REPUBLIC OF ZAMBIA

REPORT OF THE

AUDITOR GENERAL

ON THE

ACCOUNTS OF PARASTATAL BODIES

AND OTHER STATUTORY INSTITUTIONS

FOR THE

FINANCIAL YEAR ENDED

31st DECEMBER 2019

OFFICE OF THE AUDITOR GENERAL

VISION: A dynamic audit institution that promotes transparency, accountability and prudent management of public resources.

MISSION: To independently and objectively provide quality auditing services in order to assure our stakeholders that public resources are being used for national development and wellbeing of citizens.

CORE VALUES:
- Integrity
- Professionalism
- Objectivity
- Teamwork
- Confidentiality
- Excellence
- Innovation
- Respect

PREFACE

The audit of selected Parastatal Bodies and Other Statutory Institutions for the financial year ended 31st December 2019 was conducted in accordance with the Provisions of Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016, the Public Audit Act No. 13 of 1994, the Public Finance Act No. 15 of 2004, the Public Finance Management Act No. 1 of 2018 and International Standards for Supreme Audit Institutions (ISSAIs).

This report highlights matters concerning the management and financial performance of selected Parastatal Bodies and Other Statutory Institutions. These matters include weaknesses in corporate governance, failure to prepare and have accounts audited, poor management of loans, pension funds and contracts, and failings in internal control systems.

It is my sincere belief that, those charged with the responsibility of oversight and managing public resources will take appropriate action to address the matters brought to their attention in this report.

Dr. Dick Chellah Sichembe
AUDITOR GENERAL

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EXECUTIVE SUMMARY

This Report has been produced in accordance with Article 250 of the Constitution of Zambia (Amendment) Act No. 2 of 2016, Public Finance Act No. 15 of 2004, the Public Finance Management Act No.1 of 2018, Public Audit Act No. 13 of 1994 and International Standards for Supreme Audit Institutions (ISSAIs).

This Report contains paragraphs on nineteen (19) Parastatal Bodies and Other Statutory Institutions that were audited and remained with unresolved issues at the time of publication.

During the audit process, there were several levels at which the Office interacted and communicated with those charged with management of the institutions whose accounts were audited. The purpose of this interaction was to provide an opportunity for the responsible officers to clarify and take corrective action on the findings of the audits.

Some of the issues raised in this Report are;

i. Weaknesses in corporate governance,

ii. Failure to produce financial statements,

iii. Poor financial management and operational performance,

iv. Poor management of Pension Funds,

v. Poor returns on investment,

vi. Poor management of loans,

vii. Failure to recover pension debt,

viii. Poor management of Power Purchase Agreements and Energy Funds,

ix. Poor management of contracts, and

x. Failure to adhere to applicable Government policies.

Other irregularities raised in this Report are as shown in table 1.0 below.

Table 1.0: Summary of Other Irregularities

No.	Details	Amount K	Percentage (%)
1	Failure to Settle/Remit Statutory Obligations	1,006,032,684	5.63
2	Unsupported Payments	41,339,604	0.23
3	Unaccounted for Stores	1,637,039	0.0092
4	Unretired Imprest	578,342	0.0032
5	Missing Payment Vouchers	1,250,742	0.0070
6	Wasteful Expenditure	46,783,116	0.26
7	Failure to Collect Funds	16,614,961,673	92.99
8	Questionable Payments	4,739,791	0.0265
9	Irregular Payments	17,633,217	0.0987
10	Failure to Recover Loans	128,700,227	0.72
11	Failure to Follow Procurement Procedures	3,212,084	0.02
12	Unaccounted for Revenue	70,068	0.0004
	Total	**17,866,938,587**	**100**

PART I

PREAMBLE

1. INTRODUCTION

The roles and responsibilities of the Auditor General as regards the management of public resources, reporting and accountability are as contained in the Constitution of Zambia (Amendment) Act No. 2 of 2016, the Public Finance Act No. 15 of 2004, Public Finance Management Act No. 1 of 2018, the Public Audit Act No. 13 of 1994 and International Standards for Supreme Audit Institutions (ISSAIs).

The Report on the Accounts of Parastatal Bodies and Other Statutory Institutions for the financial year ended 31st December 2019 contains paragraphs on nineteen (19) Parastatal Bodies and Other Statutory Institutions that were audited, but the issues remained unresolved at the time of publication.

The Report also includes findings from the audits of Information and Communication Technology (ICT) Systems that some organisations have implemented in order to improve on the efficiency and effectiveness of service delivery.

In preparing this Report, Controlling Officers and Chief Executive Officers of the affected organisations were availed draft paragraphs for comments and confirmations of the correctness of the facts presented. Where management comments were received and varied materially with the draft paragraphs presented, amendments were made accordingly.

2. SCOPE AND METHODOLOGY

This Report is as a result of audits of selected Parastatal Bodies and Other Statutory Institutions for the financial year ended 31st December 2019. Although the Report is for the financial year ended 31st December 2019, it includes audits covering the financial years 2015, 2016, 2017, and 2018 for institutions that had not been audited for those years.

The audits covered in this report are in two (2) categories:

i. Institutions whose Financial Statements are audited and certified by the Auditor General. See Appendix 1.

ii. Institutions whose Financial Statements are audited and certified by private auditors in line with appropriate pieces of legislation and are reviewed by the Auditor General. It is necessary that such accounts are reviewed, and the result of such reviews are reported by the Auditor General in compliance with relevant legislation. See Appendix 2.

The report is as a result of programmes of test checks, inspection and examination of financial, procurement, projects and other records maintained by public officers entrusted with handling public resources. The audit programmes were designed to give reasonable assurance of financial management in the audited institutions.

3. INTERNAL CONTROL

In this Report, specific mention is made of non-preparation of financial statements, non-adherence to procurement procedures, irregular payments and poor financial performance among other issues by the respective institutions. These are clear indicators of internal control weaknesses in the Institutions audited.

PART II

PARAGRAPHS

4. DEVELOPMENT BANK OF ZAMBIA

4.1 Background

a. Establishment

The Development Bank of Zambia (DBZ) was incorporated as a development finance institution under the Development Bank of Zambia Act No. 35 of 1972 which was amended by the Development Bank of Zambia Amendment Act No. 11 of 2001 and Development Bank of Zambia Amendment Act No. 24 of 2005.

The mandate of the Bank is to provide short, medium, and long-term finance, and provision of related business advisory services.

b. Shareholding

During the period under review, the distribution of the issued and allotted shares was as shown in table 4.1 below.

Table 4.1 Share Distribution

Type of Shares	Number of Shares	Shareholding Percentage
Class 'A' Share Capital		
Golden Shares	1	0.080
GRZ	4,508	63.529
NAPSA	9	0.127
ZANACO	5	0.009
ZSIC	500	7.046
Class 'B' Share Capital		
Valentine Chitalu	3	0.042
Eximbank of India	1,400	19.729
Development Bank of South Africa	670	9.442
Shares alloted	**7,096**	**100.00**
Class A Shares Pending Allotment	55,555	
Total No. of Shares	**62,651**	

c. Governance

The Bank is governed by a Board of Directors comprising ten (10) members who are appointed on three (3) year renewable terms. The chairperson and three (3) other members are appointed by the Minister responsible for Finance while the remaining six (6) members are appointed by the holders of class ‘B’ shares

d. Management

The operations of DBZ is the responsibility of the Managing Director who is the Chief Executive and is assisted by Directors responsible for Finance, Human Resource and Administration, Investment and Portfolio.

The Managing Director is appointed by the Board on three (3) year renewable contract.

e. Source of Funds

The Funds for the Bank consist such moneys raised through:

- Interest income accrued from loans given out to customers
- Such sums of money as the Bank may acquire by virtue of grants or raise by means of loans;
- Such sums of money as may be appropriated by Parliament; and
- Such other sums of money as may accrue to it in the course and on account of its business.

4.2 Audit findings

An examination of financial and other accounting records maintained at DBZ for the financial years ended 31st December 2018 and 2019 revealed the following:

a. Budget and Income

During the period under review, the Bank budgeted to generate income from interest amounting to K514,298,352 against which K164,832,000 had been realised resulting in a negative variance of K349,466,352. See table 4.2 below.

Table 4.2: Budget and Income

No.	Period Ended	Budget K	Actual K	Variance K
1	31.12.2018	413,169,352	106,330,000	(306,839,352)
2	31.12.2019	101,129,000	58,502,000	(42,627,000)
	Total	**514,298,352**	**164,832,000**	**(349,466,352)**

b. Financial Analysis

i. Financial Performance– Statements of Comprehensive Income

The DBZ’s Statements of Comprehensive Income for the financial years ended 31st December 2018 and 2019 were as shown in table 4.3 below.

Table 4.3: Statement of Comprehensive Income

Details	2019 K'000	2018 K'000
Interest income	58,502	106,330
Interest expense	(38,117)	(32,424)
Net interest income	**20,385**	**73,906**
Impairment charges for credit losses	(142,486)	(23,669)
Net income after impairment charges for credit losses	**(122,101)**	**50,237**
Fee and commission income	5,576	8,361
Fee and commission expense	(103)	(119)
Net fee and commission income	**5,473**	**8,242**
Other operating income		
Investment income	1,715	6,639
Share of profits of associates	5,638	484
Other income	9,869	4,802
Net foreign exchange gains	30,072	21,098
	47,294	**33,023**
Total (expenses)/operating income	**(69,334)**	**91,502**
Employee benefits expenses	(88,205)	(84,777)
Other expenses	(13,389)	(24,563)
Impairment of equity investment	-	-
Depreciation and amortisation	(2,536)	(2,773)
	(104,130)	**(112,113)**
Loss before taxation	**(173,464)**	**(20,611)**
Taxation	(29,352)	11,832
Profit after taxation	**(202,816)**	**(8,779)**
Other comprehensive income		
Items that will not be reclassified to profit or loss	-	-
Fair value gain on Equity Investments	11,597	-
Total other comprehensive income	**11,597**	-
Total comprehensive income for the year	**(191,219)**	**(8,779)**

Source: Development Bank of Zambia financial statements for the financial years ended 31st December 2018 and 2019

An analysis of the Statements of Comprehensive Incomes revealed the following:

- **Reduction in Net Interest Percentage**

  Net Interest Percentage expresses net interest income as a percentage of gross interest income. It helps to measure the profit margins the bank is generating on its banking products.

  An analysis of the movement of net interest percentage revealed that in the year 2018 the ratio was at 70% and reduced by half to 35% in 2019.

  Further, net interest income reduced by K53,521,000 (72%) in 2019 from 2018 while interest expense increased by K5,693,000 (18%).

  In addition, impairment charges for credit losses increased by K118,817,999 (502%) from 2018 to 2019, thereby increasing the net income losses after impairment charges by 343%. The increase in impairment of charges was attributed to poor loan performance and as such contributed significantly to the decline in profits. See table 4.4 below.

Table 4.4: Net Interest Income Percentage

Details	2019 K'000	2018 K'000	Change Over Period K'000	Change in %
Interest income	58,502	106,330	47,828	**45**
Interest expense	(38,117)	(32,424)	5,693	**(18)**
Net interest income	**20,385**	**73,906**	**53,521**	**72**
Impairment charges for credit losses	(142,486)	(23,669)	118,817	**(502)**
Net income after impairment charges for credit losses	**(122,101)**	**50,237**	**172,338**	**343**
Net Interest Income Percentage	**35%**	**70%**		

- **Declining Net Profit Margins**

Net Profit Margins expresses profits before taxation as a percentage of interest income. In 2018, the Bank's net profit margin was negative 19% and this worsened to negative 297% in 2019 reflecting the bank's failure to generate adequate income to meet its expenditure. See table 4.5 below.

Table 4.5: Net Profit Margin Percentage

Details	2019 K'000	2018 K'000	Reduction K'000	%
Interest income	58,502	106,330	47,828	
Profit before taxation	(173,464)	(20,611)	152,853	-742%
Net Profit Margin	**-296.51%**	**-19.38%**		

- **Impairment Losses and Charges**

International Accounting Standard (IAS 39), Financial Instruments – Recognition and Measurement, requires that financial assets should be impaired when the present value of future cash flows of the financial asset is less than its carrying amount in the books of the entity. DBZ had impairment losses arising from poor customer loans and advances performance. This meant that the entity may not recover the entire value of loans and advances to customers.

As can be seen in the table 4.6 below, impairment losses increased by K118,817,000 representing 502% from K23,669,000 in 2018 to K142,486,000 in 2019.

Table 4.6: Impairment Losses

Details	2019 K'000	2018 K'000	Increase in impairment losses K'000	% Change
Impairment of loans and advances to customers	138,486	23,669	114,817	
Equity security write off	4,000	-	4,000	
Total impairment	**142,486**	**23,669**	**118,817**	**502%**

ii. Statements of Financial Position

The DBZ's Statements of Financial Position for the financial years ended 31st December 2018 and 2019 is as shown in table 4.7 below.

Table 4.7: Statement of Financial Position

Details	2019 K'000	2018 K'000
Cash and cash equivalents	93,954	71,852
Loans and advances to other banks	-	-
Loans and advances to customers	891,154	838,318
Equity investments	101,130	103,282
Investment in associates	34,343	28,705
Investment properties	31,797	20,200
Property and equipment	20,692	22,393
Intangible assets	591	795
Deferred tax asset	0	44,822
Other assets	62,660	69,562
Total assets	**1,236,321**	**1,199,929**
Liabilities		
Trade and other payables	15,886	18,254
Loans and borrowings	567,168	489,180
Deferred tax liabilities	0	0
Current tax liabilities	0	17,871
Other liabilities	309,093	141,629
Total liabilities	**892,147**	**666,934**
Equity		
Share capital	299,160	299,160
Funds awaiting allotment of shares	236,176	236,176
General Banking Reserves	72,798	72,798
Fair value reserve	30,789	19,192
Revaluation reserve	17,929	17,929
Retained earnings	(312,678)	(112,260)
Total equity	**344,174**	**532,995**
Total liabilities and equity	**1,236,321**	**1,199,929**

Source: Development Bank of Zambia Annual Reports for 2018 and 2019

- **Declining Return On Equity**

  Return on Equity (ROE) expresses profit after taxation (PAT) as a percentage of equity. It measures how much profit an entity generated for the benefit of its shareholders.

  Analysis of ROE for the period under review revealed that it was declining as the Bank made losses in both years. In 2018, the ROE was negative 2% and it worsened in 2019 to negative 59% as shown in table 4.8 below.

Table 4.8: Return on Equity

Details	2019 K'000	2018 K'000
Loss After Tax	(202,816)	(8,779)
Total Equity	344,174	532,995
ROE	**-59%**	**-2%**

- **Decline in Equity**

  The Conceptual Framework of International Financial Reporting Standards (IFRSs) define Equity as residual value of assets after deduction of all liabilities. It measures the value of assets that remain exclusively for shareholders.

  The Bank had equity of K532,995,000 in 2018 which reduced by 35% to K344,174,000 in 2019. The reduction was attributed to deficit in reserves that worsened by K200,418,000 in 2019 when compared with 2018. See table 4.9 below.

Table 4.9: Changes in Equity

Details	2019 K'000	2018 K'000	Two Year Change K'000	Change in Percentage
Equity				
Share capital	299,160	299,160	-	**0%**
Funds awaiting allotment of shares	236,176	236,176	-	**0%**
Revaluation reserve	17,929	17,929	-	**0%**
Fair value reserve	30,789	19,192	11,597	**60%**
General Banking Reserve	72,798	72,798	-	**0%**
Deficit in reserves	(312,678)	(112,260)	(200,418)	**179%**
Total equity	**344,174**	**532,995**	**(188,821)**	**-35%**

- **Deteriorating Interest Margins**

Net Interest Margin is a measurement comparing the net interest income a financial entity generates from its credit products like loans and mortgages. It is calculated by comparing the net interest income against average earning assets. The Bank had a net interest margin of 10% in 2018 which deteriorated by 8% to 2% in 2019 as shown in table 4.10.

Table 4.10: Net Interest Margins

Details	2019	2018
Net Interest Income (K)	20,385	73,906
Average Earning Assets (K)	864,736	733,252
Interest Margins	**2%**	**10%**

- **Debt to Equity Ratio**

Debt to equity ratio measures a company's debt relative to the total value of its equity. It helps to gauge the extent to which an entity is using borrowed capital to fund its operations and growth.

An analysis of the debt/equity ratio for DBZ during the period under review showed the Bank's increasing reliance on debt finance for its operations as shown in table 4.11 below.

Table 4.11: Debt/Equity

Details	2019 K'000	2018 K'000	1 Year Change K'000	1 Year Change %
Debt	892,147	666,934	225,213	34%
Equity	344,174	532,995	(188,821)	-35%
Debt/Equity	**259%**	**125%**		

As can be seen in the table above, the debt/equity ratio for the Bank increased from 125% in 2018 to 259% in 2019, which was higher than the industry benchmark of 100% by 25% and 159% respectively.

Further, the Bank's debt increased by 34% while equity decreased by 35% reflecting its inability to generate and retain adequate profits to finance growth.

c. Operational Matters

i. Failure to Pull Out Equity Shareholding

A scrutiny of the Bank's Annual Report for 2018 and Share Certificates for Norsad Finance Limited revealed that DBZ was a 25% equity partner holding 400 each of Ordinary and Preference shares in Norsad Finance Limited.

In addition, the Bank's Annual Report for 2019 revealed that the Bank also held 250,000 ordinary shares in Kaleya Smallholders Company Limited and was a 25% equity partner.

However, a review of minutes of the 170th Board of Directors meeting held on 10th May 2018 revealed that the Board made a resolution that DBZ pulls out its equity stake from both Norsad Finance Limited and Kaleya Smallholders Company Limited as they were not yielding returns to the Bank. Although the resolution did not stipulate the timeframe within which the Bank was to effect the pulling out process, the Bank had not commenced the process of disposing of the equity shares in both Norsad Finance Limited and Kaleya Smallholders Company Limited as at 31st December 2020.

Further, the two (2) investments valued at K101,130,000 (Norsad Finance Limited) and K34,343,000 (Kaleya Smallholders Company Limited) as at 31st December 2019, had not yielded any dividends since 2013 when both entities' Investments were acquired.

ii. Delayed Allotment of Issued Shares

In paragraph 5 of the Report of the Auditor General on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December 2017, mention was made that "In 2013, DBZ signed an agreement with the Government for a US$20 million (K104,511,200) loan called Eurobond Line of Credit. The purpose of the line of credit was to support small and medium enterprises and was repayable in ten (10) years effective 27th March 2013. Interest was charged at 7.3% per annum.

On 30th December 2016, DBZ and Government signed a recapitalization agreement which converted the Eurobond loan (line of credit) into equity. At the time of conversion, the carrying amount of the loan in the books of DBZ was K136.2 million (US $13.6 million) and was transferred to Equity and accounted for as such. Further, Government injected more capital into DBZ of K23 million and K12 million in 2015 and 2016 respectively."

A review of the matter in November 2020 revealed that the Bank in 2016 had converted the US$20 million (K104,511,200) Eurobond Line of Credit loan into equity. At the time of conversion, the carrying amount of this loan in the books of DBZ was US $13.6 million (K136.2 million). The Bank used part of the Eurobond converted equity and additional financing in amounts totalling K103.2 million which the Government injected into DBZ between 2011 and 2016 as equity, to issue 27,938 shares which were valued at a total of K236,176,000. According to the 2018 and 2019 financial statements, the issued shares were awaiting allotment.

Further, in a correspondence dated 1st February 2017 from the Ministry of Finance to DBZ, the Ministry acknowledged on behalf of the Government, receipt of Share Certificate for 55,555 Class A shares valued at US$1,000 which had been issued by the Bank.

However, the 55,555 Class shares A and 27,938 issued shares from part of the converted Euro Bond and additional financing to equity, could not be reconciled by DBZ as at 31st December 2020.

iii. Failure to Access Approved Line of Credit – P-ZM-HAA-001

On 21st September 2016, the African Development Bank Group (AfDB) approved a sovereign guaranteed dual – currency Line of Credit (LOC) to the Development Bank of Zambia amounting to US$50,000,000. The LOC numbered P-ZM-HAA-001 had a tenure of ten (10) years, inclusive of grace period of three (3) years and was to be disbursed in United States Dollars and Zambian Kwacha with the expiry date of 30th June 2020.

According to a letter dated 23rd July 2020, from the African Development Bank to the Development Bank of Zambia, amounts totalling US$500,000 were disbursed to DBZ to support the implementation of a Technical Assistance (TA) Programme. The letter further indicated that, despite the AfDB providing guidance and support on how DBZ could meet the requirements for accessing the outstanding loan balance, DBZ failed to follow and meet the prescribed conditions set out in the Agreement. Consequently, the facility was on 9th November 2020 cancelled with undisbursed balance of US$25,500,000 and K248,535,000.

The inability by DBZ to access the LOC resulted in failure to meet income budgets by K306,839,352 and K44,627,000 in 2018 and 2019 respectively as the Bank could not issue new loans to approved clients. In addition, the bank's income decreased by 45% from K106,330,000 in 2018 to K58,502,000 in 2019.

iv. Failure to Settle Loan

A review of the 2019 Annual Report revealed that during the period from April to June 2018, the bank had acquired three (3) loans from the National Pension Scheme Authority (NAPSA) in amounts totalling K60,600,000. See table 4.12 below.

Table 4.12: Loans Obtained from NAPSA

No.	Date of Loan Acquisition	Amount K	Tenure	Terms
1	30-Apr-18	27,800,000	2 years	4% with floor of inflation plus 2% per annum
2	1-Jun-18	22,800,000	2 years	
3	23-Jun-18	10,000,000	1 year	interest rate at floating 6 months treasury bills rate plus 1% per annum
	Total	**60,600,000**		

As at 31st December 2020, only interest in amounts totalling K1,374,134 had partially been paid leaving a balance of K102,482,890 (K41,882,890 - interest and K60,600,000 - principal).

v. Failure to Service the GRZ Loan – Rural Finance Programme Subsidiary Loan

In 2014, the Bank obtained a subsidiary loan from GRZ – Rural Finance Programme Subsidiary Loan of US$4 million (K24.8 million) with a credit line repayable over twelve (12) years, with a two (2) year grace period for on-lending to the private sector at the rate of 10% per annum.

In this regard, amounts totalling US$4 million had been disbursed to qualifying beneficiaries as at 31st December 2015.

According to 2019 Annual Report and a review of other records relating to the loan, subsidiary loan in amounts totalling K24.8 million (US$4.0 million) remained un-serviced by the Bank as at 31st December 2020.

Further, interest amounts that accumulated on the un-serviced Rural Finance Programme subsidiary loan could not be ascertained due to failure by management to provide information.

vi. Poor Performance of Loan Accounts

Part IV 17 (1) of the Statutory Instrument No. 142 of 1996 (the Banking and Financial Services Regulation's) states, "Subject to regulation (2), all loans of a bank or a financial institution shall be classified by the bank or the financial institution in one of the categories outlined in sub-regulations (3) to (6) as Pass, Substandard, Doubtful and Loss."

Contrary to the statutory instrument, a review of the Loan Management Information system (LMIS) for the period between 1st January 2015 and 31st December 2019, revealed that seventy nine (79) and thirteen (13) clients' loans worth K769,123,336 and US$31,458,404.12 respectively were classified below pass due to non- recovery by the Bank. See table 4.13 below.

Table 4.13: Loan Classification as at 31st December 2019

Loan Classification	No. of Loans	Amounts K	No. of Loans	Amounts US$
Substandard (90-119 days)	1	348,543	1	7,844,784.36
Doubtful (120-179 days)	2	10,421,047	0	-
Loss (180 days +)	76	758,353,745	12	23,613,619.76
Total	**79**	**769,123,336**	**13**	**31,458,404.12**

vii. Irregularities on Closed Loan Accounts

Part III Section 7 (1) of the Statutory Instrument No. 142 of 1996 (the Banking and Financial Services Regulations), states, "A bank or a financial institution shall place a loan in nonaccrual status if- (a) there is reasonable doubt about the ultimate collectability of the principal or the interest; (b) a specific provision has already been established on the loan; (c) except in the case of a restructured loan, the loan has been partially or entirely written off; or (d) the principal or the interest has been in default for a period of ninety days or more, or the account has been inactive for ninety days and deposits are insufficient to cover the interest capitalized during the period."

Further, Section 11 (1) of the Act stipulates that a renegotiated loan should return to performing status:

- when the rate charged for the loan is equivalent to the rate that would be charged on a new fully performing loan of similar merit,
- where all payments are fully current and senior credit management has determined, based on available and documented information, that there is no reasonable doubt about ultimate collectability of the principal or the interest, and
- where a loan is reclassified from non-current to performing status, all existing specific provisions shall be extinguished prior to that reclassification.

However, an examination of records for several loan accounts that were active during the period under review revealed that forty two (42) loan accounts with balances totalling US$7,551,320.58 and K272,816,925 were closed. A follow up on the individual cases revealed the following:

- five (5) loan accounts with balances amounting to K8,633,626 and US$4,049,901.07 could not be traced to which account they were either merged with or transferred to.
- ten (10) loans in amounts totalling US$2,926,620.27 and K84,333,070 had outstanding principal and accrued interest but were closed without justification.

viii. Failure to Manage Loan Portfolios - Projects

The Bank's core function is to provide short, medium and long-term financing products and services to viable business enterprises and institutions.

An analysis of the Portfolio Listing schedule availed for audit revealed that during the period from 2015 to 2018, the Bank had approved loans in respect of 100 projects amounting to K675,354,379 and US$29,736,594.67 out of which a total amount of K513,450,502 and US$22,193,700.49 were disbursed leaving a balance of K161,903,877 and US$7,542,894.18. The tenures for the disbursed loans ranged from one (1) to ten (10) years. See table 4.14 below.

Table 4.14: Loan Performance

Currency	Approved	Disbursed	Undisbursed
ZMW	675,354,379	513,450,502	161,903,877
US$	29,736,594.67	22,193,700.49	7,542,894.18

A review of records and physical inspection of selected Loan Projects revealed the following:

- **Chasasa Farms Limited-Failure to Recover Loan**

  In Paragraph 5 of the Auditor General's Report on Accounts for Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December 2017, mention was made that DBZ signed a loan facility with Chasasa farms amounting to K3,109,617 to support an Integrated Fish Farming Project and rearing of livestock and that by 30th April 2018, the loan balance had increased to K6,777,847 through unpaid principal and interest.

  In the Report of the Committee on Parastatal Bodies on the Report of the Auditor General on Accounts of the Parastatal Bodies and Other Statutory Institutions for the Financial year ended 31st December 2017, for the Fourth (4th) Session of the Twelfth (12th) National Assembly, the Committee recommended that the Bank provides a time frame within which the recovery of the loan would be completed failure to which DBZ was to sell off the Project assets procured using loaned funds and the pledged collateral, so that the loan and increasing interest could be paid off.

  A review of the matter in December 2020 revealed that DBZ management had not acted on Parliament's recommendations to provide a time frame within which the recovery of the loan would be completed. As at 31st December 2020, the outstanding balance on the loan had increased to K8,561,881 and the assets procured using the loan had not been sold off.

- **Zambia Cooperative Federation Milling Plant Project – Failure to Recover Advance Payment**

  On 15th August 2016, the Development Bank of Zambia entered into a Financing Agreement for the sum of US$9,448,905 (K95,008,740) with Zambia Cooperative Federation (ZCF) for the establishment of two (2) milling plants in Mbala and Luanshya.

  The funds were to be utilised for purposes of purchase of two (2) sets each of mechanical and electrical milling equipment; purchase of four (4) sets of steel storage silos; construction of two (2) weighbridges; design and support for the two (2) milling plants; and civil works for the two (2) milling plants.

  The tenure of the loan was six (6) years with interest rate of 28.47% charged annually. As at 31st December 2019, amounts totalling US$2,598,447.50 (K26,127,390) had been disbursed leaving a balance of US$6,850,457.50 (K68,881,350).

  On 12th December 2017, DBZ disbursed amounts totalling US$2,598,447.50 to Ganzhou Yitong Foreign Economic and Technical Cooperation Company Limited of China as Advance Payment and Designs preparation of the two (2) weighbridges and the milling plants that were to be constructed. However, DBZ failed to fully finance the milling project.

  In this regard, in a letter to DBZ dated 11th September 2019, nineteen (19) months after remitting the funds, ZCF reaffirmed the agreement reached by both parties to recall the US$2,598,447.50 from the Company.

  Therefore, on 18th August 2020, twelve (12) months after the agreement to recall the disbursed funds from the supplier was made, DBZ wrote to Ganzhou Yitong Foreign Economic and Technical Cooperation Company Limited requesting them to re-imburse the amount paid to them because the Bank would not continue to fund the project.

However, as at 31st December 2020, the Bank had not recovered the advance payment from Ganzhou Yitong Foreign Economic and Technical Cooperation Company Limited.

- **Chita Lodge Limited - Non-Performing Loan**

  On 17th April 2013, DBZ entered into a financing agreement for the sum of K18,000,000 with Chita Lodge Limited for the construction of a resort, purchase of four (4) boats, a bus and furniture and fittings in Samfya District and the loan was disbursed.

  The loan was restructured to K48,802,590 after approval of additional loans as at 31st August 2017 and had an extended grace period for repayments from 1st February 2015 to 31st December 2016.

  A review of records revealed that out the restructured loan amount of K48,802,590, the Bank had as at 31st December 2019 only disbursed amounts totalling K22,000,000 leaving a balance of K26,802,590 undisbursed and there was an outstanding loan amount of K88,627,116 comprising interest of K72,447,571 and principal K16,179,546.

  As of July 2020, Chita Lodge was owing an amount of K103,453,269 comprising interest K87,273,723 and principal K16,179,546. However, there was no documentary evidence of any legal action or re-negotiation made regarding the non-performing loan despite the facility being restructured.

- **Shimaini Investments Limited – Non-Performing Loan**

  On 15th January 2015, the Development Bank of Zambia entered into a financing agreement with Shimaini Investments Limited for the sum of K36,267,810 for the construction of a maize silo, milling plant and weight bridge in Kitwe at an interest rate of 22.25% with the repayment period of 120 months effective June 2015.

  On 14th August 2015, DBZ and Shimaini Investments Limited entered into a second loan agreement amounting to K1,791,000 (US$225,000) as additional funding for purchase of a milling plant. The loan was at an interest rate of 22.25% and the repayment period was eighty seven (87) months effective June 2015. On 15th May 2017, third and fourth additional financing agreements amounting to K2,900,000 and K2,953,600 (US$320,000) respectively were signed.

On 26th February 2018, DBZ entered into a restructuring agreement for these loans thereby bringing the loan amount to K31,751,431 at an interest rate of 22.25% with the repayment period of 120 months effective 1st July 2018.

As at 31st July 2020, Shimaini was owing an amount of K60,106,988 comprising interest K39,142,733 and principal K20,964,255. As at 31st December 2020, no action was taken by DBZ to recover the loan.

- **Africa Transmission Limited – Failure to Repay Loan**

  On 24th August 2017, DBZ entered into a financing agreement for the sum of US$857,108 with Africa Transmission Limited for the purchase and installation of a UHT soya milk plant and completion of the construction of a factory and farmhouse for senior workers. The tenure of the loan was four (4) years with interest rate charged at 14% per annum.

  During the period under review, the amount of US$857,108 had been disbursed. However, as at 31st December 2020, Africa Transmission Limited was owing an amount of US$1,141,393.33 comprising interest US$284,285.33 and principal of US$857,108.

  In this regard, the loan to Africa Transmission Limited was not performing.

- **Kalahari Drilling and Exploration Limited**

  On 19th October 2015, DBZ signed a loan contract with Kalahari Drilling and Exploration Limited for a total sum of K8,100,000 comprising of K500,000 as working capital Loan and K7,600,000 as a long term loan.

  The loan was for the refinancing of the borrower’s existing loan facility with Intermarket Bank, purchase of equipment to expand its business, consultancy fees and facility fees while the working capital component was for purchase of raw materials.

The Long-Term Loan was to be repaid in seventy two (72) equal monthly instalments with grace period of twelve (12) months while the Working Capital Loan was to be repaid in fifteen (15) equal monthly instalments with a grace period of three (3) months and annual interest rate of 13.5% plus a margin of 9.0% on both loans.

The following were observed:

- **Delayed Disbursements**

  Clause 3 (Availability and Final Draw-Down Date) of the facility Letter states, “both the Long Term and Working Capital facilities were to be available for drawing to the Borrower upon the Borrower meeting all the terms and conditions set out herein, for a period of up to 240 days from the date of acceptance of the offer set out in the Facility Letter (hereinafter referred to as Availability Period).”

  A scrutiny of records revealed that amounts totalling K7,297,973 had been disbursed to Kalahari Drilling representing 96.02% of the facility amount leaving a balance of K802,027 as at 25th November 2020.

  Contrary to clause 3 of the facility letter, the last disbursement was made on 27th March 2018, twenty one (21) months after the availability period.

  Further, in January 2016, the promoter ordered four (4) Pre-Mix Concrete trucks that were meant to increase the Company’s capacity and were to be paid for by DBZ. However, the Bank only started paying for the four (4) Pre-Mix Concrete trucks on 6th January 2017 and completed on 5th October 2017.

  According to correspondence from Kalahari Drilling and Exploration Limited to DBZ dated 14th December 2018, the company suffered extra costs in accumulated demurrage (storage) charges of US$98,000 due to delay by the Bank to disburse the loan.

  Consequently, Kalahari Drilling and Exploration Limited only managed to receive two (2) of the four (4) trucks in January 2019 after finding alternative sources of finance to have the trucks released from bondage.

- **Failure to Recover Loan**

  A review of loan book revealed that amounts totalling K7,297,973 had been disbursed leaving a balance of K802,027 as at 31st December 2019. By the same date, amounts totalling K19,145,940 comprising interest of K11,943,532 and principal K7,297,973 had been outstanding. However, it was observed that as at 20th November 2020, the outstanding loan amount had grown to K24,799,985 comprising interest and principal of K17,502,012 and K7,297,973 respectively.

  In this regard, the loan to Kalahari Drilling and Exploration Limited was not performing.

- **Mattaniah Investments Limited**

  On 11th November 2013, DBZ signed a medium-term loan contract with Mattaniah Investments Limited for a sum of K35,650,000 for the purpose of financing the construction of a 4,000 per hour capacity chickens processing plant in Siavonga.

  The loan was to be repaid in sixty (60) equal monthly instalments, effective twelve (12) months after the first disbursement with an interest rate of 9.75% plus a margin of 3% per annum.

  The following were observed:

  - **Delayed Disbursement of the Loan Facility**

    Clause 3 of the Facility Letter states, “the facility will be available for drawing for a period up to (90 days) from signature of the facility documentation (the “Signing Date”). A commitment fee at the rate of 1% will be charged on any amount not drawn at the end of the Availability Period, any amount not drawn will be cancelled and will not be reinstated.”

However, a scrutiny of the Client Loan Statement for the period 6th August 2014 to 31st December 2019 revealed that the disbursement of K35,649,800 was done in eight (8) instalments with the first being paid on 6th August 2014, five (5) months after the availability period and the last one on 2nd December 2016, thirty four (34) months after the availability period.

- **Failure to Obtain Revaluation Reports for Pledged Security**

  Clause 10.9 of the Facility Letter states, “the borrower covenants with the Bank that it shall carry out revaluation of the properties pledged as security every three years.”

  However, a review of the records provided for audit revealed that there were no revaluation reports on the properties held as collateral by the bank for the years 2016 and 2019.

- **Failure to Obtain Full Value of Security**

  Clause 2.15 of the Credit Appraisal Manual of 2014 states “Generally, all lending should be secured to improve the credit risk of the Bank and that security may take many different form including cash collateral, bank guarantees, debentures, mortgages, assignment of receivables and inventory, fixed with floating liens, pledge of shares and/or deposits, personal guarantees, and agricultural charge (as per the Agricultural Credits Act of 2010) and that security cover should be at least 125% of the exposure after discounting.”

  However, a review of Clause 4.1 of the application for Loan facilities revealed that the security that was offered at application stage was valued at K30,291,600 which was not sufficient to cover the loan amount of K35,650,000 applied for when discounted.

  Further, clause 7.1.6 required an Insurance Cover of K8 million as additional security, however, neither an insurance cover nor any other equivalent security valued at K8 million had been submitted to the Bank as at 31st December 2020.

- **Failure to Recover the Outstanding Loan**

  As at 31st December 2020, the Project had an outstanding loan of K67,325,448 comprising interest of K35,008,810 and principal K32,316,638.

  In this regard, the loan to Mattaniah Investments Limited was not performing.

- **Non-Operational Project**

  A physical inspection carried out in November 2020 revealed that the plant was not operational and was intact despite operations being disrupted for over two (2) years as can be shown in pictures 4.1 below.

Pictures 4.1: Procured assets from Loaned amount not Operating

- **ALD Plant and Fleet Management**

  On 19th September 2013, DBZ signed a Long-Term Loan facility contract with ALD Plant and Fleet Management for a sum of K12,852,000 for the establishment of a stone crushing, block making and concrete mixing batch plant.

  According to Clause 8 of the facility letter "securities required," the loan was secured against land on which the quarry was to be established, fixed and floating charge on all company assets and several guarantees of shareholders all valued at K22,480,000. The Long-Term Loan was to be repaid in sixty three (63) equal monthly instalments with a nine (9) months grace period and interest rate of 9.75% plus a margin of 3% per annum.

- **Over Disbursement of Facility**

  Clause 1 "facilities" of the facility letter dated 19th September 2013 stipulates that the Long-Term Facility was for an amount of K12,852,000.

  However, a scrutiny of the Client Statement revealed that amounts totalling K14,135,070 had been disbursed to the client as at 30th May, 2014 resulting in an over disbursement of K1,283,070.

  In this regard, the over disbursement by the Bank was in breach of the facility letter and the approval of the loan committee.

- **Failure to Recover Interest on Loan**

  As at 31st December 2020, the Project was operational with outstanding loan of K2,690,227 comprising entirely of interest as principal had been repaid.

  Further, it was observed that the period approved in the facility letter within which the loan and accumulated interest was to be paid expired in September 2019. In this regard, the loan repayment schedule was behind by fourteen (14) months.

- **Zambia National Building Society**

  On 4th April 2013, DBZ signed a K35,000,000 credit facility contract with Zambia National Building Society (ZNBS) for provision of mortgages to indigenous Zambians in order to enhance property ownership. The loan was secured against First legal Mortgage over selected commercial properties in Lusaka acceptable to the Bank with a total value of not less than K35,000,000 among others.

  The disbursement was to be done in tranches of K5,000,000 with each request supported by a mortgages pipeline of same value approved by

ZNBS. The Line of Credit Facility was to be repaid in twenty (20) semi-annual instalments of K250,000 with a six (6) months grace period for each tranche at interest rate of 9.25% less 0.25% per annum.

The following were observed:

- **Failure to Charge Stipulated Facility Fee**

  Clause 2.13.1(ii) on Facility Fees in the Credit Appraisal Manual states, "A facility fee is charged on the entire facility (both used and unused portions) regardless of the extent of usage at a rate of 2%. Payment of all fees required up front i.e., appraisal fees, facility fees and mortgage registration fees."

  Contrary to the Credit Appraisal Manual, a review of the facility letter dated 4th April 2013 revealed that a facility fee of K175,000 (0.5%) was provided for instead of K700,000 (2%) resulting in loss of K525,000.

- **Failure to Collect Mortgage Registration Fees**

  Clause 6.1.3 of the facility letter provides for an upfront payment of 1% for mortgage registration for each mortgage registered as security against the facility. In addition, clause 9.4 requires the Bank to make the facilities available to the Borrower after payment of all required upfront fees.

  However, a review of the client loan statement and documentation provided for audit revealed that mortgage registration fees in amounts totalling K350,000 were not charged and collected from the ZNBS. Further, there was no evidence of mortgage registration with Ministry of Lands for each of the four (4) properties pledged as security as at 31st December 2020.

- **Dana Oil Corporation Limited**

  On 2nd May 2018, DBZ signed a US$2,000,000 Working Capital Loan contract with Dana Oil Corporation Limited for the purchase of fuel stock and meeting operational costs. The loan was secured against Credit Guarantee from Meanwood General Insurance Company Limited for

US$2,500,000 plus interest among others. The Working Capital Loan was to be repaid in fifteen (15) monthly instalments with a thirty (30) days grace period. The interest was to be charged at prevailing six (6) months LIBOR plus a margin of 9.11% per annum to be re-priced semi-annually.

The following were observed:

- **Failure to Disburse Facility Amount in Full**

  Clause 3 of the facility letter dated 2nd May 2018 states, "the facility will be available for drawing by the Borrower upon Borrower meeting all the terms and conditions set out herein, for a period of up to 180 days from the date of acceptance of the offer set out in the facility letter (hereinafter referred to as the "Availability Period")."

  A scrutiny of the Client Loan Statement revealed that only US$867,043.32 out US$2,000,000 had been disbursed to the client with the last disbursement being made on 31st December 2018 which was fifty eight (58) days past the availability window leaving a balance of US$1,132,956.68 undisbursed.

  According to the minutes of the 23rd Projects Management Committee meeting held on 21st February 2019, the implementation of the project had delayed because of the funds that had not been disbursed by the bank.

- **Failure to Include Restructuring Fee on Variation**

  Clause 2.13.1 (iv) of the Credit Appraisal Manual states, "this fee reflects extra effort the Bank will use in reviewing and restructuring the facilities. This fee shall be charged at 2% of the amount rescheduled and is payable upfront." Additionally, clause 7.5 of the Facility Letter dated 2nd May 2018 stipulates that in the event that the facility is restructured, the borrower should pay 2% restructuring fee on the outstanding amount restructured on acceptance of the offer.

A review of the letter of variation dated 20th November 2019, on the banking facility revealed that the facility which was a working capital loan was converted to a medium-term loan of US$867,544.84.

Contrary to the provisions, the Bank did not charge and collect restructuring fees amounting to US$17,350.90.

- **Chabanga Lodge Limited**

  On 3rd October 2014, DBZ entered into a Loan Term Facility for the sum of K5,000,000.00 with Chabanga Lodge Limited for the purpose of;

  - expansion of the lodge in Solwezi,
  - financing the cost of remaining works for the conference facility in Ndola, and
  - refinancing of an existing loan with First National Bank.

  According to the Banking Facility dated 3rd October 2013, the loan was to be repaid in 108 monthly instalments, commencing twelve (12) months from the date of first disbursement. Interest payments were also to commence twelve (12) months after the date of the first disbursement. As at 31st December 2019, the whole K5,000,000 had been disbursed to Chabanga Lodge while amounts totalling K292,000 and K709,113 had been paid on the principal and interest respectively.

  The following were however observed:

  - **Failure to Repay loan facility**

    As at 31st December 2020, the outstanding loan was K21,983,397 comprising interest of K17,175,397 and principal of K4,808,000.

  - **Incomplete works**

    A physical inspection at the lodge in Solwezi conducted in November 2020 revealed that the expansion works had stalled in that only concrete works of the ground floor of the two storey building had been partially undertaken and the contractor had since demobilized from site. See pictures 4.2 below.

Picture 4.2: Abandoned Works at Chabanga Lodge-Solwezi

- **Kabwe Industrial Fabrics Limited**

In March 2006, DBZ entered into a financing agreement for a sum of K14,908,605 with Kabwe Industrial Fabrics Limited (KIFCO) for the refinancing of an existing loan, purchase of equipment and working capital.

As at 31st December 2019, the whole amount of K14,908,605 had been disbursed to KIFCO and the loan was secured against Stand No. 1582/Kabwe.

A review of the loan book revealed that as of April 2014, Kabwe Industrial Fabrics Limited had accrued debt in amounts totalling K17,417,196 due to non-servicing of the loan.

To lessen the burden of the loan on KIFCO, the facility was restructured on 13th May 2014 as follows:

- 50% of the outstanding amount being K8,708,598 remained as loan facility of the old loan, while;
- the other 50% of the outstanding loan was to be converted into 25% each of ordinary and preference shares worth K4,354,299 each.

Despite the restructuring, the loan was not serviced and as at 31st October 2020, it had accumulated to K50,543,926 comprising interest of K41,835,328 and principal of K8,708,598.

In line with Section 8 of the Third-Party Mortgage agreement which empowers the Bank to appoint a receiver, in July 2016, DBZ appointed a Receiver to dispose of the KIFCO assets due to the non-performing loan.

However, details regarding recoveries from the disposal of KIFCO assets were not availed for audit.

- **Nchila Wildlife Reserve Limited-Questionable Engagement of Receivers**

  On 4th January 2013, DBZ entered into an agreement with Nchila Wildlife Reserve Limited for a banking facility of US$1,700,000 for purposes of refinancing an existing First National Bank (FNB) loan and to finance a water and juice processing plant. Further, the Bank on 12th August 2015 signed for an additional medium term loan facility of US$600,000 to finance the completion of the water and pineapple processing plant.

  In addition, on 25th July 2017, DBZ entered into an agreement to restructure the facility into two (2) long term loans of K19,644,689 (US$2,085,799.89) and K6,356,557 (US$674,915.54) as follows;

  - Restructured Long Term Loan 1 (K19,644,689) was to finance (i) Water and Pineapple Processing Plant, (ii) Out grower scheme, and (iii) refinancing FNB loan; and

  - Restructured Long Term Loan 2 (K6,356,557) was to finance among others the outstanding debt, installation of the Pineapple Processing Plant, consultancy and operational costs.

  Clause 4 and 5 of the Letter of Restructuring provided for the repayment period of sixty (60) months effective 30th June 2018 and annual interest of 15.22% payable monthly, effective six (6) months from 1st May 2017.

