartels across GMDAs established to systematically misappropriate public funds. TI-Z sees it proper that in analyzing the audit findings, a systems approach is applied to demonstrate the magnitude of the problem and to highlight systemic weaknesses, which are drivers for this unacceptable state of affairs. TI-Z's analysis is aimed at fostering transparency and integrity in the management of public resources as well as identifying institutional, policy, process and procedural weaknesses. The analysis is based on the factors highlighted in the audit report including failure to reconcile the salary account, irregular payment of allowances, irregular payment of salaries, double payment of salaries, suspected fraudulent diversion of salaries, irregular upgrading of teacher's salaries among others.

Therefore, TI-Z would like to share its reflections and analysis of the factors based on the identified systemic weaknesses as outlined in the findings of the 2020 Auditor General's Report and share recommendations in accordance with the issues raised in the aforementioned.

2.0 TI-Z interpretation and Implications of the Findings.

The 2017 - 2021 special audit on Government payroll findings indicates a generic institutional and internal control weaknesses, some of which are highlighted below;

2.1 Systemic Weakness in the Management of Government Payroll System.

a) Payroll Management Manipulation.

Among the six departments, that Public Service Management Division (PSMD) has is the Payroll Management and Establishment Control (PMEC) and the Public Support Service Department (PSSD). These are responsible for effectively managing an integrated Payroll Management and Establishment Control (PMEC) System in order to monitor and control expenditures on personal emoluments in the Public Service. In addition, among other functions, the Secretary to the Treasury, who is the National controlling officer is mandated under Section (7) subsection (b) of the Public Finance Management Act No 1 of 2018 to *"Manage the Government payroll and Constitutional payments in accordance with the Constitution"*. Further, the Public Finance Management Act No 1 of 2018 mandates the Accountant General *"to design, implementation and monitoring and evaluation of financial management systems, policies and guidelines in accordance with this Act or any other law for the proper management of public resources"*. All the above internal control systems are made to foster transparency, accountability and integrity in the management of the payroll system and ensure that public funds are safeguarded and utilised accordingly.

Observations

Issue #1: Failure to Reconcile the Salaries Account.

Based on the institutional internal control arrangements highlighted above, TI-Z wonders how such a system could allow the levels of disorganization and weakness highlighted in the audit report. The audit found that salaries amounting to ZMW95.4 billion were processed through the salary account at ZANACO Bank but there was no evidence of any reconciliation having been done on this account by the Ministry of Finance. In addition, unutilized funds grew by 79% from ZMW42.5 million in June 2021 to ZMW75.4 million in June 2022 and by end of July, 2022; these accumulated funds had not been returned to the consolidated fund. The lack of reconciliation actually justifies why unutilized funds were not detected over time such that the amount grew by 79%. Further, this clearly is a red flag for corruption, abuse and misappropriation of funds. The questions TI-Z ask are; *which office, at MoF, is responsible for bank reconciliations? Why wasn't the reconciliation done for such a long period? Where was the Accountant General's office in all this? Is it possible that financial audits during the period 2017 – 21 could not detect this anomaly? If this was detected, what corrective measures were taken? Which office provides oversight on salaries processed through this account?*

This state of affairs could be indicative of institutional capture by systems or individuals with influence over governance institutions. If this is the case, then fears of established and well organised cartels within the governance institutions are justified. We and other stakeholders have repeatedly raised concerns about the magnitude of political influence in the civil service and on the governance

institutions. What would incapacitate established Government institutions to the extent of failure to execute their mandate other than political patronage and politicization?

Issue # 2: Fraudulent Diversion of Salaries.

The audit findings established that three (3) ministries had eighty-Seven (87) end users diverted salaries amounting to ZMW 10.5 million) into their personal accounts as well as to other accounts belonging to individuals not in the public service. This clearly indicates a well-coordinated manipulation of the system to the extent of introducing and remunerating non-existent personnel. Questions being asked by TI-Z are that; *how can an individual officer manipulate the payroll system? Which office is in charge of providing oversight and internal controls to the payroll system? Are there measures to sanction officers in charge of managing the payroll during the period under review? Where was the Accountant General, Internal Audit in the institutions involved and Secretary to the Treasury for such anomalies to go on for years without being noticed?*

TI-Z is of the view that such an anomaly to go on unnoticed and not addressed until the audit calls for worry about the integrity of our systems, the execution of internal controls and whether or not this is but a tip of the iceberg of the willful public funds' abuse loopholes created by individuals.

Issue # 3: Irregular upgrading of teachers' salaries.