  A review of records for Nchila Wildlife Reserve Limited for the period under review revealed that the Bank had on two (2) occasions appointed Receivers to manage the facility with the view to recoup funds owed to the Bank. However, both appointments did not yield results as a scrutiny of the Client Statement Account revealed that as of November 2020, the loan was still non-performing in that it had accumulated to K66,585,731 comprising interest of K43,617,964 and principal K22,967,767.

- **Kasama Milling Limited**

  On 14th May 2014, DBZ entered into a financing agreement for the sum of K8,580,000 with Kasama Milling Limited for the purchasing and installation of a milling plant.

  The tenure of the loan was seven (7) years with interest rate of 28.47% per annum and was secured against Stand No. 367 Mpulungu Road- Kasama.

  As at 31st December 2019, amounts totalling K8,580,000 had been disbursed to Kasama Milling Limited.

  However, the following were observed:

  - **Failure to Avail Information**

    A review of records for Kasama Milling Limited revealed that on 15th February 2019, the Bank appointed a Receiver to manage the milling company with the view to recoup funds owed to the Bank. The appointment was revoked on 13th January 2020 and on the same date another Receiver, was appointed for the same service. This engagement was terminated on 22nd September 2020 as the milling company was handed back to the Promoter, despite not servicing the loan and interest accrued.

    However, the Bank did not avail for audit information on costs incurred and amounts claimed by both receivers for the services, contrary to Section 7 (1) of the Public Audit Act No. 13 of 1994 which empowers the Auditor General to have access to information in performance of his duties.

  - **Non-Performing Loan**

    As at 31st December 2020, the Project was operational with outstanding loan of K28,986,568 comprising interest of K21,149,310 and principal K7,837,258.

    Although a physical inspection conducted in November 2020 revealed that the plant was operational, the loan to Kasama Milling Limited was not performing. See picture 4.3 below.

Picture 4.3: Status of Kasama Milling

- **Stalwart Investments Limited**

  On 13th April 2014, DBZ entered into a financing agreement for a sum of K9,327,852.88 with Stalwart Investment Limited for the purchasing of machining equipment.

  The tenure of the loan was 4½ years at an annual interest rate of 10.25% and was secured against Stand No.2486 Kitwe.

  As at 31st December 2019, the whole amount of K9,327,853 had been disbursed.

  However, the following were observed:

  - **Non-Performing Loan**

    As at 31st December 2020, the Project was operational with outstanding loan of K9,385,072 comprising interest of K4,999,744 and principal K4,385,328. The loan to Stalwart Investment Limited was therefore non-performing.

  - **Failure to Execute Court Order**

    Due to the loan not performing, the Bank took court action against Stalwart Investment to recover the loan and outstanding interest. In this regard, the Bank obtained a Court order in its favor on 16th June 2016 in judgment 2015/HPC/0481 and a WRIT of POSSESSION 2015/HPC/0481 in which the Sherriff of Zambia was commanded by the High Court to enter and possess Stand No. 2486 Kitwe.

However, the Bank had not taken possession of the premises as at 31st December 2020, fifty four (54) months after the Court Order.

Consequently, a physical inspection carried out in November 2020 revealed that Stand No. 2486 Kitwe, and the procured and installed Machinery were still under Stalwart Investment's possession. See pictures 4.4 below.

Pictures 4.4: Machinery at Stalwart Investment

- **Henry Courtyard - Mansa**

  In August 2016, DBZ entered into a financing agreement for the sum of K5,800,000 with Henry Courtyard Limited which was restructured on 20th November 2019 bringing the total principal amount to K6,904,694. The facility was for;

  - refinancing an existing loan facility with Cavmont Bank and
  - expansion of the Lodge.

  The tenure of the loan was six (6) years at 28.47% interest rate per annum and as at 31st December 2019, the whole amount of K6,904,694 had been disbursed.

  As at 31st December 2020, the Project was operational with an outstanding loan amount of K9,809,075 comprising interest of K4,509,075 and principal K5,300,000.

  A physical inspection conducted in November 2020 revealed that, although the loan was non-performing, the lodge had been expanded and was operational as can be seen in picture 4.5 below.

Picture 4.5: Completed Newly Constructed Rooms at Henry Courtyard Lodge

- **Kapiri Glass Limited**

  On 11th November 2013, the Development Bank of Zambia (DBZ) and Kapiri Glass Company Limited, entered into a facility agreement to provide the borrower, Kapiri Glass, with a long-term loan in the amount of US$4,000,000 at interest rate of 14.58% annually with a tenure of seven (7) years and a medium-term loan (referred to as working capital) in the amount of US$1,500,000 at interest 14.58% with a tenure of $3^1/_2$ years bringing the total loan to US$5,500,000. Further, on 1st April 2016, an additional loan amounting to K10,000,000 was approved by the bank in respect of Kapiri Glass Company at annual interest rate of 28.47% with tenure of one (1) and half years.

  The purpose of the loan was for;

  - the purchase of equipment and setting up of a glass factory, and
  - financing of working capital.

  The loan was secured against Stand No.1386/M Great North, Kapiri Mposhi.

  However, the following were observed:

  - **Failure to Disburse the Loan in Full**

    A review of records revealed that as of November 2020, the Bank had disbursed amounts totalling K5,060,035 from the K10,000,000 approved loan leaving a balance of K4,939,965 undisbursed. On the other hand, the Bank had also disbursed amounts totalling US$5,156,256.65 from the US$5,500,000 approved loan leaving a balance of US$343,743.35 undisbursed.

However, a physical inspection of the Project site conducted in November 2020 revealed that although machinery had been procured and installed, the Project was not operational.

Further, a scrutiny of the Client Statement of Account for November 2020 availed for audit indicated that Kapiri Glass had outstanding debt of K18,425,915 comprising interest of K13,365,880 and principal K5,060,035 and US$11,229,344.12 comprising interest of US$6,073,087.47 and principal US$5,156,256.65 respectively.

- **Appointment of Receivers**

A review of records revealed that on 26th September 2017, the Bank appointed the first receiver to manage the affairs of Kapiri Glass Limited.

According to correspondence from the first Receiver to ZCCM-IH dated 6th July 2018, the Receiver accepted the offer from ZCCM-IH to acquire the Kapiri Glass for a consideration Price of US$10,500,000. However, despite communicating their acceptance of the offer, there was no further information provided to verify whether the sale materialized.

Further, on or before 15th February 2019, the Bank appointed a second Receiver whose receivership was terminated in November 2020.

However, amounts spent on the services of the receivers was not availed for audit scrutiny.

As of 31st December 2020, the Property, Kapiri Glass Limited had been given back to the Promoter, Chilala and Company following DBZ's decision to remove the second receiver in August 2020. As a result, the bank lost in time value of money and recovery time.

- **Star Energy-Failure to Disburse Loan**

  On 18th September 2009, DBZ signed a loan contract with Star Energy Limited for a sum of US$1,171,328.67 for constructing a modern Coalite (semi-Coke) factory with a tenure of four (4) years at 14.58% interest rate per annum.

  However, on 18th September 2009, the Bank made the first and only disbursement of US$1,049,923.00 leaving a balance of US$121,405.67.

  As at 31st December 2020, the Project was not operational as it was placed on receivership on 14th December 2015, and had an outstanding loan totalling US$2,393,831.41 comprising interest (US$1,343,908.41) and principal (US$1,049,923.00).

- **Muleka Investments Limited**

  On 17th October 2016, DBZ entered into a Long-Term Facility for the sum of US$1,338,158 with Muleka Investment Limited to finance the construction of fifteen (15) high - end fully furnished and serviced, two (2) bedroomed apartments in Kabulonga, Lusaka with repayment period of six (6) years with a twelve (12) months grace period.

  The loan was to be disbursed under the following conditions among others:

  - Interest accruing in the first twelve (12) months following the date of first draw down shall be capitalised and amortised over the remaining period of that facility
  - The facility shall be paid in multiples of not less than US$67,000.

  The loan was secured against Stand No.s 483/CL/1, 483/CL/2, 483/CL/3, 483/CL/4 & 483/CL/5, 483/CL/3 in Kabulonga; and Subdivision No. 5 of Stand No.3487 Kitwe. Amounts totalling US$1,338,158.00 had been disbursed to Muleka Investments as at 2nd February 2017.

The following were however observed:

- **Failure to Disburse the Loan on Time**

  Part 3 of the Banking Facility issued to the client on 17th October 2017 states, "The facility will be made available for drawing by the borrower upon the borrower meeting all the terms and conditions set therein for a period of up to 180 days from that date after the acceptance of the offer, and that any amount not drawn at the end of the Availability Period will attract a commitment fee amounting to 3% per annum of the remaining balance." The first loan disbursement of US$657,828 was made on 22nd December 2016. However, the bank only disbursed the second and final part of the loan of US$657,828 on 26th May 2017, net off restructuring fees of US$22,502.

  In this regard, the bank delayed in disbursing remaining loan amount by five (5) months.

- **Non – execution of Works and Failure by the Bank to Execute Agreement**

  A scrutiny of correspondence between Muleka and the Bank revealed that the Project construction works had not commenced as of 23rd November 2017, six (6) months after the Bank's full disbursement of the Loan.

  A further scrutiny of records on Muleka revealed that, on 2nd October 2018, a loan repayment Agreement was signed between DBZ and Muleka in which Muleka acknowledged the breach of loan repayment plan. In this regard, Muleka committed to make one (1) bullet payment to DBZ on the principal owing, all interest accrued thereon and any applicable charges on or before November 2018, failure to which DBZ was given the powers to;

  - to take possession of the Mortgaged properties,
  - to exercise the right of foreclosure over the Mortgaged properties, and/or

- sale of the Mortgaged properties.

However, as at 31st December 2020, DBZ had not acted on the provisions in the Agreement although the loan with interest had accumulated to US$1,435,544. All the mortgaged assets were still in Muleka's possession.

- **Questionable Utilisation of Restructured Loan Facility**

According to correspondence dated 22nd November 2019, the outstanding loan balance of US$1,138,283.61 was restructured into Long Loan Term facility repayable within fifty three (53) months effective 30th November 2019. The purpose of the loan also changed to the refinancing the construction of fifteen (15) apartments in Nkana East, Kitwe and financing furniture and fittings for the apartments. However, the loan was not performing in that no repayment had been made.

A physical inspection conducted in November 2020 revealed that only eight (8) (4x2 bedroomed and 4x3 bedroomed) apartments had been constructed and furnished, contrary to the provision of the restructured Loan Facility.

Further, DBZ did not provide information on how loan recoveries would be achieved with the reduced number of constructed apartments.

- **Failure to Service the Loan Facility**

Clause 5 of the restructured Banking facility states, "the Long term shall be repayable in fifty three (53) equal instalment effective 30th November 2019."

However, amounts totalling US$21,857.92 were paid on the outstanding interest after the loan restructuring resulting in an outstanding loan of US$1,309,132.26 comprising interest of US$1,709,848.65 and principle US$1,138,283.61.

In this regard, the loan to Muleka Investment Limited was non-performing.

Further, it was questionable why the Promoter was not servicing the loan as the business made profits and posted positive cash flows of K16,343,694: K2,987,758 in 2017; K13,652,557; K4,489,413 in 2018; and K6,949,191: K3,633,206 in 2019 respectively.

In addition, although the business was generating monthly rental income of K52,000 as at 31st December 2020 , the loan was not being serviced.

d. Accounting Irregularities

i. Unsupported Payments

Financial Regulation Nos. 45 and 52 stipulates that all payments should be vouched for and that all payments for goods, services and works should be supported by cash sale receipts and that any document which is acquitted, certified and approved by a responsible officer should form part of cash sale receipts.

Contrary to the Regulations, 184 payments in amounts totalling K38,225,708 and US$5,604,885 processed during the period under review were not supported with documentation such as acquittal sheets, attendance lists, fuel disposal details, monitoring and training reports.

ii. Unretired Accountable Imprest

Financial Regulation No. 96 (1) (2) of 2006 requires that all imprest be retired within forty eight (48) hours after an assignment for which it was issued had been fulfilled.

Contrary to the regulation, imprest in amounts totalling K65,540 involving eight (8) transactions processed between April 2018 and July 2019 had not been retired as at 31st December 2020.

iii. Missing Payment Vouchers

Financial Regulation No. 65 (1) stipulates that payment vouchers with supporting documents, and any other form which support a charge entered in the accounts should be filed, secured against loss and be readily available for audit.

Contrary to the regulation, 104 payment vouchers in amounts totalling K822,248 were not availed for audit as of 31st December 2020.

iv. Lack of Disposal Details

Public Stores Regulation No. 16 states, “Every Stores Officer or any other officer having charge of any public stores or other articles of public property must keep and maintain records of the receipt and issue of such public stores.”

Contrary to the regulation, stores items and fuel procured between March 2018 and August 2019 costing K168,498 lacked disposal details such as distribution lists and fuel reconciliation statements.

5. ENERGY REGULATION BOARD – MANAGEMENT OF THE ENERGY FUNDS

5.1 Background

a. Establishment

Section 42 (Part VII) of the Energy Regulation Act No. 12 of 2019 provides for the establishment of an Energy Fund for the purposes of;

i. ensuring stability of supply in the energy sector,

ii. the development of the energy sector,

iii. ensuring the availability of strategic reserves, or

iv. any other purposes as may be prescribed.

b. Governance - Board of Directors

Section 5 (1) of the Energy Regulation Act No.12 of 2019 provides for the establishment of a Board of Directors which consists of seven (7) part-time members appointed on three (3) years renewable terms by the Minister responsible for Energy as follows:

i. the Chairperson;

ii. a representative of the Engineering Institution of Zambia;

iii. a representative of the Zambia Institute of Chartered Accountants;

iv. a representative of the Law Association of Zambia;

v. a representative of the Economics Association of Zambia;

vi. a representative of the Zambia Environmental Management Agency;

vii. one person with relevant knowledge and experience in matters relating to this Act.

The members elect the Vice-Chairperson from among themselves.

c. Management of the Energy Fund

The Energy Fund is managed by the Director General who is the Chief Executive Officer of ERB and is assisted by the Directors of Legal and Secretarial Services

(Board Secretary), Economic Regulation, Technical Regulation, Consumer and Public Affairs, Finance and Copperbelt Region.

d. Source of the Energy Funds

The Fund consists of moneys that may;

i. be appropriated to the Energy Regulation Board by Parliament for the purpose of the fund,

ii. by or under any other law be payable to the Fund,

iii. vest or accrue to the Fund, and

iv. subject to the approval of the Minister responsible for Finance be paid to the Energy Regulation Board from any levy which may be imposed and collected for the purposes of the Fund.

5.2 Audit Findings

An examination of financial and other records for the financial years ended 31st December 2017, 2018 and 2019 maintained at the Energy Regulation Board revealed the following:

a. Budget and Income

During the period under review, amounts totalling K2,318,418,727 were collected under Strategic Reserve Fund, Uniform Pricing Fund, Fuel Marking and Electricity Strategic Reserve Funds against a budget of K2,753,808,757 resulting in a negative variance of K435,390,030. See table 5.1 below.

Table 5.1: Energy Funds

No.	Fund	2019 K	2018 K	2017 K	2016 K	Total K
1	Strategic Reserve	471,637,277	438,988,437	378,225,618	471,637,277	1,760,488,609
2	Fuel Marking Fee	144,744,193	155,810,617	53,020,480	-	353,575,290
3	Uniform Petroleum Pricing	61,186,606	24,102,259	53,178,236	58,280,775	196,747,877.07
4	Electricity Strategic Reserve	2,000,000	3,606,951	2,000,000	-	7,606,951
	Total Actual Income	**679,568,076**	**622,508,264**	**486,424,334**	**529,918,052**	**2,318,418,727**
	Budget	**597,272,407**	**729,124,665**	**690,191,657**	**737,220,027**	**2,753,808,757**
	Variance	**82,295,669**	**(106,616,401)**	**(203,767,323)**	**(207,301,975)**	**(435,390,030)**

b. Management of the Energy Fund

During the period under review, ERB managed four (4) Energy Funds out of which three (3) formed part of the fuel pump price, namely Fuel Marking, Uniform Petroleum Pricing and the Strategic Reserve Funds while the fourth was the Electricity Strategic Reserve Fund.

A review of documents relating to the management of the Energy Fund maintained at the Energy Regulation Board (ERB) during the financial years ended 31st December 2016, 2017, 2018 and 2019 revealed the following:

i. Failure to Prepare Financial Statements

Section 38 (2) of the Public Finance Act No. 15 of 2004 required the Chief Executive Officer to ensure that financial statements including management reports and returns are submitted to the Secretary to the Treasury on a regular basis.

Contrary to the Act, there were no financial statements prepared and submitted for the Strategic Reserve, Fuel Marking, Uniform Petroleum Pricing and Electricity Strategic Reserve Funds since inception in 2005, 2017, 2010 and 2014 respectively.

ii. Strategic Reserve Fund - Outstanding Strategic Reserve Fund Fees

The Strategic Reserve Fund (SRF) replaced the 15 days stock cost – line that Oil Marketing Companies (OMCs) were required to maintain in their depots to ensure security of supply.

According to the Energy Regulation Paper on the Establishment of National Petroleum Strategic Reserves and the Energy Regulation Board Progress Report on Strategic Reserves issued in April 2005 and November 2005 respectively, Cabinet authorised the Ministry of Energy and Water Development (MEWD) to establish National Strategic Petroleum Reserves.

Further, Clause 2.7.6 of the Energy Sector Report of 2018 on Strategic Reserve Funds (SRF), outlines the SRF objectives as to finance the development of petroleum infrastructure, road works around fuel storage depots, and rehabilitation of fuel tanks at storage depots and refinery.

In this regard, during the period under review SRF fees in amounts totalling K1,895,053,764 were collected from Oil Marketing Companies out of which K1,891,568,408 was spent leaving a balance of K3,485,356 as at 31st December 2019. See table 5.2 below.

Table 5.2: SRF Fees Collected and Spent

No.	Details	2016 K	2017 K	2018 K	2019 K	Total K
1	SRF Fees Collection	471,637,277	378,225,618	438,988,437	606,202,432	1,895,053,764
2	Expenditure	404,661,646	444,146,708	473,662,836	569,097,218	1,891,568,408
	Variance	**66,975,631**	**(65,921,090)**	**(34,674,399)**	**37,105,214**	**3,485,356**

A review of the receivables age analysis revealed that six (6) Oil Marketing Companies (OMC) had not remitted Strategic Reserve Fund fees in amounts totalling K13,922,220 to the ERB as at 9th March 2021. The unremitted amounts had been outstanding for periods ranging from fourteen (14) to sixty three (63) months.

Included in this amount is K6,053,324 owed by Continental Oil which was placed under liquidation on 11th December 2015. The rest of the outstanding debt in amounts totalling K7,868,896 which was due in 2019 was being settled through agreed payment plans between ERB and the five (5) Oil Marketing Companies.

iii. Fuel Marking Fund - Outstanding Fuel Marking Fees

The Fuel Marking Fund was established under Statutory Instrument (SI) No. 69 of 2017 to improve the quality of petroleum products namely petrol, diesel, low sulphur diesel and kerosene (domestic and industrial). The fee is built in the fuel price and is advised to the licensees when the wholesale prices are announced. The fee is collected by the licensee who in turn remits to the ERB.

The objectives of the fund are to;

- control adulteration of petrol or diesel with lower taxed kerosene or other standard additives. Adulteration compromises the quality of petroleum products resulting in damage to equipment / vehicle engines, leading ultimately to increase in maintenance costs and negative environmental and health impacts from the products of combustion of adulterated fuel,

- minimise dumping or smuggling of tax exempted or transit petroleum products on to the domestic market. Dumping or smuggling of fuel constitutes tax avoidance or evasion thus elimination of these vices ensures that government realises full tax revenues on the petroleum products, and
- maintain a level playing field in the downstream operations by eliminating perceived benefits associated with unfair practices in the petroleum industry such as the ability of those engaging in such vices having a competitive advantage over their peers.

During the period between October 2016 and December 2019, amounts totalling K353,575,290 were collected as fuel marking fees.

However, a review of the receivables age analysis revealed that nine (9) Oil Marketing Companies (OMC's) had not remitted Fuel Marking fees in amounts totalling K7,767,150 to ERB as at 19th March 2021. The amount had been outstanding for periods ranging from fourteen (14) to twenty seven (27) months. Five (5) Oil Marketing Companies are under payment plans which were agreed with ERB in 2019 and 2020.

iv. Uniform Petroleum Pricing Fund

In order to keep the fuel prices uniform in the Country, in September 2010, the Ministry of Energy commenced the implementation of the Uniform Petroleum Pricing Mechanism (UPP).

The UPP requires that the price of fuel applied at all retail stores is the same for petrol, diesel, kerosene and low sulphur gas. Under this scheme, Oil Marketing Companies (OMC's) are compensated the cost of transporting fuel from urban to rural areas so as to enable fuel prices to be uniform.

In this regard, on 21st September 2010 the Ministry engaged Ashfield Resources (Z) LTD an independent manager at a contract sum of K3,431,505 for a duration of one (1) year up to 20th September 2011 for the purpose of ensuring that the UPP fund is maintained to allow for contributions into the Fund and claims out of the Fund.

The UPP fund is influenced by changes in petroleum prices and other cost build factors. Therefore, the role of the UPP manager was to ensure that the integrity of this fund is maintained when any of the factors in the cost build up change. The amount included in the fuel price build–up is calculated so as to take into account the cost of transporting petroleum products across the country.

In managing the UPP mechanism, Ashfield Resources (Z) LTD verifies the claims and contributions due to and from each OMC or independent dealer operating in Zambia. The Ministry thereafter authorizes ERB to pay claims and make demand notices from the OMCs to pay contributions to the designated account.

During the period under review, amounts totalling K196,747,877 were collected from Oil Marketing Companies (OMCs) as contributions into the fund, out of which amounts totalling K148,351,823 were paid out as claims to OMCs and K35,123,820 as Management Fees to Ashfield Resources (Z) LTD. See table 5.3 below.

Table 5.3: Collections and Payments out of the UPP

No.	Details	2016 K	2017 K	2018 K	2019 K	Amount K
1	Contribution by OMCs	58,280,775	53,178,236	24,102,259	61,186,606	**196,747,877**
2	Payment to Ashfied - Management fees	9,003,135	7,166,400	7,166,400	11,787,885	**35,123,820**
3	Claims Paid to OMCs	46,947,596	25,446,217	25,519,864	50,438,147	**148,351,823**

The following were however observed:

- **Re-engagement of Consultant for the UPP Mechanism**

  On 9th December 2011, the Ministry re-engaged Ashfield at a contract sum of K3,238,355 for another duration of one (1) year up to 21st September 2012. On 20th September 2012, an addendum to the contract dated 9th December 2011 was issued extending the contract for a further four (4) months from 21st September 2012 to 20th January 2013 at a contract sum of K940,400.

The Ministry, on 31st January 2013, issued a second addendum to the contract for a further five (5) months from 20th January 2013 to 20th June 2013 at a contract sum of K1,212,500 and was later extended for six (6) months from 21st June 2013 to 20th December 2013, through a third addendum in November 2013 at a contract sum of K1,212,500.

On 21st December 2013, the Ministry re-engaged Ashfield at a contract sum of K8,982,600 and a duration of two (2) years ending on 20th December 2015. Further, the Ministry entered into the third contract with Ashfield Resources (Z) LTD on 2nd August 2016 at a contract sum of K24,998,100 and a duration of three (3) years ending on 1st August 2019. Upon expiry, the contract was extended for another period of (2) years to 1st August 2021 at a varied contract sum of K29,822,775.

The following were observed:

- **Failure to Follow Public Procurement Guidelines**

  Section 134 (1) of the Public Procurement Regulations 2011 states, "a procuring entity may use a running contract for goods, works or services which shall run for a maximum period of one year."

  Contrary to the regulation, the Ministry entered into three (3) contracts with Ashfield Resources Zambia Limited which were renewable subject to mutual consent by both parties for periods exceeding ten (10) years as at 30th September 2020. However, a "No Objection" from ZPPA to enter into contracts exceeding one (1) year was not availed for audit as at 28th February 2021.

- **Uncompetitive Engagement of Ashfield Resources**

  Section 3 of the Public Procurement Regulations requires that public procurement be governed by the following fundamental principles of transparency, competition, economy, efficiency, fairness, value for money and accountability.

However, the engagement and renewal of the contract for the consultancy without tendering or obtaining a 'No Objection' from ZPPA, and the contract sum being increased every time a contract was being renewed was therefore uncompetitive and lacked transparency.

Further, on 18th January 2017, the Ministry awarded a contract to Ndola Energy Company for the supply of heavy fuel oil for the production of electricity, and another contract with ZESCO on 11th May 2011 for the supply of 48MWH of electricity which was later restated to 103MWH of Electricity in 2016 for a duration of 15 years.

However, the award of the contracts was questionable in that the Manager of Ashifield Resources Zambia Limited was also Executive Director of Ndola Energy Company and was a shareholder in both companies.

- **Failure to Avail Contract**

  On 20th December 2015, the third contract which was awarded by the Ministry to Ashfield had expired and amounts totalling K2,063,400 were paid to Ashfield Resources (Z) Limited as management fees for the period between January and July 2016. However, the contract was not availed rendering the payments made during the stated period questionable.

- **Failure to Collect Funds**

  During the period under review, contributions from twenty-two (22) Oil Marketing Companies (OMCs) in amounts totalling K76,338,855 under UPP had not been remitted for periods exceeding twenty four (24) months as at 28th February 2021.

- **Unpaid Claims**

  A review of the schedule of outstanding claims to twenty four (24) OMCs during the period under review revealed that amounts totalling K40,547,098 for verified claims as at 28th February 2021, had not been paid to OMCs that had uplifted fuel from places far from the Government Designated Depots. The amount had been outstanding for periods exceeding twenty four (24) months.

v. Electricity Strategic Reserve Fund

The Electricity Strategic Reserve Fund (ESF) was implemented in 2014. The computation of the ESF Levy is done at the rate of 1% of the additional gross revenue resulting from the ZESCO 16% tariff increase of 1st July 2014 on Domestic monthly sales. According to correspondence dated 29th July 2014 from the Executive Director (ERB) to the Permanent Secretary (Ministry of Finance), the ESF was established out of ERB's and country-wide public concerns at the lack of tangible intervention mechanisms to mitigate the level of load shedding that consumers of electricity were subjected to.

The specific objectives of the ERF are as follows:

- In the short term, to raise K465 million to facilitate the importation of up to 133MW of emergency power from the Southern Africa Power Pool (SAPP);
- In the medium to long term, to create a pool of resources that could be used to respond to disasters and emergencies in the Electricity Supply Industry (ESI); and
- To create a contingency of funds available to the ESI for the development of the sector.

However, the following were observed:

- **Failure to Collect ESF Levy**

  The computation of the ESF was done at the rate of 1% of the additional gross revenue resulting from the tariff increase of 1st July

2014 broken down by the ESF rate for each customer category as shown in table 5.4 below.

Table 5.4: Computation of ESF per Customer Category

No.	Customer Category	ESF Rate for Additional Revenue
1	Residential	0.32%
2	Commercial	0.19%
3	Services	0.19%
4	Small Power (MD1 & MD2)	0.25%
5	Large Power (MD3 & MD4)	0.05%
6	Weighted Average	1%

A review of the receivables and age analysis for the period under review revealed that ZESCO was owing ERB electricity strategic fund levy in amounts totalling K15,575,166 as at 31st December 2019, for periods ranging from March 2017 to December 2019.

As at 28th February 2021, the debt had increased to K25,520,403.

- **Failure to provide Documentation and to Meet Target**

According to objective No. 1 of the ESF was to facilitate for the importation of up to 133MW of emergency power imports from the Southern Africa Power Pool (SAPP), ZESCO is required in the short term to raise K465 million.

However, management did not avail documentation which defined the short-term period as at 28th February 2021.

Further, ERB had only invoiced ZESCO amounts totalling K25,227,537 as at 31st December 2019, which was five (5) years after the operationalization of the Fund, representing 5.5% of the K465 million.

- **Failure to Create a Pool of Resources**

Objective No. 2 of the ESF states "a pool of resources that can be used to respond to disasters and emergencies in the Electricity Supply Industry (ESI) in the medium and long term should be created."

As at 28th February 2021, only amounts totalling K9,652,373 had been remitted to the ESF. However, the amount was not adequate to respond to disasters and emergencies in the electricity supply sector when compared to the target of K465m.

6. INDENI PETROLEUM REFINERY COMPANY LIMITED

6.1 Background

a. Establishment

Indeni Petroleum Refinery Limited was established in 1970 to mitigate the impact caused by the rising prices of petroleum products in the energy sector and is wholly owned by the Government through the Industrial Development Corporation (IDC).

The Company's core business is to refine crude oil procured by the Government through the Ministry responsible for energy.

b. Governance – Board of Directors

Indeni is governed by a Board of Directors comprising seven (7) members who are appointed by IDC on three (3) renewable terms as follows:

i. The Permanent Secretary or a representative of the Ministry responsible for sector policy;

ii. Not more than five (5) persons from the private sector; and

iii. The Managing Director of the Company.

c. Management

The operations of the Company is the responsibility of the Managing Director who is assisted by Managers responsible for Safety Health and Environment, Finance, Procurement and Supply, Human Resources, Operations, Process and Laboratory, Planning and Control, Technical Refinery, Engineering, Maintenance, and Business Planning.

d. Sources of Funds

The sources of funds for the Company include processing fees charged to Tazama Petroleum Products Limited for refining crude oil and from laboratory, terminal handling and storage fees.

6.2 Audit Findings

An examination of financial and other records for the financial years ended 31st December 2017, 2018 and 2019 maintained at the Company in Ndola revealed the following:

a. Budget and Income

During the financial years ended 31st December 2017, 2018 and 2019, Indeni generated revenue in amounts totalling K1,300,109,276 from processing, laboratory, terminal handling and storage fees among others against a budget of K1,259,585,000 resulting in an overall positive variance of K40,524,276. See table 6.1 below.

Table 6.1: Budget and Income

Source of Income	Year	Budgeted K	Actual K	Variance K
Processing Fees	2017	361,546,000	355,998,000	(5,548,000)
	2018	391,419,000	409,152,000	17,733,000
	2019	499,077,000	526,107,000	27,030,000
Other Income	2017	2,091,000	3,083,000	992,000
	2018	3,052,000	2,205,000	(847,000)
	2019	2,400,000	3,564,276	1,164,276
Total	**Total**	**1,259,585,000**	**1,300,109,276**	**40,524,276**

b. Financial Analysis

i. Statements of Comprehensive Income - Refinery Operating Costs

The Company's statements of comprehensive income for the financial years ended 31st December 2017, 2018 and 2019 were as shown in table 6.2 below.

Table 6.2: Statements of Comprehensive Income

Details	2019 K' 000	2018 K' 000	2017 K' 000
Turnover	526,107	409,152	355,998
Cost of Sales	(236,848)	(152,402)	(134,849)
Gross Profit	**289,259**	**256,750**	**221,149**
Other operating income	3,564	2,205	3,083
Administrative expenses	(95,367)	(134,563)	(117,861)
Other operating expenses	(27,972)	(22,725)	(18,302)
Operating profit	**169,484**	**101,667**	**88,069**
Finance income	376	1,902	1,627
Profit before income tax	**169,860**	**103,569**	**89,696**
Income tax expense	(65,284)	(41,371)	(33,668)
Profit for the year	**104,576**	**62,198**	**56,028**
Total comprehensive income for the year	**104,576**	**62,198**	**56,028**

Source: INDENI financial statements for the years ended 31st December 2017, 2018 and 2019

The refinery operation cost per metric tonne is defined as the proportion of the total refinery operating cost divided by throughput per annum.

The 2017 to 2021 strategic plan describes typical efficient refineries as having refinery operation costs per metric tonne that fall in the range from US$25/MT to US$35/MT.

An analysis of the company's refinery operating costs per metric tonne for the period under review revealed that although the refinery operating cost per metric tonne reduced from US$45MT to US$43MT by 4.4%, the refinery operation cost per metric tonne were above the recommended US$25/MT to US$ 35/MT resulting in lower profitability. See table 6.3 below.

Table 6.3: Refinery Operating Costs

REFINERY OPERATING COST PER MT= OPERATING COST/ THROUGHPUT			
	2019	**2018**	**2017**
Cost of sales (K'000)	236,848	152,402	134,849
Administrative expenses (K'000)	95,367	134,563	117,861
Operating expenses (K'000)	27,972	22,725	18,302
Total Operating Cost (K'000)	**360,187**	**309,690**	**271,012**
Throughput metric tonnes	**700,256**	**646,907**	**620,465**
Refinery operating cost (K/MT)	514	479	437
Exchange rates	12.00	10.8	9.6
Refinery operating cost (US$/MT)	**43**	**44**	**45**

ii. Statements of Financial Position - Receivable Turnover Days/Debt Collection Period

The statements of the financial position for Indeni Refinery Company Limited for the financial years ended 31st December 2017, 2018 and 2019 were as shown in table 6.4 below.

Table 6.4: Statements of Financial Position

Details	2019 K' 000	2018 K' 000	2017 K' 000
Non-current assets			
Property Plant and equipment	594,928	570,909	510,124
Current assets			
Inventories	68,070	60,765	75,147
Trade and other receivables	137,441	85,694	62,616
Cash and other equivalents	51,865	30,842	40,861
	257,376	**177,301**	**178,624**
Current liabilities			
Trade payables and other payables	36,636	35,133	36,499
Current income tax	43,726	21,139	5,410
	80,362	**56,272**	**41,909**
Net current assets	**177,014**	**121,029**	**136,715**
Total non current assets and net current assets	**771,942**	**691,938**	**646,839**
Equity			
Share Capital	292,654	184,540	184,540
Retained earnings	257,920	205,632	174,533
Proposed Dividends	52,288	31,099	28,014
Funds awaiting allotment of shares	-	108,114	108,114
Total equity	**602,862**	**529,385**	**495,201**
Non- current liabilities			
Deferred income tax	169,080	162,553	151,638
Retirment benefits obligation			-
	169,080	**162,553**	**151,638**
Total equity and non current liabilities	**771,942**	**691,938**	**646,839**

Source: INDENI financial statements for the years ended 31st December 2017, 2018 and 2019

During the period under review, the Company's receivable turnover days increased from 49 in 2017 to 61 days in 2019 which were above the company's policy of thirty (30) days. See table 6.5 below.

Table 6.5: Receivable Turnover Days

Receivable Turnover = (trade receivable / turnover) x365	2019	2018	2017
Turnover (K)	526,107,000	409,152,000	355,998,000
Trade Receivables (K)	88,169,000	51,346,000	47,889,000
Receivable Turnover (days)	61	46	49
Debt Collection day per Policy	30	30	30

c. Operational Matters

i. Failure to Operationalise the Bitumen Plant

On 15th March 2010, the Ministry of Energy and Water Development engaged Dalbit Petroleum limited of Kenya to rehabilitate the Bitumen Plant at Indeni at a contract sum of K94,837,872,195 (US$20,106,969.37) with an expected commencement date of 17th October 2011 and completion date of June 2012. Indeni was appointed as the supervising agent of the project on behalf of Government.

The objective of the Project was to enable the Refinery produce bitumen for road constructions. As at 31st December 2014, works had been completed and the whole contract amount had been paid.

The plant has a capacity to produce 36,500mt of bitumen per year. However, as at 31st December 2020, the plant was not operational. Consequently, the company lost annual revenue of K250,017,335 at a price of K6,849.79/Mt as at 30th September 2020.

In a response dated 10th December 2020, management indicated that the plant was not in use due to lack of suitable feedstock as not all crude oil produces bitumen. However, it was not clear why management could not procure the suitable feedstock.

ii. Discrepancies in Metered Stockfeed between Tazama Pipelines and Indeni Refinery

A review of the monthly refinery material processing reports pertaining to crude oil from Tazama Pipelines to Indeni refinery for the period under review revealed that there were discrepancies between the quantities dispatched by Tazama Pipelines and those received by Indeni. In particular, records from Indeni showed that 1,855,930mt of stock was received while records from Tazama Pipelines showed that stock totalling 1,869,229mt was dispatched resulting in a discrepancy of 14,299mt.

Consequently, Indeni lost K9,415,608 in processing fees. See table 6.6 below.

Table 6.6: Loss of Processing Fee

Year	Actual as per Tazama meter sent to Indeni Tanks	Actual as per Indeni Meter Receipted	Variance of crude oil not reconciled (MT)	Processing Fee Unit Price K	Loss of Processing Fee K
2019	642,047	640,327	1,720	782.25	1,345,470
2018	638,570	629,344	9,226	720.03	6,642,997
2017	588,612	586,259	2,353	606.52	1,427,142
Totals	**1,869,229**	**1,855,930**	**14,299**		**9,415,608**

As at 31st December 2020, the variance had not been reconciled.

iii. **Technical and Operational Key Performance Indicators - Shutdown days of the Refinery**

Shutdown days are the number of days there is a disruption in the refining process.

In 2017, 2018 and 2019, the Energy Regulation Board (ERB) set shut down benchmarks of 40, 45 and 50 days respectively.

However, Indeni exceeded the shutdown benchmarks by 25, 27 and 95 days in 2017, 2018 and 2019 respectively as shown in table 6.7 below.

Table 6.7: Shut down days

Year	Benchmark	Actual Shut Down Days	Excess ShutDown days
2019	50	145	95
2018	45	72	27
2017	40	65	25

A review of records and inquiry with management revealed that the causes of the shutdown were equipment failure and lack of feedstock among others.

d. Procurement Matters

i. **Goods Paid for but not Delivered**

A scrutiny of foreign suppliers' ledgers revealed that in 2018, Indeni made a prepayment of US$5,169.11 to Bulkardt Compression for the supply of oil scraper rings.

However, the goods had not been delivered as at 31st December 2020.

ii. **Contract for Rehabilitation of Tank Basements**

On 24th May 2019, Indeni engaged Kefra Investment Limited to carry out rehabilitation of nine (9) tank basements at the refinery at a contract sum of K331,747 with a contract duration of eight (8) weeks ending 31st July 2019. The scope of works included the following:

- Materials procurement
- Removal of the entire existing tank pad
- Disposal of the debris and set aside some for use

- Cleaning and scraping bottom fringe of tank annular
- Excavation
- Compacting the sub base and filling in layers 150mm and compact
- Priming of the surface with bitumen lighting sprayed at abate dust
- Applying asphalt mix 0.6mm
- Tank earth dike reconstruction
- Installation of Mertis grating covers for drain pits on all tanks.

As at 26th August 2019, the contractor had been paid K285,989 representing 86% of the contract sum.

Indeni had committed to complete the remaining installation of the mertis grating covers for drain pits on all tanks after having recovered the amount of K20,000 of the contract sum as at 30th September 2020. However, a physical inspection conducted in December 2020 revealed that all tanks were not in use as they had not been installed with mertis grating pit covers to complete the rehabilitation of the tank basements works.

e. Unreimbursed Funds – Nitrogen Chemicals of Zambia

On 11th June 2019, the Industrial Development Corporation (IDC) requested Indeni to second an officer to Nitrogen Chemicals Zambia (NCZ) as Chief Executive Officer (CEO) for three (3) months effective 13th June 2019. Nitrogen Chemicals of Zambia through IDC was supposed to reimburse K969,133 (2019) K274,786 and (2020) K694,346 to Indeni being the gross salary and fuel incurred on the seconded officer at the end of the secondment period.

However, the following were observed:

i. Although the secondment letter for the period June to September 2019 was availed for audit, the secondment letter for the period from October 2019 to August 2020 when the Officer resigned from Indeni to take up the position of CEO at NCZ on a permanent basis was not availed for audit;

ii. The officer moved to NCZ with a motor vehicle, registration number BAG 8153 belonging to Indeni. However, as at 30th September 2020, the vehicle had not been handed back to Indeni; and

iii. During the period from June 2019 to September 2020, when the officer was on secondment, salaries in amounts totalling K927,876 had been paid to the former employee. However, as at 30th September 2020, NCZ had not reimbursed Indeni.

7. KWAME NKRUMAH UNIVERSITY

7.1 Background

a. Establishment

Kwame Nkrumah University was established in 2013 following the issuance of Statutory Instrument No. 106 of 2013 which upgraded Kabwe Teachers Training College to a Public University under the Higher Education Act No.4 of 2013.

The functions of the higher education institute among others are to:

i. provide higher education,

ii. create conditions for learners to acquire qualifications and pursue excellence and promote the full realisation of the potential of learners,

iii. create conditions for lifelong learning,

iv. prepare learners and academics and strengthen the effect of academic learning and scientific research to enhance social and economic development, and

v. conduct research necessary and responsive to national needs.

b. Governance - The Council

The University is governed by a Council comprising seventeen (17) part time members appointed by the Minister of Higher Education as follows:

i. the Vice-Chancellor, who should be an ex-officio member,

ii. the Deputy Vice-Chancellor who should be an ex-officio member,

iii. one (1) member of staff of a local authority in whose area the higher education institution is located, who should be nominated by the local authority,

iv. two (2) members of the academic staff of the higher education institution who are members of Senate, who should be nominated by Senate,

v. one (1) member who is associated with higher education institutions outside the Republic,

vi. one (1) member who is associated with other higher education institutions within the Republic,

vii. one (1) member who is a student of the higher education institution, who should be nominated by the students of the higher education institution in accordance with such election procedure as the students' union may determine,

viii. one (1) person who is a member of the non-academic staff of the higher education institution, who should be nominated by the non-academic staff of the higher education institution in accordance with such election procedure as the non-academic staff may determine,

ix. one (1) member of the academic staff of the higher education institution, elected by the academic staff of the higher education institution in accordance with such election procedure as the academic staff may determine,

x. one (1) member who is a graduate of the higher education institution and who is not a member of staff of that higher education institution,

xi. three (3) members representing trade, commerce and the professions, not being employees or students of the higher education institution, public officers or members of Parliament, who should be nominated by a recognised business or professional association or organisation in accordance with such procedure as the business or professional association may determine,

xii. one (1) member of the National Assembly nominated by the Speaker, and

xiii. one (1) representative each from the Ministries responsible for higher education and finance.

The Chairperson and Vice Chairperson are elected by the members of the Council from amongst themselves.

A member of the Council should hold office for a period of three (3) years but shall be eligible for reappointment for a further period of three (3) years.

c. Management

The Vice Chancellor is appointed by the Minister on the advice of the Council and is the academic, financial and administrative Head of the University. In discharging his/her responsibilities, the Vice Chancellor is assisted by the Deputy Vice Chancellor, Registrar, Librarian and the Bursar.

d. **Sources of Funds**

The funds of the University consist of such moneys as may;

i. be appropriated by Parliament for its purpose,

ii. be paid to the public higher education institution by way of fees, subscription, contribution, grants or donations, and,

iii. otherwise vest in, or accrue to, the public higher education institution

Further, a public higher education institution may;

i. with the approval of the Minister, accept moneys by way of grants or donations from any source in or outside Zambia, except that the public higher education institution shall not be obliged to accept a grant or donation for a particular purpose unless it approves of the purpose and the conditions, if any, attaching to it, and,

ii. borrow by way of loans or otherwise, such sums as it may require for meeting its obligations and discharging its functions under this Act, except that the prior consent of the Minister responsible for finance, in consultation with the Minister responsible for Higher Education, shall be obtained.

e. **Information and Communication Technology Systems**

During the period under review, the University operated four (4) Information and Communication Technology (ICT) Systems namely;

i. **SAGE PASTEL Evolution**

The system was used for processing accounting transactions and generation of financial statements.

ii. **Edurole**

The system was used for processing of all transactions relating to student accounts.

iii. **SAGE VIP Payroll**

The system was used for processing of the payroll.

iv. **Moodle**

The system was used for students E - learning.

7.2 Audit Findings

An examination of financial and other records for the financial years ended 31st December 2017, 2018 and 2019 maintained at the University revealed the following:

a. Budget and Income

In the Estimates of Revenue and Expenditure for the period under review, provisions in amounts totalling K44,053,724 were made to cater for operations of the University against which amounts totalling K40,795,633 were released resulting in underfunding of K3,258,091. See table 7.1 below**.**

Table 7.1: Budget and Income

No.	Year	Budgets K	Released K	Variance K
1	2017	5,984,075	5,984,075	-
2	2018	21,649,720	20,159,490	(1,490,230)
3	2019	16,419,929	14,652,068	(1,767,861)
	Total	**44,053,724**	**40,795,633**	**(3,258,091)**

In addition, the University budgeted to collect internally generated funds totalling K274,666,420 from sources such as tuition, accommodation fees and other income against which amounts totalling K273,082,655 were generated resulting in an under collection of K1,583,765 as shown in table 7.2 below.

Table 7.2: Internally Generated Funds

No.	Income	2019 Budget K	2019 Actual K	2018 Budget K	2018 Actual K	2017 Budget K	2017 Actual K	Total Budget K	Total Actual K	Total Variance K
1	Tuition	52,394,216	65,083,393	72,994,875	64,298,401	61,168,991	54,869,440	186,558,082	184,251,234	(2,306,848)
2	Accommodation	11,770,620	10,853,530	7,183,813	6,655,884	7057961	6,989,450	26,012,394	24,498,864	(1,513,530)
3	Other Income	41,076,410	35,714,481	10,824,704	19,826,711	10,194,831	8791365	62,095,945	64,332,557	2,236,612
	Total	**105,241,246**	**111,651,404**	**91,003,392**	**90,780,996**	**78,421,783**	**70,650,255**	**274,666,420**	**273,082,655**	**(1,583,765)**

b. Operational Matters

i. Failure to Submit Annual Reports

Section 12, second schedule of the Higher Education Act No.4 of 2013 provides for submission of the annual report to the Minister not later than six (6) months after the expiry of the financial year.

Contrary to the Act, the University did not submit annual reports for the financial years 2017, 2018 and 2019 as at 31st December 2020.

ii. Declining Student Enrollments

A review of student enrolment information revealed that student enrolments had dropped by 80% from 2,586 in 2017 to 511 in 2020.

iii. Lack of University Representation on the Decision-Making Board of an Affiliate College

Section 37 (2) of the Higher Education Act No. 4 of 2013 states, "where a college or other educational institution is affiliated with a public higher education institution under subsection (1), the Council shall appoint two (2) representatives of the public higher education institution on the decision-making body of the affiliated institution."

Contrary to the Act, Kwame Nkrumah University had no representation on the decision-making board of Green Park University College of Lusaka from the time the College became an affiliate of the University on 31st May 2019.

iv. Non-renewal of Affiliation Agreements with Affiliate Colleges

A scrutiny of Memoranda of Understanding (MOU) with Kabwe Institute of Technology and Mpika College of Education revealed that the MOUs had expired on 17th June 2019 and 12th October 2019 respectively and had not been renewed as at 31st December 2020. However, the two (2) colleges had continued operating as affiliates of Kwame Nkrumah University.

In addition, Section 3(a) (xiii) of the affiliation MOUs with affiliate Colleges requires affiliate colleges to pay affiliation, moderation, and certification fees to the University.

However, a review of student enrolment records and other documentation for Green Park University College revealed that for the financial year ended 31st December 2019, Kwame Nkrumah University did not collect affiliation fees in amounts totalling K36,000. See table 7.3 below.

Table 7.3: Non-Payment of Affiliation Fees

No.	Details	Unit	Unit Amount K	Qty	Amount K
1	Diploma Students Fee	Per Student/per Year	60	60	3,600
2	Diploma programme Fee	Per Subject	350	24	8,400
3	Certificate Programme Fee	Per Subject	250	0	-
4	Moderation of Examinations	Per Subject	1,000	24	24,000
	Total				**36,000**

c. Procurement Matters

i. Failure to Prepare Procurement Plans

Public Procurement Regulation No. 26 (1) states "A Procurement Unit shall, in consultation with a user department, prepare a procurement plan for the procuring entity, for each financial year."

However, it was observed that during the period under review, the University did not prepare procurement plans despite payment of allowances in amounts totalling K36,400 to eight (8) officers on 14th March 2017 for conducting a workshop on preparation of a procurement plan.

ii. Supply of Furniture for the Lecture Theatre and Library

On 12th January 2018, the University engaged Roverline Marketing and Logistics for the supply, delivery and installation of furniture under Lot 1 – Library Furniture and other assets and Lot 2- Lecture Theatre Furniture at a total cost of K3,720,020 with a delivery period of eight (8) weeks.

The following were observed:

- **Overpayment on Supply of Library Chairs**

Included in the contract was the supply of 472 different types of library chairs at a total cost of K742,800. See table 7.4 below**.**

Table 7.4*:* Supply of Library Chairs

No	Description	Quantity	Unit Price K	Amount K
1	Seminar Chair	12	3,900	46,800
2	Libray Study Chairs	350	1,500	525,000
3	Computer Chairs	60	1,500	90,000
4	Library Easy Chairs	10	3,900	39,000
5	Library Study Carrels Chairs	40	1,050	42,000
	Total Cost as per Contract	**472**		**742,800**

However, a review of records and physical inspection of the library furniture revealed that the company instead supplied 472 library study chairs of one type valued at K1,500 per chair, bringing the total cost of supplied chairs to K708,000 contrary to the schedule of requirement. In this regard, the company was over paid an amount of K34,800.

Subsequently, the University wrote to the supplier to demand for a refund on 11th November 2020 and as at 31st December 2020, the refund had not been made.

- **Failure to Assemble Procured Items**

An examination of the price schedule revealed that an amount of K50,000 was charged and paid for labour and installation.

However, a physical verification conducted in December 2020 revealed that fifty four (54) items costing K304,200 which included library shelves, study tables had not been assembled, two (2) years after delivery. See table 7.5 and picture 7.1 below.

Table 7.5: Unassembled Items

No.	Description	Not Assembled	Unit Price K	Total Amount K
1	Library Shelves - Total 60 Units	23	10,900	250,700
2	Library Study Table - Total 70 Units	7	2,500	17,500
3	Library Chairs - Total 472 Units	24	1,500	36,000
	Total	**54**		**304,200**

Figure 7.1: Uninstalled Library Materials

- **Undelivered Electronic Notice Board**

  An electronic notice board costing K30,900 had not been delivered by the supplier as at 31st December 2020.

iii. **Construction of University Laboratory Main Campus - Questionable Award of Contract**

Section 117(3) of the Zambia Public Procurement Regulations of 2011 requires an evaluation committee to submit its evaluation report to the Procurement Committee before any negotiations or contract is awarded.

On 9th July 2018, the University awarded a contract to Zoncor Investments Ltd to construct 1 x 2 Science Laboratory Block and related external works at a contract sum of K2,534,084.

Contrary to the regulation, the report of the evaluation committee was not submitted to the Procurement Committee for approval prior to the final award of the contract to Zoncor Investments Ltd. In this regard, the award of the contract was questionable.

iv. **Uncompetitive Procurement**

Regulation No. 108 Section 2 of the Public Procurement Regulations states, "a Procurement Unit shall include sufficient bidders in a shortlist of bidders to ensure effective competition, but in any case, shall obtain no less than three quotations."

Contrary to the regulation, during the period under review, the University single sourced procurement of various items costing K336,479.

d. Accounting Irregularities

i. Unsupported Entries in Edurole System - Manually Posted Transactions

According to the University Revenue Procedures paragraph 3, a student is required to deposit, cash through ZANACO Bill Master. Upon successful processing, the bank would send a notification to the University's Student Management System – Edurole, detailing the student number, the amount paid and reference number. All tuition and other fee payments to University are paid through the ZANACO Bill Master. The students are only required to present the deposit slip as proof of payment to accounts.

However, a review of the Edurole system revealed that amounts totalling K2,530,247 involving 1,077 transactions were manually posted to the System in the respective student accounts during the period under review, without supporting documentation such as receipts and bank deposit slips. Further, these amounts could not be traced to bank statements. See the table 7.6 below**.**

Table 7.6: Manually Posted Transactions

Year	No. of Transactions	Manually Posted K
2017	929	2,122,751
2018	81	188,756
2019	67	218,740
Total	**1,077**	**2,530,247**

ii. Questionable Reversals of Transactions in the System

According to paragraph 5 of the Revenue Procedures, after registration, billing and payment, the student is required to report to accounts for clearance where the following checks are done:

- reviews the students account to ensure that correct bills are added,
- review the deposit slip to ensure that the amount deposited agrees with the amount received and recorded in the Student Management System,
- review the deposit slip to ensure that the payment made at the bank is correct and has reflected on a student's account.

However, the University made reversals in the system in amounts totalling K24,162,109 (on receipted revenue - K369,986 and invoices for fees – K23,792,123) involving 9,357 transactions without approval and supporting documents.

iii. Unsupported Payments

Financial Regulation Nos. 45 and 52, stipulates that all payments by cheque or cash for goods, services and works should be supported by cash sale receipts and that vouchers relating to purchases should be supported by an official order and the suppliers' invoices.

Contrary to the regulations, thirty (30) payments in amounts totalling K538,980 made during the period under review were inadequately supported in that they lacked documents such as receipts, goods received voucher, quotations, and contracts.

iv. Unretired Accountable Imprest

Financial Regulation No. 96 states "Imprest shall be retired immediately the purpose for which it is issued has been fulfilled and were the imprest is not cleared within forty eight (48) hours of the holder's return, the issuing officer shall in writing instruct the officer in charge of the salaries section to deduct the amount outstanding from the salary of that holder in the following month."

Contrary to the regulation, accountable imprest in amounts totalling K288,712 issued to fourteen (14) officers during the period under review had neither been retired nor recovered from the officers as at 31st December 2020.

v. Irregular Use of Accountable Imprest

Financial Regulation No. 86, states "accountable imprest is imprest that is issued as payment to facilitate the purchase of goods and services whose value cannot be ascertained at the time."

Contrary to the regulation, imprest in amounts totalling K816,986 issued to sixty one (61) officers involving 140 transactions were used to procure goods and services whose values could be ascertained.

vi. **Overpayment to Suppliers**

During the period under review, the University procured stationary costing K22,100 from two (2) suppliers namely Zusha Enterprises Ltd (K12,500) and J.J.B Electronics Ltd (K9,600).

A review of payment vouchers for the procurement however revealed that Zusha Enterprises Ltd and J.J.B Electronics Ltd were paid K13,000 and K19,600 respectively resulting in an overpayment of K10,500.

As at 31st December 2020, the overpayment had not been recovered.

vii. **Failure to Remit Tax**

The Income Tax Act Chapter 323 of the Laws of Zambia requires that tax deducted from employees' remuneration must be remitted to the Zambia Revenue Authority (ZRA) by the 14th of the month following the month in which the deduction was made.

Contrary to the Act, Pay as You Earn (PAYE) in amounts totalling K712,705 deducted from wages paid to part-time lecturers during the period under review had not been remitted to ZRA as at 31st December 2020.

e. **Lack of Receivable Management Policy**

The University did not have a receivable management policy in place to provide guidance on the management of debtors.

Consequently, the University was owed amounts totalling K43,784,999 in tuition fees part of which had been outstanding from as far back as 2017. See table 7.7 below.

Table 7.7: Uncollected Receivables

Period	Amount Billed K	Amount Collected K	Uncollected Amount K	Percentage Increase from 2017
2017	77,811,944	70,650,255	7,161,689	-
2018	89,028,028	74,497,228	14,530,800	103
2019	109,325,894	87,233,384	22,092,510	208
Total	**276,165,866**	**232,380,867**	**43,784,999**	

The increase in uncollected tuition fees by 208% from K7,161,689 in 2017 to K22,092,510 in 2019 cast doubt on the recovery of the debt.

Further, included in the outstanding debt of K43,784,999 was K3,524,343 representing 8% of the outstanding debt which related to 415 graduates. See table 7.8 below.

Table 7.8: Uncollected Tuition Fees from Graduates

Student Intake	Completion Year	No of Graduates	Outstanding Balances K
2013	2017	30	136,525
2014	2018	30	157,232
2015	2019	355	3,230,586
Total		**415**	**3,524,343**

As at 31st December 2020, the outstanding amounts had not been recovered by the University.

f. Unaccounted for Stores

Public Stores Regulation No. 16 states, "every stores officer or any other officer having in his charge any public stores or other articles of public property must keep and maintain record of the receipt and issue of such public stores."

Contrary to the regulation, general stores items costing K65,570 procured during the period under review were unaccounted for in that there were no receipt and disposal details.

g. Management of Assets - Lack of Title Deeds

Section 41 (4) of the Public Finance Management Act No. 1 of 2018 states, "a Controlling Officer shall ensure that all public properties under the controlling officer's charge are secured with title deeds."

However, as at 31st December 2020, the University had not secured title deeds for parcels of land on which five (5) buildings valued at K102,665,000 were located. See table 7.9 below.

Table 7.9: Properties without Title Deeds

No.	Details	Site Name	Land Value K	Buildings Value K	Work in Progress K	Total Market Value K
1	Stand No. 2081	East Campus	7,130,000	16,610,000	-	23,740,000
2	Stand No. 1583	Main Campus	4,945,000	30,235,000	35,255,000	70,435,000
3	Part of Stand No. 1441	Chimwemwe & Liseli Hostels/Staff Compund	510,000	5,785,000	-	6,295,000
4	Stand No. 614	Boarding House	145,000	495,000	-	640,000
5	Stand No. 613	Boarding House	245,000	1,310,000	-	1,555,000
		Total	**12,975,000**	**54,435,000**	**35,255,000**	**102,665,000**

8. LOCAL AUTHORITIES SUPERANNUATION FUND

8.1 Background

a. Establishment

The Local Authorities Superannuation Fund (LASF) was created in 1954 to provide pension to members on retirement, ill health and death. LASF is governed by the Local Authorities Superannuation Fund Act of 1996.

LASF is a benefit scheme responsible for pension cover of members in local authorities, water utility companies, ZESCO Limited and the National Housing Authority.

b. Governance – Board of Directors

LASF is governed by a Board of Directors comprising eleven (11) members who are appointed by the Minister responsible for Local Government as follows:

- The Permanent Secretary, Ministry of Local Government;
- The Director, Local Government Administration of the Ministry responsible for Local Government;
- One member nominated by the Local Government Association of Zambia;
- One member nominated by Zambia Local Authorities Workers' Union;
- One member nominated by the ZESCO Limited management;
- One member nominated by a Trade Union of ZESCO Limited;
- One member nominated by the National Housing Authority (NHA);
- One member nominated by the Lusaka Water and Sanitation Company;
- One member nominated by National Pension Scheme Authority (NAPSA);
- One member from amongst the members of the public; and
- The Chief Executive of the Local Authorities Superannuation Fund.

The Act empowers the Minister to designate one member as Chairperson and one member as Vice Chairperson from members referred to above provided that they are not the Permanent Secretary and Director Local Government Administration. The members are appointed on three (3) year renewable terms.

c. **Management**

The operations of LASF is the responsibility of the Managing Director who is the Chief Executive Officer and is assisted by three (3) Directors responsible for Finance and Investments, Contributions and Benefits, and Corporate Services/Board Secretary. All the Directors are appointed by the Board on three (3) year renewable contracts.

d. **Source of Funds**

The source of funds for LASF includes member contributions and investment income.

e. **Information and Communications Technology (ICT) Systems**

During the period under review, LASF operated Microsoft Dynamics Navision 2018 as an enterprise information system used for the management of processes of the Fund such as administration of employers' assessments, revenue, investments, employee claim, pension and pensioner's payroll.

8.2 Audit Findings

An examination of financial and other records for the financial years ended 31st December 2018 and 2019 maintained at LASF headquarters revealed the following:

a. **Budget and Income**

During the period under review, the Fund had a budget of K218,162,205 against which amounts totalling K181,862,486 were generated resulting in a negative variance of K36,299,719 as shown in table 8.1 below.

Table 8.1: Budget and Income

Sources of Income	2019		2018		Total		
	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Variance K
Contributions Income	79,387,137	77,510,319	80,902,430	81,288,286	160,289,567	158,798,605	(1,490,962)
Investment Income	21,961,974	15,088,260	35,462,664	7,232,563	57,424,638	22,320,823	(35,103,815)
Other Income	228,000	91,525	220,000	651,533	448,000	743,058	295,058
Total Income	**101,577,111**	**92,690,104**	**116,585,094**	**89,172,382**	**218,162,205**	**181,862,486**	**(36,299,719)**

b. **Management of Information and Communications Technology Systems**

i. **Failure to adopt Information and Communications Technology Standards and Frameworks**

There are several standards and frameworks which are applicable internationally and generally used in the implementation, operation and auditing of Information and Communication Technology (ICT) environments. These include the following:

- Information System Audit and Control Association (ISACA) - Control Objectives for Information and related Technology (CoBIT),
- The Information Technology Infrastructure Library (ITIL),
- ISO 27001: 2013 Information Security Management Systems,
- ISO/IEC 20000 – Information Technology Security Management Standard,
- Generic Framework for Information Management

However, as at 30th September 2020, LASF had not adopted any ICT Standards and frameworks for managing its ICT operations.

Consequently, LASF did not have a sound basis or systematic means for benchmarking or measuring performance of ICT activities or processes.

ii. Lack of Business Continuity Plan and Disaster Recovery Plan

Disaster recovery and IT continuity planning help institutions prepare for and resume operations in the event of disruption caused by power outage, fire or system failure among others.

CoBIT DSS04.02, Maintain a Continuity Strategy, requires an organization to evaluate business continuity management options and choose a cost-effective and viable continuity strategy that would ensure enterprise recovery and continuity in an event of a disaster or a major incident that disrupt operations.

As at 30th September 2020, LASF did not have an approved Disaster Recovery Plan (DRP) for its operations.

c. Financial Analysis

i. Statement of Changes in Net Assets Available for Benefits

The Fund's Statement of Changes in Assets Available for Benefits for the financial years ended 31st December 2018 and 2019 were as shown in table 8.2.

Table 8.2: Statement of Changes in Net Assets Available for Benefits

Details	2019 K	2018 K
Contributions	**77,510,319**	**81,288,286**
Investment Income	15,088,260	7,232,569
Other income	91,525	651,532
Total Investment and other income	**15,179,785**	**7,884,101**
Total income available for benefits	92,690,104	89,172,387
Benefits paid	(126,939,851)	(109,915,857)
Net loss after benefits paid	**(34,249,747)**	**(20,743,470)**
Administrative expenses	(67,237,866)	(85,063,916)
Net increase in liabilities from funds operations	101,487,613	105,807,386
Sponsor contributions	251,000,000	
Net change in fair value on equity investments	(3,131,844)	(1,788,582)
change in fair value of collective investments	393,256	385,432
Change in fair value of land and buildings	596,713	4,374,926
Change in fair value of investment properties	1,003,000	907,630
Decrease/increase in net liabilities	**148,373,512**	**(101,927,980)**
Net liability at beginning of the year	**(371,545,148)**	**(269,617,168)**
Net liability at end of the year	**(223,171,636)**	**(371,545,148)**

Source: LASF 2018 to 2019 Audited Financial Statements

The following were observed:

- **Increase in Losses after Benefits Paid**

  During the period under review, the Fund recorded net losses after benefits paid of K20,743,470 in 2018 and K34,249,747 in 2019.

- **Decrease in contributions**

  During the period under review, there was a 4.6% reduction in members' contributions from K81,288,286 in 2018 to K77,510,319 in 2019 and a 15% increase in benefits paid from K109,915,857 in 2018 to K126,939,851 in 2019.

- **Weaknesses in the Management of Pension Fund – Administrative Costs**

  The Seventh National Development Plan (7NDP) set administrative costs for LASF at not more than 30% in 2018 and 25% in 2019 of total members' contribution.

It was however observed that the Fund consistently failed to be within the benchmarks as administration costs were 105%, and 87% in 2018 and 2019 respectively as shown in table 8.3 below.

Table 8.3: Administrative Costs as a % of Contributions Collected

Administration Costs as a Percentage of Contribution	2019 K	2018 K
Contribution Per Year	77,510,319	81,288,286
Administrative Expenses (Less Depn)	67,237,866	85,063,916
Annual Administrative percentage (%)	87%	105%
Total Benefits Paid	126,939,851	109,915,857
Base Line - Administration Costs % of Contributions	**25%**	**30%**

ii. Statement of Changes in Net Assets available for Benefits

The Fund's Statement of Net Assets Available for Benefits for the financial years ended 31st December 2018 and 2019 were as shown in table 8.4.

Table 8.4: Statement of Net Assets available for Benefits

Details	2019 K	2018 K
Non Current Assets		
Property, plant and equipment	29,001,436	29,640,500
Intangible assets	237,665	518,459
Investment properties	38,095,000	37,092,000
Loans to associated authorities	10,546,783	8,374,990
Equity Investments	33,016,717	36,148,561
Collective investments	3,268,939	2,875,683
Held to maturity investments	6,417,349	8,440,959
Associated authorities and other recievables	70,659,763	36,285,131
Total non-current assets	**191,243,652**	**159,376,283**
Current Assets		
Held to maturity investments	106,836,089	7,952,187
Associated authorities and other recievables	65,974,805	52,313,802
Cash and cash equivalents	23,018,251	3,438,385
Total current assets	**195,829,145**	**63,704,374**
Total assets	**387,072,797**	**223,080,657**
Liabilities		
Non current liabilities		
Benefits payable	286,130,593	345,534,928
Annuity fund	105,602,038	86,519,275
Total non current laibilities	**391,732,631**	**432,054,203**
Current liabilities		
Annuity fund	17,230,573	19,082,763
Benefis and other payables	201,281,229	143,488,839
Total current liabilities	**218,511,802**	**162,571,602**
Total liabilities	**610,244,433**	**594,625,805**
Net liabilities at end othe year	**(223,171,636)**	**(371,545,148)**

Source: LASF 2018 and 2019 Audited Financial Statements

The following were observed:

- **Inadequate Working Capital**

  Working capital is the difference between current assets and current liabilities. It measures whether an entity has enough short-term assets to meet operational needs.

  The Fund had a negative working capital of K530,921,431 in 2018 and K414,415,288 in 2019, which meant that the Fund was unable to pay its financial obligations as they fell due. See table 8.5 below.

Table 8.5: Working Capital

Working Capital	2019 K	2018 K
Current Assets	195,829,145	63,704,374
Current Liabilities	610,244,433	594,625,805
Working Capital	(414,415,288)	(530,921,431)

Consequently, as at 31st December 2019, the Fund was unable to pay monthly annuities and lump sums to retirees in amounts totalling K376,843,830 and K112,292,321 respectively, some of which had been outstanding for up to twenty eight (28) years.

As a result of the Fund's failure to pay benefits in the period under review, seventeen (17) members had sued the Fund for unpaid benefits in amounts totalling K8,565,545.

- **Current Ratio**

The current ratio is a liquidity ratio that measures an entity's ability to pay short-term obligations or those due within one (1) year. It is calculated by comparing an entity's current assets to its current liabilities. The generally acceptable ratio is 2:1.

The Fund's current ratio was below the acceptable ratio implying that LASF faced challenges in meeting its short-term obligations when they fell due. See table 8.6 below.

Table 8.6: Current Ratio

Working Capital	2019 K	2018 K
Current Assets	195,829,145	63,704,374
Current Liabilities	610,244,433	594,625,805
Current ratio	**0.32:1**	**0.11:1**

d. Failure to Collect Pension Contributions

Section 20 of the LASF Act requires the deduction of members' contributions from their salaries and remittance of the contributions to the Fund by the 7th day of the following month in which the salary was earned.

A review of records for benefits and contributions revealed that as at 30th September 2020, LASF was owed amounts totalling K205,681,748 (members' contributions K198,871,935 and interest K6,809,812) as shown in table 8.7 below.

Table 8.7: Uncollected Pension Contribution

No.	Member Institutions	Cummulative Contributions K	Interest Accrued K	Total Uncollected Contributions K
1	City Councils	106,693,148	3,034,667	109,727,815
2	Municipal Councils	50,548,295	1,813,701	52,361,996
3	District Councils	34,366,358	1,759,920	36,126,278
4	ZESCO Limited	2,278,796	2,979	2,281,775
5	Lusaka Water Sewerage Company Limited	75,412	12,785	88,196
6	National Housing Authority	4,909,926	185,761	5,095,687
	Total	**198,871,935**	**6,809,812**	**205,681,748**

e. Accounting Irregularities

i. Unaccounted for Stores

Public stores regulation No.16 states, "every stores officer or any other officer having in his charge any public stores or other articles of public property must keep and maintain records of the receipt and issue of such public stores."

Contrary to the regulation, various stores items costing K270,877 procured during the period under review were unaccounted for in that there were no receipt and disposal details.

ii. Unsupported Payments

Financial Regulation No. 45 requires that all payments for goods, services and works should be supported by cash sale receipts and that any document which is acquitted, certified, and approved by a responsible officer should form part of cash sale receipts.

Contrary to the regulation, fifty three (53) payments in amounts totalling K1,639,358 processed during the period under review, were not supported with documents such as receipts, service level agreements/ contracts, acquittal sheets and basis of rates used for airtime paid to senior managers.

9. MULUNGUSHI UNIVERSITY

9.1 Background

a. Establishment

Mulungushi University was established in January 2008 following the upgrading of the National College for Management and Development Studies to a Public University. The University is governed under the Higher Education Act No. 4 of 2013 whose functions include;

i. provide higher education,

ii. create conditions for learners to acquire qualifications and pursue excellence and promote the full realisation of the potential of learners,

iii. create conditions for lifelong learning,

iv. prepare learners and academics and strengthen the effect of academic learning and scientific research to enhance social and economic development, and

v. conduct research necessary and responsive to national needs.

b. Governance - The Council

The University is governed by a Council comprising seventeen (17) part time members appointed by the Minister of Higher Education as follows:

i. the Vice-Chancellor, who should be an ex-officio member,

ii. the Deputy Vice-Chancellor who should be an ex-officio member,

iii. one (1) member of staff of a local authority in whose area the higher education institution is located, who should be nominated by the local authority,

iv. two (2) members of the academic staff of the higher education institution who are members of Senate, who should be nominated by Senate,

v. one (1) member who is associated with higher education institutions outside the Republic,

vi. one (1) member who is associated with other higher education institutions within the Republic,

vii. one (1) member who is a student of the higher education institution, who should be nominated by the students of the higher education institution in accordance with such election procedure as the students' union may determine,

viii. one (1) person who is a member of the non-academic staff of the higher education institution, who should be nominated by the non-academic staff of the higher education institution in accordance with such election procedure as the non-academic staff may determine,

ix. one (1) member of the academic staff of the higher education institution, elected by the academic staff of the higher education institution in accordance with such election procedure as the academic staff may determine,

x. one (1) member who is a graduate of the higher education institution and who is not a member of staff of that higher education institution,

xi. three (3) members representing trade, commerce and the professions, not being employees or students of the higher education institution, public officers or members of Parliament, who should be nominated by a recognised business or professional association or organisation in accordance with such procedure as the business or professional association may determine,

xii. one (1) member of the National Assembly nominated by the Speaker, and

xiii. one (1) representative each from the Ministries responsible for higher education and finance.

The Chairperson and Vice Chairperson are elected by the members of the Council from amongst themselves.

A member of the Council holds office for a period of three (3) years but is eligible for reappointment for another term of three (3) years.

c. Management

The Vice Chancellor is appointed by the Minister on the advice of the Council and is the academic, financial and administrative Head of the University. In discharging his/her responsibilities, the Vice Chancellor is assisted by the Deputy Vice Chancellor, Registrar, Librarian and the Bursar.

d. Sources of Funds

The funds of the University consist of such moneys as may;

i. be appropriated by Parliament for its purpose,

ii. be paid to the public higher education institution by way of fees, subscription, contribution, grants or donations, and,

iii. otherwise vest in, or accrue to, the public higher education institution

Further, a public higher education institution may:

i. with the approval of the Minister, accept moneys by way of grants or donations from any source in or outside Zambia, except that the public higher education institution shall not be obliged to accept a grant or donation for a particular purpose unless it approves of the purpose and the conditions, if any, attaching to it, and,

ii. borrow by way of loans or otherwise, such sums as it may require for meeting its obligations and discharging its functions under this Act, except that the prior consent of the Minister responsible for finance, in consultation with the Minister responsible for Higher Education, shall be obtained.

e. Information and Communication Technology Systems

During the period under review, Mulungushi University operated the following Management Information Systems:

i. Student Management System

This is an in-house developed software that was used for managing student records and was integrated with the Financial Accounting Software.

ii. Sage Evolution

The system was used for processing of accounting information.

iii. Dove Payroll

This is an off the shelf package that was used for processing and management of payroll.

iv. Norming HR System

The system was used for managing human resource information.

9.2 Audit Findings

An examination of financial and other records maintained at Mulungushi University for the financial years ended 31st December 2017, 2018 and 2019 revealed the following:

a. Budget and Income

In the Estimates of Revenue and Expenditure for the period under review, provisions in amounts totalling K256,401,574 were made to cater for operations of the University against which amounts totalling K85,478,328 were released resulting in an underfunding of K170,923,246.

In addition, the University budgeted to collect amounts totalling K441,072,227 from internally generated funds such as tuition and accommodation fees and other sources against which amounts totalling K397,744,792 were generated resulting in an under collection of K43,327,435. See table 9.1 below.

Table 9.1: Budget and Income

		2019		2018		2017		Total		
No.	Income	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Variance K
	Government Funding									
1	Government Grant	28,633,858	28,520,325	28,633,858	35,437,756	20,633,858	21,520,247	77,901,574	85,478,328	7,576,754
2	Other grants	16,500,000	-	6,000,000	-	6,000,000		28,500,000	-	(28,500,000)
3	Infrastructure funding	50,000,000	-	50,000,000	-	50,000,000	-	150,000,000	-	(150,000,000)
	Sub Total	**95,133,858**	**28,520,325**	**84,633,858**	**35,437,756**	**76,633,858**	**21,520,247**	**256,401,574**	**85,478,328**	**(170,923,246)**
	Internally Generated									
1	Tuition and Boarding	148,724,716	125,327,201	122,369,906	115,088,309	119,118,166	93,243,499	390,212,788	333,659,009	(56,553,779)
2	Other Income	18,385,016	18,665,562	18,189,166	19,170,806	14,285,257	26,249,415	50,859,439	64,085,783	13,226,344
	Sub Total	**167,109,732**	**143,992,763**	**140,559,072**	**134,259,115**	**133,403,423**	**119,492,914**	**441,072,227**	**397,744,792**	**(43,327,435)**
	Total	**262,243,590**	**172,513,088**	**225,192,930**	**169,696,871**	**210,037,281**	**141,013,161**	**697,473,801**	**483,223,120**	**(214,250,681)**

b. Financial Analysis

i. Financial Performance - Statement of Comprehensive Income

The Statement of Comprehensive Income of the University for the period under review was as shown in table 9.2 below.

Table 9.2: Statement of Comprehensive Income

Details	2019 K	2018 K	2017 K
Income			
Revenue	125,327,201	115,088,309	93,243,499
Government Grants	28,520,325	35,437,756	21,520,247
Cost of Sales	-	-	(12,074,806)
Other Income	18,665,562	19,170,806	26,249,415
Total Income	**172,513,088**	**169,696,871**	**128,938,355**
Expenditure			
Cost of Training	(16,465,137)	(15,092,608)	-
Administrative Expenses	(185,700,538)	(163,263,913)	(132,974,952)
Finance Costs	(125,000)	(293,486)	(309,248)
Expected Credit Losses	(3,268,767)	-	-
Total Expenditure	**(205,559,442)**	**(178,650,007)**	**(133,284,200)**
Deficit for the year	**(33,046,354)**	**(8,953,136)**	**(4,345,845)**

Source: Mulungushi University Financial Statements for the Years ended 31st December 2017, 2018 and, 2019

During the period under review, the University's total expenditure increased by 54% from K133,284,200 in 2017 to K205,559,442 in 2019 while revenue increased by 34% from K128,938,355 to K172,513,088 during the same period.

This resulted in increased deficits (losses) of K28,700,509 from K4,345,845 in 2017 to K33,046,354 in 2019 representing 660%.

The increase in expenditure was mainly attributed to administrative expenses which increased by 40% from K132,974,952 in 2017 to K185,700,538 in 2019.

ii. Financial Position- Statement of Financial Position

The Statement of Financial Position for the University as at 31st December 2017, 2018 and 2019 was as shown in the table 9.3 below.

Table 9.3: Statement of Financial Position as at 31st December

Details	2019 K	2018 K	2017 K
Non Current Assets			
Property Plant and Equipment	314,203,543	277,999,189	271,423,379
Biological Assets	894,920	908,329	586,297
Total Non Current Assets	**315,098,463**	**278,907,518**	**272,009,676**
Current Assets			
Inventory	3,022,727	2,251,668	3,308,997
Students and Other Receivables	44,961,683	49,038,163	37,731,842
Cash and Cash Equivalents	40,465,643	46,017,373	49,853,046
Total Current Assets	**88,450,053**	**97,307,204**	**90,893,885**
Total Assets	**403,548,516**	**376,214,722**	**362,903,561**
Equity and Liabilities			
Equity			
Revaluation Reserves	79,993,548	79,993,547	79,993,545
Accumulated Gains and Losses	(63,556,149)	(30,509,795)	(21,556,657)
Total Equity	**16,437,399**	**49,483,752**	**58,436,888**
Non Current Liablities			
Provisions	8,190,640	9,839,776	13,182,268
Deferred Income	173,945,388	165,527,914	178,400,309
Bank Loans	14,365,066	-	-
Total Non Current Liabnilities	**196,501,094**	**175,367,690**	**191,582,577**
Current Liabilities			
Trade and Other Payables	154,473,008	113,537,597	99,496,038
Provisions	18,801,969	24,399,635	12,629,023
Finance Lease Liability	-	-	759,035
Contract Liabilities	17,335,046	13,426,048	-
Total Current Liabilities	**190,610,023**	**151,363,280**	**112,884,096**
Total Liabilities	**403,548,516**	**376,214,722**	**362,903,561**

Source: Mulungushi University financial statements for the years ended 31st December 2017, 2018 and 2019

The following were observed:

- **Negative Working Capital**

  Working capital is the difference between current assets and current liabilities. It measures whether an entity has enough short-term assets to meet operational needs.

  During the period under review, the University had a negative working capital which deteriorated by K80,169,759 from negative K21,990,211 in 2017 to negative K102,159,970 in 2019. See table 9.4 below.

Table 9.4: Working Capital

Details	2019 K	2018 K	2017 K
Total Current Assets	88,450,053	97,307,204	90,893,885
Total Current Liabilities	190,610,023	151,363,279	112,884,096
Working Capital	**(102,159,970)**	**(54,056,075)**	**(21,990,211)**

This implied that the University was unable to settle current liabilities as they fell due as evidenced by the increase of current liabilities from K112,884,096 in 2017 to K190,610,023 in 2019.

- **Current Ratio**

The current ratio is a liquidity ratio that measures an entity's ability to pay short-term obligations or those due within one (1) year. It is calculated by comparing an entity's current assets to its current liabilities. The generally acceptable ratio is 2:1.

A review of the institution's current ratios for the period under review revealed that the ratio declined from 0.8:1 in 2017 to 0.46:1 in 2019. In this regard, the University's ability to cover current liabilities or obligations with the current assets was weakened. See table 9.5 below.

Table 9.5: Current Ratio

Year	2019	2018	2017
Current Assets	88,450,052	97,307,204	90,893,883
Current Liabilities	190,610,023	151,363,279	112,884,096
Ratio	**0.46:1**	**0.64:1**	**0.8:1**

Included in the current liabilities were trade and other payables which increased by K54,976,970 from K99,496,038 in 2017 to K154,473,008 in 2019.

c. Operational Matters - Unregistered Students with Results

The University procedure on student registration requires that at the start of the semester, all students undertake the registration process which involves invoicing and course approval. The course approval is only done after a student pays 50% of the invoiced amount.

During the period under review, the University enrolled 17,903 students for various courses under its programmes as shown in table 9.6 below.

Table 9.6: Students' Enrolment Status

Accademic Year	Full-time students	Distance students	No. of registered students	No. of Unregistered Students with results
2016/2017	2,100	4,959	7,059	6
2017/2018	2,796	2,115	4,911	53
2018/2019	3,818	2,115	5,933	53
Total	**8,714**	**9,189**	**17,903**	**112**

A comparison of the registered students reports to the live results database revealed that 112 unregistered students had results in various academic years without being registered and invoiced during the period under review. It was questionable how the above students sat for examinations and obtained results without being registered.

d. Accounting Irregularities

i. Failure to Deduct and Remit Tax

The Income Tax Act Chapter 323 of the Laws of Zambia requires that tax be deducted from employees' remuneration and remitted to the Zambia Revenue Authority (ZRA) by the 14th of the month following the month in which the deduction was made.

Contrary to the Act, Mulungushi University did not deduct and remit tax on housing allowances paid as cash benefit in amounts totalling K12,393,681 to 418 employees during the period January 2017 to December 2019.

ii. Unremitted Statutory Contributions

During the period under review, a total of K7,501,608 was deducted from employees for pension contribution to ZSIC Life as defined pension.

However, as at 31st December 2020, the amounts had not been remitted to ZSIC Life.

e. Management of Assets - Lack of Title Deeds

Section 41(4) of the Public Finance Management Act, No. 1 of 2018, requires controlling officers to ensure that all public properties under their charge are secured with title deeds.

Contrary to the Act, as at 31st December 2020, the University did not secure title deeds for eleven (11) parcels of land.

f. Management of Infrastructure - Construction of 6 x 4 Storey Student Hostels at Mulungushi University – Abandoned Student Hostel

On 1st January 2015, the Ministry of Higher Education engaged Covec (Z) Limited to construct 6 x 4 storey student hostels at Mulungushi University at a contract sum of K128,689,712. The contract duration was forty (40) months ending 1st April 2018.

The following were observed:

- The project had delayed for thirty (30) months from the expected completion date. Further, no documents were availed for extension of time.
- Six (6) interim payment certificates (IPCs) were issued with a total value of K57,806,542 out of which K38,495,839 was paid leaving a balance of K19,310,703. The IPCs had been outstanding for over seventeen (17) months.

A review of correspondences and other records revealed that the contractor had abandoned the site in June 2019 due to non-payment of IPCs.

A physical verification of the site in September 2020, revealed that the status was as shown in table 9.7 and pictures 9.1 below.

Table 9.7: Project Status

Description	Works Done	Outstanding works
Hostel 1 and Hostel 2	Structure built up to roof level and installation of roofing trusses completed. Conduits for wiring done on 1st and 2nd floors	• Roofing, • Partitioning of 2nd and 3rd floor, • Wiring and plumbing of entire structures, • Internal and exterior plastering of walls, • Ironmongery and carpentry (fitting of doors and window frames, door and windows), • Flooring and tiling, • Ceiling boards and electrical fittings,

	Partitioning of wall for the ground and 1st floor	• Painting and decoration, and • Paving and landscaping.
Hostels 3, 4, 5 and 6	Ground floor complete with conduits for wiring	• Construction of columns up to 3rd floor, • Casting concrete floor and stair case for 2nd and 3rd floors, • Installation of trusses and roofing, • Partitioning of all floors, • Ironmongery and carpentry (Windows and door frames, windows and doors), • Wiring, tubing, plumbing and electrical fittings, • Plastering, flooring and tiling, • Painting and decoration, and • Paving and landscaping.

Pictures 9.1: Student Hostels

Block 1

Block 2

Block 3

Block 4

10. NATIONAL INSTITUTE FOR SCIENTIFIC AND INDUSTRIAL RESEARCH

10.1 Background

a. Establishment

The National Institute for Scientific and Industrial Research (NISIR) is a statutory body established by Statutory Instrument No. 73 of 1998 pursuant to the Science and Technology Act No. 26 of 1997.

b. Governance

The Institute is governed by a Management Board composed of a maximum of seven (7) members drawn from relevant organisations and scientific and technological fields. The Board is constituted by the Minister responsible for Science and Technology as provided for in the Science and Technology Act No. 26 of 1997. The Board members hold office for renewable terms of three (3) years.

c. Management

The operations of the Institute is the responsibility of the Executive Director who is assisted by Deputy Director and Managers responsible for Human Resources and Administration, Finance and Internal Audit.

d. Sources of funds

The funds of the Institute consist of such moneys as may;

i. be appropriated by Parliament for the purposes of the management board,

ii. be paid to the management board by way of fees, levy, grants or donations, or

iii. vest in or accrue to the management board.

10.2 Audit Findings

An examination of accounting and other records maintained at NISIR Headquarters for the financial years ended 31st December 2018 and 2019 and a visit to selected stations revealed the following:

a. Budget and Income

During the period under review, the Institute budgeted to receive grants from the Treasury and to generate funds from various sources in amounts totalling

K52,950,785 against which amounts totalling K38,951,282 were received and generated resulting in a negative variance of K13,999,503. See table 10.1 below.

Table 10.1: Budget and Income

Year	Budget			Actual			Variance
	Government K	Other Income K	Total K	Govt Funding K	Other Income K	Total K	K
2018	21,850,008	5,057,323	26,907,331	14,566,671	4,824,537	19,391,208	(7,516,123)
2019	21,850,008	4,193,446	26,043,454	16,557,961	3,002,113	19,560,074	(6,483,380)
Total	**43,700,016**	**9,250,769**	**52,950,785**	**31,124,632**	**7,826,650**	**38,951,282**	**(13,999,503)**

b. Operational Matters

i. Lack of a Strategic Plan

A strategic plan defines an organisation's outlook and sets strategies for desired objectives and direction of the entity. A strategic plan also outlines allocation of resources to priority areas.

However, during the period under review, NISIR operated without a strategic plan.

ii. Failure to Utilise Laboratory Equipment

During the period from July 2013 to June 2015, the Institute received laboratory equipment from the Ministry of Higher Education valued at K5,026,146 for research at Chilanga Campus (K899,576) and Kitwe Plant Science Institute (K4,126,570).

However, a physical inspection of the equipment carried out in October 2020, revealed that the equipment was not in use, five (5) to seven (7) years after delivery. See pictures 10.1 below.

Pictures 10.1: Unutilised Equipment in Kitwe

iii. **Lack of Policy - Acquisition and Cropping of Livestock**

Section 4 of the Science and Technology Act No. 26 of 1997 read together with Sub-regulation (1) of Statutory Instrument No. 73 of 1998, outlines the functions of NISIR as to conduct and promote scientific, technological, and industrial research in Zambia in civil, mechanical, and electrical engineering; food, material and nuclear science; textile technology; and natural products among others.

In order to effectively implement its mandate, the institute embarked on rearing livestock such as goats, pigs and cattle, at its Headquarters in Lusaka, Chalimbana Farm and Chilanga Campus.

However, site visits to the NISIR facilities in January 2021 revealed that although some records regarding the livestock were in place, there were no birth and vaccination records for livestock kept at all the three (3) stations.

In addition, there was no policy or guidelines on the acquisition, cropping (selling), feeding and allowable number of livestock expected to be kept by respective research centres at any given time.

Consequently, the basis on which the livestock was cropped could not be ascertained.

iv. **Management of Commercial Properties**

- **Failure to Avail Payment Records - Textile Laboratory**

  On 16th June 2009, the Ministry of Works and Supply engaged Meanwood Construction (Z) Limited on behalf of NISIR to rehabilitate the Materials Textile Testing Laboratory block located at the Institute's stand No. 7285, Mulalika Road, Light Industrial Area, in Lusaka at a contract sum of K265,400 with a duration of twenty four (24) weeks.

  A review of records and enquiries with management revealed that works commenced on 20th July 2009 and were completed by July 2013.

  However, amounts certified and paid to the contractor could not be ascertained due to poor record keeping by parties involved.

As at 31st January 2021, the contractor was occupying the premises and had not handed over the project as he was still awaiting payment for works done.

- **Failure to Utilise a Coal Briquette Plant**

The Institute owns a coal briquette plant located in Lusaka's Waterfalls area along the Great East Road. The facility valued at K1,800,000 was commissioned and operationalised in 1994 as a pilot plant to produce coal briquettes, energy efficient cooking stoves (mbaulas) and transferring the skills to members of the community.

Enquiries with management revealed that the facility had not been in use since 2009 due to lack of operational funds and trained personnel to manage it among others.

A physical inspection of the property conducted in January 2021 revealed that the facility was not in use and was poorly maintained. See pictures 10.2 below.

Pictures 10.2: Poorly Maintained Coal Briquette Plant

c. Accounting Irregularities

i. Unaccounted for Stores

Public Stores Regulation No. 16 states, "Every stores officer or any other officer having charge of any public stores or other articles of public property must keep and maintain records of the receipt and issue of such public stores."

Contrary to the regulation, stores items costing K24,250 procured in 2018 were unaccounted for in that there were no receipts and disposal details.

ii. Irregular Payment for Road Traffic Offences

On 1st November 2019, NISIR paid K11,700 to the Road Transport and Safety Agency (RTSA) for thirty nine (39) road traffic offences of exceeding the speed limit committed by the Transport Officer between 7th June 2019 and 29th December 2019. The offences involved an institutional vehicle Registration Number ABP 1826.

Although the officer concerned was dismissed from employment in May 2019, on a different charge, no recoveries had been made by the Institution as at 31st January 2021.

d. Management of Assets

i. Failure to Collect Rentals-Chilanga Animal Science Research Centre

During the period under review, NISIR had leased out six (6) houses located in Chilanga and Silverest.

However, rentals in amounts totalling K222,534 had not been collected as at 31st January 2021 and no tenancy agreements were availed for audit. See table 10.2 below.

Table 10.2: Uncollected Rentals

No.	House No.	Location	Tenant	Rentals not Collected K	Period
1	BQ23	Chilanga	Former employee	60,000	August 2017 to October 2020
2	N6	Chilanga	Former employee	29,400	June 2019 to October 2020
3	K5	Chilanga	Former employee	24,360	February 2016 to October 2020
4	T3A 085	Silverest	Nuclear Centre	36,258	May 2019 to September 2020
5	T3A 094	Silverest	Nuclear Centre	36,258	May 2019 to September 2020
6	T3A 244	Silverest	Nuclear Centre	36,258	May 2019 to September 2020
	Total			**222,534**	

ii. Poor maintenance of Houses

Part 2.7 of the NISIR Housing Policy of 2013 requires the Institute to maintain and repair its properties.

However, a physical inspection conducted in January 2021 revealed that the Institute's houses were poorly maintained. See table 10.3 below.

Table 10.3: Poorly maintained Houses

No.	House No./ Occupant	Location	Observation
1	BQ 38	Chilanga campus	Fading paint, leaking pipes to the geyser
2	J5	Chilanga campus	Cracks in the wall and floor and leakages in the roof
3	Farm supervisor	Chalimbana farms	Cracked walls
4	3 staff houses	Kitwe plant research	Cracks and broken foundations to the toilets
5	18 Houses	Silverest	Dilapidation due to non maintenance, leakages

iii. Failure to Secure Institutional Land

In a letter dated 10th March 2010, the Minister responsible for Science and Technology directed the NISIR board of directors to fence all the Institute's land to prevent possible invasion. Further, in a letter dated 6th September 2013, the Commissioner of lands warned the Institute about the impending encroachment by illegal settlers. It was however, observed that management had not taken any action to secure the land. Consequently, as at 31st March 2018, over 200 hectares of land at Chalimbana Farms in Chongwe District had been encroached.