Irregular upgrading of teachers' salaries is evidence of weak payroll management system internal controls and audits and clearly shows that the authority and processes to adjust payroll records was not restricted. It also shows that there were no Payroll audits undertaken regularly to identify ghost workers, fill data gaps, and identify control weaknesses thereby resulting in 539 teachers having their salary scales changed to higher positions without authority from relevant authorities leading to excess salary payments amounting to ZMW2.5 million.

In addition, the audit established that sixty-one (61) officers who left their institutions without permission irregularly received salaries amounting to ZMW6.2 million. Again, it is unbelievable that such a comprehensive and automated payroll system could be easily manipulated without notice. TI-Z believes that this was clearly a deliberate action to benefit a small group of people who captured and skewed the system to their benefit. The questions TI-Z asks again are that; *was the teaching service commission involved in the process? If yes, what role did they play in the process? Who recommended the upgrading of the teachers' salaries? What documents were used to upgrade the salaries of these teachers? Did the Secretary to the Treasurer, being the chief controlling officer, authorize the upgrade?*

The findings clearly shows that manipulation of the governance systems has been personalized and institutionalized and government is losing huge sums of public funds meant for needy areas of the country's development. Further, Transparency International Zambia (TI-Z) is mystified that despite the existence of oversight institutions, system did not detect any of these problems during the period under review until the audit time.

b) Time lag in the Audit of the Payroll as an intentional Corruption Risk.

The mandate or functions of the Auditor General are stipulated in Article 250(1) of the Constitution of Zambia (Amendment) Act No. 2 of 2016 as follows: These among others include, Audit the accounts of state organs, state institutions, provincial administration and local authorities and institutions financed from public funds; Audit the accounts that relate to the stocks, shares and stores of the Government; 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; Carry out special, environmental, procurement and contract audits or reviews of the state organs, state institutions and private institutions etc. However, Zambia has for a long period of time not conducted a comprehensive or partial census on the civil service to increase reliability of personnel databases.

Issue # 4: Unaccounted for Officers.

The findings established that Nineteen (19) ministries had 9,800 unaccounted for officers who were not known by the institutions and were paid ZMW707 million in the period under review. The findings imply that despite the constitutional mandate of the Office of the Auditor General, it is worrying that it took this long for the weaknesses to be highlighted. TI-Z wonders *why the audit took so long to be conducted. Are there political factors at play for the audit to be malfunctional? What measures have been taken to sanction these actions? How often does the census of serving civil servants undertaken?*

In a well and functioning democracy and good governance, issues of accountability, transparency and integrity are given priority in the management of public resources. It is clear from the findings that of the length of time taken for an audit to be undertaken was intended to defraud the government.

c) Controlling Officer's Role in Payroll Management a Systemic Risk.

Under the Public Service Management Division (PSMD), the Support Service Department is responsible for effectively managing an integrated Payroll Management and Establishment Control (PMEC) System in order to monitor and control expenditures on personal emoluments in the Public Service. The PMEC System is decentralized to all Provincial Headquarters and Lusaka-based Ministries/ Institutions that are connected to a Government Wide Area Network (GWAN). The department works in collaboration with the Secretary to the Treasury and the Accountant General at the Ministry of Finance. With the introduction of IFIMIS, the payroll systems to some extent should have been secured to levels that would have not been easy to manipulate and defraud it.

Issue #5: Payroll Management System Irregularities.

The findings identify significant systemic risks with respect to the adequacy of internal control mechanisms. The findings suggest that personnel databases remained highly fragmented, were not directly linked and were not updated regularly to reflect newly hired civil servants, terminations, retirements, and transfers. The questions TI-Z is asking are that *why was PSMD not updating the systems? How possible is it possible that no Government institutions involved in payroll management could detect these anomalies? Why didn't the secretary to the treasury query the non-updating of the systems? Who was in charge of including multiple entries of a single servant? Have the civil servants who received multiple wages been identified?*

Based on this audit report, TI-Z believes that part of the database may not have been linked to statutory payments platforms as evidenced by the inclusion of multiple entries of a single civil servant, allowing them to receive multiple wages and resulted in twenty-five (25) officers from four (4) institutions having irregularly drawn double salaries amounting to ZMW967, 411 through the same officers' individual accounts using two different employee numbers. This exposes weakness in terms of how government institutions are integrated.

Issue #6: Intentional Unrealistic Budget for Civil Service Remuneration.

The analysis indicates that the use of appropriate tools for budgeting and controlling personnel expenditures during the period under review were weak. This therefore led to the provision of unreliable information which reduced the quality of budgetary estimates and thus the credibility of

the budgetary process as a whole since the wage bill represents the bulk of current expenditures. The findings also suggest that the corruption elevated the payroll risks and that public officials were claiming payments to which they were not entitled. This resulted in some staff members creating “phantom” public officials in the payroll system for the purpose of obtaining their salaries or allowances, a payroll employee stealing money directly from the payroll and a payroll employee improperly disclosing personal or banking details to a third-party. Again, it’s unbelievable that such a situation would arise in Government established system.