A review of the matter in January 2021 revealed that the situation had not changed as the Chalimbana farm was not fenced.

e. Failure to Fill Vacant Positions

A scrutiny of the staff establishment revealed that NISIR had 286 positions out of which 121 were filled leaving 165 vacant as at 31st December 2020, as shown in the table 10.4 below.

Table 10.4: Unfilled Positions

No.	Staff Category	Establishment	Filled Positions	Unfilled Positions
1	Executive Director	1	0	1
2	Finance Manager	1	0	1
3	Researchers	64	14	50
4	Research Assistants	6	5	1
5	Technologists	92	12	80
6	Laboratory Assistants	11	4	7
7	Professional Administration and Financial Staff	28	12	16
8	General Administration - Support Staff	83	74	9
	Total	**286**	**121**	**165**

Included in the vacancies were the positions of Executive Director, Finance Manager and Internal Auditor that were key to the operations of NISIR.

11. NATIONAL PENSION SCHEME AUTHORITY

11.1 BACKGROUND

a. Establishment

The National Pension Scheme Authority (NAPSA) was established under the National Pension Scheme Act No. 40 of 1996. The Authority started operations on 12th February 2000 following the transformation of the Zambia National Provident Fund (ZNPF).

The functions of the Authority are to;

- Implement policies relating to the National Pension Scheme in accordance with the Act,
- Control and administer the Scheme, and
- Control and manage, on custodial basis, the assets and liabilities of members who contributed to the defined contribution plan previously established under the now defunct Zambia National Provident Fund (ZNPF) Act.

b. Governance

Section 3 Part I of the First Schedule of the Act provides for the establishment of the members of the Authority comprising the following:

- Two representatives from such associations of employees as the Minister shall designate,
- Two representatives from such associations of employers as the Minister shall designate,
- A representative and an alternate member from the Ministry responsible of finance,
- A representative and an alternate member from the Ministry responsible for social security,
- A representative of the Bankers association of Zambia,
- A representative of the Bank of Zambia, and
- A representative of the Pension Managers Association.

The Members are appointed by the Minister on renewable terms of three (3) years. The Chairperson of the Authority is appointed by the Minister while the Vice Chairperson elected from amongst the members.

c. Management

The Director-General is responsible for the operations of the Authority and is assisted by seven (7) directors responsible for Contributions and Benefits, Investments, Projects, Information Technology, Human Resources and Administration, Strategy, Finance, and the Authority Secretary.

d. Sources of Funds

Section 11 (1) (Part II) of the First Schedule of the NAPSA Act of 1996 states, "The funds of the Authority shall consist of such moneys as may;

i. be paid to the Authority by way of contributions, fees, levy, grants or donations; or

ii. vest in or accrue to the Authority."

Further, Section 11 (2), provides that the Authority may;

i. accept moneys by way of grants or donations from any source;

ii. raise by way of loans or otherwise, such moneys as it may require for the discharge of its functions; or

iii. charge and collect fees for services provided by the Authority.

e. Information and Communication Technology Systems

During the period under review, NAPSA operated the following Information and Communication Technology (ICT) Systems:

i. Enterprise Resource Planning System

This is an Enterprise Resource Planning (ERP) System that was used for Supply Chain, Financials, Treasury, Property, Projects, Employee self-service and Payroll management among others.

ii. Pension Management

The system was used to administer contributions from members and administration of benefits to pensioners.

iii. eNAPSA

eNAPSA is a customer facing platform (Web based Application) for managing the submission of returns and registration of employers and members.

iv. Document Management System

The system was used for electronic administration of the claim files for the members.

11.2 Audit Findings

An examination of accounting and other records maintained at NAPSA headquarters and selected stations for the financial years ended 31st December 2017, 2018 and 2019 revealed the following:

a. Budget and Income

During the period under review, NAPSA budgeted to generate income of K18,061,481,000 from member contributions and investments against which amounts totalling K23,117,922,000 were collected and generated resulting in a positive variance of K5,056,441,000. See table 11.1 below.

Table 11.1: Budget and Income

Descriptions	Budget	Income	Budget	Income	Budget	Income	Budget	Actual	Variance
	Dec-19	Dec-19	Dec-18	Dec-18	Dec-17	Dec-17	2017 - 2019	2017 - 2019	2017 - 2019
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Contributions Receivable	4,015,069	4,260,319	3,517,016	3,473,601	3,384,240	3,270,016	10,916,325	11,003,936	87,611
Investments	3,093,549	5,025,279	1,862,891	3,730,782	2,188,715	3,357,925	7,145,156	12,113,986	4,968,830
Total	**7,108,618**	**9,285,598**	**5,379,907**	**7,204,383**	**5,572,955**	**6,627,941**	**18,061,481**	**23,117,922**	**5,056,441**

Source: Annual Report 2017 to 2019 and Management Accounts 4th Quarter 2017 to 2019

Included in the 2019 budgeted contributions from members was an amount of K34,400,000 from the informal sector. However, no amount had been collected by NAPSA as at 30th November 2020.

b. Financial Analysis

i. Statement of Changes in Net Assets Available for Benefits

The Statements of Changes in Net Assets Available for Benefits for the periods under review were as shown in tables 11.2 below.

Table 11.2: Statement of Changes in Net Assets Available for Benefits

Description	**2019 K'000**	**2018 K'000**	**2017 K'000**
Net Assets Available at the Beginning of the Year	25,249,316	22,398,722	17,036,186
Member Service Operations			
Contributions from Members	4,260,319	3,473,601	3,270,016
Pension claims & Withdrawals	(404,008)	- 243,817	- 247,592
ZNPF Claims	(413,796)	(312,160)	(201,797)
Normal Retirement Pensions	(336,074)	(284,501)	(243,856)
Funeral Grants (NAPSA)	(18,967)	(19,126)	(13,875)
	3,087,474	**2,613,997**	**2,562,896**
Investment Operations			
Investment Income	5,025,279	3,730,782	3,357,925
Net Exchange Gains	(633)	1,156	(13,756)
Tax Expenses	(384,553)	(227,495)	(266,571)
Impairment Loss on Stocks and Bonds	1,100	(1,900)	
Impairment Loss on Other Investments	(6,294)	(18,718)	
Impairment Loss on Loans & Advances	(322,088)	(531,766)	
Impairment Loss on Housing Inventory	(3,122)	(29,879)	(26,953)
Handling Fees	(29,858)	(31,836)	(31,990)
Bad Debt Provisions	(311,678)	(3,921)	(26,164)
Change in Market Value of Investments	(17,955)	(2,179,385)	220,918
	3,950,198	**707,038**	**3,213,409**
Management Expenses			
Employee Benefits Expenses	(320,419)	(306,515)	(258,263)
Administration Expenses	(182,260)	(143,688)	(140,643)
Depreciation Expenses	(87,243)	(20,230)	(15,565)
Gains/(Losses) on Disposal of Equipment	(1,276)	(8)	701
	(591,198)	(470,441)	(413,770)
Net Increase in Net Assets	**6,446,474**	**2,850,594**	**5,362,535**
Net Assets Available at the End of the Year	**31,695,790**	**25,249,316**	**22,398,721**

Source: NAPSA Annual Report for 2019

As can be seen from the table above, the net assets available for benefits increased by K9,297,069,000 from K22,398,721,000 in 2017 to K31,695,790,000 in 2019 representing an increase of 42%.

ii. Statement of Net Assets Available for Benefits

The Statements of Net Assets Available for Benefits for the periods under review were as shown in table 11.3 below.

Table 11.3: Statement of Changes in Net Assets Available for Benefits

Description	2019 K'000	2018 K'000	2017 K'000
Members Funds	31,695,790	25,249,316	22,398,721
Assets			
Investments			
Government Securities	15,658,087	12,609,075	10,859,553
Other Securities	6,552,644	5,019,085	4,275,658
Equity Investments	1,121,100	1,312,402	1,579,363
Loans & Advances	3,704,226	2,911,512	2,526,255
Housing Investory	157,800	218,924	305,979
Investment Properties	3,063,930	2,764,727	2,314,785
	30,257,787	**24,835,725**	**21,861,593**
Other Assets			
Bank & Cash Balances	869,493	229,147	139,061
Employee Receivables	3,262	3,309	6,387
Other Receivables	149,806	131,506	99,350
Consumable Stores	1,569	1,322	1,858
Contribution Receivables	664,612	236,917	689,891
Property & Equipment	129,848	156,497	149,017
	1,818,590	**758,698**	**1,085,564**
Total Assets	**32,076,377**	**25,594,423**	**22,947,157**
Liabilities			
Income Tax Liabilities	(101,242)	(76,058)	(136,350)
Provisions for Claims Payable	(7,287)	(7,287)	(13,037)
Other Payables & Accrued Expenses	(267,568)	(253,484)	(392,062)
Deferred Liabilities	(4,490)	(8,278)	(6,987)
	(380,587)	**(345,107)**	**(548,436)**
Net Assets Available for Benefits	**31,695,790**	**25,249,316**	**22,398,721**

Source: NAPSA Annual Report for 2019

During the period under review other receivables increased by 51% from K99,350,000 in 2017 to K149,806,000 in 2019. This was mainly attributed to the Authority's failure to collect rental income and claim recoverable value added tax (VAT) from Zambia Revenue Authority (ZRA).

c. Operational Matters

i. Failure to adhere to the 7th National Development Plan – Administrative Costs

According to the Seventh National Development Plan (7NDP), NAPSA falls under pillar two (2) on Poverty and Vulnerability Reduction, as such, its Strategic Plan for the period 2018 to 2021 was aligned to the 7NDP.

According to the Implementation Plan's Programme of Strategy 2 of the 7NDP, NAPSA's target output indicator on administration costs as a percentage of contributions collected was 10% for the period 2017-2021.

It was however observed that the Authority's administration costs were above the limit in 2018 and 2019 as shown in table 11.4 below.

Table 11.4: Computation of Administrative Cost as per 7NDP 10% Benchmark

Details	2019 K000	2018 K000
Contribution Per Year	4,260,319	3,473,601
7 NDP Administrative Cost Cap - 10%	426,032	347,360
Actual adminitrative Expenses (Net off Depreciation)	503,954	450,195
Over Expenditure	**77,922**	**102,835**
7 NDP Administrative Cost Cap	**10%**	**10%**
Actual admin Costs as % of Contributions	12%	13%
Over Expenditure in percentage (%) terms	**2%**	**3%**

ii. Weaknesses Reported in the Actuarial Reports

Section 44 (1) of the National Pension Scheme Act No. 40 of 1996 provides for the Scheme to be valued by an actuary at intervals not exceeding three (3) years.

According to the Act, the actuary is required to prepare a report on the state of the Scheme which includes the state of any surplus or deficit in the Scheme and recommend the action to be taken. The actuary should submit the report prepared under subsection (3) to the Authority with a copy to the Minister.

Further, Section 45. (1) of the Act requires the Authority to pay due regard to any recommendations made by the actuary under Section 44 and in doing so, may do the following:

- Increase or decrease in the rates of contribution payable in respect of members; or
- Require members to pay such sums as the actuary may determine to cover any deficiency directly attributable to an action of such member.
- Report to the Minister its reasons for failing to carry out any recommendations made by the actuary.

A review of the Actuarial Reports for the period ended 31st December 2017 revealed the following:

- **Actuarial Deficit**

  Actuarial deficit refers to the difference between future benefits pay out obligations discounted at present value when compared with the current contribution income rates of the pension scheme. When the assets (Contributions) are more than the obligations (Future Benefits) it's referred as an Actuarial Surplus while the opposite result is referred to as Actuarial Deficit.

A review of the report revealed that as at 31st December 2017, the Scheme had an actuarial deficit ranging from K18.4 billion to K634.2 billion when discounted at three different rates as shown in table 11.5 below.

Table 11.5: Actuarial Deficit

Description	Discounted + 5% K' Billion	Discounted + 0 % K' Billion	Discounted - 5% K' Billion
Value of Scheme Liability	40.8	115.1	656.6
Value of Scheme Assets	22.4	22.4	22.4
Supplus / (Deficit)	**(18.40)**	**(92.70)**	**(634.20)**
Funding Level (Asset as % of Liabilities	55%	19%	3%

- **Failure to Liquidate ZNPF Liability**

According to the Actuarial recommendations on Benefits for the year ended 31st December 2017, NAPSA was advised to review its obligations to the Zambia National Provident Fund (ZNPF) and National Pension Scheme (NPS) members.

In this regard, the Actuary advised the Authority to settle the ZNPF liability which stood at K2.8 billion in respect of 2,296,877 members. The liquidation of this liability was going to help the Scheme avoid the need to finance future interest compounded at 27.3% annually.

However, as at 31st December 2020, the Authority had not liquidated the ZNPF liability which had increased to an estimated amount of K5.78 billion.

iii. Management of Members Standing Data

A review of the NAPSA member standing data on the database revealed that as of December 2019, the Authority had 1,790,073 members.

According to the Authority's Know Your Customer (KYC) guidelines, each member on the database must have, among other information, a Social Security

Number, National Identity Number and Names. An analysis of the database to establish conformity to the KYC and data integrity revealed the following:

- **Members with Shared National Registration Card Numbers**

  A review of the members' details on the master database (eNAPSA) revealed that 22,884 members shared national registration card (NRCs) numbers.

- **Missing Essential Member Details**

  An analysis of the standing data from the member master database revealed that 43,878 members who made contributions in amounts totalling K548,174,090 had missing National Registration Cards (NRC) numbers.

iv. Management of Contributions

- **Failure to Collect Contributions – National Pension Scheme**

A review of non-compliant members list as of June 2020 revealed that the Authority was owed amounts totalling K16,089,421,579 by various institutions as shown in table 11.6 below.

Table 11.6: Outstanding Amounts by Institutions

No	Contributor	Principal K	Penalty K	Total K
1	Central Government	519,978,916	3,519,064,314	4,039,043,229
2	Private	502,397,610	5,455,225,551	5,957,623,161
3	Government Aided	46,000,298	319,795,216	365,795,514
4	Local Authorities	210,095,669	1,541,946,094	1,752,041,763
5	Security Wings	1,446,984,178	53,577,453	1,500,561,631
6	Parastatals	242,476,075	2,231,880,205	2,474,356,280
	Totals	**2,967,932,746**	**13,121,488,833**	**16,089,421,579**

Included in the outstanding amount of K16,089,421,579 is an amount of K98,486,621 in respect of 121 employers that had either ceased operations, moved from their known places of operations or defaulted on agreements with the Authority or orders from the Courts.

- **Failure to Allocate Contributions – eNAPSA**

  The eNAPSA was designed to address the reconciling items mainly arising from unidentified credits and challenges faced in receipting of member contributions.

  A review of financial and other records revealed that the Authority had unreconciled amounts totalling K2,995,136 which had not been allocated to any employer and employees account as at 31st December 2019. See table 11.7 below.

Table 11.7: Unreconciled Items on Member Contributions

Description	Unreconciled Items 2019 K	Unreconciled Items 2018 K	Unreconciled Items 2017 K	Total K
Unposted Amounts	220,185	890,848	1,017,911	2,128,944
Uncredited Amounts	224,999	322,192	148,663	695,854
Unknown Debits	6,438	128,128	35,772	170,338
Total	**451,622**	**1,341,168**	**1,202,346**	**2,995,136**

- **Unreconciled Legacy Items**

  Employers who were not on the eNAPSA platform made their contributions under the Legacy System where they remitted the funds without submitting returns which included details on how the funds were distributed to the members.

  It was however observed that the NAPSA main Collection Account had 761 unallocated contributions in amounts totalling K43,807,761 for the period ranging from 2009 to 2018 as of February 2021.

v. **Failure to adhere to Board Approval - Purchase of Land**

In 2011, the Board of Trustees approved the purchase of 1,500 acres of land located in Mean Wood Ibex from Mean Wood Development Company Limited at a total cost of K75,000,000 (K50,000 per acre).

Contrary to the Board approval, in 2011, management purchased 1,479 acres at a total cost of K73,950,000 leaving 21 acres from the approved purchase of 1,500 acres as management felt it would be difficult to utilise as it was located near the river.

However, in 2016, management engaged Afritec Asset Management Limited at a total cost of K1,857,448 to assess the potential utilisation of the land. The consultant recommended the purchase of the remaining 21 acres.

The purchase price for the 21 acres was K2,550,000 which was paid on 31st March 2017 instead of K1,050,000 had management adhered to the Board approval.

In addition, the consultancy fees in amounts totalling K1,857,448 could have also been avoided had management acted on Board approval in 2011.

d. Investment Matters - Pension Funds

During the period under review, the Authority had a diversified investment of eleven (11) portfolios as shown in table 11.8 below.

Table 11.8: Authority Investment Portfolio

No.	Asset Class	Gross Portifolio 2019	Portifolio %	Gross Portifolio 2018	Portifolio %	Gross Portifolio 2017	Portifolio %
1	GRZ Bonds	13,097,803,229	43.22%	12,165,991,952	48.89%	7,922,210,236	36.24%
2	Treasury Bills	2,560,284,539	8.45%	443,083,201	1.78%	2,937,343,141	13.44%
3	Equities	1,083,624,442	3.58%	1,274,926,912	5.12%	1,541,887,682	7.05%
4	Corporate Bonds	19,407,835	0.06%	46,687,688	0.19%	77,517,892	0.35%
5	Fixed Term Deposits	6,473,140,972	21.36%	4,972,397,213	19.98%	4,198,139,672	19.20%
6	Real Estates WIP	4,099,817,237	13.53%	3,826,856,154	15.38%	3,709,731,761	16.97%
7	Subsidiaries	37,475,198	0.12%	37,475,198	0.15%	37,475,198	0.17%
8	Infrastructure	2,752,761,706	9.08%	2,054,164,551	8.26%	1,437,287,517	6.57%
9	Privite Equity	46,700,000	0.15%	46,700,000	0.19%		0.00%
10	Economically Targeted	71,784,628	0.24%		0.00%		0.00%
11	Socially Targeted	62,472,468	0.21%	14,160,700	0.06%		0.00%
	Total	**30,305,272,254**		**24,882,443,569**		**21,861,593,099**	

A review of the performance of the investments during the period under review revealed the following:

i. Failure to Attain Budgeted Gross Revenues

During the financial year ended 31st December 2019, the Authority set to achieve gross revenue amounting to K1,141,894,087 from seven (7) portfolio investments out which revenue in amounts totalling K821,288,966 was generated giving a negative variance of K320,605,121. See table 11.9 below.

Table 11.9: Budget against Actual Gross Revenue

No.	Asset Class	Budgeted Gross Revenues K	Actual Gross Revenues K	Variance Budget to Actual K	% Variance
1	Real EstateWIP	355,644,722	142,845,492	(212,799,230)	-60%
2	Private Equity	165,897,670	101,847,671	(64,049,999)	-39%
3	Corporate Bond	30,476,130	6,452,658	(24,023,472)	-79%
4	Socially Targeted	16,091,975	4,303,442	(11,788,533)	-73%
5	Subsidiaries	5,000,000	-	(5,000,000)	-100%
6	Infrastructure	540,555,538	538,750,466	(1,805,072)	0%
7	Equities	28,228,052	27,089,237	(1,138,815)	-4%
	TOTAL	**1,141,894,087**	**821,288,966**	**(320,605,121)**	**-28%**

ii. Poor Performing Investment Portfolios

Out of the eleven (11) investment classes, only GRZ bonds, treasury bills and infrastructure investments had exceeded their annual benchmark return for 2019 which were set at 6.17%, 1.45% and 1.44% in that they had annual average returns of 9%, 2% and 2% respectively. The rest of the investments classes recorded annual average returns that were below their set benchmarks. See table 11.10 below.

Table 11.10: Under Performing Investment Portfolios

No.	Asset Class	Gross Portifolio 2019 K	Portifolio %	Gross Portifolio 2018 K	Portifolio %	Capital Gains / (Losses) K	Gross Income K	Annual Average Return 2019	Net Weighted Average Return 2019	Annual Benchmark Return 2019
1	GRZ Bonds	13,097,803,229	43.22%	12,165,991,952	48.89%	(2,580,498,154)	2,786,998,845	9%	1%	6.17%
2	Treasury Bills	2,560,284,539	8.45%	443,083,201	1.78%	40,315,113	332,105,389	2%	2%	1.45%
3	Equities	1,083,624,442	3.58%	1,274,926,912	5.12%	(191,142,216)	27,089,237	0%	-1%	0.61%
4	Corporate Bonds	19,407,835	0.06%	46,687,688	0.19%	-	6,452,658	0%	0%	0.01%
5	Fixed Term Deposits	6,473,140,972	21.36%	4,972,397,213	19.98%	-	1,026,089,260	4%	4%	4.01%
6	Real Estates WIP	4,099,817,237	13.53%	3,826,856,154	15.38%	-	246,492,839	1%	1%	2.19%
7	Subsidiaries	37,475,198	0.12%	37,475,198	0.15%	-	-	0%	0%	0.04%
8	Infrastructure	2,752,761,706	9.08%	2,054,164,551	8.26%	-	538,750,466	2%	2%	1.44%
9	Privite Equity	46,700,000	0.15%	46,700,000	0.19%	-	-	0%	0%	0.03%
10	Economically Targeted	71,784,628	0.24%	-	0.00%	-	95,343	0%	0%	0.04%
11	Socially Targeted	62,472,468	0.21%	14,160,700	0.06%	-	4,303,442	0%	0%	0.03%
	TOTAL	**30,305,272,254**	100%	**24,882,443,569**	**100%**	**(2,731,325,257)**	**4,968,377,479**	**18%**	**9%**	**16%**

Further, the annual benchmark return for 2019 was 16% which was surpassed as the actual was 18%. However, when compared with the net weighted average return which takes into account capital gains and losses, the return was 9%.

In addition, the authority received a reduction of K191,302,470 in dividend income from K1,274,926,912 in 2018 to K1,083,624,442 in 2019, in respect of listed equity investments while capital losses in amounts totalling K2,731,325,257 were recorded in 2019.

e. **Investment Matters - Non-Performing Fixed Term Deposits**

During the period under review, NAPSA had invested funds in amounts totalling K6,547,045,120 in fixed term deposits with thirty one (31) financial and non-financial institutions as at 31st December 2019.

Between 19th July 2017 and 1st July 2018, NAPSA placed three (3) fixed term deposits with the Development Bank of Zambia (DBZ) in amounts totalling K81,212,273 which were secured with three (3) collaterals valued at K242,760,800. The securities were to mature in July and December 2018. See table 11.11 below.

Table 11.11: DBZ Placements

Details	Amounts & Dates 1st Placement	Amounts & Dates 2nd Placement	Amounts & Dates 3rd Placement	Total for the three Placements
Principle Amount (K)	37,800,000	22,200,000	21,212,273	81,212,273
Collateral Value (K)	197,860,000	19,800,800	25,100,000	242,760,800
Placement Date	19.07.2017	23.06.2018	01.07.2018	
Maturity Date	18.07.2018	22.12.2018	01.12.2018	
Tenure (Days)	365	182	151	-
Rate (%)	14.25	13.75	16.00	14.67
Funds Expected on 31.12.19 (K)	45,033,501	27,834,542	28,762,680	101,630,723
Received (K)	(7,771,656)	-	-	(7,771,656)
Amounts Due from FTDs as at 31st Dec 2019 (K)	**37,261,845**	**27,834,542**	**28,762,680**	**93,859,068**

However, as at 31st December 2019, only K7,771,656 had been repaid by DBZ when the total outstanding amount was K101,630,723 leaving a balance of K93,859,068.

As at 31st December 2020, NAPSA had neither recovered the amount nor repossessed the pledged collateral.

f. **Investment Matters - Collection of Rentals**

i. **Poor Collection of Rental Arrears**

During the period under review, NAPSA had several commercial properties which included Levy Business Park, Stay-Easy Hotels, Kalulushi Residential Houses and Ex-ZNPF Buildings.

A review of investment reports and other records revealed that rentals in amounts totalling K171,237,023 were outstanding as at 31st December 2019 some of which had been outstanding from as far back as 2011.

It was further observed that management set a 20% collection target on the arrears during the year ended 31st December 2019 against which only 2%

representing amounts totalling K3,505,540 were collected. See table 11.12 below.

Table 11.12: Outstanding Rental on Investment Properties

No.	Property Name	Outstanding Balance 01/01/2019 K	Current Invoices 2019 K	Total Receipts 31/12/2019 K	Closing Balance 2019 K	Collection on Current K	Collection on Arrears K	Collection % Current	Collection % Arrears
1	Levy Business Park	109,999,583	89,467,389	72,407,296	127,059,676	71,547,553	859,743	80.0%	1%
2	ECL Business Park	-	20,083,208	14,720,602	5,362,606	14,720,602	-	73.3%	0%
3	Garden Court Hotel	-	4,195,752	1,398,584	2,797,168	1,398,584	-	33.3%	0%
4	Kalulushi Complex	95,697	252,306	176,777	171,225	176,777	-	70.1%	0%
5	ZNPF Ex Buildings	26,611,949	20,028,034	19,871,750	26,768,234	17,713,952	2,157,798	88.4%	8%
6	Kalulushi Housing	3,501,257	2,132,310	1,055,906	4,577,661	1,055,906	-	49.5%	0%
7	Ibex Hills	2,413,171	1,963,789	727,507	3,649,453	727,507	-	37.0%	0%
8	Nyumba Yanga	1,339,000	2,052,000	2,540,000	851,000	2,052,000	488,000	100.0%	36%
	Total	**143,960,657**	**140,174,788**	**112,898,422**	**171,237,023**	**109,392,882**	**3,505,540**	**78.0%**	**2%**

In addition, included in the outstanding were;

- rentals at Levy Business Park amounting to K127,059,676 out of which an amount of K47,600,087 representing 37% was owed by Fresh View Limited, who had not paid any rentals since inception of the tenancy agreement in 2011, and

- amounts totalling K15,473,939 owed by fourteen (14) former and other current tenants at Levy Business Park for periods ranging from three (3) to eight (8) years.

g. Investment Matters – Construction Defects Re-development of Society House and Central Arcades Project

On 20th May 2011, NAPSA signed a concession agreement with Zambia National Building Society (ZNBS), the legal owners of stand No. 3 known as Society House and stands Nos. 20, 21, 22 and 23 known as Central Arcades in Lusaka.

The agreement granted NAPSA concession rights and obligations which included the following:

- Demolition of structures which were existing at Central Arcade.
- Construction of a shopping mall, parking lots and offices at Central Arcade.
- Renovation, upgrading, addition, erection, construction, supervision, management, commissioning, marketing, maintenance, and operation of the Society House.
- Collection of rental and or fees from tenants and users of the project assets

- Payment of 3.5% of gross revenue as concession fees to ZNBS throughout the concession duration of twenty years from date of signature.
- Ownership and control of a company called Society House Development Company Ltd through which NAPSA was managing the project.

Society House Development Company Ltd (SHDCL), a company wholly owned by NAPSA, was incorporated in 2011 and it also signed a Concession Lease Agreement with ZNBS on 20th May 2011. Under this Agreement, ZNBS granted SHDCL leasehold interest in land on which the project assets are located an exclusive right to use, possess, construct, operate, manage and rehabilitate such assets for a term of twenty (20) years.

On 26th May 2011, SHDCL engaged Yangts Jiang Enterprise for the design, supervision, and redevelopment of Society House and Central Arcade in Lusaka. The contract included other parties in partnership with Yangts Jiang under a consortium called Zambezi Consortium. Apart from the contractor, the members of the consortium included Bicon Zambia Ltd, the consulting engineers, Louis Karol and PJP Associates as Architects and Turner & Townsend Ltd and HB Chalwa Associates as Quantity Surveyors.

The contract price was K473,044,127 VAT inclusive with a duration of thirty six (36) months starting from 8th June 2011 to 9th June 2014.

Among other terms of the contract, the contractor was required to provide advance payment guarantee and performance bond before payments were made.

In 2016, the contractor failed to finish the works costing K76,636,491 and abandoned the site. At the time of abandoning the site, the contractor had been paid amounts totalling K189,217,651 which included an advance of K183,272,635. The payments of the advance and the performance of the contractor were guaranteed on 22nd September 2015 by the Bank of China.

Subsequently, on 8th April 2016, NAPSA signed a contract addendum with the receiver of Yangts Jiang Enterprise Ltd and African Brothers under which African Brothers Ltd was engaged to take over the remaining works at an extra cost of K46,363,513.

However, as at completion time in August 2018, the total project cost had increased by K606,586,684 from K473,044,127 to K1,079,630,811 due to variations and the devaluation of the Kwacha against the United States Dollars. As at 28th February 2021, the contractors had been paid amounts totalling K995,065,785 (first contractor K189,217,651 and second contractor K805,848,134) which excluded retention in amounts totalling K84,565,026

A review of the project documents and enquiries with management in November 2019 revealed the following:

i. **Cracking Column**

One of the twenty four (24) columns supporting the Office Block at the First Floor namely T5 was cracking thereby distressing columns R4, S4 and S7 at the first floor. An independent report by the Engineering Consultant Kiran and Musonda Associates on the failure of Column T5 revealed the following structural defects based on visual assessments:

- **Poor Concrete Mixture and Re-enforcement of Supporting Column**
    - The concrete mixture and composition had more fine aggregates than the coarse aggregates;
    - The cover to reinforcement ranged between 15mm and 20mm which was low and fire resistance of the building could be limited;
    - Links on the circular column were not properly tied around the main bar where they join leading to potential mixture split at the lap position; and
    - The failure to observe bulking and crushing of the concrete.
- **Under Estimation of Loadings onto Columns R4, S4, S7 and T5**
    - Design loads onto these columns were underestimated to the required ultimate loads imposed;
    - The under-estimation ranged from 16% to 40% of the actual ultimate load; and
    - Column T5, which failed, carried the highest load of 5410KN to 6100KN.

- **Under-estimated Concrete Compressive Strength**
  - Actual concrete compressive strength of these columns is lower than the specified concrete strength of 30MPa (Mega Pascal is a 1,000,000 multiple of the pascal unit which is the International System of Units for pressure. MPa equals 1000 KiloNewtons);
  - Based on rebound concrete tests, it was estimated that the acceptable concrete compressive strength on the columns to be Column T5 10MPa, Column R4 & S4 15MPa and Column R7 13MPa;
  - Test results submitted by BICON included in their report on the failure of Column T5 would not meet the requirements of SATCC Standard Specifications for Roads and Bridges nor COLTO Standard Specifications for Roads and Bridges; and
  - Based on the tests results on the failed and other affected columns, namely R4, S4, S7 and T5, as well as test records carried out by Wade Adams on floor slabs during the construction of the building, in their report made available by BICON, it was necessary to extend the investigations to other floors (2nd, 3rd, 4th and 5th floors and the car park/basement columns).

As can be seen from the Engineer's Report above, the capacity of the columns to carry the design loads was lower than required. This was due to weak concrete and also the underestimation of the loads onto the columns.

In response, management stated that it had complained to the Engineering Institution of Zambia (EIZ) on the contractual structural engineering design, construction and supervision services it had engaged for the development of the Society Business Park Office Block.

Consequently, at their own cost, the contractor started strengthening the columns on 9th July 2020 and works were completed on 27th November 2020.

However, as of February 2021, the Engineering Institute of Zambia had not issued an inspection report on the building.

ii. Failure to Confirm Validity of Advance Payment Guarantee and Performance Bond - Yangts Jiang Limited

In adherence to clause 52.1 of the terms and conditions of the contract, the initial contractor Yangts Jiang Limited, submitted Advance Payment Bank Guarantee and Performance Bank Guarantee Nos. BOCZLG135/2011 and BOCZLG137/2011 respectively issued by Bank of China on 22nd September 2015.

As at the time of abandonment in 2016, the contractor had been paid amounts totalling K189,217,651 which included an advance of K183,272,635. The payments of the advance and the performance of the contractor were guaranteed on 22nd September 2015 by the Bank of China.

Subsequently, on 20th September 2016, NAPSA called in the advance payment guarantee and performance bond. In response, the Bank of China in their letter dated 2nd November 2016 claimed that the advance payment guarantee and performance bond were not issued by them.

Furthermore, the Bank stated that both Advance Payment Bank Guarantee and Performance Bank Guarantee Nos. BOCZLG135/2011 and BOCZLG137/2011 respectively, were issued to ZESCO Limited on behalf of Bonle Company Limited.

On 9th November 2016, the Authority instituted criminal investigations through the Zambia Police Service and the investigative findings as of 2nd October 2017 revealed that the Bank of China did not have any record of the Guarantees issued to the Society House Development Company Limited on behalf of Yangts Jiang Limited. In addition, the investigation revealed that the signatures on the guarantees and performance bond were forgeries despite the stamp being authentic.

As at 31st December 2020, no further action had been taken by NAPSA and the amounts advanced were not recovered.

iii. Loss of Business Due to Structural Defects

Following the failure of Column T5 on the first floor of the office block at Society Business Park, NAPSA lost income in amounts totalling K12,186,749 during the period from October 2019 to December 2020 due to tenants vacating the Office Block on safety reasons. See table 11.13 below.

Table 11.13: Loss of Business due to Structural Defects

Floor No	Tenant	Monthly Invoices K	Monthly Service Charges K	Total Monthly K	Total Loss for the 15 Months K
O1	ZNBS	131,927	45,269	177,196	2,657,937
O2	NAPSA	148,416	50,927	199,344	2,990,153
O3	NAPSA	148,416	50,927	199,344	2,990,153
O6	ZNBS	131,927	45,269	177,196	2,657,937
O5	Hotel Conferences	3,411	-	3,411	51,169
	Sub - Total	**560,686**	**192,392**	**756,490**	**11,347,348.65**
Parking	ZNBS	4,400	-	4,400	66,000
	NAPSA	48,000	-	48,000	720,000
	Other Parking revenue	3,560	-	3,560	53,400
	Sub - Total	**55,960**	**-**	**55,960**	**839,400**
	Total			**812,450**	**12,186,749**

h. Investment Matter - Onerous Lease Agreement with Pick n Pay Zambia Limited

On 25th June 2012, Society House Development Company Limited acting on behalf of NAPSA signed an Agreement to Develop and Lease (ADL) with Pick n Pay Zambia Limited for the development and leasing of a super market within the shopping center at Society House.

The terms and conditions of the lease agreement included the following:

- Clause 8.5 states, "the Lessee shall be obliged to commence trading on the opening date provided that:
    - The Shopping Centre is in all material respects ready for trading on the opening date,
    - All other tenants occupying space in excess of 500 square metres commence trading on the opening date,

- A minimum of 70% based on gross lettable area of the shopping centre excluding the area of the supermarket shall have commenced trading on the opening date,
- And a minimum of 70% of the tenants of the shopping centre by number, excluding the supermarket shall have commenced on the opening date,"

- Clause 8.6 states, "should any of the conditions of clause 8.5 not be met by the opening date, the Lessee may commence trade but will not pay rent until the conditions of 8.5 are met and will not be backdated to the date trading commenced."
- Clause 10.1 stipulates that the gross base monthly rentals (inclusive of rates) in respect of the Supermarket for the first 12 months of the lease will be an amount of K70 per square metre per month of the lettable area.
- Clause 10.2 states, "the gross base rental referred to in 10.1 will escalate by annual rate of inflation as published by the Central Statistics Office with a minimum of 5% and maximum of 13%."
- Clause 11.1 stipulates that turnover rental will be calculated at 2% on the lessee's annual turnover reckoned on its financial year being 1st March to the last day of February the following year.
- Clause 12.1 states, "the rental payable will be the gross base rental referred to in clause 10 above or the turnover rental referred to in clause 11 above, whichever is greater. Turnover rental will be determined and payable by the 31st of May every year."

The following were however observed:

i. Loss of Investment Income as a Result of Onerous Contract

On 1st January 2017, Pick 'n Pay Zambia Limited commenced trading as a supermarket outlet at Society House. However, it was observed that due to clause 8.5 and 8.6, the company did not pay rentals for a period of twenty four (24) months to NAPSA from January 2017 to December 2018, resulting in loss of rental income in amounts totalling K5,049,828.

In this regard, it was not clear why NAPSA signed such an adverse contract at the expense of pensioners' funds, without a recourse for recovery.

ii. Failure to Implement the Turnover Clause

During the period from January 2019 to December 2019, NAPSA received rentals in amounts totalling K210,410 from Pick n Pay Limited based on Clause 10.1.

However contrary to Clause 12.1, NAPSA had not obtained Financial Statements from the Supermarket to determine which rentals were due. In this regard, it could not be ascertained whether NAPSA had received the correct rental income during the period under review.

i. Negative Viability Report on the Investment - Hilton Garden Court Hotel

On 20th November 2013, NAPSA signed a franchise agreement with Hilton International for the management of Hilton Garden Court Hotel and the profits would remain with NAPSA while Hilton was to charge management and licence fees for the use of its brand.

The terms of the agreement included the following:

- All plans shall be submitted for the written approval of both Owner and Manager prior to implementation; and
- All members of the Professional Team shall provide to both Owner and Manager, within ninety (90) calendar days after the complete and accurate set of the plans are executed.

The hotel which is located at Society House in Lusaka commenced operations on 24th August 2018 and as at 31st December 2019, NAPSA had invested amounts totalling K453,138,037 in the hotel.

The following were observed:

A review of the Market Analysis and Financial Feasibility Study report dated 16th September 2013, conducted by Horwath Hotel Tourism and Leisure regarding NAPSA's investment in the Hilton hotel over a five (5) year period showed a negative Net Present Value (NPV) of US$12,668,000. Further, correspondences between management and the Board revealed that it would take NAPSA up to sixty five (65) years to recover its initial investment cost. See table 11.14 below.

Table 11.14: Hilton Hotel Net Present Value

Discription	Year 0 US$ '000	Year 2015 US$ '000	Year 2016 US$ '000	Year 2017 US$ '000	Year 2018 US$ '000	Year 2019 US$ '000
Cash Outflows						
Development Costs	(24,689)					
Cash Inflows						
Total Outflow (EBITDA)		2,849	3,061	3,316	3,543	3,727
Net Cash Flows	**(24,689)**	**2,849**	**3,061**	**3,316**	**3,543**	**3,727**
Discount Factor @ 11%		**0.9009**	**0.8116**	**0.7312**	**0.6587**	**0.5935**
Discount Cash Flows	**(24,689)**	**2,567**	**2,484**	**2,425**	**2,334**	**2,212**
NPV	**(12,668)**					

On 2nd August 2017, management informed the Board that despite the investment having a negative NPV and a longer payback period, engaging a different hotel operator would result in NAPSA incurring additional costs to refurbish the hotel to suit the needs of a new operator and that the Authority would incur legal costs as a result of Hilton Hotel taking legal action against it. Subsequently during its special meeting held on 19th September 2017, the Board approved the investment into Hilton Hotel.

It was however, questionable why management did not conduct a thorough investment appraisal containing all cost implications before engaging the Hilton Garden Court Hotel and why management did not take any further action with regards to engaging another operator.

As at 30th November 2020, there was no proof that NAPSA management had commenced negotiations with the Hotel management for terms favourable to the Authority.

j. Failure to Adjust Rental Income – Levy Park Hotel (Stay Easy Hotel)

Levy Park Hotel trading as Stay Easy Hotel, is a wholly owned subsidiary of NAPSA that commenced renting the hotel located at Levy Park in January 2015.

The conditions of the lease agreement which was only signed in December 2016 included the following:

- On the annual anniversary date of each lease year commencing from twelve (12) months after the lease commencement date, the basic monthly rental shall escalate at an annual rate of seven (7) per cent compounded.

- All rentals and any other amounts due by the Tenant to the Landlord are specified as being inclusive of withholding tax.
- Any rental sum due to the Landlord by the Tenant for the occupation of the Premises prior to the commencement of this Lease shall remain payable and such occupation shall be considered as a periodic tenancy.

A review of the lease agreement revealed that monthly rental charge at the commencement of the lease was K291,667 subject to an annual escalation.

It was however observed that rental charges from January 2016 to December 2018 had not been adjusted in line with the contract resulting in revenue loss in amounts totalling K384,950. See table 11.15 below.

Table 11.15: Rental Escalation Table

Description	2015 K	2016 K	2017 K	2018 K	Total K
Annual Rental escalated @ 7% compounded	875,000	936,250	1,001,788	1,071,913	3,884,950
Actual Rentals received	875,000	875,000	875,000	875,000	3,500,000
Difference between what was received and what was expected to be received based on clause 6.2	-	61,250	126,788	196,913	384,950

k. Management of Staff Related Matters

During the period under review, NAPSA had an approved staff establishment of 581 in 2017, 610 in 2018 and 660 in 2019. The Authority further spent amounts totalling K885,196,646 in employee benefit expenses as shown in table 11.16 below.

Table 11.16: Staff Establishment and Payroll Expenses

Year	Staff Establishment	No. of Employees	Vacancy	Actual HR Expenditure K
2017	581	578	3	258,263,030
2018	610	576	34	306,515,025
2019	660	642	18	320,418,591
Total				**885,196,646**

The following were however observed:

i. Irregular Payments – Sitting Allowance Authority

During the period under review, NAPSA paid amounts totalling K2,381,249 in respect of sitting allowance to members of staff who attended Board Meetings without authority See table 11.17 below.

Table 11.17: Payments of Sitting Allowance Authority

Year	No of Officers Paid	Amounts Paid K
2017	23	792,769
2018	27	1,252,480
2019	2	336,000
Total		**2,381,249**

ii. Irregular Payments - Cash in lieu of Christmas

During the period under review the Authority paid amounts totalling K3,433,120 in respect of Cash in lieu of Christmas as shown in the table 11.18 below.

Table 11.18: Payment of Cash in lieu of Christmas

Year	No of Officers Paid	Amounts Paid K
2017	581	1,580,320
2019	579	1,852,800
Total		**3,433,120**

However, the Authority did not have any regulation which backed the payment of Cash in lieu of Christmas, thereby rendering the payments irregular.

iii. Implementation of Cabinet Office Circular No. 17 of 2016 on the Implementation of Austerity Measures Related to Procurement and Allocation of Motor Vehicles

On 16th December 2016, Government issued Cabinet Office Circular No. 17 of 2016 which directed Boards of various State-Owned Enterprises and Statutory Bodies, to abolish the provision of personal-to-holder motor vehicles as a way of reducing the cost of running Government business. According to the circular, the Personal-to-Holder Motor Vehicle Facility was to be replaced by a loan scheme were employees were to procure motor vehicles at subsidized costs from Public Service Micro Finance Company. The loans were to be repaid through deductions effected on individual employee from payroll.

According to the circular, all addressees were urged to ensure that the contents of the circular were brought to the attention of Board members.

The following were observed:

- **Delay to Present the Circular to the Board**

  Although the circular was received on 16th December 2016, management only brought it to the attention of the Board on 10th May 2018, despite the Board meeting fifteen (15) times during the period from January 2017 to May 2018.

- **Failure to Implement the Circular**

  In pursuant to the implementation of Circular, the Authority introduced Duty Facilitating Vehicle Guidelines as a replacement of Personal-To-Holder Motor Vehicle (PTHMV) policy in May 2019.

  However, it was observed that the conditions under the Duty Facilitating Vehicle Guidelines relating to procurement, use and disposal were the same as those under the Personal-To-Holder Motor Vehicle (PTHMV) Policy. The clauses in the Duty Facilitating Vehicle Guidelines on Purchasing of Vehicles by Employee (4.0) included the following:

  - The employee will have the option to buy the vehicle after five (5) years at 20% of the initial purchase cost;

  - Directors will however have the option to purchase the vehicle at the end of the contract period at 20% of initial cost or 25% of the market value whichever is higher; and

  - On separation from the Authority before five (5) years, the employee will have the option to purchase the vehicle by settling the outstanding net book value of the vehicle plus 20% of the initial cost of the vehicle at the time of separation from the Authority.

  A review of records revealed that the authority had procured twenty eight (28) motor vehicles costing K23,912,000 for members of staff that renewed or joined the Authority after 10th May 2018 on either duty facilitating or personal-to-holder basis.

In this regard, the Authority had not implemented the provisions of the Circular as of February 2021.

l. Asset Management

i. Failure to Dispose of Motor Vehicles

On 18th December 2019, the Secretary to the Treasury granted authority to NAPSA to dispose of twenty seven (27) motor vehicles by public auction in accordance with Section 46 (2) (c) of the Public Finance Management Act No. 1 of 2018.

However, a physical inspection carried out in January 2021 revealed that the motor vehicles had not been disposed of thirteen (13) months after authority was granted.

ii. Poor Maintenance of Buildings

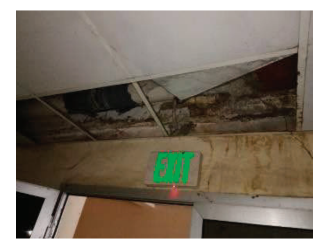
A review of records and physical inspections revealed weaknesses in maintenance of properties. See table11.19 below.

Table 11.19: Weaknesses in Maintenance of Properties

No.	Name of Property	Location	Value of Property K	Observation
1	**Provident House – Lusaka**	Central Business District of Lusaka on plot numbers 4459 and 7048	K46,770,000	This Property is leased out to the public as offices and shops. Provident House Lusaka has two (2) wings namely old and new wing. Physical inspection carried out in December 2020 revealed the following: • One of the two (2) lifts was not working • The building had broken windows • There were hanging electric cables • The fire horse reels were last serviced in 2007 • The old wing was vacant and had since been abandoned due to leakages • Worn out tiles in the abandoned wing.  Paint peeling from wall  Worn out tiles in the abandoned building

				As at 31st December 2019, the revenue lost as a result of the old wing being vacant during the period under review could not be ascertained.
2	**Kalulushi Housing School**	Kalulushi Housing School is located along Kitwe / Kalulushi road	K3,190,000	The market value of the Kalulushi Housing School over the four (4) year period had deteriorated from K4,800,000 in 2016 to K3,190,000 in 2019 resulting in a total market depreciation of K1,610,000 representing a decrease in value of 34%. As at the time of the physical inspection in November 2020, the School was vacant and was in a dilapidated state with the following defects being observed: • Sinking poles that supported the roof • Cracked walls • Worn out tiles • Sinking ground due the nature of the ground the school was built on  Sinking ground  Cracked wall

				  Sinking Poles supporting the roof Cracking Tiles on the Wall
3	**Chitanda House Kabwe District**	Chitanda House is situated in the Central Business District of Kabwe on plot No. 76 Chitanda Road	K23,155,000	The property houses the NAPSA District office and is leased out to the Public as shops and offices for various businesses. A physical inspection of the property carried out in November 2020 revealed the following: • Broken windows; • Windows failing to close; • Cracks on the walls; • Leaking roof due to broken asbestos roofing sheets; • Inadequate storage space; and • Peeling walls. See pictures below.

				 Peeling walls and cracks  Broken asbestos causing leakages
4	**President Avenue/Kingstone House**	Central Business District of Ndola District on plot number 1265A and 1266 President Avenue	K9,520,000	As at the time of the audit, the property was vacant as it was experiencing flooding due to leaking roof. A physical inspection of the property carried out in November 2020 revealed the following: • Leaking roof; • Worn out tiles; • Dirty and peeling walls; and • Broken ceiling; See pictures below.  Worn out tiles and ceiling board  Ceiling Board panels falling off

5	**Matuka House Kitwe**	Matuka House is situated in the Central Business District of Kitwe District on plot number 4976 Matuka Avenue	K18,900,000	The property is leased out to the Public as shops and offices for various businesses. A physical inspection of the property carried out in November 2020, revealed that the ceiling board was falling off and the sewer was leaking.   Leaking Ceiling Board Ceiling Board with missing panels
6	**Office Buildings – Monze Office**	Stand 392, Livingstone –Lusaka Road. Monze	K2,465,000	A physical inspection of Monze NAPSA Office buildings conducted in November 2020 revealed that the buildings were in a poor state of repair in that the window panes were broken, signs of leakages in the ceiling board, tiles falling off the walls, cracked tiles, a hand basin in gents toilet was removed, one door had no mortice lock and there were three points without bulbs and bulb holders in the passage.
7	**Livingstone NAPSA Houses – Mosi-o-tunya Building**	Stand 2046 & 2047, Mosi-O-Tunya House. Corner of Mosi-O-Tunya & Mutelo Street. Livingstone	K24,750,000	A physical inspection of Livingstone NAPSA Office buildings conducted in November 2020 revealed that the Authority had three houses. However, it was observed that one (1) house which could generate rental income of K600 per month was in a poor state in that there were signs of leakages in the ceiling board, cracked tiles and there were no mortice locks on the doors.

				In this regard, rental income in amounts totalling K7,200 was lost in that the house remained vacant during the period under review. See pictures below.   Sign of leaking roof Cracked tiles Further physical inspection of the Mosi-o-Tunya building in Livingstone revealed that the building was in a dilapidated state in that the paint was piling off the walls, signs of leaking roof, door to the gents' toilet had no mortice lock, toilets on the first floor closed due to the sewer waste pipe which busted and there were cracks on the walls at the balcony. See pictures below.   Damaged Ceiling Board Cracks on the walls at the balcony

8	**Mongu Provident House – Mongu**	Stand No. 390 (Provident House) Libonda Road (M9) Boma Area – Mongu.	K14,800,000	A physical inspection of the property carried out in November 2020 revealed the following: • Worn out tiles; • Leaking sewer pipes; • Broken fire alarm; and • Untrunked communication cables. See pictures below.   Worn out tiles with leaking Ceiling Board Broken fire Alarm system
9	**Provident House Building – Chipata**	Stand No. 1484 (Provident House), Umodzi Highway, Town Centre, Lusaka.	K12,900,000	A physical inspection of the Provident House in Chipata conducted in November 2020 revealed that the building was in a poor state in that the paint was piling off the walls, signs of leaking roof, doors not properly fixed, among others. See pictures below.

				  Sign of leakages in the roof Door & Internet Cable not Properly Fixed

12. NATIONAL SAVINGS AND CREDIT BANK

12.1 Background

a. Establishment

The National Savings and Credit Bank (NATSAVE) was established by the National Savings and Credit (Amendment) Act No. 23 of 2005.

The functions of the bank are to;

i. Accept deposits,

ii. Operate any savings schemes in Zambia which the Board may approve,

iii. Make loans for such purposes as the Board may approve,

iv. Subject to such provisions of the Banking and Financial Services Act, carry on such form of banking business, not otherwise expressly authorised in the Act, as may be approved by the Minister, and

v. Do all other matters and things incidental to or connected to the Act.

b. Governance – Board of Directors

Section 4 (1) of the National Savings and Credit (Amendment) Act No. 23 of 2005 provides for the appointment of Board members by the Minister consisting of;

i. Chairman,

ii. the Chief Executive Officer and,

iii. not less than five (5) but not more than nine (9) other members.

The Chairman holds office for such period and upon such terms as the Minister may determine.

Further, Section 4 (3) of the Act states, "member of the Board (other than the Chairman and the Chief Executive Officer) shall hold office for such term (being not less than one year nor more than three years) as the Minister may determine at the time of the appointment, and shall be eligible for reappointment at the expiration of the term."

c. Management

The operations of the Bank is the responsibility of the General Manager who is the Chief Executive Officer (CEO) and is appointed by the Board. The CEO is assisted by directors responsible for Operations, Credit, Internal Audit, Finance, Information Communication Technology, Legal, Human Resources and Administration, Business Development and Risk and Compliance.

d. Sources of Funds

The funds of the Bank consist of;

i. such sums of money as may be appropriated for it by Parliament,

ii. such sums of money as may be transferred to it by the Savings Bank,

iii. such sums of money as the Bank may acquire by virtue of grants or raise by means of loans, and

iv. such other sums of moneys as may accrue to it in the course or on account of its business.

12.2 Audit Findings

An examination of financial and other records for the years ended 31st December 2016, 2017, 2018 and 2019, maintained at the Bank headquarters and selected branches revealed the following:

a. Management - Loss of Funds on Wrongful Dismissal of General Manager

On 1st January 2015, the then General Manager was engaged on a three (3) year contract to 31st December 2017, but the contract was terminated by the Board on 29th June 2017, on account of poor performance by the Bank as well as improprieties highlighted in the reports of the Bank of Zambia and the Auditor General. According to the letter of dismissal, the former General Manager was to be paid three (3) months' salary in lieu of notice.

Subsequently, in June 2017, the former General Manager sued National Savings and Credit Bank for wrongful termination of employment and for not being given an opportunity to be heard.

In this regard, on 29th June 2018, the High Court ruled in his favour and was awarded a compensation of K2,530,000 which included legal fees of K530,000. The amount was paid in December 2018 and May 2019.

However, the payment of K2,530,000 was wasteful as it would have been avoided had the board charged and accorded him an opportunity to be heard.

At the time of dismissal, the General Manager owed NATSAVE amounts totalling K1,480,552 in respect of loans, advance and unretired imprest against terminal benefits of K1,245,347 resulting in him owing the bank an amount of K235,205 which had not been recovered as at 31st December 2020. See table 12.1 below.

Table 12.1: Unrecovered Amount

Description	Amount K
Total Gratuity	981,750
3 Months salary in lieu of notice	164,147
Accrued leave days	99,450
Gratuity as at 31st June 2017	**1,245,347**
Less:	
Advance against Gratuity	771,050
Loans	689,070
Unretired Imprest	20,432
	1,480,552
Total Owed to the Bank	**(235,205)**

b. Budget and Income

During the period under review, the Bank budgeted to generate income of K927,762,630 against which amounts totalling K407,435,479 were generated resulting in a negative variance of K520,327,151. See table 12.2 below.

Table 12.2: Budget and Income

Details	2019		2018		2017		2016		Total		
	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Variance K
Interest Income	148,823,949	27,939,000	145,158,480	42,398,546	152,316,378	58,311,634	136,200,502	74,251,193	582,499,309	202,900,373	(379,598,936)
Non Interest Income	98,225,656	35,120,000	133,499,782	49,493,119	60,199,936	63,890,367	53,337,947	56,031,620	345,263,321	204,535,106	(140,728,215)
Total	**247,049,605**	**63,059,000**	**278,658,262**	**91,891,665**	**212,516,314**	**122,202,001**	**189,538,449**	**130,282,813**	**927,762,630**	**407,435,479**	**(520,327,151)**

c. Financial Analysis

i. Failure to Prepare Financial Statements

Section 15 (6b) of the National Savings and Credit Act No. 23 of 2005 requires that the Board should, not later than nine (9) months after the end of each financial year, submit to the Minister a report of its operations, including the annual statement of its accounts for that year certified by an auditor.

Contrary to the Act, as at 31st December 2020, the Board had not prepared a report of the Bank's operations, including the annual statement of its accounts certified by an auditor, for the financial years ended 31st December 2018 and 2019.

ii. Financial Performance - Statement of Comprehensive Income

During the financial years ended 31st December 2016 and 2017, the Bank's Statements of Comprehensive Income were as shown in table 12.3 below.

Table 12.3: Statement of Comprehensive Income

Details	**2017** **K**	**2016** **K**
Income Interest	58,311,634	74,251,193
Interest Expense	(12,955,223)	(6,416,668)
Net Interest Income	**45,356,411**	**67,834,525**
Fees and Commission Income	59,127,093	55,265,311
Other operating income	4,763,274	766,309
Operating Income	**109,246,778**	**123,866,145**
Operating Expenses		
Personnel expenses	(131,436,900)	(80,778,438)
Operating expenses	(166,709,013)	(53,221,121)
Other expenses/ Impairment Losses	(4,609,905)	(9,553,836)
Depreciation and Amortisation	(8,271,186)	(6,985,667)
Total Operating Expenses	(311,027,004)	**(150,539,062)**
Loss Before Tax	**(201,780,226)**	**(26,672,917)**
Income Tax Credit	-	-
Other comprehensive income		
Fair value gains on available for sale investments	(1,904)	(24,250)
Net of data clean-up process write off	(8,154,957)	(60,744,030)
Comprehensive Loss for the Year	**(209,937,087)**	**(87,441,197)**

Source: NATSAVE Financial Statements for the Years ended 31st December 2016 and 2017

As can be seen from the statements of comprehensive income in the table above, the Bank's losses increased by 140% from K87,441,197 in 2016 to K209,937,087 in 2017.

The losses were attributed to increase in personnel and operational expenses from K80,778,438 in 2016 to K131,436,900 in 2017 and from K53,221,121 in 2016 to K166,709,013 in 2017 respectively.

Further, operating income reduced from K123,866,145 to K109,246,778 in 2016 and 2017 respectively which negatively impacted the Bank's profitability.

iii. Financial Position – Statement of Financial Position

The Statements of Financial Position of NATSAVE as at 31st December 2016 and 2017 were as shown in table 12.4 below.

Table 12.4: Statement of Financial Position

Details	**2017 K**	**2016 K**
Assets		
Cash and Cash equivalents	14,821,162	110,270,134
Investments	14,258,682	52,918,701
Loans and Advances	174,016,994	254,333,974
Interest Receivable	-	
Prepayments and Other Receivables	-	
Property, Plant and Equivalents	173,225,807	153,500,816
Intangible Assets	570,987	1,024,002
Other Assets	123,005,502	44,205,086
Total Assets	**499,899,134**	**616,252,713**
Liabilities		
Customer Deposits	437,289,435	509,275,329
Interest Payable on Customer Deposits	-	-
Accruals and Accounts Payable	-	-
Provisions	-	
Other Liabilities	211,380,963	41,370,544
Deferred Income		
Employee benefits payable	32,754,723	7,575,674
Finance lease obligations	2,903,949	4,685,887
Balances Due to Banks		27,838,128
Total Liabiliteis	**684,329,070**	**590,745,562**
Shareholders' equity		
Share Capital	138,382,644	138,382,644
Revaluation Reserves	20,946,625	21,295,187
Credit Risk Reserves	11,582,530	11,582,530
Other Reserves	-	
Retained Earnings	(355,315,595)	(145,728,974)
Available for sale reserves	(26,140)	(24,236)
Total equity	**(184,429,936)**	**25,507,151**
Total liabilities and shareholders' equity	**499,899,134**	**616,252,713**

Source: NATSAVE Financial Statements for the years ended 31st December 2016 and 2017

- **Increase in Liabilities**

  As can be seen from table 4 above, the Bank's liabilities increased by 16% from K590,745,562 in 2016 to K684,329,070 in 2017.

  In particular, the increase in other liabilities from K41,370,544 in 2016 to K211,380,963 in 2017 was attributed to increase in accruals, other payables, and a provision for accounts under investigation.

  Further, the increase in employee benefits from K7,575,674 in 2016 to K32,754,723 in 2017 was attributed to actuarial loss of K30,540,069.

- **Decrease in Equity**

  The Conceptual Framework of International Financial Reporting Standards (IFRSs) define Equity as residual value of assets after deduction of all liabilities. Equity measures the value of assets that remain exclusively for shareholders.

  During the period under review, NATSAVE had its equity depleted by K209,937,807 from positive K25,507,151 in 2016 to negative K184,429,936 in 2017.

- **Inadequate Liquidity**

  Section 57 (1) and (2) (a) of the Banking and Financial Services Act No. 7 of 2017 stipulates that a bank or financial institution shall maintain adequate and appropriate forms of liquidity as prescribed by the Bank of Zambia and that a bank or financial institution shall not hold liquid assets, within the bank or financial institution of less than the percentage level or proportion prescribed by the Bank of Zambia.

  The liquidity for a bank is calculated as total liquid assets as a percentage of liabilities to the public, which are deposits by customers and 15% was the prescribed percentage level for the period under review by Bank of Zambia.

  Contrary to the Act, NATSAVE's liquidity ratio was 7% during the financial year 2017. See table 12.5 below.

Table 12.5: Liquidity

Details	2017 K	2016 K
Liquidity Assets		
Cash and cash equivalents	14,821,162	110,270,134
Investments	14,258,682	52,918,701
Total	**29,079,844**	**163,188,835**
Deposits	**437,289,435**	509,275,329
Net liquidity	**(408,209,591)**	**(346,086,494)**
Liquidity %	7	32
Acceptable level %	15	15

As can be seen from the table above, the liquidity ratio dropped from 32% in 2016 to 7% in 2017 due to increase in personnel and operational expenses.

A further analysis of the statement of financial position revealed that out of the negative net liquidity of K346,086,494 and K408,209,591, amounts totalling K254,333,974 and K174,016,994 were invested in loans and advances in 2016 and 2017 respectively. As a result, the funds available to depositors were in negative balances of K91,752,520 and K234,192,597 in 2016 and 2017 respectively. See table 12.6 below.

Table 12.6: Funds Utilisation

Details	2017 K	2016 K
Total liquid assets less deposits	(408,209,591)	(346,086,494)
Loans and Advances	174,016,994	254,333,974
Net liquid assets less deposits	**(234,192,597)**	**(91,752,520)**

d. Operational Matters

i. Non-Compliance with Regulatory Requirements - Wasteful Expenditure

Section 60 (1) (2) of Part VI (Prudential Regulation and Supervision) of the Banking and Financial Services Act No. 7 of 2017 provides for the submission of monthly and quarterly returns on performance of banks to Bank of Zambia (BoZ).

Further, BoZ Circular No. 1 of 2016 dated 12th December 2016 on Calendar for Submission of Prudential Returns, Quarterly Demonstration of the Cost of Borrowing Return, Quarterly Financial Statements for Publication and Credit

Market Monitoring Programme Returns prescribes a penalty of K500 per return per day for any incorrect or delayed submission of Prudential Returns.

During the period between 26th May 2017 and 25th February 2019, NATSAVE paid penalties in amounts totalling K98,500 to the BoZ for late and incorrect submission of Prudential Returns. See table 12.7 below.

Table 12.7: Charges for Non-compliance with Regulatory Requirements

No.	Date	Transaction ID	Ref No.	Details	Amount K
1	26.05.17	NT2552	019988	Late Submission Prudential Returns March 2017-BoZ	46,500
2	12.06.17	NT321	021261	Late submission of credit Market monitoring report-2017-BoZ	47,500
3	25.02.19	NT4442	022399	Penalty for Submission of incorrect information December 2018-BoZ	4,500
	Total				**98,500**

In this regard, the payment of K98,500 was wasteful as the bank could have avoided the penalties had management complied with Prudential Regulations.

ii. Failure to Recover Loans

On 9th August 2013, the Zambia National Farmers Union (ZNFU) and NATSAVE signed a Memorandum of Understanding (MoU) for Bunjimi Asset Plus, a facility in which NATSAVE was to provide credit in form of but not limited to asset finance to small and medium scale ZNFU members. The loans were to be repaid over a period of three (3) years.

Terms of the agreement included;

- repossession by the bank of installed product in case of default, and
- default being deemed to have occurred if the loan facility remained unserviced for ninety (90) days or more.

In this regard, loans in amounts totalling K13,025,622 were disbursed to 152, ZNFU members during the period from August 2013 to June 2017.

Included in the amounts disbursed were three (3) loans in amounts totalling K739,124 issued to three (3) ZNFU members between 14th and 30th December 2016 for procurement of Tractors.

However, a review of the customer loan account statements for the three (3) customers, revealed that as at 30th November 2020, they had defaulted as only K336,393 had been paid leaving a balance of K794,532 which included interest of K391,801. See table 12.8 below.

Table 12.8: Analysis of Outstanding Bunjimi Loans

No.	Customer	Loan Amount K	Principal Repayment K	Interest K	Balance K
1	Mathias Shikalawo	203,224	189,186	186,743	200,781
2	Herold Sibanyati	243,900	53,159	93,438	284,179
3	Mukwempa Care	292,000	94,048	111,620	309,572
	Total	**739,124**	**336,393**	**391,801**	**794,532**

Further, the loan repayment was eleven (11) months overdue as the full repayments were due between 14th and 30th December 2019 and no action had been taken by management to either recover the funds or repossess the assets as at 31st December 2020.

e. Procurement of Goods and Services

i. Construction of New NATSAVE Bank Branch in Choma District

On 25th August 2015, NATSAVE engaged Wamuba Construction Company Limited to construct a new NATSAVE office block and refurbish the existing house in Choma District in Southern Province at a contract sum of K3,251,779 VAT inclusive with a contract period of twenty (20) weeks, from 15th September 2015 to 15th February 2016.

On 6th September 2016, NATSAVE approved an order of variation at a cost of K629,970 bringing the total contract sum to K3,881,749.

The scope of works included; construction of the main building; refurbishment of the existing house; construction of guard house; external works; and external water reticulation such as borehole sinking, tank installation, construction of the pump house and installation of booster pumps.

The following observations were made:

- **Overpayment to Contractor**

  As of September 2020, the contractor had been paid amounts totalling K3,931,967 resulting in an overpayment of K50,218. See table 12.9 below.

Table 12.9: Over Payment to Contractor

No.	Date	Voucher No.	IPC No.	Date Issued	Details	Amount K
1	04.09.15	004320	AL/540-01	01.09.15	Advance Payment	812,945
2	25.11.15	004547	AL/540-02	27.10.15	Interim Payment	834,845
3	05.02.16	006204	AL/540-03	28.01.16	Interim Payment	879,623
4	13.07.16	006401	AL/540-04	29.06.16	Interim Payment	613,745
5	21.09.16	009065	AL/540-05	19.09.16	Interim Payment	790,811
			Total			**3,931,967**
			Contract Sum			**3,881,749**
			Over Payment			**50,218**

  As at 30th November 2020, the overpaid amount had not been recovered.

- **Failure to Fulfill Contract Obligations**

  A physical inspection of the project carried out in October 2020 revealed that the construction of the building and refurbishment of the existing house were completed and handed over.

  However, the following were observed:

  - **Unexecuted works**

    Although the works were completed and handed over and the contractor paid in full, it was observed that works costing K62,214 which included drilling a borehole, supply of two (2) booster pumps and construction of a pump house had not been executed. See table 12.10 below.

Table 12.10: Unexecuted Works

No.	Details	Qty	Rate K	Amount K
	External Water Reticulation			
	Borehole Sinking			
1	Include for borehole sinking including all testings and commissioning	1	47,337	47,337
	Tanks Installation			
	Booster Pumps			
2	Supply and fit booster pump	2	3,381	6,762
	Pump House			-
3	Erecting central pump house to architect's specification	1	8,115	8,115
	Total			**62,214**

In response, management stated that there was a variation to the contract in respect of the unexecuted works to extend the car park in front of the offices and the wall fence.

However, authority for the variation was not availed for audit.

- **Supply of a Water Tank with wrong Specification**

  Item G of Section 5-External Works of the contract provided for the supply and installation of a 5,000 litres water tank at a cost of K8,791. However, a 3,000 litres water tank was supplied and installed.

  In response, management stated that the Project manager approved the installation of a 3,000 litres water tank as 5,000 litres tank were not available in Choma at the time and further indicated that the cost difference was negligible.

- **Failure to Supply a 10,000 litres Water Tank**

  Although the contract provided for the supply and installation of a 10,000 litres water tank at a cost of K10,819, the tank had not been supplied.

ii. Construction of New NATSAVE Bank Branch in Chama District - Overpayment to the Contractor

On 25th August 2015, NATSAVE engaged Purveyols Investments Limited to construct a new NATSAVE office block in Chama District in Muchinga Province at a contract sum of K3,519,773 including the variation order of K585,778 with a contract period of sixteen (16) weeks from 15th September 2015 to 15th January 2016.

The scope of works included construction of the main building to include roofing and rainwater disposal; construction of guard house; external works; and external water reticulation such as borehole sinking, tanks installation, construction of the pump house and installation of booster pumps.

As at 30th September 2020, the works had been completed and the contractor had been paid amounts totalling K3,590,498 resulting in an overpayment of K70,725 which had not been recovered. See table 12.11 below.

Table 12.11: Over Payment to Contractor

No.	Date	Voucher No.	IPC No.	Date Issued	Details	Amount K
1	04.09.15	004318	AL/541-01	02.09.15	Advance Payment	586,799
2	23.11.15	004526	AL/541-02	27.10.15	Construction of New Bank	812,572
3	03.02.16	006114	AL/541-03	28.01.16	Construction of Chama Branch	748,092
4	08.07.16	007224	AL/541-04	29.06.16	Works of Chama Branch	384,262
5	21.09.16	009062	AL/541-05	16.09.16	Construction of Chama Branch	1,058,773
			Total Payments			**3,590,498**
			Contract Sum			**3,519,773**
			Over payment			**70,725**

f. Management of Assets - Failure to Secure Title Deeds

Section 41(4) of the Public Finance Management Act No. 1 of 2018 states, "a controlling officer shall ensure that all public properties under the controlling officer's charge are secured with title deeds."

Contrary to the Act, the Bank did not secure title deeds for parcels of land on which twenty two (22) properties valued at K60,845,035 were located as at 31st December 2020.

13. OCCUPATIONAL HEALTH AND SAFETY INSTITUTE

13.1 Background

a. Establishment

The Occupational Health and Safety Institute (OHSI) is a statutory body established under the Occupational Health and Safety Act No. 36 of 2010 to provide protection of persons other than persons at work against risks to health or safety arising from or in connection with the activities of persons at work.

b. Governance

OHSI is governed by an Occupational and Safety Board comprising ten (10) part-time members appointed by the Minister responsible for Health as follows:

- A representative of the Ministry responsible for agriculture;
- A representative of the Ministry responsible for health;
- A representative of the Ministry responsible for labour;
- A representative of the Ministry responsible for livestock;
- A representative of the Ministry responsible for mines;
- A representative of the Attorney – General;
- A representative of the Federation of Employers;
- A representative of a Trade Union; and
- Two (2) other persons.

A member shall hold office for a period of three (3) years from the date of appointment and may be reappointed for a further term of three (3) years.

c. Management

The operations of the Institution is the responsibility of the Director, who is the Chief Executive Officer and is assisted by the Deputy Director and Managers responsible for Finance and Human Resource and Administration.

d. Sources of Funds

i. The funds of the Institute consists of such moneys as may;

- be appropriated to the Institute by Parliament for the purposes of the Institute,
- be paid to the Institute by way of grants or donations, and
- otherwise vest in, or accrue to, the Institute.

ii. The Institute may, subject to the approval of the Minister;

- accept moneys by way of grants or donations from any source within or outside Zambia, and
- raise by way of loans or otherwise, such moneys as it may require for the discharge of its functions.

13.2 Audit Findings

An examination of financial and other records maintained at the Institute for the financial year ended 31st December 2019 revealed the following:

a. Budget and Income

During the period under review, the Institute had a budget of K36,962,056 against which income in amounts totalling K34,948,455 was received and generated resulting in underfunding of K2,013,601.

b. Operational Matter – Failure to Utilise XRD Machines and Missing Laptop Computers

During the period under review, the Institute procured two XRD machines and two (2) HP laptop computers valued at K3,451,806 and K30,200 respectively.

However, a physical inspection of assets conducted on 20th November 2020, revealed that the XRD machines had not been installed while the laptops were missing.

c. Accounting Irregularities – Lack of Receivables Management Policy

During the period under review, the Institute wrote off bad debts amounting to K138,615 from its customers pertaining to services rendered such as medical examination fees. However, inquiry with management revealed that the Institute did not have a documented credit management policy in place to govern the process of approving credit facility to its customers, duration of credit and debt write off among others. Therefore, the basis of writing off K138,615 was questionable.

d. Staff Related Matters

i. Failure to Fill Vacant Positions

During the period under review, the Institute had a staff establishment of 137 positions out of which 84 were filled leaving vacancies of 53 as at 30th November 2020. See table 13.1 below.

Table 13.1: Failure to Fill Vacant Positions

No.	Department	Establishment	Filled	Vacant
1	Management	7	6	1
2	Medical	53	24	29
3	Human Resource	69	48	21
4	Accounts	6	6	0
5	Audit	2	0	2
	Total	**137**	**84**	**53**

Included in the vacancies were key positions such as Chief Radiographer, Chief Laboratory Technologist and Internal Auditor.

ii. Irregular Self-Liquidating Motor Vehicle Loans

Cabinet Office Circular No. 17 of 2016 issued on 16th December 2016 abolished the provision of personal-to-holder motor vehicles to officers in public service and state-owned enterprises. In this regard, the Boards of State-owned enterprises were urged to review the conditions of service in line with the circular in view of the economic and fiscal challenges that the country was facing.

In 2017, three (3) senior managers obtained motor vehicles valued at K1,477,665 under a self – liquidating loans scheme. However, the following were observed:

- The self-liquidating loan scheme was irregular in that it was contrary to the circular and was not approved by the Board.

- The officers were no longer serving and had left the institution without surrendering the vehicles,
- As at 30th November 2020, the former officers were still owing the Institute amounts totalling K580,435. See table 13.2 below.

Table 13.2: Self – Liquidating Motor Vehicle Loans

No.	Officer	Date Loan Disbursed	Loan Amount/Motor Vehicle Value K	Amount Recovered K	Balance K
1	Director	26.05.2017	568,035	335,434	232,601
2	Deputy Director	01.09.2017	491,130	279,789	211,341
3	Finance Manager	26.05.2017	418,500	282,006	136,494
	Total		**1,477,665**	**897,230**	**580,435**

iii. Failure to Remit Tax

The Income Tax Act Chapter 323 of Laws of Zambia requires that Pay As You Earn (PAYE) be deducted from officers' emoluments and be remitted to the Zambia Revenue Authority (ZRA).

Contrary to the Act, PAYE in amounts totalling K2,033,586 deducted from several officers' emoluments during the period under review had not been remitted to ZRA as at 31st December 2020.

14. PUBLIC SERVICE PENSIONS FUND

14.1 BACKGROUND

a. Establishment

The Public Service Pensions Fund (PSPF) was established by the Public Service Pension Act No.35 of 1996.

The functions of PSPF which is a funded defined benefit pension scheme include provision of retirement pensions and mortgages under the home ownership scheme to its members.

b. Governance - Board of Directors

PSPF is governed by a Board of Directors comprising thirteen (13) members as detailed below:

i. Two (2) members appointed by the President;

ii. A representative from the Ministry of Labour and Social Security;

iii. A representative of the Public Service Management Division;

iv. A representative of Ministry of Finance and National Planning;

v. A representative of the Attorney General's Office;

vi. A representative of the Association representing retired pensionable public employees;

vii. A representative of the Defence Forces;

viii. A representative of the Security Services;

ix. A representative of the Chambers of Commerce;

x. A representative of the National Union of Teachers;

xi. A representative of the Civil Servants Union of Zambia; and

xii. A representative of the Lusaka Stock Exchange.

The President appoints the Chairperson of the Board from among the Directors.

Directors may serve for a three (3) year term and may retire upon serving two terms unless they continue serving by virtue of their employment / position in employment.

c. Management

The operations of PSPF is the responsibility of the Chief Executive Officer who is appointed by the Board and is assisted by the managers responsible for Finance, Operations and Investments.

d. Information and Communication Technology Systems

During the period under review, PSPF operated the following Information and Communication Technology (ICT) systems:

i. Microsoft Dynamics Navision

This is an enterprise resource system that was used for processing of procurement and financial transactions.

ii. ZAMM

This is a system that was used for the administration of pension benefits.

iii. VicDocs Enterprise

This system was used by the benefits and contributions directorate for management of documents.

e. Sources of Funds

The sources of funds for PSPF comprise such sums of money as may;

i. be payable to the Fund from time to time from moneys appropriated by Parliament,

ii. be received from contributions made by permanently employed civil servants and corresponding contributions from the employer (Government),

iii. accrue from investment activities carried out by the Fund, and

iv. accrue to or vest in the Fund from time to time, whether in the course of the exercise of its function or otherwise.

14.2 Audit Findings

An examination of financial and other records maintained at PSPF for the financial years ended 31st December 2017, 2018 and 2019 revealed the following:

a. Budget and Income

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2017 to 2019, a provision of K3,775,550,212 was made to cover grants and dismantling of arrears against which amounts totalling K2,000,250,411 were released resulting in an underfunding of K1,775,299,801 as shown in table 14.1 below.

Table 14.1: Budget and Income

Year	Budget K	Actual K	Variance K
2017	1,655,000,000	1,344,198,845	(310,801,155)
2018	1,060,000,000	510,426,566	(549,573,434)
2019	1,060,550,212	145,625,000	(914,925,212)
Total	**3,775,550,212**	**2,000,250,411**	**(1,775,299,801)**

In addition, during the period under review, PSPF received amounts totalling K3,215,613,214 as shown in table 14.2 below.

Table 14.2: Other Income

Source	2019 K	2018 K	2017 K	Total K
Contributions Receivable -Employer	449,067,027	437,706,931	402,756,272	1,289,530,230
Contributions Receivable -Employee	460,838,651	445,881,829	407,178,088	1,313,898,568
Net Income from Investing Activities	104,696,135	169,909,147	321,669,246	596,274,528
Other Income	6,042,627	5,460,612	4,406,649	15,909,888
Total	**1,020,644,440**	**1,058,958,519**	**1,136,010,255**	**3,215,613,214**

b. Information and Communication Technology Systems - Lack of Service Level Agreements

A Service Level Agreement (SLA) is a documented agreement between a service provider and the customer(s)/user(s) that defines the minimum performance targets for a service and how they will be measured. SLAs formalise the needs and expectations of the organisation and those of the service provider thereby minimising potential misunderstandings. SLAs can be in-house, internal or external.

According to CoBIT DS1.3 Service Level Agreements, SLAs should be defined and agreed to ensure that there is commitment between the end user and IT staff in the utilisation of IT resources.

During the period under review, PSPF paid ZAMTEL amounts totalling K778,708 for services rendered. However, as at 31st December 2020, there were no SLAs to support the services.

c. Financial Analysis

The Statement of Changes in Net Assets Available for Benefits and the Statement of Net Assets Available for Benefits for the period under review were as shown in tables 14.3 and 14.4 below.

Table 14.3: Statement of Changes in Net Assets available for Benefits

Details	2019 K	2018 K	2017 K
Income From Dealings with Members			
Contributions receivable Employee	460,838,651	445,881,829	407,178,088
Contributions receivable Employer	449,067,027	437,706,931	402,756,272
Financing Gap	85,000,000	265,989,066	1,110,448,845
Government Grants	60,625,000	244,437,500	233,750,000
Other Income	6,042,627	5,460,612	4,406,649
	1,061,573,305	**1,399,475,938**	**2,158,539,854**
Outgoings from dealings with members			
Benefits payable to retiring members	(1,595,764,788)	(1,135,233,197)	(1,266,925,296)
Net (withdrawals) additions from dealings with members	**(534,191,483)**	**264,242,741**	**891,614,558**
Returns on Investments			
Investment Income	239,849,815	183,616,949	224,681,274
Foreign Exchange gains / (losses)	(103,203,859)	(41,767,974)	3,461,217
Change in FV of Investment Property	9,589,071	28,760,961	53,229,400
Change in FV of Equity Investment	(54,292,512)	(11,210,859)	36,367,229
Change in FV of Government Securities	4,004,458	(3,311,941)	(246,544)
Impairment credit / (charge) on Home Loans	30,299,527	10,970,726	(31,358,403)
Impairment credit / (charge) on Microfinance Loans	(22,643,924)	2,519,518	35,428,268
Impairment credit / (charge) on Staff Loans	1,083,074	85,707	-
Gain / (loss) on sale on disposals	10,485	246,060	106,806
Net Returns on investments	**104,696,135**	**169,909,147**	**321,669,247**
Administrative expenses	(130,653,771)	(120,202,719)	(113,132,909)
Withholding Tax	(46,812)	(10,256)	(464,591)
Finance Cost	(208,510)	-	-
	(130,909,093)	(120,212,975)	(113,597,500)
(Decrease) / Increase in net assets for the year	(560,404,441)	**313,938,913**	**1,099,686,305**
Net Assets available for Benefits at start of year excluding PV of acturial benefits	1,486,284,118	1,217,388,530	117,702,228
Impact on transition to new Standard	(281,551)	(45,043,325)	-
Net Assets available for Benefits at end of year	**925,598,126**	**1,486,284,118**	**1,217,388,533**

Source: Annual Report and Financial Statements for the financial years ended 31st December 2017, 2018 and 2019

Table 14.4: Statement of Net Assets Available for Benefits

Details	2019 K	2018 K	2017 K
Assets			
Property, Plant & Equipment	7,242,027	9,156,859	11,122,874
Right of Use Asset	1,138,173	-	-
Intangible Assets	210,502	384,101	529,599
Work in Progress	1,003,998,701	553,777,519	231,100,080
Investment Properties at Fair Value	234,117,225	221,541,661	192,780,700
Staff Loans	29,887,013	30,367,633	31,951,735
Home Loan Scheme	173,253,157	136,146,753	162,351,773
Microfinance Loans	375,921,740	306,609,362	304,424,550
Equity Investments	155,316,749	209,609,261	220,820,120
Fixed Deposit	452,101,061	507,723,315	533,930,652
Government Securities	21,861,976	124,680,942	72,546,807
Contributions Due	1,055,848,322	572,301,921	481,361,893
Other Recivables and Accrued Income	191,365,334	58,794,559	19,347,264
Cah and Bank	87,216,567	208,147,348	102,136,985
Total Assets	**3,789,478,547**	**2,939,241,234**	**2,364,405,032**
Liabilities			
Benefits Payable	(2,052,924,786)	(1,107,163,355)	(1,118,557,647)
Other Payables and Accrued Expenses	(292,892,161)	(55,361,134)	(9,880,921)
Lease Liabilities	(1,091,080)	-	-
Staff Pension Liability	(15,548,843)	(17,927,640)	(18,577,934)
Long Term Loan	(501,423,551)	(272,504,987)	-
Total Liabilities	**(2,863,880,421)**	**(1,452,957,116)**	**(1,147,016,502)**
Net Assets available for Benefits	**925,598,126**	**1,486,284,118**	**1,217,388,530**

Source: Annual Report and Financial Statements for the financial years ended 31st December 2017, 2018 and 2019

An analysis of annual report and financial statements for the period under review revealed the following:

i. Inadequate Dependency Ratio

The dependency ratio measures how sustainable the Fund is by comparing the number of pensioners against the number of contributing members to the Fund. The ideal industry standard Dependency Ratio is one (1) pensioner to be supported by at least five (5) contributing members (1:5).

The number of contributing members increased from 93,323 in 2017 to 94,671 in 2018 and reduced to 93,551 in 2019; while that of the pensioners increased from 56,547 in 2017 to 58,363 and then reduced to 54,004 in 2019.

As can be seen in table 14.5 below, the dependency ratio for the period from 2017 to 2019 was below the acceptable ratio of 1:5.

Table 14.5: PSPF Dependency Ratio

Details	2019	2018	2017
PSPF Membership			
Contributing Members	93,551	94,671	93,323
Pensioners	54,004	58,363	56,547
Total Membership	**147,555**	**153,034**	**149,870**
Dependence Ratio (Contributor/Pensioner)	**1:1.73**	**1:1.62**	**1:1.65**

ii. Decline in Net Assets Available for Benefits

Net Assets available for benefits during the year represents resources available to pay pensioners' benefits for the respective financial year end.

However, a review of the Statement of Changes in Net Assets revealed that in 2017 the Fund recorded an increase in net assets of K1,099,686,302, this was followed by a decrease in assets of K785,747,389 resulting in net assets of K313,938,913 in 2018 and a deficit in net assets for the financial years ended 31st December 2019 in amounts totalling K560,404,441. See table 14.6 below.

Table 14.6: Statement of Changes in Net Assets

Details	2019 K	2018 K	2017 K
Income from dealings with members	1,061,573,305	1,399,475,938	2,158,539,853
Returns on Investments	104,696,135	169,909,147	321,669,246
Total Income	**1,166,269,440**	**1,569,385,085**	**2,480,209,099**
Benefits Payable	1,595,764,788	1,135,233,197	1,266,925,296
Administrative and Other Expenses	130,909,093	120,212,975	113,597,501
Total Expenditure	**1,726,673,881**	**1,255,446,172**	**1,380,522,797**
Increase (Decrease) in Net Assets for the Year	**(560,404,441)**	**313,938,913**	**1,099,686,302**
Net Assets / (Liabilities) available for benefits at start of the year	1,486,284,118	1,217,388,530	117,702,228
Net Assets available for benefits at end of the year	925,598,126	1,486,284,118	1,217,388,530

iii. Mismatch of Growth of Income From Member Contributions and Benefits Payable

During the period under review, the benefits payable to pensioners increased from K1,266,925,296 in 2017 to K1,595,764,788 in 2019, representing an increase of 26%, whereas income from member contributions reduced from

K2,158,539,853 in 2017 to K1,061,573,305 in 2019 representing a decrease of 51%. See table 14.7 below.

Table 14.7: Income and Contributions

Details	2019 K	2018 K	2017 K
Income from Contibuting Member	1,061,573,305	1,399,475,938	2,158,539,853
Benefits Payable	1,595,764,788	1,135,233,197	1,266,925,296
Suplus/ (Deficit)	(534,191,483)	264,242,741	891,614,557
Percentage	**-50%**	**19%**	**41%**

In this regard, the income raised was not adequate to finance the benefits payable.

iv. Government Indebtedness – Pension Contributions

A review of the Fund's financial statements and correspondence between the Ministry of Finance and the Fund revealed that the Government's indebtedness to the Fund increased from K481,361,893 in 2017 to K1,055,848,322 in 2019 in respect of pension contributions for both employer and employee representing an increase of 119% .

Table 14.8: Government Indebtedness

Government Indebtedness	2019	2018	2017
	K	K	K
Pension Contributions for employers and employees	1,055,848,322	572,301,921	481,361,893
Annual Debt Increase / (Decrease)	483,546,401	90,940,028	33,340,893
Annual Percentage Increase /(Decrease)	**84%**	**19%**	**7%**

As at 31st December 2020, the debt was K1,322,470,731.

v. Outstanding Pensions

A scrutiny of accounting and other relevant documentation revealed that PSPF had 1,571 statutory retirement pensioners and 1,527 early retirement pensioners who had not received their lump-sum payments in amounts totalling K767,332,099 for periods ranging from 2006 to 2019. See table 14.9 below.

Table 14.9: Analysis of Retirees

No. of Pensioner	Details	Amount K	Period
1571	Statutory	14,438,979	2006-2019
1527	Early	752,893,120	2007-2019
3098		**767,332,099**	

In addition, it was observed that seventy six (76) retirees had their payments in amounts totalling K70,399,839 approved but not paid for periods ranging between thirty (30) and seventy five (75) months as at 31st December 2020.

d. Operational Matters

i. Unreimbursed Pension Funds

On 23rd June 2006, the PSPF Board and Zambia Postal Service Corporation (Zampost) entered into a contract for pension benefit payments. Part 2 (iv) of the contract states, "Zampost on its part undertake to return all pensions unclaimed for 6 consecutive months to the Board within thirty (30) days and any such unreturned pensions shall attract interest at Bank of Zambia lending rate until full payment."

Contrary to the provision, unclaimed pensions for the period January 2012 to March 2019 in amounts totalling K3,320,464 in respect of pensioners that were being paid through ZAMPOST had not been refunded to PSPF and no interest had been charged as at 31st December 2020.

ii. Analysis of the Equity Portfolio by Company

During the period under review, PSFP had investments in several companies valued at K215,325,536, K210,021,353 and K155,316,747 in 2017, 2018 and 2019 respectively. It was however observed that most of the investments were yielding negative annualised effective returns apart from 2017 and 2018 when only five (5) and one (1) respectively recorded positives ranging from 15% to 234%. In 2019, all the investees recorded negative returns ranging from 1% to 70% except for Copperbelt Energy Corporation. See table 14.10 below.

Table 14.10: Analysis of Equity Performance

No	Stocks	Opening Balance K	Closing Balance K	Capital Gain /(Loss) K	Dividends/ Interest K	Total Income K	Annualised Effective Return
	2017						
1	British American Tobacco	19,600,000	16,000,000	(3,600,000)	400,000	(3,200,000)	-16%
2	Puma Zambia Plc	20,783,794	24,451,522	3,667,728	1,330,163	4,997,891	24%
3	Lafarge Cement	13,833,143	16,690,569	2,857,425	667,623	3,525,048	25%
4	National Breweries	66,917,500	64,343,750	(2,573,750)	-	(2,573,750)	-4%
5	Copperbelt Energy Corporation	11,950,718	19,780,498	7,829,780	1,758,266	9,588,046	80%
6	Zambia Sugar	27,389,981	24,650,982	(2,738,998)	-	(2,738,998)	-10%
7	Zanaco Bank	8,669,115	28,996,695	20,327,580	-	20,327,580	234%
8	Zambeef Meat Products	-	20,411,520	4,911,522	-	4,911,522	32%
	Total	**169,144,251**	**215,325,536**	**30,681,287**	**4,156,052**	**34,837,339**	**21%**
	2018						
No	**Stocks**	**Opening Balance K**	**Closing Balance K**	**Capital Gain /(Loss) K**	**Dividends/ Interest K**	**Total Income K**	**Annualised Effective Return**
1	British American Tobacco	16,000,000	16,000,000	-	-	-	0%
2	Puma Zambia Plc	24,451,522	24,451,522	-	-	-	0%
3	Lafarge Cement	16,690,569	13,005,291	(3,685,278)	667,623	(3,017,655)	-24%
4	National Breweries	64,343,750	63,314,250	(1,029,500)	-	(1,029,500)	-2%
5	Copperbelt Energy Corporation	19,780,498	19,917,863	137,365	2,138,766	2,276,131	15%
6	Zambia Sugar	24,650,982	24,650,982	-	-	-	0%
7	Zanaco Bank	28,996,695	25,110,540	(3,886,155)	119,574	(3,766,581)	-17%
8	Zambeef Meat Products	20,411,520	20,411,520	-	-	-	0%
9	CEC Africa Plc	4,120,937	3,159,385	(961,552)	-	(961,552)	-31%
	Total	**219,446,473**	**210,021,353**	(9,425,120)	**2,925,963**	(6,499,157)	**-4%**
	2019						
1	British American Tobacco	16,000,000	15,200,000	(800,000)	667,623	(132,377)	-1%
2	Puma Zambia Plc	24,451,522	23,962,492	(489,030)	-	(489,030)	-2%
3	Lafarge Cement	13,005,291	5,207,457	(7,797,834)	-	(7,797,834)	-60%
4	National Breweries	63,314,250	47,408,475	(15,905,775)	-	(15,905,775)	-25%
5	Copperbelt Energy Corporation	19,917,863	17,170,571	(2,747,292)	3,114,055	366,763	2%
6	Zambia Sugar	24,650,982	22,824,984	(1,825,998)	730,399	(1,095,599)	-4%
7	Zanaco Bank	25,110,540	14,946,750	(10,163,790)	761,955	(9,401,835)	-37%
8	Zambeef Meat Products	20,411,520	6,123,456	(14,288,064)	-	(14,288,064)	-70%
9	CEC Africa Plc	3,159,385	2,472,562	(686,823)	-	(686,823)	-22%
	Total	**210,021,353**	**155,316,747**	(54,704,606)	**5,274,032**	(49,430,574)	**-24%**

iii. Investments beyond Authorised Thresholds

Section 29 (1) of the Public Service Pensions Act No. 35 of 1996 states, "the investment of any moneys of the Fund not required to meet the current charges upon the Fund shall, subject to this section, be at the discretion of the Board which is hereby empowered to invest such moneys in any of the following ways: (a) in any interest bearing accounts of any bank or institution which is governed by any written law of Zambia; (b) in stocks, securities or funds issued by or on behalf of the Government or in stocks, securities or funds guaranteed by the Government; and (c) in such other investment as may be approved generally or specifically by the Board. (2) The Board shall not invest assets in excess of twenty per centum (20%) of its net asset value in any one form of investment."