2.2 Lack of transparency and Integrity in the Recruitment of Civil Servants.

In Zambia, recruitment of civil servants is done by the Public Service Management Division under the Department of Recruitment and Placement. The mandate of the Department is to facilitate recruitment and placement for the Public Service in order to ensure equity, industrial harmony and improved organizational effectiveness. It also provides technical support to Government Ministries and Provinces in order to monitor compliance to human resource guidelines and transfer skills to Human Resource officers. The Civil Service Commission under the Service Commission Act No. 10 of 2016 performs among other function promoting a code of ethics and human resource management principles and values for the Civil Service, in accordance with the values and principles set out in Act, establish standards and guidelines on human resource management for the Civil Service. All these internal control measures are aimed at ensuring that there is order to ensure equity, industrial harmony and improved organizational effectiveness.

Issue #6: Irregular Recruitment.

The findings established that there was a direct lack of transparency and integrity in the recruitment of civil servants at all stages. This resulted in irregular recruitment of 239 officers without appointment letters and paid amounts totaling ZMW70.3 million. Further, 299 teachers were placed on the payroll and paid salaries totaling ZMW3 million without authority from the Teaching Service Commission. The questions that TI-Z is asking are that *which office/officer irregularly recruited these officers? How can an officer assume office without an appointment letter? Who assessed the qualification of these officers? Was there no political influence in all this saga? Did the Secretary to the Treasury and Accountant General give a treasury minute supporting the recruitment of these officers?*

What can cause administrative corruption and partisanship in the civil service apart from politicization and patronage? The level of impunity on such maneuvers suggest that this mal-administration was intended and well-coordinated to defraud the systems and make it susceptible to political demands.

3.0 Impact of Resource Mismanagement on Public Service Delivery.

While theft and corruption initially compromise the level of accountability, and result in a lack of transparency and responsibility, these eventually lead to unemployment, political instability, inequality and ineffective public service delivery. The resources that have been lost during the period under review would have been used to improve public service delivery in different social sectors.

4.0 Conclusion.

Transparency International Zambia concludes that, during the period under review, there was willful manipulation of the recruitment and payroll systems, which led to theft of Government financial resources. Further, it is apparent that governance systems were captured and interfered with to

benefit a small group of people. Pervasive political interference and patronage, partisan monopoly and lack of professionalism by civil servants involved shows the extent of degradation of our governance systems. The level of lack of accountability in this all issue is unacceptable and therefore Law Enforcement Agencies (LEAs) are being challenged to move in and as a matter of urgency. We also challenge the government to demonstrate accountability and responsibility by ensuring that based on the audit findings, corrective measures are taken and inform the citizenry about these measures as a matter of transparency and responsiveness. Clearly, the status shows that the civil service was unresponsive and inefficient, with an absence of a performance culture, a lack of accountability, as well as planned/institutionalized non-compliance to financial and administrative regulations. This created room for institutional capture, administrative corruption and manipulation in the civil service as demonstrated by the weaknesses in the recruitment placement and payroll management systems. Despite the seriousness of this problem, the Government demonstrated no sense of urgency to fight financial mismanagement and corruption.

5.0 Recommendation.

- 1) The Ministry of Finance should strengthen its oversight role in the management of the wage bill, the determining of manpower levels in line ministries (establishment), in assessing financial implications of staff changes and retrenchment policies, as well as the financial components of the pay structure for the civil service as a whole.
- 2) The Public Service Management Division (PSMD) should improve the payroll system in order to automatically integrate employee exits so that payments to departing employees cease on their departure, run fortnightly expenditure reports, recognize and notify line management of anomalies and overpayments and recover over-payments by deducting the excess amount from a subsequent payment.
- 3) The Executive should end Partisan Administrative Impunity; Effective law enforcement is essential to ensure that the corrupt are punished and break the cycle of impunity, or freedom from punishment or loss. Successful enforcement approaches should be supported by a strong legal framework, law enforcement branches and an independent and effective court system.
- 4) The Government should reform public administration and financial management in the civil service. Reforms focusing on improving financial management and strengthening the role of auditing agencies can achieve greater impact than public sector reforms on curbing theft and corruption.
- 5) Investigative wings should conduct further investigations on all suspected fraudulent or criminal activities.
- 6) PSMD should improve human resource planning to ensure that human resource forecasting, recruiting and related resource allocation is done adequately. There is also need to enhance the capacity of officers providing oversight on payroll in MPAs, controls and to make sure that all systems are strengthened.
- 7) The Auditor General's Office should continue and upscale the production of special audits on an annual basis.



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