Contrary to the Act, PSFP had investments in three (3) forms which were above the 20% threshold as shown in table 14.11 below.

Table 14.11: Investment Portfolios

Investment Portfolio	2017 K	2018 K	2019 K	2017 % of net assets	2018 % of net assets	2019 % of net assets
Investment Property	-	-	234,117,225	-	-	25%
Fixed and time deposits	533,930,651	507,723,315	452,101,061	44%	34%	49%
Microfinance	304,424,550	306,609,362	375,921,740	25%	21%	41%
Net Assets	**1,217,388,530**	**1,486,284,118**	**918,639,295**			

e. Investment Properties

i. Poor Management of Investment Properties

During the period under review, PSPF had leased out twenty nine (29) properties comprising residential and commercial within Lusaka from which rental income in amounts totalling K17,286,965 were collected.

The following were observed:

- **Outstanding Rental Income**

  As at 31st December 2019, PSPF was owed rental income in amounts totalling K2,856,151 some of which had been outstanding since 2016.

- **Vacant Properties**

  There were six (6) properties (shops/spaces) that were vacant for months ranging from two (2) to thirty (30) months. In this regard, a total amount of K1,061,124 was forgone in rental income. As at 31st December 2020, the properties were still vacant.

f. Contracts

i. Construction of Longacres Mall along Alick Nkhata Road – Investment Capping

On 24th August 2016, PSPF engaged China State Construction Engineering Corporation Ltd to construct Longacres Mall and related works at a contract sum of US$58,001,602.99 VAT inclusive and design and construct a fully furnished, ready to operate 3 star hotel at a provisional amount of US$14,000,000 bringing the total contract sum to US$72,001,602.99. The contract period was thirty (30) calendar months from the date of contract signing and the contractor took possession of the site on 15th September 2016.

Further, the contract was varied as shown in table 14.12 below.

Table 14.12: Contract Costs

No.	Details	Amount US$
1	Hotel Variation to meet Operator's specifications	19,214,287.10
2	Zesco Power Upgrade, Compensating Land Owners and Relocating Other Services	1,300,000.00
3	Expansion of Hotel Car Park (New Package)	5,044,464.09
4	Cost Variations and Shop Fit outs (Mall)	9,575,938.51
	Total	**35,134,689.70**

In this regard, the contract price was revised to US$107,136,292.69 whilst the project completion date was revised from 15th March 2019 to 31st July 2021.

Section 29 (2) of the Public Service Pensions Act No 35 of 1996 stipulates that the Board shall not invest assets in excess of twenty per centum (20%) of its net asset value in any one form of investment.

However, the investment in Alick Nkhata project is expected to cost US$107,136,293 (K2,249,862,153) and thus exceeding the 20% threshold as the net assets were valued at K918,639,295 as at 31st December 2019.

ii. Questionable engaged of Marketing and Leasing Agent

On 10th March 2016, PSPF engaged Pam Golding Properties Zambia (PGP) as the exclusive marketing and leasing agent in respect of the development of Longacres Mall; the property and the units available for lease as per clause 4.1 of the agreement.

However, the following were observed:

- **Failure to Obtain Attorney General's Approval**

  The Public Procurement Act of 2008, Section 54 (2) (e) requires that no contract, purchase order, letter of bid acceptance or other communication in any form conveying acceptance of a bid or award of contract shall be issued prior to obtaining all approvals required, including the approval of the contract by the Attorney-General.

  Contrary to the Act, it was observed that the agreement signed by PSPF and PAM Golding had not been cleared by the Attorney General.

- **Questionable Procurement Method**

  The decision by PSPF to use simplified bidding to procure the services of PGP was questionable in that PGP was set to earn US$404,370.19 (8.33% of expected rentals of US$4,854,384) per annum in respect of commission which was above the K300,000 threshold for simplified bidding as per Public Procurement Regulation No.8 (1).

iii. Weaknesses in the Management of Contract for Modernisation of the Pension Administration System

On 23rd March 2016, PSPF engaged JJ Hoets & Associates to modernise the pension administration system (ZAMM) and Integrate it with the Microsoft Dynamics Navision at a contract sum of US$100,000 exclusive of local indirect taxes for a duration of ten (10) months.

As at 30th September 2019, PSPF had paid a total of K917,121 (US$92,000) to the consultant which was 92% of the contact price.

A review of the records and status of the project as at 31st December 2020 revealed the following weaknesses:

- **Inefficient Operation of the System**

  According to the PSPF Strategic Plan 2014 to 2018, the key strategic objective was to provide quality service to members, retirees, pensioners and beneficiaries by;

  - paying accurate benefits in a timely manner,
  - improve responsive and convenient customer service,
  - provision of information in a cost-effective manner, and
  - improving productivity and efficiency of the pension scheme.

  In order to actualise the objectives above, a comprehensive analysis and evaluation of the business processes and systems was undertaken to assess the scope of works needed to modernise the system.

  In this regard, the scope of works included;

  - review the ZAMM Pension Administration business processes, workflows and procedures with a view of re-engineering and modernising them to meet the quality objectives in the strategic plan,
  - convert, migrate, realign and upgrade current ZAMM System to run on Microsoft Dynamics Navision in accordance with the re-engineered process map,
  - carry out data normalisation in both ZAMM and Navision databases, and
  - integrate the modernised Pension Administration System with all other existing system modules. That is, the Financial, Payments, Home Ownership and Microfinance and the Electronic Document Management System (EDMS).

  In this regard, JJ Hoets and Associates who developed the ZAMM was engaged to modernise the new Pension Administration System. However, a review of

Pension Administration Status Report issued as at 30th September 2019 done by the ICT Department revealed that there were inefficiencies in processes such as the payroll processing.

In addition, the processing of payroll which was taking an hour in the previous system (ZAMM) had not improved in that the payroll processing was taking more than two hours in the new system (Microsoft Dynamics NAV) after the system upgrades and modernisation.

- **Delayed Implementation**

  Although the consultant was expected to complete the works by 31st January 2017, the modernisation of the system remained outstanding as at 31st December 2020 and management had not taken any action against the consultants in line with the remedies provided for in the agreement including termination of the contract.

- **Questionable Payments for Project Deliverables**

  According to Clause 41.2 of the Special Conditions of the Contract, payments were to be linked to the deliverables specified in Appendix A. A review of the technical assessments done on the project deliverables conducted by PSPF on 30th September 2019 revealed that the works done were at 71%.

  Although the works were at 71%, the payments to the consultant of K917,121 represented 92% of the contract. See table 14.13 below.

Table 14.13: Project Deliverables

No	Pay %	Deliverables	Consultants Grading	PSPF % Delivered
1.1		Project Road Map document		
1.2		The pension Administration re-engineered process map report		
1.3		The infrastructure upgrade report		
1.4		User requirement document		
	12		12	12
2.1		Integrated and modernised PAS running in Microsoft Dynamics NAV		
	8	Define a NAV Database with ability to populate from ZAMM DB. Extract all the logic out of the delphi system	8	8
	8	Role menus. Build workflow calculations and memebr screens	8	7
	8	Design and build all maintenace screens. Implenent payroll	6	5
	8	Final Management report. Complete migration-ready to go live	6	6
3.1		Interactive Web and Mobile Applications (Messaging system) incorporated in the modernized PAS		
	5	Web system- back endbase- defined, tested and complete	4	0
	6	Web system-web pages complete	5	0
	5	Apps - Back end database -defined, tested and complete	4	3
	6	Apps - Apps complete	5	3
4.1		Document Management system integrationd with the modernised PAS	2	0
4.2		Establish communication system with third party source of data	3	0
	6			
5.1		Comprehensive system documentation e.g data flow diagrams, logical designs, relational data tables design		
5.2		comprehensive end user system manuals		
	6		6	6
6.1		system testing report		
6.2		technical traing report		
	6		6	5
7.1		End users training report		
		The sign-off documet		
	16		16	16
	100	**Totals**	**91**	**71**

Although management stated that there was a variation in the terms of contract with different milestones, no revised assessment to support the payments were availed for audit.

- **Outstanding Works on the Pension Administration System**

Despite the consultant being paid 92% of the contract sum, the following works remained outstanding as at 31st December 2020:

- Integration of Pensioner Payroll module;
- Web and Mobile application; and
- Integration of the Electronic Document Management System (EDMS) with the Pension Administration System.

As a result of the outstanding works, the system continued to have challenges in administering the pensions for PSPF. Consequently, PSPF had not fully implemented the pension administration on the system as at 31st December 2020.

g. Staff Matters - Failure to Recover Loans from Separated Staff

During the period from 2007 to 2017, twelve (12) members of staff who owed PSPF amounts totalling K2,544,757 were separated from the institution. However, the separated staff where paid their dues without recovering the amounts owed to PSPF. As at 31st December 2020, the outstanding loans had not been recovered.

15. TAZAMA PIPELINES LIMITED

15.1 Background

a. Establishment

The TAZAMA Pipelines Limited was incorporated in 1968 under the Companies Act Chapter 455 of the Laws of Zambia. The core business was to design, construct, lay, own, operate and maintain a pipeline for the carriage of oil or petroleum products from Dar-es-Salaam in Tanzania to Ndola in Zambia. The pipeline covers a distance of 1,710 kilometres and has an annual throughput capacity of 800,000 metric tonnes.

b. Share Holding

The company is jointly owned by the Governments of the Republic of Zambia (67%) and the United Republic of Tanzania (33%). The shares for the Zambian Government are held by the Ministry of Finance, while the Tanzania Government holds its shares through Tanzania Petroleum Development Corporation (TPDC).

c. Governance – Board of Directors

The company is governed by a Board of Directors comprising seven (7) members four (4) of whom are appointed by the Government of Zambia and three (3) are appointed by the Government of Tanzania with Zambia providing the Chairperson.

d. Management

The operations of the company is the responsibility of the Managing Director who is assisted by three (3) Directors responsible for Operations and Engineering, Finance and Corporate Services.

The Managing Director and the Directors are appointed by the Board on three (3) year renewable contracts.

e. Sources of funds

TAZAMA Pipelines Limited generates its income from;

- storage fees through storage of feedstock in its Dar-es-Salaam tanks once commingled crude oil is received at the port in Tanzania,

- pumping fee through transportation of the feedstock from Dar-es-salaam to the refinery in Ndola,
- storage of part of the finished product in its ZT1 tank in Ndola,
- agency fees based on the agreement with Ministry of Energy and Water Development to supervise the receipt, storage and transportation of feedstock from its storage tanks in Dar-es-Salaam through the pipeline to the INDENI Refinery in Ndola, oversee the refining of the feedstock at the Indeni Petroleum Refinery and collect the proceeds of the sale of the refined products, and
- rental income from the TAZAMA housing units and other income.

f. Information and Communication Technology Systems

During the period under review, TAZAMA Pipelines Limited operated two (2) systems as follows:

i. MicroPay Payroll System – used for managing the payroll; and

ii. Microsoft Dynamics Navision – used for processing financial transactions.

15.2 Audit findings

An examination of financial and other records maintained at TAZAMA headquarters in Ndola for the years ended 31st December 2017, 2018 and 2019 revealed the following:

a. Budget and Income

During the period under review, the company generated revenue in amounts totalling K1,374,237,774 against a budget of K1,302,713,650 resulting in a positive variance of K71,524,124 as shown in table 15.1 below.

Table 15.1: Budget and Income

Account Description	2019		2018		2017		Total		
	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Variance K
Pipeline Transportation Fees	414,514,867	442,501,144	351,000,000	356,267,409	333,450,000	301,258,572	1,098,964,867	1,100,027,125	1,062,258
Agency fees	42,126,000	50,063,715	30,600,000	27,347,837	34,200,000	29,145,824	106,926,000	106,557,376	(368,624)
Storage fees	22,165,888	26,468,972	22,125,216	27,455,889	19,060,011	25,138,623	63,351,115	79,063,484	15,712,369
Management Fees	7,110,000	7,804,770	6,000,000	6,382,768	5,700,000	5,747,453	18,810,000	19,934,991	1,124,991
Other Incomes	9,291,683	28,861,035	4,036,123	20,549,152	1,333,862	19,244,611	14,661,668	68,654,798	53,993,130
Total	**495,208,438**	**555,699,636**	**413,761,339**	**438,003,055**	**393,743,873**	**380,535,083**	**1,302,713,650**	**1,374,237,774**	**71,524,124**

Source: Audited Financial Statements and Budget Performance Reports

b. Financial Analysis

i. Financial Performance - Statement of Comprehensive Income

The Statements of Comprehensive Income for the financial years 2017, 2018 and 2019 were as shown in table 15.2 below.

Table 15.2: Statements of Comprehensive Income

Details	2019 K	2018 K	2017 K
Turnover	526,838,601	417,453,903	361,290,472
Pumping Costs	(240,616,542)	(213,774,950)	(189,293,944)
Gross Profit	**286,222,059**	**203,678,953**	**171,996,528**
Other operating income			
Admin and financial expenses	(206,369,254)	(158,333,774)	(139,514,095)
Agency fees	-	-	-
Other income	28,861,035	20,549,152	19,244,611
Operating Profit/(Loss)	**108,713,840**	**65,894,331**	**51,727,044**
Finance costs	(3,415,844)	(4,455,000)	-
Prov. for retirement benefits	(6,004,446)	(4,904,950)	(4,788,533)
Net Exchange (losses)/ gains	(235,796)	1,643,159	3,479,597
Profit before taxation	**99,057,754**	**58,177,540**	**50,418,108**
Taxation	-	-	-
Net Profit /(Loss) for the year	**99,057,754**	**58,177,540**	**50,418,108**
Other items of Comprehensive income			
Remeasurement of defined benefit obligations	-	(22,343,409)	(11,036,000)
Gain on revaluation of property, plant and equipment	-	3,536,513	668,667,291
Total Comprehensive Loss for the year	-	(18,806,896)	657,631,291
Exchange difference/foreign operations	11,332,865	9,860,859	3,521,385
Total Comprehensive Income for the year	**110,390,619**	**49,231,503**	**711,570,784**

Source: TAZAMA Pipelines Limited Report and Financial Statements for the years ended 31st December 2017, 2018 and 2019

As can be seen from the table above, the company recorded an increase in profit after tax of K48,639,646 from K50,418,108 in 2017 to K99,057,754 in 2019.

ii. Statements of Financial Position

The statements of the financial position for the Company as at 31st December 2017, 2018 and 2019 were as shown in table 15.3 below.

Table 15.3: Statement of Financial Position

Details	2019 K	2018 K	2017 K
Non-current assets			
Property, plant and equipment	1,707,009,027	1,583,737,919	1,532,392,042
Investment	5,000	5,000	5,000
Total noncurrent assets	1,707,014,027	1,583,742,919	1,532,397,042
Current assets			
Inventories	9,219,190	18,376,943	19,983,509
Amounts due from related Parties	84,752,082	63,550,671	41,128,668
Other receivables	45,221,101	84,126,306	94,122,040
Bank balances and cash	177,093,131	197,413,180	102,914,632
Total current assets	316,285,504	363,467,100	258,148,849
Total assets	**2,023,299,531**	**1,947,210,019**	**1,790,545,891**
Capital and reserves			
Share capital	25,000,000	25,000,000	25,000,000
Revaluation reserve	1,039,682,745	1,072,527,913	1,101,836,568
Foreign currency translation reserve	36,526,161	25,193,296	15,332,437
Retained earnings	283,854,430	169,404,770	109,725,471
	1,385,063,336	1,292,125,979	1,251,894,476
Non-current liabilities			
Long term loan due to the Republic of Zambia	580,253,327	583,000,405	474,629,830
Retirement benefits	29,991,016	36,669,347	11,036,000
	610,244,343	619,669,752	485,665,830
Current liabilities			
Creditors and other payables	27,991,852	35,414,288	52,985,585
Total liabilities	638,236,195	655,084,040	538,651,415
Total equity and liabilities	**2,023,299,531**	**1,947,210,019**	**1,790,545,891**

Source: TAZAMA Pipelines Limited Report and Financial Statements

Tazama Pipelines Limited did not have a receivable management policy. Consequently, during the period under review, amounts due from related parties increased by K43,623,414 from K41,128,668 in 2017 to K84,752,082 in 2019 representing a 106% increase.

The debt collection days also increased from 42 to 59 days during the period under review as shown in table 15.4 below.

Table 15.4: Receivable Turnover Days

Detail	2019	2018	2017
Total Receivables (K)	84,752,082	63,550,671	41,128,668
Revenue (K)	526,838,601	417,453,903	361,290,472
Receivable Days	59	56	42

c. Operational Matters

i. Loss of Revenue due to Pipelines Leakages

A review of minutes of the Operations and Engineering Committee revealed that during the period under review, TAZAMA experienced thirty three (33) leakages along the pipelines resulting into a total loss of 631.22 metric tons (MT) of crude oil costing K4,413,029 (US$454,634.42.). See 15.5 table below.

Table 15.5: Loss of Revenue due to Pipeline Leakages

Year	Number of Pipeline Leakages	Crude Oil Loss MT	Amount US$	Amount K
2017	15	114.18	68,681.96	653,852
2018	8	139.43	129,871.06	1,264,944
2019	10	377.61	256,081.40	2,494,233
Total	**33**	**631.22**	**454,634.42**	**4,413,029**

Source: TAZAMA Pipelines Limited Operations and Engineering Committee Minutes

ii. Unrecovered VAT Refunds

During the period under review, the TAZAMA Pipelines Limited was owed amounts totalling K6,233,525 by the Zambia Revenue Authority (ZRA) as Value Added Tax (VAT) refunds, some of which had accrued from as far back as 2014. However, the refunds had not been recovered as at 31st December 2020. See table 15.6 below.

Table 15.6: Unrecovered VAT Refunds from ZRA

No.	Date	Amount K
1	October 2014	52,892
2	December 2014	324,037
3	July 2015	41,123
4	February 2016	57,661
5	October 2018	38,472
6	November 2018	109,117
7	February 2019	2,353,712
8	June 2019	130,642
9	November 2019	98,082
10	January 2020	1,355,569
11	March 2020	18,741
12	May 2020	1,653,477
	Total	**6,233,525**

Source: TAZAMA Pipelines Limited Outstanding Receivables Ledgers

In addition, during the period under review, TAZAMA Pipelines Limited was owed amounts totalling K39.9 million (Tsh5,463,371,485.34) by the Tanzania Revenue Authority (TRA) in VAT refunds some of which had accrued from as far back as 2014. However, the refunds had not been recovered as at 31st December 2020.

d. Administrative Matters - Failure to Secure Title Deeds

Section 41 (4) of the Public Finance Management Act No. 1 of 2018 requires a controlling officer to ensure that all public properties under the controlling officer's charge are secured with title deeds.

Contrary to the Act, the TAZAMA Pipelines Limited had not secured title deeds for its land and buildings at the Mbeya Pump Station in Tanzania as at 31st December 2020.

16. UNIVERSITY TEACHING HOSPITALS

16.1 Background

a. Establishment/Governance

The Medical Services Act of 1985 set up the University Teaching Hospital (UTH) which was later repealed by section 23 of the National Health Services Act No.22 of 1995. Under this Act, the Hospital was governed by a Board appointed by the Minister of Health. In March 2006, the UTH Board of Management was dissolved under the National Health Services (Repeal) Act No.17 of 2005. Upon dissolution of the Board, the UTH started operating under the supervision of the Ministry of Health.

According to the National Health Services Act, the mandate of UTH include the following:

- Administer the affairs of the hospital;
- Provide health services and care of patients;
- Provide for and foster research in health-related fields and to encourage publication of the results thereof; and
- Develop, implement, monitor and review measures aimed at effectively running the hospital.

In 2016, UTH was divided into five (5) specialised Hospitals namely; Adult, Women and New-born, Cancer Diseases, Children and Eye Hospitals.

The broader functions of the hospitals are as follows:

- Clinical Care Services;
- Theatre Services;
- Surgical Services;
- Medical Services;
- Nursing & Midwifery Services;
- Laboratory Services;

- Administrative and Logistical Support Services; and
- Human Resources and Administrative Services.

b. Management

The operations of the University Teaching Hospitals is the responsibility of the Permanent Secretary - Administration, who is the Controlling Officer while on technical matters, the Permanent Secretary - Technical Services is responsible and is assisted by Director Clinical Care under whom the Hospitals fall.

The Adult Hospital is headed by the Chief Medical Superintendent while the Women and New-born, Cancer Diseases, Children and Eye Hospitals are headed by Senior Medical Superintendents

c. Information and Communication Technology Systems

The following Information and communication Technology (ICT) systems were in use during the year under review:

i. IFMIS

This is an Integrated Financial Management Information System which was used for administration of financial transactions at the hospitals.

ii. Navision

This is an enterprise resource system that was used for processing of procurement and financial transactions. The system was being used by four (4) hospitals namely; Eye hospital, Women & Newborn hospital, Children's hospital and Cancer Diseases hospital.

d. Sources of Funds

The funds of the Hospitals consist of such moneys as may;

i. be appropriated by Parliament for the purposes of the Hospitals,

ii. be paid to the Hospitals by way of fees, levy, grants or donations, or

iii. vest in or accrue to the Hospitals, and

iv. the Hospital may also, in accordance with the regulations made in the Act, charge and collect fees in respect of consultations, prescriptions, treatment and other medical services provided.

16.2 Audit Findings

An examination of financial and other records maintained at UTH for the financial year ended 31st December 2019 revealed the following:

a. Budget and Income

In 2019, the Hospitals budgeted to receive and generate amounts totalling K569,946,980 against which amounts totalling K481,841,546 were received and generated resulting in a negative variance of K88,105,433. See table 16.1 below.

Table 16.1: Budget and Income

No.	Hospital	Approved Estimate K	Budget Internally Generated K	Funding K	Internally Generated Income K	Total Budget K	Total Income K	Variance K
1	Women and New Born	52,239,863	7,431,750	40,163,676	13,447,109	59,671,613	53,610,785	(6,060,828)
2	Adult	329,938,267	21,600,000	272,030,426	32,055,830	351,538,267	304,086,256	(47,452,011)
3	Childrens	51,894,382	4,500,000	40,168,899	6,209,301	56,394,382	46,378,201	(10,016,181)
4	Eye	43,975,968	1,387,182	34,285,354	2,190,397	45,363,150	36,475,750	(8,887,400)
5	Cancer	50,847,644	6,131,924	36,694,658	4,595,897	56,979,568	41,290,555	(15,689,013)
	Totals	**528,896,124**	**41,050,856**	**423,343,012**	**58,498,534**	**569,946,980**	**481,841,546**	**(88,105,433)**

b. Accounting Irregularities

i. Poor Implementation of the Blue Receipt – Adult Hospital

According to the system in place, clients who pay in cash are issued with two (2) copies of receipts, comprising of a white (original receipt) and the blue (copy) whilst the third pink (copy) remains in the receipt book. The original receipt is kept by the client whilst the blue copy is availed to the Hospital as a basis for receiving a service and is retained at the section where the service is given in readiness for collection by accounts section for reconciliation purposes.

In addition, Revenue Collectors and Service Providers are required to ensure that services in their respective sections are provided only to those patients who avail the blue receipt which should be retained after the service is provided.

A scrutiny of the receipt books revealed that there were 55,402 pink copies of receipts that remained in the books on which amounts totalling K4,533,386 were purportedly collected.

However, 54,558 blue copies in amounts totalling K4,461,241 were not availed for audit as only 844 for revenue in amounts totalling K72,145 were availed.

As a result, it was not possible to verify the completeness of revenue collected as we could not ascertain that amounts totalling K4,461,241 were the actual collections. See table 16.2 below.

Table 16.2: Missing Blue Copy Receipts

No.	Revenue Stream	No. of Receipts Issued	Amount K	No. of Blue Receipts availed	Amount K	No. of Receipts Variance	Variance K
1	Dental	250	51,233	-	-	250	51,233
2	Casualty	13,250	365,632	-	-	13,250	365,632
3	ECG/ECHO	6,216	189,423	-	-	6,216	189,423
4	Premium Filter	4,000	893,658	288	52895	3,712	840,763
5	Premium Laboratory	1,250	1,197,138	-	-	1,250	1,197,138
6	Physiotherapy	500	64,010	-	-	500	64,010
7	C12/P22	250	841,009	-	-	250	841,009
8	Main Laboratory	5,460	122,060	556	19250	4,904	102,810
9	Fast Track	250	100,000	-	-	250	100,000
10	Radiology	23,226	628,073	-	-	23,226	628,073
11	Clinc 5	750	81,150	-	-	750	81,150
	Total	**55,402**	**4,533,386**	**844**	**72145**	**54,558**	**4,461,241**

ii. Unaccounted for Revenue – Adult Hospital

Financial Regulation No.129 (1) requires that collectors of revenue bring to account the whole amount of their collections.

Contrary to the regulation, revenue in amounts totalling K70,068 involving twenty five (25) transactions collected during the period from 9th January to 15th May 2019 was unaccounted for in that there was no evidence of banking and no cash was found on hand as at 31st December 2020.

iii. Failure to Collect Rentals – Adult Hospital

During the period under review, the Adult Hospital leased out office and land spaces to several tenants.

However, as at 31st December 2019, the Hospital was owed rental income in amounts totalling K1,174,890 by forty (40) tenants some of which had been outstanding from as far back as 2017.

As at 31st December 2020, the outstanding rentals had increased to K1,336,231 in respect of the forty (40) tenants.

iv. Irregular Issuance of Accountable Imprest

Treasury and Financial Management Circular No.5 of 2018 abolished issuance of accountable imprest and instructed that if a Ministry, Province, or a Government Agency is faced with a disaster, such an institution may apply to the Secretary to the Treasury for consideration to issue accountable imprest.

Contrary to the circular, the Hospitals issued 244 accountable imprest in amounts totalling K11,273,482 to several officers to undertake activities such as review of financial reports and printing of scheme cards without authority from the Secretary to the Treasury.

v. Unretired Imprest – Adult Hospital

Financial Regulation No. 96(1) requires that special and accountable imprest should be retired immediately the purpose for which they are issued has been fulfilled.

Contrary to the regulation, imprest in amounts totalling K224,090 issued to several officers had not been retired as at 28th February 2021.

vi. Questionable Issuance of Imprest

Sixty three (63) transactions of Accountable imprest in amounts totalling K4,167,310 were issued to several officers to undertake activities such as review of financial reports and printing of scheme cards. See table 16.3 below.

Table 16.3: Questionable Issuance of Imprest

No.	Name of Hospital	Amount K
1	Adult Hospital	4,086,450
2	Cancer Diseases Hospital	80,860
	Total	**4,167,310**

However, management did not provide evidence that the activities were undertaken including payments for hire of venues or conference facilities, location and details of the venues where they were purportedly held.

In this regard, the issuance of the imprest was questionable.

vii. Irregular Claim of Subsistence Allowance - Adult Hospital

On 15th May 2019, a payment of K38,000 was made on EFTA No. 0081137 to an Accounts Assistant to facilitate allowances covering the period between 15th May to 24th May 2019. Another payment of K45,000 was made on 17th May 2019 on EFTA No. 0081138 to the same officer to facilitate allowances covering the period between 17th to 26th May 2019. The payments were for the review of the 2019 first quarter expenditure and review of reports to establish conformity with the action plan, respectively.

However, four (4) officers; The Chief Accountant, the Principal Accountant, Assistant Accountant and Accounts Assistant claimed subsistence allowance for a period of eight (8) days from 15th May to 24th May 2019 and another eight (8) days for the period 17th to 26th May 2019 from the first and second payments, respectively. See table 16.4 below.

Table 16.4: Double Claim of Subsistence Allowance

Officer	Claim on first Payment K	Claim on Second Payment K	Total Paid K
Chief Accountant	6,400	6,400	12,800
Principal Accountan	6,400	6,400	12,800
Assistant Accounta	5,600	5,600	11,200
Accounts Assistant	5,600	5,600	11,200
Total	**24,000**	**24,000**	**48,000**

In this regard, there was a double claim of subsistence allowances in amounts totalling K48,000 by the mentioned officers for the period from 17th to 24th May 2019.

As at 28th February 2021, the amounts irregularly paid had not been recovered.

viii. Locum Allowance

In April 2016, the Permanent Secretary at the Ministry of Health sought authority from the Secretary to Treasury to appropriate internally generated funds for the payment of wages to casual workers and allowances to medical and non-medical staff.

In July 2016, authority was granted for the payment of wages to casual workers and allowances to medical and non-medical staff at the Pediatrics, Obstetrics and Gynaecology, Medicine, and Surgery, Dental, Physiotherapy and Mortuary departments on the condition that payment of allowances were to be made to officers working outside normal working hours. The payments were to be made from medical fees income.

The following were observed:

- **Questionable Payment of Locum Allowance –Adult Hospital**

  During the period under review, several officers at the Adult Hospital were paid locum allowances in amounts totalling K572,481. However, the payments were questionable in that there was no evidence that the officers had worked outside normal working hours.

- **Irregular Payment of Locum Allowance-Adult Hospital**

  Section 9.0 of the Locum Duties Policy requires that claims and payment of locum allowance be supported with a locum duty claim form duly confirmed by a supervisor and departmental head in respect of the duties performed and approved by the Head Clinical Care.

Contrary to the policy, locum allowances in amounts totalling K235,542.25 were paid to several officers during the period under review without duly approved locum claim forms rendering the payments irregular.

ix. **Missing Payment Vouchers – Adult Hospital**

Financial Regulation No. 65 (1) states, "payment vouchers with supporting documents and any other form which support a charge entered in the accounts shall be filed, secured against loss and be readily available for audit."

Contrary to the regulation, fourteen (14) payment vouchers in amounts totalling K428,494 were not availed for audit.

x. **Inadequately Supported Payments**

Financial Regulation No. 45 (2) and 52 (1) require that all payments by cheque or cash for goods, services and works should be supported by cash sale receipts and that vouchers relating to purchases be supported by an official order and supplier's invoices.

Contrary to the regulations, forty nine (49) payments in amounts totalling K935,558 processed at two (2) Hospitals were not supported with documents such as purchase orders, receipts and goods delivery and received notes. See table 16.5 below.

Table 16.5: Unsupported Payments

No.	Name of Hospital	Number of Payments	Amount K
1	Adult Hospital	24	615,706
2	Children Hospital	25	319,852
	Total	**49**	**935,558**

xi. **Failure to Withhold Value Added Tax**

The Ministry of Finance through Treasury and Management Circular No. 6 of 2017 instructed all institutions which were appointed to act as tax agents to withhold and remit Value Added Tax (VAT) effective 1st June 2017.

Contrary to the circular, three (3) Hospitals did not withhold VAT in amounts totalling K190,660 on payments made to various suppliers of goods and services. See table 16.6 below.

Table 16.6: Unwithheld VAT

No.	Name of Hospital	Amount K
1	Adult Hospital	13,224
2	Children Hospital	83,126
3	Cancer Diseases	94,311
	Total	**190,660**

c. Procurement Matters

i. Unaccounted for Stores

Public Stores Regulations No.16 states, "every stores officer or any other officer having in his charge any public stores or other articles of public property must keep and maintain record of receipt and issue of such public stores."

Contrary to the regulation, stores items costing K1,107,844 (drugs and medical supplies - K596,687 and general stores - K511,157) procured at two (2) Hospitals during the period under review were not accounted for in that, there were no receipt and disposal details. See table 16.7 below.

Table 16.7: Stores Items without Disposal Details

No.	Name of Hospital	Drugs and Medical Supplies K	General Stores K	Total K
1	Adult Hospital	61,233	298,660	359893
2	Children Hospital	535,454	212,497	747951
	Total	**596,687**	**511,157**	**1,107,844**

ii. Outstanding Bill-Adult Hospital

As at 31st December 2020, the Adult Hospital had outstanding bills due to suppliers of various goods and services in amounts totalling K29,640,628 which had accumulated from as far back as 2015. See table 16.8 below.

Table 16.8: Outstanding Bills

Year	Amount K
2015/2016	2,471,437
2017	4,024,935
2018	7,085,658
2019	16,058,598
Total	**29,640,628**

d. Management of Infrastructure – Adult Hospital

A physical inspection of selected infrastructure at the hospital carried out in February 2021 revealed that it was in a state of disrepair as shown in table 16.9 below.

Table 16.9: Management of Infrastructure

No.	Name of Infrastructure	Observation
1	Highland House	The House is situated along Independence road at stand number 4755. It was however observed that the house had broken windowpanes and the environment was unkempt.
2	Libala Borehole Site	The site had 7 boreholes of which only one (1) was functional as a result the hospital experienced water shortages. Further, there was poor security at the site which has resulted in encroachment.
3	UTH premises	Various water supply pipes were dilapidated resulting in leakages.

e. Staff Related Matters

i. Irregular Payment of Salaries

Chapter 4, Part 60 (a) and (b) of the Terms and Conditions of Service for the Public Service states, "an officer who is absent from duty without leave for a continuous period of ten (10) working days shall be liable for dismissal and that an officer shall not be paid a salary for the period he or she is absent from duty without leave unless he or she produces satisfactory evidence justifying such absence."

Contrary to the provision, two (2) officers who had been away from duty for periods ranging from three (3) to eight (8) months without official leave had not been separated from service and were irregularly paid salaries in amounts totalling K298,124.

ii. Failure to Remit Tax

Income Tax Act Chapter 323 of the Laws of Zambia requires that tax be deducted from personnel emoluments and remitted to Zambia Revenue Authority (ZRA).

Contrary to the Act, Pay as You Earn (PAYE) in amounts totalling K441,208 deducted from payments of locum and settling in allowances to several officers during the period from February to July 2019, at two (2) Hospitals, had not been remitted to ZRA as at 31st December 2020. See table 16.10 below.

Table 16.10: Unremitted Tax

No.	Name of Hospital	Amount K
1	Adult Hospital	115,346
2	Children Hospital	325,862
	Total	**441,208**

17. ZAMBIA INSTITUTE FOR TOURISM AND HOSPITALITY STUDIES

17.1 Background

a. Establishment

The Zambia Institute for Tourism and Hospitality Studies (ZITHS), formerly Hotel and Tourism Training Institute Trust, was established under the Zambia Institute for Tourism and Hospitality Studies Act No. 42 of 2016.

The mandate of the Institute is to provide development of human resource in the tourism sector through academic and professional development, skills training, research and consultancy.

b. Governance - Council of Institute

ZITHS is governed by the Council of the Institute comprising ten (10) part time members appointed by the Minister responsible for Tourism for renewable terms of three (3) years and are drawn from various sectors. The Council is headed by the chairperson who is from the private sector.

c. Management

The operations of the Institute is the responsibility of the Executive Director who is appointed by the Council and is assisted by the Dean Academic, Business and Development Manager, Financial Controller and the Manager Human Resource and Administration.

d. Sources of Funds

i. The funds of the Institute shall consist of such moneys as may;

- be appropriated to the Institute by Parliament,
- be paid to the Institute by way of fees, grants or donations, or
- otherwise vest in or accrue to the Institute.

ii. The Institute may subject to the approval of the Minister;

- accept moneys by way of grants or donations from any source within or outside Zambia,
- raise by way of loans or otherwise such moneys as it may require for the discharge of its function, and
- charge and collect fees in respect of programmes, seminars, publications, consultancy services and other services provided by the Institute.

e. Information and Communication Technology Systems

During the period under review, the Institute operated two (2) Information and Communication Technology (ICT) Systems namely; SAGE Pastel used for processing payments and inventory management and SWIFT Payroll used for payroll management.

17.2 Audit Findings

An examination of financial and other records maintained at the Institute for the financial years ended 31st December 2017, 2018 and 2019 revealed the following:

a. Budget and Income

During the period under review, the Institute budgeted to receive grants and generate revenue in amounts totalling K67,545,778 against which amounts totalling K46,976,731 were received and generated resulting in a negative variance of K20,569,047. See table 17.1 below.

Table 17.1: Budget and Income

Type of Revenue	2019		2018		2017		Total		
	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Variance K
Grants									
Operational Grants	4,957,460	2,891,852	4,857,460	4,007,656	4,857,457	4,857,457	14,672,377	11,756,965	(2,915,412)
Capital Grant	500,000	-	500,000	-	500,000	-	1,500,000	-	(1,500,000)
Sub-Total	**5,457,460**	**2,891,852**	**5,357,460**	**4,007,656**	**5,357,457**	**4,857,457**	**16,172,377**	**11,756,965**	**(4,415,412)**
Internally Generated									
Tourism Development Fund	2,009,977	2,009,977	1,199,500	1,199,500	-	-	3,209,477	3,209,477	-
User Fees	16,796,613	11,352,444	16,639,670	10,615,785	14,727,641	10,042,060	48,163,924	32,010,289	(16,153,635)
Sub-Total	**18,806,590**	**13,362,421**	**17,839,170**	**11,815,285**	**14,727,641**	**10,042,060**	**51,373,401**	**35,219,766**	**(16,153,635)**
Total	**24,264,050**	**16,254,273**	**23,196,630**	**15,822,941**	**20,085,098**	**14,899,517**	**67,545,778**	**46,976,731**	**(20,569,047)**

b. Financial Analysis

i. Financial Performance - Statement of Comprehensive Income

The Statements of Comprehensive Income for the ZITHS for the years ended 31st December 2017, 2018 and 2019 were as shown in table 17.2 below.

Table 17.2: Statement of Comprehensive Income

Details	2019 (Draft) K	2018 K	2017 K
Revenue	11,352,444	10,615,785	10,042,060
Cost of Sales	(8,200,751)	(8,231,754)	(7,859,842)
Gross Profit	**3,151,694**	**2,384,031**	**2,182,218**
Admin Staff / Employee cost	(2,665,290)	(3,124,088)	(2,634,313)
Depreciation and Armotisation	(821,774)	(531,260)	(479,309)
Promotional and Marketing Expenses	(11,832)	(87,401)	(47,297)
Operating Expenses	(4,895,784)	(5,002,794)	(6,359,881)
Operating Loss	**(5,242,986)**	**(6,361,512)**	**(7,338,582)**
Government Grant	2,891,852	4,007,656	4,857,457
Loss / Profit for the Period	**(2,351,134)**	**(2,353,856)**	**(2,481,125)**

Source: ZIHTS Financial Statements for the years ended 31st December 2017, 2018 and 2019

ii. Recurring Losses

As can be seen from the statement of comprehensive income, whilst the Institute's revenue had increased from K10,042,060 in 2017 to K11,352,444 in 2019, it incurred losses of K2,481,125 in 2017, K2,353,856 in 2018 and K2,351,134 in 2019. The losses were mainly attributed to high operating expenses and administration staff/employee costs representing 94%, 93% and 90% of total expenditures in 2017, 2018 and 2019 respectively.

iii. Financial Position - Statement of Financial Position

The Statements of Financial Position for the Institute as at 31st December 2017, 2018 and 2019 were as shown in table 17.3 below.

Table 17.3: Statement of Financial Position

Details	2019 (Draft) K	2018 K	2017 K
Assets			
Non Current ssets	24,439,728	23,283,121	25,075,401
Current Assets			
Inventories	66,904	83,048	76,343
Account Receivables	1,916,607	2,050,520	2,237,250
Cash & Bank Balance	66,241	200,536	356,710
Total Current Assets	**2,049,752**	**2,334,104**	**2,670,303**
Total Assets	**26,489,480**	**25,617,225**	**27,745,704**
Equity and Liabilities			
Capital	2,465,041	2,465,041	2,465,041
Capital Grants	2,009,977	1,199,500	
Revaluations Reserves	20,956,990	19,187,710.00	22,283,819.00
Accumulated deficit	(8,296,111)	(6,995,751)	(5,231,745)
Total Equity	17,135,897	15,856,500	19,517,115
Non Current Liabilities			
Long Term Statutory Liabilities	6,229,160	4,457,313	3,543,898
Long Term Provisions	-	1,681,021	1,911,963
Total Non Current Liabilities	6,229,160	6,138,334	5,455,861
Current Liabilities			
Current Statutory Liabilities	1,286,115	1,335,122	971,936
Account Payables	1,838,308	2,287,269	1,800,792
Total Current Liabilities	3,124,423	3,622,391	2,772,728
Total Liabilities	9,353,583	9,760,725	8,228,589
Total Equity and Liabilities	**26,489,480**	**25,617,225**	**27,745,704**

Source: ZIHTS Financial Statements for the years ended 31st December 2017, 2018 and 2019

The following were observed:

- **Negative Working Capital**

  Working capital is the difference between current assets and current liabilities. It measures whether an entity has enough short-term assets to meet operational needs.

  However, the working capital of the Institute had deteriorated from negative K102,425 in 2017 to negative K1,074,671 in 2019 representing a 949% reduction. See table 17.4 below.

Table 17.4: Negative Working Capital

Details	2019 (Draft) K	2018 K	2017 K
Current Assets	2,049,752	2,334,104	2,670,303
Current Liabilities	3,124,423	3,622,391	2,772,728
Working Capital	**(1,074,671)**	**(1,288,287)**	**(102,425)**

- **Current Ratio**

The current ratio is a liquidity ratio that measures an entity's ability to pay short-term obligations or those due within one (1) year. It is calculated by comparing an entity's current assets to its current liabilities. The generally acceptable ratio is 2:1.

During the period under review, the Institute did not meet the benchmark in that as at 31st December 2017, 2018 and 2019, the current ratio was 0.96:1, 0.64:1 and 0.66:1 respectively. This was attributed to the current liabilities that had increased by 13% from K2,772,728 in 2017 to K3,124,423 in 2019 whilst the current assets reduced by 23% from K2,670,303 in 2017 to K2,049,752 in 2019. See table 17.5 below.

Table 17.5: Declining Current Ratio

Details	2019 (Draft) K	2018 K	2017 K
Current Assets	2,049,752	2,334,104	2,670,303
Current Liabilities	3,124,423	3,622,391	2,772,728
Current Ratio	**0.66:1**	**0.64:1**	**0.96:1**

In this regard, the worsening current ratio implied that the Institute was unable to settle its obligations as and when they fell due.

c. Operational Matters - Failure to Conduct Tourism Research and Consultancy

Section 5(1)(c) of the Zambia Institute for Tourism and Hospitality Studies Act No. 42 of 2016, states "one of the functions of the Institute is to undertake or facilitate tourism research, studies or surveys in order to develop tourism."

Contrary to the Act, the Institute had not conducted any research and consultancy in tourism as at 31st December 2020.

d. Procurement Matters - Over Payment of Security Services

In January 2017, ZITHS engaged Giant Eagles Security Services for the provision of security services at the Institute for a period of three (3) years up to December 2019 at total contract sum of K234,000.

However, as at 31st December 2020, amounts totalling K341,850 had been paid instead of the contract sum of K234,000 resulting in an overpayment of K107,850.

e. Accounting Irregularities

i. Failure to Renew Lease Agreements

During the period 1st November 2014 to 14th October 2016, ZITHS (being the lessor), signed lease agreements with five (5) tenants namely; Alitalia Calzature, Lafiesta VIP Lounge, Macap Business Investments, Mussia Computers and Krysta's Events Designs for use of ZITHS property based in Lusaka as office space or booth.

According to the Lease Agreements, the leases were to run for an initial period of either twelve (12) months or thirty six (36) months and thereafter be renewed or terminated based on performance.

Contrary to the lease agreements, as at 31st December 2020, the tenants were still operating at ZITHS without renewing the lease agreements which had expired for periods ranging from two (2) to five (5) years.

In addition, a review of the customer ledgers revealed that the Institute was owed amounts totalling K91,600 in unpaid rentals by the five (5) defaulting tenants and no action had been taken. See table 17.6 below.

Table 17.6: Defaulting Tenants

No.	Customer	Date Contract Expired	Period over and above the Expiry Date	Date Lease Agreement Signed	Start Date	Duration of Lease Agreement	Purpose	Monthly Rentals K	Balance K	Observations
1	Krysta's Events	30.04.2017	3years 2 months	03.05.2016	01.05.20	12 months	office space	1,000	10,600	Defaulted by not paying K1000 three months in advance and also not paying bills within 21 days after they were due as per contract.
2	Lafiesta Lounge	31.03.2018	2 years 2 months	01.04.2015	01.04.20	36 month	Office spac	5,500	12,400	Defaulted by not paying K5,500 two months in advance and also not paying bills within 21 days after they were due as per contract. The contract expired 31st March 2018. Invoiced for 11 months only in 2019
3	Macap Business Investments	31.10.2015	4 years 7 months	01.11.2014	01.11.20	12 months	Booth	1,200	27,600	Defaulted by not paying K1200 three months in advance in 2017 and completely unpaid for 2018 & 2019. Invoiced for six months only in 2019.
4	Mussia Computer System	21.10.2017	2 years 7 months	14.10.2016	01.11.20	12 months	office space	2,500	29,000	Defaulted by not paying K2,500 three months in advance and also not paying bills within 21 days after they were due as per contract. The contract expired 31st Oct, 2017. Invoiced for for 7 months only in 2019
5	Alitalia Calzature	28.02.2017	3 years 1 month	01.04.2016	01.04.20	12 months	office space	3,000	12,000	Defaulted by not paying K3,000 three months in advance and also not paying bills within 21 days after they were due as per contract. The contract expired 28th February, 2017. Only invoice for 2 months in 2018 and none in 2019
	Total							**13,200**	**91,600**	

ii. Failure to Collect Tuition Fees and Subsequent Write off of Bad Debt

Section 8.0 of the ZITHS Academic Handbook requires that student registration should be done on a semester basis and students would only be allowed in class after paying 50% of the semester fees. The remaining 50% should be paid as follows:

- 25% thirty (30) days after opening.
- The last 25% sixty (60) days after opening.

Contrary to the guideline, ZITHS did not collect tuition fees in amounts totalling K1,890,271 during the period under review. As at 31st December 2020, the outstanding fees had not been collected. See table 17.7 below.

Table 17.7: Uncollected Tuition Fees

Year	Number Students	Tuition Fees not Collected K
2017	288	957,550
2018	384	1,365,468
2019	515	1,890,271

iii. Failure to Collect Debt

Section 2 of the ZITHS Policies, Credit Terms and Conditions stipulates that credit accounts should be suspended for any customer whose account has a balance for more than 90 days.

Contrary to the policy, fourteen (14) clients with unpaid balances in amounts totalling K1,201,082 for periods ranging from six (6) months to over three (3) years had not been suspended and were still accessing services from ZITHS as at 31st December 2020.

iv. Non-Remittance of Statutory Contributions

Contrary to Income Tax Act Chapter 323 of the Laws of Zambia and National Pension Scheme Authority (Amendment) Act No. 7 of 2015, amounts totalling K7,467,028 deducted from employees and due to Zambia Revenue Authority (ZRA) and National Pension Scheme Authority (NAPSA) had not been remitted to the respective Institutions as at 31st December 2020. See table 17.8 below.

Table 17.8: Unremitted Statutory Contributions

No.	Details	Amount K
1	Pay As You Earn	6,279,712
2	NAPSA	1,187,316
	Total	**7,467,028**

f. Management of Assets

i. Lack of Title Deeds

Section 41 (4) of the Public Finance Management Act No. 1 of 2018 requires that Controlling Officers should ensure that public properties under their charge are secured with title deeds.

Contrary to the Act, ZITHS did not secure title deeds for its Lusaka Campus situated on corner of Church and Protea roads valued at K17,500,000 comprising land (K4,300,000) and buildings (K13,200,000).

ii. Failure to Insure Assets

Best practice requires that an organisation obtains insurance cover for its valuable assets. This ensures that the risk of loss or significant damage to assets is mitigated.

During the period under review, ZITHS owned assets such as buildings, equipment and furniture and fittings valued at K19,874,922. However, as at 31st December 2020, the assets had not been insured.

18. ZAMBIA NATIONAL BROADCASTING CORPORATION

18.1 Background

a. Establishment

The Zambia National Broadcasting Corporation (ZNBC) is a statutory corporation wholly owned by the Government. Its principal activity is to provide information, entertainment and education to the people of the Republic of Zambia.

b. Governance

The Corporation is governed by a Board of Directors consisting of nine (9) members appointed by the Minister of Information and Broadcasting Services subject to ratification by the National Assembly. The Directors hold office for a period of three (3) years and may be reappointed for another term.

c. Management

The operations of ZNBC is the responsibility of the Director General (DG) who is appointed by the Board. The DG is assisted by the Corporation Secretary and Directors of Finance, Engineering and Technical Services, Programmes, Sales and Marketing, Human Resource and Administration and Northern Region.

d. Source of Funds

The funds of the Corporation consist of such moneys as may be;

i. payable to the Corporation,

ii. appropriated by Parliament for the purpose of the Corporation,

iii. paid to the Corporation by way of grants or donations, and

iv. vest in or accrue to the Corporation.

18.2 Audit Findings

An examination of financial and other records for the financial years ended 31st December 2017, 2018 and 2019 revealed the following:

a. Budget and Income

During the period under review, the Corporation budgeted to receive and generate amounts totalling K394,981,992 from sale of broadcasting airtime, television licence and government grants against which amounts totalling K328,431,709 were received and generated resulting in a negative variance of K66,550,283. See table 18.1 below.

Table 18.1: Budget and Income

Details	2019 K	2018 K	2017 K	Total K
Budgeted Income	140,414,636	128,003,361	126,563,995	**394,981,992**
Actual Income	105,525,303	115,010,256	107,896,150	**328,431,709**
Variance	(34,889,333)	(12,993,105)	(18,667,845)	**(66,550,283)**

b. Financial Analysis

i. Statement of Comprehensive Income

The Statements of Comprehensive Income for ZNBC for the financial years ended 31st December 2017, 2018 and 2019 were as shown in table 18.2 below.

Table 18.2: Statement of Comprehensive Income

Details	2019 K	2018 K	2017 K
Revenue	100,062,522	108,316,960	96,030,556
Other income	5,462,780	6,693,296	11,865,594
Total income	**105,525,303**	**115,010,256**	**107,896,150**
Programme expenses	(1,496,274)	(1,465,631)	(9,233,533)
Advertising promotion expenses	(609,203)	(1,066,948)	(653,361)
Administrative expenses	(193,620,254)	(169,766,121)	(195,709,599)
Other operating expenses	(382,865,248)	(23,689,720)	(42,887,832)
Total expenses	**(578,590,979)**	**(195,988,420)**	**(248,484,325)**
Results from operating activities	**(473,065,676)**	**(80,978,164)**	**(140,588,175)**
Net financing income/(costs)	**(59,809,458)**	3,635,860	82,095
Share of profit of equity-accounted			
investees(net of income tax)	-	-	-
Loss before income tax	**(532,875,134)**	**(77,342,304)**	**(140,506,080)**

Source: ZNBC draft financial statements for the years ended 31st December 2017, 2018 and 2019

- **Declining Revenues**

The Corporation experienced a downward revenue generation trend (net of Government grant) from K107,896,150 in 2017 to K105,525,303 in 2019. See table 18.3 below.

Table 18.3: Revenue Analysis

Revenue	2019 K	2018 K	2017 K
Programming and advertising income	60,752,888	64,931,544	66,205,381
Production Income	431,636	776,662	595,131
Television licence fee	38,877,999	29,468,754	29,230,044
Grant received from Government of Zambia	-	13,140,000	-
Other Income	5,462,780.0	6,693,296	11,865,594
Total	**105,525,303**	**115,010,256**	**107,896,150**
Less Government grants	-	13,140,000	-
Revenue without grants	**105,525,303**	**101,870,256**	**107,896,150**

There was a steady improvement in television licence fees by K9,647,955 from K29,230,044 in 2017 to K38,877,999 in 2019. However, the Corporation recorded a decrease in programming and advertising income by K5,452,493 from K66,205,381 in 2017 to K60,752,888 in 2019.

- **Unsustainable Administrative Expenses**

During the year 2017, ZNBC incurred administrative expenses such as staff costs, board expenses and depreciation amounting to K195,709,599 which was 181% of total revenue of K107,896,150. The poor performance continued in 2018 and 2019 with the Corporation incurring administrative expenses of K169,766,121 and K193,620,254 which was 148% and 183% of revenue of K115,010,256 and K105,525,303 respectively. See table 18.4 below.

Table 18.4: Administrative Expenses as a percentage of Revenue

Details	2019 K	2018 K	2017 K
Revenue	105,525,303	115,010,256	107,896,150
Administrative Expenses	193,620,254	169,766,121	195,709,599
Administrative Expenses %	**183%**	**148%**	**181%**

An analysis of the administrative expenses revealed that staff related expenses accounted for 84% in 2017 and 88% in 2018 and 89% in 2019 of the total administrative expenses. See table 18.5 below.

Table 18.5: Staff Costs as a % of Administrative

Details	2019 K	2018 K	2017 K
Total administrative expenses	193,620,254	169,766,121	195,709,599
Staff costs	172,673,957	149,278,653	163,757,599
Staff costs % of administrative expenses	**89%**	**88%**	**84%**

- **Unsustainable Staff Costs**

During the year 2017, ZNBC incurred staff costs such as salaries, allowances and terminal benefits amounting to K163,757,091 which was 152% of total revenue of K107,896,150. The trend continued in 2018 and 2019 were staff costs reached K149,278,652 and K172,693,537 representing 130% and 164% of total revenue of K115,010,256 and K105,525,303 respectively. See table 20.6 and chart 18.6 below.

Table 18.6: Staff Costs Analysis

Details	2019 K	2018 K	2017 K
Payroll Related Costs			
Basic Salary and Wages	56,945,697	54,232,027	55,886,087
NAPSA Contributions	4,963,660	4,806,846	4,899,125
Staff Allowances	54,834,332	52,169,550	54,295,630
Subtotal	**116,743,689**	**111,208,423**	**115,080,842**
Non Payroll Related Costs			
Terminal Benefits and their provisions	33,117,217	17,655,303	26,374,471
Gratuity	2,951,212	2,484,271	3,531,709
Other staff costs	19,881,419	17,930,655	18,770,069
Subtotal	**55,949,848**	**38,070,229**	**48,676,249**
Total staff costs as per financial statements	**172,693,537**	**149,278,652**	**163,757,091**
Total Revenue	**105,525,303**	**115,010,256**	**107,896,150**
Staff Costs %	**164%**	**130%**	**152%**

- **Unsustainable Other Operating Expenses**

It was observed that other operating costs as a percentage of revenue increased from 40% in 2017 to 363% in 2019. The operating costs were therefore unsustainable. See table 18.7 below.

Table 18.7: Other Operating Expenses

Details	2019 K	2018 K	2017 K
Revenue	105,525,303	115,010,256	107,896,150
Other operating expenses	382,865,248	23,689,720	42,887,832
Other operating expenses as % of Revenue	**363%**	**21%**	**40%**

ii. Financial Position

The Statements of Financial Position for ZNBC as at 31st December 2017, 2018 and 2019 were as shown in table 18.8 below.

Table 18.8: Statement of Financial Position

Details	2019 K	2018 K	2017 K
Assets			
Non Current Assets			
Property and equipment	833,843,471	57,670,907	56,455,657
Investment	16,148,907	16,148,907	16,148,907
Gotv Loan Receivable	103,448,099	103,448,099	101,955,883
Investment in Topstar	3,952,920	3,952,920	-
	957,393,397	**181,220,833**	**174,560,447**
Current Assets			
Inventories	851,969	745,461	582,930
Trade and other receivables	33,399,062	40,701,346	22,885,790
Prepayments	610,793	648,027	381,606
Cash at bank and in hand	1,329,407	13,167,682	541,179
	36,191,231	**55,262,516**	**24,391,505**
Total Assets	**993,584,628**	**236,483,349**	**198,951,952**
Funds, Grants & Liabilities			
Funds and Grants			
Capital fund	32,679	32,679	32,679
General reserve fund	(1,976,049,813)	(1,443,174,679)	(1,365,832,375)
Capital grant fund	79,792,990	80,333,664	80,874,581
Non distributable reserves	15,000	15,000	15,000
	(1,896,209,145)	**(1,362,793,336)**	**(1,284,910,115)**
Liabilities			
Non Current Liabilities			
Loans and borrowings	952,195,331	115,709,619	81,571,883
Capital grant	9,857,714	9,857,714	9,857,714
	962,053,045	**125,567,333**	**91,429,597**
Current Liabilities			
Loans and borrowings	-	-	-
Bank overdraft	-	-	-
Trade and other payables	1,926,602,510	1,472,571,135	1,391,294,253
Current tax liabilities	1,138,217	1,138,217	1,138,217
	1,927,740,727	**1,473,709,352**	**1,392,432,470**
Total Equity and Liabilities	**993,584,628**	**236,483,349**	**198,951,952**

Source: ZNBC draft financial statements for the years ended 31st December 2017, 2018 and 2019

- **Current Ratio**

The current ratio is a liquidity ratio that measures an entity's ability to pay short-term obligations or those due within one (1) year. It is calculated by comparing an entity's current assets to its current liabilities. The generally acceptable ratio is 2:1.

However, the ratios for ZNBC were below the acceptable standard for the period under review. See table 18.9 below.

Table 18.9: Current Ratio

Details	**2019** **K**	**2018** **K**	**2017** **K**
Current Assets	36,191,231	55,262,516	24,391,505
Current Liabilities	1,927,740,727	1,473,709,352	1,392,432,470
Current ratio	**0.02:1**	**0.04:1**	**0.02:1**

The poor current ratio was due to failure by ZNBC to settle statutory obligations such as National Pension Scheme Authority (NAPSA) contributions and Pay As You Earn (PAYE) to Zambia Revenue Authority (ZRA).

- **Receivables Days**

The Corporation had a credit policy of thirty (30) days within which its customers were to settle invoices. However, it was observed that the Corporation exceeded the credit period of 30 days by 63, 166 and 147 days in 2017, 2018 and 2019 respectively. See table 18.10 below.

Table 18.10: Debt Collection Period

Details	**2019**	**2018**	**2017**
Net trade receivables (K)	29,523,091	34,832,497	16,790,311
Programming and Advertising income (K)	60,752,888	64,931,544	66,205,381
Receivables days	177	196	93
Credit Period allowable	30	30	30
Days of Delay	147	166	63

- **High Debt Ratio**

  Debt ratio is used to analyse an entity's debt burden and evaluate its ability to settle them. It is measured by comparing the firm's total liabilities as a percentage of its total assets.

  A review of debt ratio for ZNBC revealed that it was 746%, 676% and 291% in 2017, 2018 and 2019 respectively, an indication that the Corporation was exposed to high debt. See table 18.11 below.

Table 18.11: Debt Ratio

Details	2019	2018	2017
Total liabilities (K)	2,889,793,772	1,599,276,685	1,483,862,067
Total Assets (K)	993,584,628	236,483,349	198,951,952
Debt Ratio	**291%**	**676%**	**746%**

c. Operational Matters - Management of the National Digital Terrestrial Television Migration Project

The International Telecommunications Union (ITU), of which Zambia is a member, set a global deadline of 17th June 2015, for all member states to migrate from analogue to Digital Terrestrial Transmission (DTT) platforms. In order to implement the DTT requirements, the Government together with ZNBC embarked on the National Digital Terrestrial Television Migration Project which saw various financing agreements and contracts of works being entered into that affected the Corporation.

These included the following:

- Loan Agreement between Zambia and the Export Import Bank of China
- Joint Venture Agreement between ZNBC and Startimes
- Loan Agreement between ZNBC and Startimes
- On-lending Loan Agreement between the Government and ZNBC
- Escrow Bank Account Agreement
- Phase II and III contracts with Startimes

The following were observed:

i. Weaknesses in the Management of the Migration Project

On 18th September 2015, Ministry of Information and Broadcasting Services engaged Startimes at contract price of US$273,154,281 to undertake all projects works under Phase II and III of the National Digital Terrestrial Television Migration Project implemented by ZNBC and Topstar as end users. The scope of works included design, manufacture and installation of plant and equipment and construction and commissioning buildings in Chinsali, Kasama, Mansa, Kabwe, Mongu and Chipata Districts.

A physical inspection carried out in November 2020 revealed the following:

- **Kasama**

  Although the July 2020 project status report revealed that civil works at the Kasama Studio were completed and the site handed over by the contractor to the Corporation, a visit to the site revealed that it was not operational as equipment had not yet been installed.

- **Chinsali**

  Although the project status report for October 2020 stated that the civil works at the Chinsali studio were completed and the site handed over by the contractor to the Corporation, a visit to the site revealed that it was not operational as equipment had not been installed.

- **Kabwe**

  The July 2020 status report revealed that the civil works were at 83% completion with remaining works including fitting of fixtures and fittings, aluminium at the entrance, supply generator, connection of power, paving the car park, tiling of the outside step, plumbing works and completion of the generator storage room. A visit to the site revealed that works had stalled and the contractor was not on site. See pictures 18.1 below:

Pictures 18.1 Unfitted Aluminium in the Front and Incomplete Genset Storage Room

- **Chipata**

  The October 2020 status report revealed that the civil works were at 82% completion with remaining works including fitting of fixtures and fittings and aluminium at the entrance of the building, connection of power and paving of the car park. However, a visit to the site revealed that the works had stalled and the contractor was not on site.

Pictures 18.2: Entrance without Aluminium

ii. Lack of Oversight over TopStar

On 12th May 2016, ZNBC and Star Times Communication Network Technology Co. Ltd of China (Star Times) entered into an agreement to invest in and establish a joint venture limited liability company called TopStar Communications Company Ltd. ZNBC and Star Times were to own 40% and 60% of the company respectively during the initial twenty five (25) years after which ZNBC will maintain 40% shareholding with Star Times having 30%, Public Institutions 20% and the general public (Zambians) having the remaining 10%.

Subsequently, on 30th May 2018, ZNBC (borrower) entered into a loan agreement of US$400,000 with Startimes (lender) to finance the 40% shareholding in TopStar.

The following among others were the terms:

- The lender would directly transfer the required amount to TopStar on behalf of ZNBC;
- The loan date would be effective the date of transfer of funds by Startimes to TopStar on behalf on ZNBC;
- The loan would run for five (5) years;
- The loan would be repaid from dividends receivable from TopStar or using any money ZNBC would have; and
- Future dividends from TopStar would constitute loan security.

The joint venture agreement defined the scope of the joint venture company as follows:

- Provision of digital television (TV) signal transmission service for TV stations and charge transmission fee;
- Provision of decoders of Set-Top- Boxes (STBs) for every household with a TV set;
- Providing to each subscriber, a basic television package of not less than twenty five (25) channels which include local TV and international programs, and charge a monthly maintenance subscription fee of US$3 tax exclusive;
- Providing a basic television package at half price to the poor families identified by government as such; and
- Providing two free channels for digital television universal access to viewers who fail to pay monthly maintenance subscription of US$3.

A review of the implementation of the Joint Venture Agreement revealed the following:

- Strategic Objective 02 of the 2016-2020 ZNBC Strategic Plan outlines how the Corporation was to attain its financial viability which included monitoring the financial performance of its investments in entities such as TopStar. However, it could not be ascertained how financial performance of TopStar was being monitored as there was no evidence availed for audit regarding ZNBC management and Board's consideration of TopStar's performance.

- A review of minutes of the Board dated 11th May 2018 revealed that reports sent to ZNBC by TopStar did not have financial information. As 30th November 2020, there were no audited financial statements for TopStar for the period under review availed for audit.

- A review of the Corporation reports and schedule of assets handed over to TopStar revealed that several equipment such as transmitters installed under phase 1 was handed over to TopStar by November 2020. However, the handed over equipment was not valued.

iii. Weaknesses in Implementation of Subsidiary Credit Agreement

On 26th December 2016, the Government through the Minister of Finance (borrower), entered into a loan Agreement with Export Import Bank of China (Exim Bank-the lender) amounting to US$232,181,138.85.

The loan proceeds were to facilitate the implementation of the National Digital Terrestrial Television Migration Project. The Project involved the supply, delivery, installation and commissioning of the National Digital Terrestrial Television Broadcasting System in Zambia – Phase II and III.

The provisions of the Loan Agreement included the following:

- For Startimes Communications Network (Startimes), that had supplied, delivered and installed DTT equipment along the Line of Railway under Phase I, to undertake project works under Phases II and III as well;

- That the end users for the Project were ZNBC and TopStar. TopStar was a joint venture company between Startimes and ZNBC that was set up as a national signal carrier.
- For the signing of a subsidiary credit agreement between the Government as a lender and ZNBC and TopStar as end user borrowers; and
- For the establishment and maintenance of escrow accounts, and signing of the Escrow Account Management Agreement.

Subsequently, on 10th February 2017, the Government, through the Minister of Finance, signed a subsidiary credit agreement with the end users to on-lend the proceeds of the main Zambia Exim Bank loan to them in proportion of 36.5% (US$84,746,116 to ZNBC) and 63.5% (US$147,435,023 to TopStar). See table 18.12 below.

Table 18.12: Apportionment of Loan Proceeds

Item	ZNBC		TopStar	
	Description	**Amount US$**	**Description**	**Amount US$**
1	Civil works for 6 provincial studios	22,000,000	National Operations Centre	12,000,000
2	Civil works for 5 renovation studios	866,250	1,250,000 terminating systems	80,000,000
3	Equipment for TV station	51,360,351	Equipment for transmitting system	56,946,655
4	Design services for TV station Digitization	1,500,000	Design services for transmitting platform	1,030,000
5	Installation and other services	23,976,294	Installation and other for services transmitting platform	23,475,731
	On-lent amount	**84,746,115.68**	**On-lent amount**	**147,435,023.17**
	Total Loan amount (ZNBC and TopStar)			**232,181,138.85**
	On-lent proportion	**36.50%**	**On-lent proportion**	**63.50%**

Source: On-Lending Agreement 2017

The terms of the On-Lending Agreement were as follows:

- Clause 3.03 (i) states, "the interest rate to be charged to end-users on the principal amount of the subsidiary credit withdrawn and outstanding from time to time shall be two (2) percent per annum fixed interest rate;"
- Clause 3.05 (i) states, "if the principal and interest due is delayed in excess of thirty (30) days, a penalty interest of two (2) per cent will be charged on the principal and interest amounts in arrears;"

- Clause 3.05 (iii) states, “the principal amount of the subsidiary credit shall be repaid to GRZ in equal semi-annual instalments after a moratorium of five years after the signature date of the subsidiary credit agreement and payment shall be made on 15th January and 15th July of each year during the life of the loan;” and
- Clause 3.02 states, “the end-users shall repay the subsidiary credit and interest thereon over a period of twenty (20) years including a grace period of five years.”

A review of the implementation of the Subsidiary Credit Agreement revealed the following:

- **Failure to Service the Loan**

  Contrary to clause 3.03 of the agreement, ZNBC did not pay nor accrue and recognise in its books of account interest amounts payable for the principal amounts drawn and outstanding on the subsidiary credit. This exposed ZNBC to penalties for delayed payment of interest as stipulated under clause 3.05 (i). Based on the repayment schedule attached to the subsidiary credit agreement, the accrued interest as at 31st December 2019 was US$11,609,057.

- **Failure to Plan for Loan Repayment**

  Clause 4.04 of the Subsidiary Credit Agreement states, “END USERS (ZNBC and TopStar) shall carry out its project as described in the Preferential Buyer Credit Loan Agreement between GRZ and the Exim Bank with due diligence, and efficiency and in conformity with sound technical, economic, engineering, financial, administrative, environmental, social standards and practices and shall provide promptly as needed the funds, facility, services and other resources required for the purposes.”

  However, a review of ZNBC strategic plan for the period 2016 - 2020 and approved budgets for the period under review revealed that ZNBC was not managing the project with due diligence, efficiency and in conformity with sound technical, economic, engineering, financial, administrative, environmental, social standards and practices in that the Corporation had not included provisions on how it was going to repay the loan in its strategies and budgets.

d. Management of Infrastructure

i. Failure to Secure Title deeds for the Corporation

Section 41(4) of the Public Finance Management Act No.1 of 2018 stipulates that a Controlling Officer shall ensure that all public properties under the Controlling Officer's charge are secured with title deeds.

Contrary to the Act, as at 30th November 2020, ZNBC had not secured parcels of land with title deeds on which twelve (12) of its properties in various parts of the country were located.

ii. Encroachment at Msekera Site

It was observed that the Corporation land at Msekera in Chipata had been encroached by unknown people who have built houses. However, ZNBC had not taken any action against the encroachers as at 31st December 2020. See picture 18.3 below.

Pictures 18.3: House on encroached Corporation land

19. ZAMBIA NATIONAL BUILDING SOCIETY

19.1 Background

a. Establishment

The Zambia National Building Society (ZNBS) was established in 1968 under the Building Society Act of 1968 which was repealed by Cap 412 of the Laws of Zambia through the Building Societies (Amendment) Act No. 22 of 2005.

The mandate of ZNBS is to mobilise finances, provide finance for house acquisition/construction to eligible members of the public, render banking services and provide other related services.

b. Governance

According to the Building Society Act No. 22 of 2005, a Building Society shall have a Board of Directors consisting of not less than five (5) and not more than ten (10) persons.

The Minister of Finance shall appoint not less than seven (7) persons to constitute the Board of Directors of the Society and shall designate one (1) of them as the Chairman and the Secretary or other officer of the Society.

A member of the Board (Director) shall, subject to the other provisions of the rules, hold office for a term of three (3) years and may be re-appointed for a further term of three (3) years.

c. Management

The operations of the Society is the responsibility of the Managing Director who is appointed by the Board of Directors and is also the Secretary of the Board.

The Managing Director is assisted by the Chief Operations Officer, Society Secretary, four (4) Directors in charge of Finance, Risk, Banking and Mortgage and Human Resources.

d. Sources of Funds

The Society derives its income mainly from mortgage interest, rentals on investment properties, fees and commissions charged on bank transactions.

19.2 Audit Findings

An examination of financial and other records maintained at the Zambia National Building Society headquarters and selected district offices for the financial years ended 31st March 2018, 2019 and 2020 revealed the following:

a. Management – Dismissal of the Former Managing Director

On 5th December 2018, the Board signed a three (3) year renewable employment contract with the former Managing Director which was terminated on 3rd January 2020. Subsequently, on 22nd January 2020, the former Managing Director was duly paid his terminal benefits.

However, on 30th January 2020, the former Managing Director sued ZNBS for wrongful, unlawful and unfair dismissal.

Consequently, the Society settled the matter through court mediation and paid the former Managing Director an amount of K1,251,801 resulting in wasteful expenditure due to failure by the Board to follow procedure in the termination of the contract.

b. Budget and Income

During the period under review, the Society had an income budget of K914,490,000 against which amounts totalling K683,685,000 were collected resulting in a negative variance of K230,805,000 as shown in the table 19.1 below.

Table 19.1: Budget and Income

Income	Mar 2020		Mar 2019		Mar 2018		Total		
	Budget K'000	Actual K'000	Budget K'000	Actual K'000	Budget K'000	Actual K'000	Budget K'000	Actual K'000	Variance K'000
Mortgage Interest	37,856	29,415	59,797	26,073	29,979	25,525	127,632	81,013	(46,619)
Other loans & Advances	208,067	159,564	146,685	128,440	107,294	106,109	462,046	394,113	(67,933)
Rentals and Investment	27,655	36,938	40,829	10,658	17,996	10,499	86,480	58,095	(28,385)
Fees and Commisions	81,243	44,231	100,537	54,205	56,552	52,028	238,332	150,464	(87,868)
Total	**354,821**	**270,148**	**347,848**	**219,376**	**211,821**	**194,161**	**914,490**	**683,685**	**(230,805)**

c. Financial Analysis

i. Financial Performance - Statement of Comprehensive Income

Statements of Comprehensive Income for the period under review were as shown in table 19.2 below.

Table 19.2: Statement of Comprehensive Income

Details	(Draft) Mar 2020 K'000	Mar 2019 K'000	Mar 2018 K'000
Interest income	217,533	157,584	135,468
Interest expense	105,247	43,063	(29,689)
Net interest income	**112,286**	**114,521**	**105,779**
Loan impairment charges	(5,881)	(25,609)	(7,644)
Net interest income after loan impairment charges	**106,405**	**88,912**	**98,135**
Fees and commission income	40,955	54,205	52,028
Rental income	8,383	7,588	6,665
Exchange gain	3,276	-	-
Profit/ (loss) on disposal of assets	(405)	227	118
Fair value gain on investment property	2,824	3,257	4,437
Reversal of provision	48,160	15,645	-
operating expenses	(182,322)	(160,858)	(147,817)
Profit before tax	27,276	8,976	13,566
Income tax credit / (expense)		-	-
Profit for the year	**27,276**	**8,976**	**13,566**

Source: Audited Financial Statements as at 31st March 2018, 2019 and 2020

- **Profitability**

  During the period under review, the Society recorded an increase in profit from K13,566,000 in 2018 to K27,276,000 in 2020. A further analysis of the income and expenditure revealed that the profits recorded in the financial years ended 31st March 2019 and 2020 were attributed to the reversal of bad debt provisions.

ii. Financial Position - Statement of Financial Position

The Statements of Financial Position of ZNBS as 31st March 2018, 2019 and 2020 were as shown in table 19.3 below.

Table 19.3: Statement of Financial Position

Details	Mar - 2020 (Draft) K'000	Mar-2019 K'000	Mar-2018 K'000
Assets			
Cash and cash equivalents	146,431	78,744	101,640
Placements with other financial institutions	155,895	10,017	7,237
Government securities	13,126		
Loans and advances	639,863	619,238	547,751
Investment properties	137,587	133,577	129,288
Property and equipment	89,663	91,335	77,817
Other assets	44,451	41,167	27,006
Intangible Assets	22,142		
Right of Use	16,261		
Total Assets	**1,265,419**	**974,078**	**890,739**
Liabilities			
Customer deposits	493,404	373,513	342,392
Provisions for other liabilities and charges	6,272	60,884	74,347
Current income tax			
Borrowings	343,355	175,378	105,302
Other liabilities	57,631	42,431	58,270
Lease liability	17,446		
Deffered income tax			
Total liabilities	**918,108**	**652,206**	**580,311**
Equity			
Share capital	191,678	191,678	191,678
Other reserves	56,127	58,281	66,171
Accumulated profit	99,506	71,913	52,579
Total Equity	**347,311**	**321,872**	**310,428**
Total Equity and Liabilities	**1,265,419**	**974,078**	**890,739**

Source: Audited Financial Statements as at 31st March 2018, 2019 and 2020

- **Debt Contraction - High Gearing Ratio**

A gearing ratio compares an institution’s total equity to its total debt. It is a vital ratio in that it influences an investor’s decision to invest in an Institution or a lender’s decision to issue more debt to an Institution. In this regard, a higher gearing ratio indicates that an Institution is susceptible to financial risk.

Best practices requires that an organisation’s gearing ratio should be lower than 50%. If the ratio is above 50% it is considered typically high thus an institution would be at a greater financial risk during times of lower profits which could result in loan default.

During the period under review, the gearing ratio increased from 34% in 2018 to 99% in 2020. The increase in the gearing ratio was attributed to an increase in the Society's debt from K105,302,000 in 2018 to K343,355,000 in 2020, representing an increase of 226%. See table 19.4 below.

Table 19.4: Gearing Ratio

Year	2020	2019	2018
Total Debt (K'000)	343,355	175,378	105,302
Total Equity(K'000)	347,311	321,872	310,428
Gearing Ratio	**99%**	**54%**	**34%**

d. Operational Matters

i. Mortgages without Collateral

In order to obtain a mortgage, the Society requires prospective customers to provide collateral in the form of title deeds, land records and occupancy licenses.

However, 116 mortgages issued to various customers with a total outstanding balance of K17,036,892 did not have collateral.

ii. Weaknesses in Management of Loan Portfolio

During the period under review, the Society had disbursed loans in amounts totalling K2,131,136,483. As of 31st December 2019, K688,601,540 was outstanding from 89,222 customers' accounts.

The following were observed:

- **Unmigrated Loans to Profit System**

  In December 2019, ZNBS changed its core banking system from ZNBS2008 to Profit. After the migration, ZNBS2008 was discontinued from servicing loans but just as a repository of historical loan details.

  However, fifty eight (58) account balances in amounts totalling K890,976 were not migrated to the Profit System.

- **Uncleared Stop Order Suspense Account**

  Bank of Zambia (BOZ) policy on unclaimed funds, requires that banks follow up within six (6) months on all uncleared suspense account balances by identifying the respective individuals and ensuring that client accounts are opened.

  ZNBS maintains a stop order suspense account for the purpose of keeping funds for clients who have not opened an account with the Society.

  However, as at 31st December 2020, the Society had an uncleared balances of K528,415 with some entries remaining uncleared for periods of up to forty (40) months. See table 19.5 below.

Table 19.5: Uncleared Balances

No.	Branch	Uncleared balance as at 31st September 2020 K	Number of Months Outstanding
1	Society House	179,208	1 to 16 months
2	Permanent House	152,399	1 to 40 months
3	Livingstone	7,995	1 to 9 months
4	Mazabuka	106,370	1 to 7 months
5	Cosmopolitan	4,309	1 to 18 months
6	Kitwe	15,798	1 to 9 months
7	Chililabombwe	32,063	1 to 23 months
8	Kasama	30,274	1 to 7 months
	Total	**528,415**	

e. Staff Related Matters - Questionable Introduction of a Self-Liquidating Car Loan

Cabinet Office Circular No. 17 of 2016 issued on 16th December 2016 abolished the provision of personal-to-holder motor vehicles to officers in public service and state-owned enterprises. In this regard, the Boards of State-owned enterprises were urged to review the condition of services in line with the circular in view of the economic and fiscal challenges that the country was facing.

However, on 13th June 2018, the ZNBS Board approved the introduction of a self – liquidating loan or lease for senior management which was administered by a local Commercial Bank.

The terms of the facility included the following:

- 20% advance payment be made by the Society to the Commercial Bank to reduce the monthly repayments for Directors;
- Gross monthly car allowance of K34,500 be paid to the Directors and K15,000 to other senior members of staff to cover the monthly lease payments;
- Monthly car maintenance allowance of K2,500 for Directors to cover mechanical service and road tax; and
- The maximum value of the motor vehicle to be capped at K900,000.

As at 31st December 2020, thirty two (32) beneficiaries which included six (6) Directors and twenty six (26) other senior members of staff had accessed the motor vehicle loans in amounts totalling K16,283,557 and the Society had paid amounts totalling K1,019,926 as 20% advance towards the loans for Directors.

However, the payment of 20% advance towards the loans was irregular in that the cost was supposed to be borne by the individual officers.

20. ZAMBIA POSTAL SERVICES CORPORATION

20.1 Background

a. Establishment

The Zambia Postal Services Corporation (Zampost) was established under the Postal Services Act No. 22 of 2009 and falls under the Ministry of Transport and Communication.

The mandate of the Corporation is to provide postal, banking and other financial services to the public.

In order to improve its revenue base, the Corporation diversified its operations to include public transport, clearing and forwarding and travel and tours.

In this regard, Zampost incorporated three (3) subsidiary companies which it wholly owns as shown in table 20.1 below.

Table 20.1: Subsidiaries

No.	Name of Company	Year of Incorporation
1	Post Bus Limited	2002
2	Zampost Travel and Tours	2014
3	Zampost Clearing and Forwarding	2013

Each Company is managed by a General Manager, who reports to the Postmaster General.

b. Governance

Zampost is governed by a Board of Directors comprising nine (9) part time members appointed by the Minister as follows:

i. A representative of the Zambia Federation of Employers;

ii. A representative of a trade union representing postal officers;

iii. A representative of the Zambia Chambers of Commerce and Industry;

iv. A representative of the Zambia Institute of Certified Accountants;

v. A representative of the Consumers Association of Zambia;

vi. A representative of the Ministry responsible for Communications;

vii. A representative of the Ministry responsible for Finance;

viii. A representative of the Ministry responsible for Home Affairs; and

ix. A representative of the Attorney General.

The members are appointed for a renewable term of three (3) years and the Postmaster General sits on the board as an ex-officio.

c. Management

The operations of the Corporation is the responsibility of the Post Master General (PMG) who is the Chief Executive and is appointed by the Board of Directors on a three (3) year renewable contract.

The Postmaster General is assisted by the Directors of Finance, Operations and Human Resources and the Legal Counsel and Chief Internal Auditor.

d. Sources of Funds

The funds of the Corporation consist of such moneys as may;

i. be payable to the Corporation from moneys appropriated by Parliament for the purpose,

ii. be payable to the Corporation under this Act or any other written law,

iii. be levied by the Corporation by way of postal charges, transaction commission and any other levies, and

iv. accrue to or vest in the Corporation.

e. Information and Communication Technology Systems

During the period under review, the Corporation operated eleven (11) Management Information Systems (MIS) which were used in the management of financial and personnel related transactions, among others.

20.2 Audit Findings

An examination of financial and other records maintained at Zambia Postal Services Corporation and its subsidiaries for the financial years ended 31st March 2018, 2019 and 2020 revealed the following:

a. Budget and Income

During the period under review, the Corporation budgeted to receive grants from the Treasury and to generate funds from various sources amounting to K273,577,692 against which amounts totalling K212,530,129 were received and generated resulting in a negative variance of K61,047,563. See table 20.2 below.

Table 20.2: Budget and Income

Source of Revenue	2020		2019		2018		Total		
	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Budget K	Actual K	Variance K
Internally Generated:									
Local Mail Services	5,308,831	5,807,295	4,547,666	5,591,910	9,085,028	4,281,106	18,941,525	15,680,311	(3,261,214)
International Mail Services	5,535,684	6,585,346	5,055,684	5,156,344	4,841,253	4,432,795	15,432,621	16,174,485	741,864
Expedited Mail Service	14,143,220	5,624,303	17,652,754	9,669,743	15,600,000	11,736,359	47,395,974	27,030,405	(20,365,569)
Post Box Rentals	29,408,350	13,358,310	19,615,127	19,334,423	26,876,559	19,342,544	75,900,036	52,035,277	(23,864,759)
Western Union	1,200,000	-	3,600,000	961,461	3,000,004	1,243,650	7,800,004	2,205,111	(5,594,893)
College	-	-	600,000	-	451,793	217,246	1,051,793	217,246	(834,547)
Money Gram	600,000	-	-	202,716	263,325	93,760	863,325	296,476	(566,849)
Postboat	22,268,000	15,486,754	1,620,197	946,069	1,295,346	1,100,918	25,183,543	17,533,741	(7,649,802)
Philately	-	5,466	60,177	3,979	43,668	9,314	103,845	18,759	(85,086)
Swiftcash Commission	1,798,307	116,451	7,214,462	1,928,819	14,400,083	7,856,959	23,412,852	9,902,229	(13,510,623)
Other Agency Services	9,928,062	5,989,773	17,935,334	13,159,037	10,011,096	19,591,672	37,874,492	38,740,482	865,990
Guest House/Canteen	118,500	104,925	133,100	88,905	-	-	251,600	193,830	(57,770)
Rental income	2,550,238	1,852,058	714,047	3,029,368	2,209,956	2,590,144	5,474,241	7,471,570	1,997,329
Sundry income	390,506	547,569	3,373,907	745,001	1,077,612	1,532,963	4,842,025	2,825,533	(2,016,492)
Management Fees - Subsidiaries	2,433,072	992,564	3,816,744	2,784,882	1,655,000	2,797,029	7,904,816	6,574,475	(1,330,341)
Sub total	**95,682,770**	**56,470,814**	**85,939,199**	**63,602,657**	**90,810,723**	**76,826,459**	**272,432,692**	**196,899,930**	**(75,532,762)**
Government Grants									
Ministry of Transport and Communications	837,500	15,362,074	157,500	118,125	150,000	150,000	1,145,000	15,630,199	(14,485,199)
Sub Total	**837,500**	**15,362,074**	**157,500**	**118,125**	**150,000**	**150,000**	**1,145,000**	**15,630,199**	**(14,485,199)**
Total	**96,520,270**	**71,832,888**	**86,096,699**	**63,720,782**	**90,960,723**	**76,976,459**	**273,577,692**	**212,530,129**	**(61,047,563)**

Further, an analysis of financial records revealed that the Corporation made losses in all the three (3) years under review. See table 20.3 below.

Table 20.3: Financial Performance

Details	Year Ended 31st March 2020	Year Ended 31st March 2019	Year Ended 31st March 2018
Revenue (K)	56,470,814	63,602,657	76,826,459
Costs (K)	67,840,950	75,495,528	80,228,916
Loss (K)	**(11,370,136)**	**(11,892,871)**	**(3,402,457)**

b. Operational Matters

i. Failure to Prepare Annual Report

The Postal Services Act No. 22 of 2009 provides that the Corporation should, not later than six (6) months after the end of each financial year, submit to the Minister an annual report which includes audited financial statements.

Contrary to the Act, as at 31st January 2021, management had not prepared the Annual Reports for the financial years ended 31st March 2018, 2019 and 2020.

In addition, the Corporation and its subsidiaries namely; Postbus Company Limited and Zampost Travel and Tours Limited, did not have audited financial statements for the financial years ended 31st March 2018, 2019 and 2020.

ii. Failure to Collect Post Box Rentals

During the period under review, Zampost had a total of 57,245 available post boxes out of which 31,626 were allocated. However, only 12,943 boxes were active during the period under review.

A review of sales and debtors records under box rentals revealed that although the Corporation had a credit management policy in place, it had outstanding debtors (receivables) in amounts totalling K41,827,709.

The amount had been outstanding for period ranging from one (1) to thirteen (13) years as at 31st January 2021.

Included in the amount outstanding was K15,608,472 owed by Government related agencies.

iii. Failure to Collect Commission Earned

On 22nd October 2018, the Road Transport and Safety Agency (RTSA) engaged Zampost to provide Road Licensing Services on a commission basis for a contract period of twelve (12) months. The contract was to be renewed annually depending on the performance of the service provider (Zampost).

In this regard, the contract was renewed for a further one year on 10th January 2020.

The agreement provided for payment of 4% commission to Zampost on total sales. According to Clause 6.2 of the General Conditions of Contract, the commission was to be paid quarterly upon submission of an invoice. Further, the payments were to be made within thirty (30) days of receipt of an invoice.

However, as at 31st January 2021, Zampost had not collected amounts totalling K8,735,747 some of which had been outstanding from as far back as 2018.

c. Staff Related Matters

i. Failure to Settle Staff Obligations

As at 31st March 2020, the Corporation owed existing and former employees amounts totalling K64,377,409 in respect of salaries and terminal benefits some of which had been outstanding from as far back as October 2010. See table 20.4 below.

Table 20.4: Outstanding Staff Obligations

No.	Details	Amount K
1	Salaries to Serving Officers	6,135,027
2	Terminal Benefits	42,690,715
3	Salaries to Separated Officers	15,551,667
	Total	**64,377,409**

ii. Failure to Remit Statutory and Other Obligations

As at 31st March 2020, the Corporation owed several statutory and other institutions such as Zambia Revenue Authority (ZRA), National Pension Scheme Authority (NAPSA) and Workers Compensation Fund Control Board (WCFCB) amounts totalling K983,560,336 in respect of tax, loan recoveries, insurance, union and pension contributions. See table 20.5 below.

Table 20.5: Outstanding Obligations

No.	Institution	Principal K	Penalty/ Interest K	Total K
1	NAPSA	76,727,475	740,480,830	817,208,305
2	Workers Compensation	1,847,075	-	1,847,075
3	ZRA-PAYE	146,001,845	2,255,431	148,257,276
5	NHIMA	234,543	-	234,543
6	PSPF	1,700,000	-	1,700,000
7	ABSA - Loan Recoveries	964,140	-	964,140
8	ZSIC Life - Pension	12,168,857	-	12,168,857
9	National Union of Communication Workers	96,571	-	96,571
10	Health Institutions	1,083,569	-	1,083,569
	Total	**240,824,075**	**742,736,261**	**983,560,336**

d. Accounting Irregularities - Failure to Deduct Pay As You Earn - Board Allowances

The Income Tax Act Chapter 323 of the Laws of Zambia requires that Pay As You Earn (PAYE) be deducted from officers' emoluments and remitted to the Zambia Revenue Authority (ZRA).

During the period from May 2017 to October 2019, the Corporation paid sitting allowances to Board members and staff in amounts totalling K81,220 without deducting PAYE in amounts totalling K30,458.

e. Management of Assets - Outstanding Rental Income

During the period under review, Zampost had 335 properties which included residential houses, post offices, workshop, warehouses and undeveloped land out of which 236 were leased out.

However, 180 tenants owed the Corporation amounts totalling K3,075,843 as at 31st December 2020, some of which had been outstanding from as far back as February 2015. Included in the outstanding rentals are amounts totalling K158,048 in respect of fourteen (14) tenants who vacated the properties.

f. Management of Subsidiaries

In order to improve its revenue base, the Corporation diversified its operations into travel and tours, public transport and clearing and forwarding by incorporating three (3) subsidiary companies which it wholly owns as shown in the table 20.6 below.

Table 20.6: Subsidiaries

No.	Name of Company	Year of Incorporation
1	Post Bus Limited	2002
2	Zampost Travel and Tours	2014
3	Zampost Clearing and Forwarding	2013

An examination of financial and other records maintained by the subsidiary companies for the period under review, revealed the following:

i. Zampost Travel and Tours Limited – Failure to Renew Operating Licence

Zampost Travel and Tours Limited (ZTTL) was established in July 2014 under the Companies Act No. 10 of 2017. The company was established to provide a broad range of travel related services such as airline reservations and ticketing, local and international tours, travel insurance and car rental services.

The Company earns its revenue from commission on sales of air tickets and other services provided.

During the period under review, sales in amounts totalling K31,211,353 were made out of which commission of K1,705,625 was realised.

Section 35 (1) of the Tourism and Hospitality Act No. 13 of 2015 states, "a licensee may, sixty days prior to the expiration of the period of the validity of the licence, apply to the Board for the renewal of the licence in the prescribed manner and form upon payment of the prescribed fee."

Contrary to the Act, the company operated without a licence as it expired on 31st December 2019. As at 31st January 2021, the licence had not been renewed.

ii. Zampost Freight and Forwarding Ltd

Zampost Freight and Forwarding Limited (ZFFL) was established on 13th March 2013, under the Companies Act Chapter 388 of the Laws of Zambia. The Company was established to provide clearing and forwarding services to the public.

- **Failure to avail Budget**

  During the period under review, Zampost Freight and Forwarding Ltd generated income in amounts totalling K7,798,407 comprising K2,993,085 (2018), K3,006,036 (2019) and K1,799,286 (2020).

  However, the Company did not provide the budgeted income for the period under review.

- **Statement of Comprehensive Income – Declining Profits**

  The Statements of Comprehensive income for the financial years ended 31st March 2018, 2019 and 2020 were as shown in table 20.7 below.

Table 20.7: Income and Expenditure

Details	March-2020	March-2019	March-2018
	Amount K	Amount K	Amount K
Total Revenue	1,799,286	3,006,036	2,993,085
Total Expenses	1,638,098	2,500,266	2,325,626
Profit/(Loss) Before Interest & Tax	**161,188**	**505,770**	**667,459**
Expenses as Percent of Revenue	91%	83%	78%

As can be seen from the table above, the company made an operating profit of K667,459 in 2018 which decreased by 76% to K161,188 in 2020. The decrease in profit was attributed to an increase in operating expenses as a percentage of revenue which increased from 78% in 2018 to 91% in 2020.

- **Inter Company Borrowing without Board approval**

  During the period under review, management of Zampost borrowed amounts totalling K1,973,216 from Zampost Freight and Forwarding.

  However, there was no board approval for the intercompany borrowings. As at 31st January 2021, the funds had not been reimbursed.

- **Non-Remittance of Statutory Contributions**

  As at 31st March 2020, the company owed the Zambia Revenue Authority (ZRA) and National Pension Scheme Authority (NAPSA) amounts totalling K562,349 in respect of tax and pension contributions. See table 20.8 below.

Table 20.8: Un-remitted Statutory Contribution

Institution	Amount K
ZRA (PAYE)	391,746
NAPSA (Pension)	170,603
Total	**562,349**

iii. Post Bus Company Ltd

Post Bus Limited was established on 19th December 2002 under the Companies Act Chapter 388 of the Laws of Zambia. The Company was established to provide public transport and courier services. The following were observed:

- **Failure to Recover Funds**

  On 28th February 2017, Post Bus Limited bought two (2) buses from Lombesum Company at a total cost of US$547,764 on hire purchase using ZSIC General Insurance as a guarantor.

  Among other terms of the contract, article 1 (3) provided for payment of 10% (US$54,776) of the total cost for the two (2) buses before delivery. The balance of US$492,988 (90%) was to be paid over a period of 360 days upon delivery of the buses.

  In this regard, on 31st March and 5th April 2017, amounts totalling K200,000 and K340,000 respectively representing 10% were paid by Post Bus to Lombesum Suppliers.

  However, as at 31st January 2021, the buses had not been delivered by the supplier 1,395 days after the deposit was made and the Postbus management had not taken any action on the matter.

- **Outstanding Staff Obligations**

  As at 31st January 2021, the company owed existing and former employees amounts totalling K889,036 in respect of salaries and terminal benefits some of which had been outstanding from as far back as May 2014. See table 20.9 below.

Table 20.9: Outstanding Staff Obligations

No.	Details	Amount K
1	Salaries to Serving Officers	238,590
2	Terminal Benefits	650,446
	Total	**889,036**

g. Non-Remittance of Statutory Obligations

As at 31st March 2020, the company owed the Zambia Revenue Authority (ZRA) and National Pension Scheme Authority (NAPSA) amounts totalling K3,753,864 in respect of tax and pension contributions. See table 20.10 below.

Table 20.10: Unremitted Statutory Obligations

Institution	Amount K
ZRA (PAYE)	734,173
NAPSA (Pension)	3,019,691
Total	**3,753,864**

21. ZCCM-IH

21.1 BACKGROUND

a. Establishment

The ZCCM Investment Holdings Plc (ZCCM-IH) was incorporated in March 2000 in accordance with the provisions of the Companies Act, CAP 388 following the privatisation of ZCCM Limited. ZCCM-IH is owned by Industrial Development Corporation (IDC) (60.3%), Ministry of Finance (17.3%), National Pension Scheme Authority (NAPSA) (15%) and private investors (7.4%).

The Company was created with the purpose of holding shares on behalf of Government in various mining companies. The investment portfolio and shareholding of ZCCM-IH was in nineteen (19) companies as at 31st March 2019. See table 21.1 below.

Table 21.1: ZCCM-IH Portfolio

No.	Investment	% Shareholding
1	Ndola Lime Company Limited	100
2	Misenge Environmental and Technical Services Limited	100
3	Nkandabwe Coal Mine Limited	100
4	Kariba Minerals Limited	50
5	Investrust Bank Plc	71.4
6	Rembrandt Properties Limited	49
7	Central African Cement Company Limited	49
8	Maamba Collieries Limited	35
9	Konkola Copper Mines Plc	20.6
10	Kansanshi Mining Plc	20
11	Copperbelt Energy Company Plc	24.1
12	CEC Africa Investments Limited	20
13	Lubambe Copper Mines Plc	20
14	CNM Luanshya Copper Mines Plc	20
15	NFC Africa Mining Plc	15
16	Chibuluma Mines Plc	15
17	Chambishi Metals Plc	10
18	Mopani Copper Mines PLC	10
19	Nkana Alloy Smelting Company Limited	10

b. Governance

Section 72 of the Articles of Association of the Company provides for a Board of Directors with a minimum of seven (7) and not more than eight (8) members. The Chairperson of the Board is appointed by IDC.

c. **Management**

The operations of the company is the responsibility of the Chief Executive Officer (CEO) who is appointed by the Board on a three (3) year renewable contract. The CEO is assisted by Chief Officers of Corporate Services (Company Secretary), Investment, Finance, Risk and Internal Audit and Technical.

d. **Sources of Funds**

The ZCCM-IH derives its income from dividends from its subsidiaries and associated companies and from sale of cobalt and copper.

21.2 Audit Findings

An examination of financial and other records for the financial years ended 31st March 2017, 2018 and 2019 maintained at ZCCM-IH revealed the following:

a. **Governance**

Section 72 of the Articles of Association of the Company provides for a Board of Directors with a minimum of seven (7) and not more than eight (8) members.

During the period under review, the membership of the Board consisted of the following:

i. A member from Ministry of Finance;

ii. A member from Ministry of Mines and Minerals Development;

iii. A member appointed by Industrial Development Corporation (IDC);

iv. A member from ZCCM – IH (CEO);

v. A member or appointee from NAPSA;

vi. An independent member appointed by minority shareholders; and

vii. An independent member appointed from the private sector by the IDC.

However, there was no legislation guiding the appointment and tenure of the Board.

b. **Budget and Income**

During the period under review, ZCCM – IH budgeted to receive income of K794,566,000 from several sources which included dividends, price participation, and rental income from investment properties, against which amounts totalling K3,492,583,000 were received resulting in a positive variance of K2,698,017,000. See table 21.2 below.

Table 21.2: Budget and Income

Year	Budget K	Actual K	Variance K
2016	164,571,000	526,312,000	361,741,000
2017	57,354,000	1,553,714,000	1,496,360,000
2018	116,965,000	796,545,000	679,580,000
2019	455,676,000	616,012,000	160,336,000
Total	**794,566,000**	**3,492,583,000**	**2,698,017,000**

c. **Financial Analysis**

i. **Financial Performance - Consolidated Statement of Comprehensive Income**

The consolidated statements of comprehensive income of ZCCM – IH for the financial years ended 31st March 2016, 2017, 2018 and 2019 were as indicated in table 21.3 below.

Table 21.3: Consolidated Statement of Comprehensive Income

Details	2019 K'000	2018 K'000	2017 K'000	2016 K'000
Revenue	155,611	60,982	95,345	198,661
Cost of sales	(76,515)	(78,469)	(109,861)	(180,368)
Gross profit	**79,096**	**(17,487)**	**(14,516)**	**18,293**
Other income	90,563	380,868	1,930,520	9,882
Grant income	-	-	-	-
Environmental expenses	(1,876)	26,402	87,509	(73,282)
Administration expenses	(782,195)	(343,233)	(1,155,647)	(812,814)
Operating profit	**(614,412)**	**46,550**	**847,866**	**(857,921)**
Finance costs	(409,785)	(343,475)	(113,412)	(228,710)
Finance income	449,742	210,990	699,058	431,957
Net finance income	39,957	(132,485)	585,646	203,247
Share of profit of equity accounted investees	973,213	689,207	(189,233)	(2,210,199)
Profit before income tax	**398,758**	**603,272**	**1,244,279**	**(2,864,873)**
Income tax credit/(expense)	49,105	241,287	(515,445)	(47,356)
	447,863	**844,559**	**728,834**	**(2,912,229)**
Loss from Discontinued Operations	-	(1,610)	-	-
Profit/(Loss) for the year	**447,863**	**842,949**	**728,834**	**(2,912,229)**
Other comprehensive income				
Revaluation of property, plant and equipment	10,566	-	-	16,748
Deferred tax on revaluation reserve	(3,873)	1,944	786	(4,733)
Amortisation of revaluation surplus on prperty	-	-	-	0
Deferred tax on revaluation on surplus on property	-	-	-	0
Actauarial (loss)/gain on defined benefit pension plans	(226)	1,959	(465)	983
Deferred tax on defined benefit actuarial gain/loss	79	(686)	163	(344)
Equity - accounted investees-Share of OCI	-	-	-	(204)
Other comprehensive income/(loss) for the year, net of tax	**6,546**	**3,217**	**484**	**12,450**
Items that are or may be reclassfied to profit or loss				
Foreign currency translation differences-Equity accounted investees	2,003,999	**36,725**	(1,122,104)	4,122,445
Equity-acounted investees-share of OCI	5	43,542	80,471	(266,397)
	2,004,004	**80,267**	**(1,041,633)**	**3,856,048**
Total comprehensive income for the year	**2,458,413**	**928,043**	**(312,315)**	**956,269**

Source: Audited Financial Statements of ZCCM-IH for 2016, 2017, 2018 and 2019

As can be seen from the table above, the Group recorded a loss after tax of K2,912,229,000 in 2016. However, the Company recorded profit after tax of K728,834,000, K842,949,000 and K447,863,000 in 2017, 2018 and 2019 respectively.

It was further observed that the total comprehensive income increased from K956,269,000 in 2016 to K2,458,413,000 in 2019, the increase was mainly attributed to foreign currency translation differences – equity accounted investees.

ii. Statement of Financial Position

The consolidated Statements of Financial Position of ZCCM-IH for the financial years ended 31st March 2016, 2017, 2018 and 2019 were as indicated in table 21.4 below.

Table 21.4: Consolidated Statements of Financial Position – ZCCM-IH 2016 - 2019

Details	2019 K'000	2018 K'000	2017 K'000	2016 K'000
Assets				
Property, plant and equipment	187,268	143,164	144,842	1,030,284
Intangible assets	8,532	367	396	673
Investment property	251,230	64,473	61,157	100,778
Investments in associates	10,276,405	7,355,864	6,828,313	6,852,955
Financial assets at fair value through profit or loss	584	336,082	489,242	238,247
Trade and other receivables	562,502	372,601	549,837	313,641
Term Deposits	14,089			
Deferred tax assets	601,589	497,609	415,548	698,304
Total non-current assets	**11,902,199**	**8,770,160**	**8,489,335**	**9,234,882**
Inventories	104,681	37,026	44,124	35,349
Trade and other receivables	590,734	650,279	369,055	136,019
Held to maturity investment securities	-	535,384	497,172	355,172
Term Deposits	740,349			
Tax receivables	-	-	-	-
Cash and cash equivalents	74,480	339,386	178,931	35,850
Total current assets	**1,510,244**	**1,562,075**	**1,089,282**	**562,390**
Non-current assets held for sale	-	-	-	-
Total assets	**13,412,443**	**10,332,235**	**9,578,617**	**9,797,272**
Equity				
Share capital	1,608	1,608	1,608	1,608
Preference Share Capital	20			
Share premium	2,188,991	2,089,343	2,089,343	2,089,343
Other reserves	7,079,010	5,070,352	5,032,409	6,088,394
Retained earnings	1,855,155	1,779,043	890,553	146,883
Total equity attributable to shareholders	**11,124,784**	**8,940,346**	**8,013,913**	**8,326,228**
Liabilities				
Borrowings	-	80,267	135,526	221,754
Trade and other payable	211,791	-	25,838	29,437
Deferred tax liabilities	245,455	256,072	425,529	211,786
Retirement benefits	5,513	4,340	4,409	2,904
Provisions for environmental liabilitation	145,460	118,081	145,610	263,491
Total non-current liabilities	**608,219**	**458,760**	**736,912**	**729,372**
Bank Overdraft	-	-	-	319
Borrowings	104,357	53,436	56,536	70,890
Trade and other payables	1,241,712	488,989	350,116	256,834
Provisions	127,590	139,785	143,548	139,197
Current tax liabilities	177,114	222,837	232,434	232,542
Retirement benefits	28,667	28,082	45,158	41,890
Subordinated loan	-	-	-	-
Provisions for environmental rehabilitation	-	-	-	-
Total current liabilities	**1,679,440**	**933,129**	**827,792**	**741,672**
Total liabilities	**2,287,659**	**1,391,889**	**1,564,704**	**1,471,044**
Total equity and liabilities	**13,412,443**	**10,332,235**	**9,578,617**	**9,797,272**

Source: Audited Financial Statements of ZCCM-IH for 2016, 2017, 2018 and 2019

The working capital position of the Company for the period under review is as shown in table 21.5 below.

Table 21.5: Consolidated Working Capital of ZCCM-IH

Details	2019 K	2018 K	2017 K	2016 K
Total Current Assets	1,510,244,000	1,562,075,000	1,089,282,000	562,390,000
Total Current Liabilities	1,679,440,000	933,129,000	827,792,000	741,672,000
Working Capital	(169,196,000)	628,946,000	261,490,000	(179,282,000)

As can be seen from the table above, the working capital of the company had increased from negative K179,282,000 in 2016 to K628,946,000 in 2018 and decreased by K798,142,000 to negative K169,196,000 in 2019.

d. Operational Matters – Failure to Declare Dividends by Investee Companies

During the period under review, ZCCM-IH had nineteen (19) investee companies. However, only two (2) companies had declared dividends to ZCCM-IH in amounts totalling K423,276,000 as shown in table 21.6 below.

Table 21.6: Dividend from Investee Companies

No.	Investee Dividends Received	2019 K'000	2018 K'000	2017 K'000	2016 K'000	TOTAL K'000
1	Ndola Lime Company	-	-	-	-	-
2	Misenge Enviromental & Technical Services Limited	-	-	-	-	-
3	Nkandabwe Coal Mine Limited	-	-			-
4	Mawe Exploration & Technical Services Limited & Nkandabwe Coal Mine Limited	-		-	-	-
5	Kariba Minerals Limited	-	-	-	-	-
6	Maamba Collieries Limited	-	-	-	-	-
7	Mopani Copper Mines	-	-	-	-	-
8	Konkola Copper Mines	-	-	-	-	-
9	Kansanshi Mining Plc	44,760	149,136	-	11,869	205,765
10	Copperbelt Energy Corporation Plc	88,563	50,705	41,330	36,913	217,511
11	CEC Africa Investments Ltd (CEC Africa)	-	-	-	-	-
12	Lubambe Copper Mine Limited	-	-	-	-	-
13	CNMC Luanshya Copper Mines Plc	-	-	-	-	-
14	NFC Africa Mining Plc	-	-	-	-	-
15	Chibuluma Mines Plc	-	-	-	-	-
16	InvestrustBank Plc	-	-	-	-	-
17	Chambishi Metals Plc	-	-	-	-	-
18	Nkana Alloy Smelting Company Limited				-	
19	Rembrandt Properties Limited	-	-	-	-	-
	TOTAL	**133,323**	**199,841**	**41,330**	**48,782**	**423,276**

e. Accounting Irregularities - Maamba Collieries Limited

Maamba Collieries Limited (MCL) is a 300MW electricity thermal powered company owned by ZCCM-IH Plc (35%) and of Nava Bharat Singapore Consortium (65%).

A review of accounting and other records revealed the following:

- **Failure to Payback Shareholders Loan by Maamba Collieries Limited**

  On 17th June 2014, ZCCM-IH and Maamba Collieries Limited (MCL) signed a Shareholder Loan Agreement in which ZCCM-IH advanced an amount of US$26,479,529 to Maamba Collieries Limited.

  The conditions of the loan included the following:

  - Interest of 6% per annum;
  - MCL was to repay the principal amount of the facility and the interest accrued in five (5) annual instalments commencing on 8th September 2017; and
  - ZCCM-IH had an option of setting-off any repayment obligation of MCL under this Agreement against any payments owed by ZCCM-IH to MCL.

  However, as at 31st December 2019, MCL had not made any repayment towards the loan resulting in an outstanding amount of US$32,876,090 comprising principal (US$26,479,529) and interest (US$6,396,561). See table 21.7 below.

Table 21.7: Outstanding Loan - MCL

Year	Principal Amount US$	Interest US$	Total US$
01.04.16 - 31.03.19	26,479,529	5,182,916	31,662,445
01.04.2019 - 31.12.19	-	1,213,645	1,213,645
Total	**26,479,529**	**6,396,561**	**32,876,090**

As at 31st December 2020, the amount remained outstanding.

- **Payment of Advance to MCL**

  On 21st March 2019, the Chief Executive Officer of IDC requested the Board Chairperson of ZCCM-IH to advance MCL an amount of US$10 million on or before 25th March 2019. The funds were meant for MCL to make payment towards its debt obligations by 29th March 2019 failure to which there would be a negative impact on ZCCM-IH, ZESCO Limited, IDC and the economy at large.

  In this regard, on 25th March 2019, ZCCM-IH transferred the funds to MCL.

  However, there was no Board approval by the Board of Directors of ZCCM-IH and no signed agreement between ZCCM-IH and MCL. As at 31st December 2020, the advance had not been repaid.

f. Administrative Issues - Asset Management - Failure to Sign Lease Agreement

During the period under review, ZCCM-IH owned several properties which included three (3) residential houses valued at K1,288,432 located along Funda Avenue in Mufulira district of the Copperbelt.

A physical inspection conducted in October 2020 revealed that two (2) houses on plot Nos. M6 and L6 of Lot No. 247/M were occupied by Mulonga Water and Sewerage Company. However, there were no lease agreements for the occupied houses and no rent had been received. As at 31st January 2021, there were no records availed for audit to indicate when the houses were occupied.

In their response dated 19th February 2021, management stated that they were not aware and did not authorise Mulonga Water and Sewerage Company to occupy the said properties but came to be aware of their occupancy following the visits by the audit team.

22. ZESCO LIMITED

22.1 Background

a. Establishment

The Zambia Electricity Supply Corporation Limited was formed in 1970 following the enactment of the Zambia Electricity Supply Act of 1970. In 1994, the name of Zambia Electricity Supply Corporation was changed to ZESCO Limited.

ZESCO Limited is an electricity utility whose mandate is to generate, transmit, distribute, and supply electricity in Zambia. It is wholly owned by the Government of the Republic of Zambia through the Industrial Development Corporation (IDC).

b. Governance – Board of Directors

ZESCO Limited is governed by a Board of Directors comprising not less than seven (7) but not more than nine (9) members. The members are appointed by the Government through the Industrial Development Corporation (IDC) for renewable terms of three (3) years.

The Chairperson of the board is elected from amongst the members of the Board.

c. Management

The Managing Director who is appointed by the Board is responsible for the operations of the Company and is assisted by the Directors responsible for Generation, Transmission, Distribution, Finance, Legal, Strategy and Corporate Services, Customer Service and Human Resources and Administration.

d. Sources of Funds

According to the provisions of the Articles of Association, the sources of funds for ZESCO Limited include such money as may;

i. be levied by the company by way of sales arising from generation, transmission, distribution and supply of electricity, and

ii. accrue to or vest in the Company from time to time, whether in the course of the exercise of its function or otherwise.

e. **Information and Communication Technology Systems**

During the period under review, ZESCO operated the following systems:

i. **Supervisory Control and Data Acquisition (SCADA) –** used to monitor and control ZESCO's remote sites;

ii. **Customer Management System (CMS) –** used for managing the Markets, Facilities, Customers, Financials and Control Management;

iii. **3E/EVG** Prepaid Meter System – used for management of Meter Operations, Customers, Financials, Control and Security;

iv. **E-Cash –** used for management of Meter Operations, Customers, Financials, Control and Security;

v. **Oracle Financials –** used to manage Payables, Receivables, Cash, Fixed Assets, Budgeting and General Ledgers;

vi. **Payroll and Human Resource Integrated System (PHRIS) –** used for payroll and human resource management; and

vii. **Stores and Procurement Management System (SPMS) –** used to manage the procurement processes, stores and inventory.

22.2 Audit Findings

An examination of financial and other records maintained at ZESCO Limited Headquarters and selected provincial offices for the financial years ended 31st December 2015, 2016, 2017, 2018 and 2019 revealed the following:

a. **Budget and Income**

During the period under review, the Company budgeted to collect revenue in amounts totalling K44,846,000,000 against which amounts totalling K41,950,000,000 were raised, resulting in an under collection of K2,896,000,000. See table 22.1 below.

Table 22.1: Budget and Income

Year	Budget K'000	Income K'000	Variance K'000
2015	6,426,000	6,426,000	-
2016	8,238,000	8,238,000	-
2017	7,056,000	7,425,000	369,000
2018	10,781,000	9,535,000	(1,246,000)
2019	12,345,000	10,326,000	(2,019,000)
Total	**44,846,000**	**41,950,000**	**(2,896,000)**

b. Financial Analysis

i. Financial Performance - Statement of Comprehensive Income

During the period ended 31st December 2015 to 31st December 2019, the Statement of Comprehensive Income was as shown in table 22.2 below.

Table 22.2: Statement of Comprehensive Income

Financial Year Ended 31st December	2019 K'000	2018 K'000	2017 K'000	2016 K'000	2015 K'000
Revenue	10,326,395	9,534,936	7,424,850	8,237,828	6,425,737
Cost of sales	(6,237,059)	(5,711,409)	(4,569,026)	(3,887,866)	(2,385,395)
Gross Profit	**4,089,336**	**3,823,527**	**2,855,824**	**4,349,962**	**4,040,342**
Other operating income	1,686,332	617,764	461,901	279,644	335,421
Other gains and losses	(1,684,340)	(1,057,486)	(63,472)	313,588	219,762
Marketing expenses	(17,663)	(19,422)	(31,919)	(19,401)	(21,926)
Administration expenses	(4,391,125)	(3,366,811)	(2,307,243)	(1,681,039)	(1,646,708)
Other expenses	(4,095,475)	(2,319,648)	(786,548)	(3,054,893)	(2,857,082)
Finance costs	(577,714)	(513,656)	(398,903)	(324,433)	(50,214)
LOSS BEFORE TAX	**(4,990,649)**	**(2,835,732)**	**(270,360)**	**(136,572)**	**19,595**
Income tax credit	947,885	4,396,411	615,927	1,445,211	848,882
PROFIT FOR THE YEAR	**(4,042,764)**	**1,560,679**	**345,567**	**1,308,639**	**868,477**
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Gain on revaluation of property		-	25,716,999	-	-
Income tax relating to items that will not be classified subsequently to profit or loss		-	(8,977,015)	-	-
Other comprehensive income for the year, net of income tax		-	**16,739,984**	-	-
Chang in defined obligation benefit	601,540				
PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR	**(3,441,224)**	**1,560,679**	**17,085,552**	**1,308,639**	**868,477**

Source: ZESCO Audited Financial Statements for the years ended 31st December 2015, 2016, 2017, 2018 and 2019

A review of the Statement of Comprehensive Income revealed the following:

- **Profitability**

  During the period under review, ZESCO Limited's profit before tax decreased by K4,971,054,000 from a profit of K19,595,000 in 2015 to a loss of K4,990,649,000 in 2019. Although the company recorded profits after tax of K1,308,639,000; K345,567,000 and K1,560,679,000 in 2016, 2017 and 2018 respectively, these profits were due to tax credits awarded to the company.

- **Reduction in Net Profit Margin**

  Net profit margin measures the Profit before Interest and Tax as a percentage of revenue or sales.

  According to ZESCO Corporate Strategy of 2018 to 2025, the recommended Net Profit Margin is 10%.

  An analysis of the financial statements for the period under review, revealed that the net profit margin was below the recommended target as it ranged from 1 % in 2015 to negative 43% in 2019 See table 22.3 below.

Table 22.3: Net Profit Margin

No.	Accounting Period	2019	2018	2017	2016	2015
1	**Turnover (K'000)**	**10,326,395**	**9,534,936**	**7,424,850**	**8,237,828**	**6,425,737**
2	Loss before Tax (K'000)	(4,990,649)	(2,835,732)	(270,360)	(136,572)	19,595
3	Less Finance Costs (K'000)	(577,714)	(513,656)	(398,903)	(324,433)	(50,214)
4	**Profit before tax and interest (K'000)**	**(4,412,935)**	**(2,322,076)**	**128,543**	**187,861**	**69,809**
5	Net Profit Margin	-43%	-24%	2%	2%	1%

  The recording of net profit margin below the target during the period under review is attributed to high administrative and other expenses.

- **Interest Cover Ratio**

  The interest coverage ratio measures a company's ability to pay the interest on its debt. The interest coverage ratio is computed by dividing an entity's annual income before interest and income tax expenses, by its annual interest expense or Finance cost.

A high interest coverage ratio indicates that a company would be able to pay the interest on its debt even if its earnings were to decrease. A low interest coverage ratio sends a cautionary signal.

An analysis of the financial statements for the period under review, revealed that the interest cover ratio had reduced from 1.39 in 2015 to negative 7.6 in 2019. See table 22.4 below.

Table 22.4: Interest Cover Ratio

Year	2019	2018	2017	2016	2015
EBIT K'000	(4,412,935)	(2,322,076)	128,543	187,861	69,809
Finance Cost K'000	577,714	513,656	398,903	324,433	50,214
Interest Cover	-7.64	-4.52	0.32	0.58	1.39

ii. Financial Position - Statement of Financial Position

The Statements of Financial Position for ZESCO as at 31st December 2015, 2016, 2017, 2018 and 2019 were as shown in table 22.5 below.

Table 22.5: Statement of Financial Position

Details	2019 K'000	2018 K'000	2017 K'000	2016 K'000	2015 K'000
ASSETS					
Non Current Assets					
Property, plant and equipment	47,024,915	45,588,603	46,043,150	17,169,952	13,896,164
Intangible Assets	67,891	68,632	68,740	86,085	95,143
Right of use assets	17,133	-	-	-	-
Investments	3,116,588	1,760,151	1,598,697	1,538,032	459,659
Deferred tax asset	429,199		-	2,329,431	817,079
Loan due from a related party	3,970,294	3,354,414	2,797,701	2,769,565	3,090,111
Total non current assets	**54,626,020**	**50,771,800**	**50,508,288**	**23,893,065**	**18,358,156**
Current Assets					
Inventories	582,039	868,601	1,002,763	964,979	608,005
Trade and other receivables	2,720,561	2,662,340	2,427,547	1,769,777	2,003,248
Amounts due from related parties	3,318,917	3,286,321	2,366,232	1,605,959	659,996
Bank and cash balances	2,373,582	2,137,525	1,831,727	1,788,518	2,140,409
Total current assets	**8,995,099**	**8,954,787**	**7,628,269**	**6,129,233**	**5,411,658**
TOTAL ASSETS	**63,621,119**	**59,726,587**	**58,136,557**	**30,022,298**	**23,769,814**
EQUITY AND RESERVES					
Capital and reserves					
Issued capital	2,825,118	2,825,118	194	194	194
Amount pending allotment of shares		-	2,824,924	2,824,924	2,824,924
Revaluation reserve	12,992,382	13,999,659	16,976,452	304,851	349,300
Retained earnings	4,111,349	6,893,693	4,900,041	4,486,090	3,109,067
Total Equity	**19,928,849**	**23,718,470**	**24,701,611**	**7,616,059**	**6,283,485**
Non current liabilities					
Borrowings	14,451,183	13,278,298	11,291,554	11,150,318	9,341,755
Retired benefit obligation	2,020,827	2,084,075	2,063,280	1,937,610	1,847,305
Capital grants and contributions	2,708,961	2,602,043	2,308,755	1,312,188	1,301,377
Deferred tax liability	-	1,221,172	5,984,797	-	-
Lease Liabilities	13,138	-	-	-	-
Total non current liabilities	**19,194,109**	**19,185,588**	**21,648,386**	**14,400,116**	**12,490,437**
Current Liabilities					
Trade and other payables	14,070,416	10,575,485	7,338,396	4,091,187	1,454,185
Amounts due to related parties	5,156,304	2,811,981	1,383,477	738,540	242,441
Borrowings	2,525,152	1,742,841	1,508,901	1,442,126	1,715,580
Finance Lease Obligation	-	-	-	-	-
Retirement benefit obligation	833,748	190,335	125,485	94,912	137,317
Capital grants and contributions	118,151	130,006	109,863	217,351	86,485
Current tax liabilities	1,740,221	1,316,949	1,225,614	1,351,614	1,308,768
Lease liabilities	11,599	-			
Bank overdraft	42,570	54,933	94,824	70,393	51,116
Total current liabilities	**24,498,161**	**16,822,529**	**11,786,560**	**8,006,123**	**4,995,892**
Total Liabilities	**43,692,270**	**36,008,117**	**33,434,946**	**22,406,239**	**17,486,329**
TOTAL EQUITY AND LIABILITIES	**63,621,119**	**59,726,587**	**58,136,557**	**30,022,298**	**23,769,814**

Source: ZESCO Audited Financial Statements for the years ended 31st December 2015, 2016, 2017, 2018 and 2019

The following were the observations:

- **Liquidity – Current ratio**

  The current ratio is a liquidity ratio that measures an entity's ability to pay short-term obligations or those due within one (1) year. It is calculated by comparing an entity's current assets to its current liabilities. The generally acceptable ratio is 2:1.

  During the period under review, ZESCO Limited's current liabilities exceeded current assets resulting in current ratios that were less than one (1) except in 2015, which indicates that the company was unable to meet its short-term obligations as they fell due. See table 22.6 below.

Table 22.6: Current Ratio

Year	2019 K'000	2018 K'000	2017 K'000	2016 K'000	2015 K'000
Current Assets	8,995,099	8,954,787	7,628,269	6,129,233	5,411,658
Current Liabilities	24,498,161	16,822,529	11,786,560	8,006,123	4,995,892
Current Ratio	0.37:1	0.53:1	0.65:1	0.77:1	1.08:1

  The low current ratio was due to increase in payables. The payables increased by K12,616,231,000 from K1,454,185,000 in 2015 to K14,070,416,000 in 2019 representing a percentage increase of 868%.

  Further, the amounts due to related parties such as Itezhi Tezhi Power Corporation Limited, Kariba North Bank Extension Power Corporation Limited, Elsewedy Electric Zambia Limited and Zambia Electrometer Limited also increased by K4,913,863,000 from K242,441,000 in 2015 to K5,156,304,000 representing a percentage increase of 2027%.

- **Gearing - Debt Equity Ratio**

  The gearing ratio measures the proportion of debt an entity has contracted in relation to the amount of equity invested. It also measures the entity's ability to repay its obligations. If the ratio is increasing, the entity is being financed by creditors rather than from its own financial sources. ZESCO

Limited uses the industry average of 70% as a benchmark for assessing the gearing ratio. The Gearing ratio which is calculated as total noncurrent liabilities divided by total equity as a percentage, helps to measure the level of financial risk the entity has taken.

A review of the financial position revealed that the Corporation was highly geared in that during the period under review, the ratios ranged from 81% to 199% which were above the benchmark of 70%. See table 22.7 below.

Table 22.7: Debt Equity Ratio

Details	2019 K'000	2018 K'000	2017 K'000	2016 K'000	2015 K'000
Non Current Liabilities	19,194,109	19,185,588	21,648,386	14,400,116	12,490,437
Equity	19,928,849	23,718,470	24,701,611	7,616,059	6,283,485
Gearing Ratio %	96	81	88	189	199

- **Return on Capital Employed (ROCE)**

Return on Capital Employed (ROCE) is a measure of the returns that a business achieves from the capital employed. According to ZESCO Corporate Business Strategy for 2018 to 2025, the recommended ROCE is 15%.

During the period under review, the return on capital employed was below the recommended 15 % as shown in table 22.8 below.

Table 22.8: Return on Capital Employed

Year	2019 K'000	2018 K'000	2017 K'000	2016 K'000	2015 K'000
Net operating Profit	(4,412,935)	2,322,076	128,543	187,861	69,809
Total Assets Less Current Liabilites	39,122,958	42,904,058	46,349,997	22,016,175	18,773,922
Return on Capital Employed (%)	- 11.28	5.41	0.28	0.85	0.37

In this regard, there was lack of efficiency and profitability of ZESCO Limited on its Capital investments.

c. Operational Matters

i. Failure to Achieve Key Performance Indicators

In 2016, the Energy Regulations Board (ERB) and ZESCO Limited agreed on a three-year Key Performance Indicators (KPIs) framework to run from January

2017 to December 2019. This was to assess ZESCO's financial and technical performance.

The framework comprised nine (9) thematic areas with a minimum benchmark score of 75%.

A review of ZESCO's performance in respect of the KPIs revealed that the Company did not meet the agreed targets as shown in the table 22.9 below.

Table 22.9: ZESCO's annual performance from 2017 – 2019

No	Key Performance Indicator	Agreed Minimum Score	Weight	Annual Average Performance		
				2017	2018	2019
1	Metering Customers	7.5%	10%	10%	5%	9%
2	Cash Management	15.0%	20%	6%	7%	6%
3	Staff Productivity	11.3%	15%	14%	15%	15%
4	Quality of Service Supply	15.0%	20%	10%	13%	10%
5	System Losses	7.5%	10%	5%	9%	9%
6	Power Generation	7.5%	10%	10%	10%	8%
7	Safety	3.8%	5%	0%	1%	2%
8	Customer Complaints	3.8%	5%	5%	5%	5%
9	Equipment Failure	3.8%	5%	3%	4%	5%
Total Score		**75%**	**100%**	**63%**	**69%**	**69%**

Source: Energy Sector Reports 2017, 2018 and 2019

- **Delayed Connection of Applicants to the Power Network**

  According to ZESCO's Policy on connections to the power network, standard connections should be done within thirty (30) days after the applicant has made payment. A standard connection refers to a connection made from an existing power line near the property. In addition, the company's policy on non-standard connections, which are connections made from a non-existent power line, requires that such a connection is made within ninety (90) days after a payment is made.

  A review of the backlog database for applicants yet to be connected as at 31st December 2019, revealed that 29,249 applicants were delayed to be connected to the power network and were still not connected as at 31st December 2020, as follows:

- **Standard Connections**

  There were 9,391 applicants for standard connections who paid amounts totalling K9,918,820 in respect of connection fees, who had not been connected to the power network. The periods for the delay ranged from thirty one (31) days to 4,299 days (11.8 years).

- **Non-Standard Connections**

  There were 19,858 applicants for non-standard connections who paid amounts totalling K189,181,702 in respect of connection fees, who had not been connected to the power network. The periods for the delay ranged from 91 days to 5,417 days (14.8 years).

- **Payment of Penalties - Contracts for Connection of North Western Province to National Grid**

  In 2014, ZESCO Limited contracted Eltel Networks TE AB (ELTEL) to undertake the connection of North Western Province to the National Electricity Grid with two contracts namely; Lot 1 Construction of the 132 KV Transmission Lines (US$97,186,302) and Lot 2 Construction of eight (8) Substations (US$50,654,415). The projects were financed by loans from Nordea Bank of Sweden and Standard Bank of South Africa. See table 22.10 below.

Table 22.10: Contracts for Connection of North Western Province to National Grid

Name of Contract	Date of Contract Commencement	Duration	Expected Completion Date	Actual Completion Date	No of Months Delayed	Contruct Sum US$	Actual Cost US$
LOT 1 Transmission Lines	14th April, 2014	24 Months	15th April, 2016	31st July, 2017	16 Months.	97,186,302	90,367,207
LOT 2 - 8 Substaion	14th April, 2014	24 Months	15th April, 2016	31st July, 2017	16 Months.	50,654,415	57,138,031

As can be seen from the table above, the projects were expected to be completed on 15th April 2016 but only completed on 31st July 2017, sixteen (16) months later. A review of invoices, payment certificates and drawdowns revealed that amounts totalling K42,902,815 (US$4,489,960) were charged as compensations to ZESCO Limited relating to the delays in payments on the implementation of projects which resulted in additional costs to the project.

The payment of K42,902,815 (US$4,489,960) was therefore wasteful.

d. ZESCO Limited Investments-Zambia Electrometer Limited

ZESCO Limited owns 40% in the Zambia Electrometer Limited (ZEL). During the period under review, ZESCO Limited had investments in Zambia Electrometer Limited (ZEL) which were valued at K6,129,651 as at 31st December 2019. The company's core business is manufacturing of electricity meters and compact fluorescent lights. A review of financial and other records revealed the following:

- **Failure to Realise Dividends**

  During the period under review, ZESCO Limited did not receive any return from the investment. A further review of the financial statements of ZEL revealed that the company recorded losses from 2015 to 2019 with the exception of 2016 when the company recorded a profit.

- **Failure to Divest**

  On 12th December 2019, the Board of Directors resolved to divest from Zambia Electrometer Limited on grounds of poor financial performance. It was further observed that ZESCO Limited had not yielded any return from this investment since 2007. As at 31st December 2019, ZESCO Limited had made an impairment provision of K6,350,000 on this investment.

  A review of records as at 31st December 2020 revealed that ZESCO Limited had not divested its shareholding from the entity.

e. Failure to Remit Funds - Electricity Reserve Funds

The Electricity Strategic Reserve Fund (ESF) was implemented in 2013. According to correspondence dated 29th July 2014 from the Executive Director (ERB) to the Permanent Secretary (Ministry of Finance), the ESF was established as a result of the public and ERB's concerns at the lack of tangible intervention mechanisms to mitigate the level of load shedding that consumers of electricity were subjected to.

The correspondence mentions specific objectives of the ERF as follows:

i. In the short term, to raise K465 million to facilitate the importation of up to 133 megawatts (MW) of emergency power from the Southern Africa Power Pool (SAPP);

ii. In the medium to long term, to create a pool of resources that could be used to respond to disasters and emergencies in the Electricity Supply Industry (ESI); and

iii. To create a contingency of funds available to the ESI for the development of the sector.

The computation of the ESF was done at the rate of 1% of the additional gross revenue resulting from the tariff increase of 1st July 2014 broken down by the ESF rate for each customer category as shown in table 22.11 below:

Table 22.11: Computation of ESF per Customer Category

Customer Category	ESF Rate for Additional Revenue
Residential	0.32%
Commercial	0.19%
Services	0.19%
Small Power (MD1 & MD2)	0.25%
Large Power (MD3 & MD4)	0.05%
Weighted Average	1%

A review of accounting records revealed that ESF Returns in amounts totalling K34,672,775 had been filed with ERB by ZESCO Limited between 1st July 2014 and 31st December 2020. It was however observed that ZESCO Limited had only remitted K9,152,372,775 leaving a balance of K25,520,403 as at 31st December 2020 some of which had been outstanding from as far back as July 2014.

f. Management of Power Purchase Agreements

The liberalisation of the electricity sector has brought in a number of Independent Power Producers (IPPs) which has made it possible for ZESCO Limited to enter into Power Purchase Agreements (PPA's).

The PPAs are contracts between a seller and a buyer of electricity in bulk quantities. During the period under review, 50% of the power that was supplied by ZESCO Limited was procured through PPAs with the IPPs.

The PPA Policy provides concise and well formulated guidelines on all PPA's that ZESCO Limited intends to enter into.

The objectives of the Power Purchase Agreements Policy is;

- to ensure that all tariffs in the PPAs are derived using a clear and transparent methodology with the objective of cost reflectivity,
- to ensure that the Agreements are economically and financially sustainable for ZESCO Limited,
- to provide clear internal procedures and accountabilities for PPAs before they are sent to Energy Regulation Board for approval and to promote Corporate Governance, and
- to promote consistencies amongst different PPAs to ensure that ZESCO Limited gets the best commercial and legal position.

During the period under review, ZESCO Limited had entered into the following five (5) different categories of PPAs:

- **Domestic Bulk/Power Supply Agreements**

  Domestic Bulk/Power Supply Agreements are PPAs were ZESCO Limited was to be selling power to bulk customers such as the mines and industrial customers.

  During the period under review, ZESCO Limited had ten (10) Domestic Bulk/Power Supply Agreements running whose tariffs were to be escalated annually using United States Producer Price Index (USPPI). See table 22.12 below.

Table 22.12: Domestic Bulk/Power Supply Agreements

No.	Customer Name	Contract Date	Contract Period	Effective Date	Current Price(US$ (c/kWh)
1	FQM Kansanshi Minining Plc	4.10.2003	20 years	November 2003	8.4
2	Equinox Ventures Lumwana	15.02.2015	15 years	December 2007	9.3
3	Chilanga Cement Plc	2 .04.2007	10 years	September 2008	4.5
4	Chambishi Industrial Zone Development	30.08.2007	10 years	Áugust 2007	7.5
5	Copperbelt Energy Company	00.10.1997	23 years	November 1997	8.11
6	North Western Energy	00.10.2008	15 years	Date of Commissioning	4
7	Nampundwe Mine	2000	10 years	not known	9.72
8	Mpande Limestone	00.10.2017	10 years	30 December 2016	9
9	Mabiza Resource Limited	14.10.2019	10 years	14 October 2019	9.3
10	San HE	Unknown	10 years	unknown	9.3

- **Domestic Power Purchase Agreements**

Domestic Power Purchase Agreements are PPAs were ZESCO was to be buying power from Independent Power Producers.

During the period under review, ZESCO had seven (7) Domestic Power Purchase Agreements running.

- **Cross Border Power Supply/Purchase Agreements**

Cross Border Power Supply/Purchase Agreements are PPAs were ZESCO was to be selling or buying power to or from neighboring countries.

During the period under review, ZESCO had eleven (11) Cross Border Power Supply/Purchase Agreements running as shown in table 22.13 below.

Table 22.13: Cross Border Power Supply/Purchase Agreements

No	Customer Name	Type	Contract Date	Effective Date	Contract Period	Current Price (US$ (c/kWh)
1	SNEL - Sakania	Export	unknown	unknown	5 years	9.039
2	SNEL - Pweto	Export	unknown	unknown	5 years	9.039
3	SNEL - Mokambo	Export	unknown	unknown	5 years	9.039
4	SNEL - Kasenga	Export	unknown	unknown	5 years	9.039
5	ZESA low Voltage	Export	01.08.2018	2018	5 years	9.45
6	BPC Botswana	Export	00.01.2018	01.05.2017	5 years	12.8
7	Tanesco - Tanzania	Export	20.10.2016	20.10.2016	9 years	11
8	Sakunda Holdings Limited	Import	01.06.2017	unknown	unknown	unknown
9	ESCOM Malawi Mchingi	Export	08.08.2018	08.08.208	5 years	8.5

- **Transmission Wheeling Agreement**

  Transmission Wheeling Agreement are PPAs were ZESCO wheels power on its transmission network on behalf of a third party or contracts a third party to wheel power purchased by ZESCO from another party through their network to the ZESCO network.

  During the period under review, ZESCO had one (1) Transmission Wheeling Agreement running as shown in table 22.14 below.

Table 22.14: Transmission Wheeling Agreement

Customer Name	Type	Contract Date	Contract Period	Effective Date	Current Price(USD (c/kWh)
Lunsemfwa Hydro Power	IPP	00.07.2019	1 year	00'07.2019	0.0015

- **Standby Agreement**

  Standby Agreements are PPAs were ZESCO agrees with a neighbouring power utility to be selling or buying power on a non-firm basis. This applies in instances where a utility requires power on a short-term basis either for maintenance or due to an unforeseen circumstance.

  A review of documents such as contracts, PPA’s and correspondences relating to agreements revealed the following:

i. **Failure to Effect Tariffs in Line with Escalation Clauses**

- **TANESCO - Tanzania**

  On 20th October 2016, ZESCO Limited entered into a Cross Border Power Supply Agreement with Tanzania Electricity Supply Corporation Limited (Tanesco) for the yearly supply of power not exceeding 10MVA for a period of ten (10) years.

  Clause 6.5 of the agreement states, “the indexation of the tariff shall be effected at the rate of 4% per annum effective 1st January 2016.”

Contrary to the agreement, ZESCO Limited had not effected its annual indexation of 4% for the years 2018, 2019 and the period January 2020 to May 2020.

In a letter dated 1st September 2020, referenced S&CS/BD/110/2020, ZESCO Limited wrote to Tanesco Limited indicating that the tariff for years 2018, 2019 and 2020 had not been escalated in accordance with provisions of clause 6.5 of the power purchase agreement.

However, as at 31st December 2020, ZESCO Limited had not effected the escalation clause resulting in loss of revenue amounting to US$603,860.92 for the period between 1st January 2018 and 31st May 2020. See table 22.15 below.

Table 22.15: Loss of Revenue - Tanesco

Period	Contract Energy	Actual Energy	Actual Invoiced US$	Amount which should have been invoiced if escalation was done US$	Effective escalation Impact US$
January 2018 - December 2018	0.1144	0.11	3,206,880.60	3,335,155.82	128,275.22
January 2019 - December 2019	0.119	0.11	3,533,088.90	3,821,388.95	288,300.05
January 2020 - May 2020	0.1237	0.11	1,499,917	1,687,202.75	187,285.65
Revenue Lost					**603,860.92**

- **ESCOM Mchinji**

On 8th August 2018, ZESCO Limited signed a Cross Border Power Supply Agreement with ESCOM Malawi Mchinji in which ZESCO Limited was to provide ESCOM with additional electric power from Chipata west substation through a 33kv power line to Mchinji in Malawi.

Clause 6.3 of the agreement provides that the energy and minimum demand components of the tariff should be escalated using LIBOR (London interbank offered rate) plus 1% annually.

A review of correspondence dated 1st September 2020 revealed that ZESCO Limited had written to ESCOM indicating that the tariff for the periods 2018, 2019 and 2020 had been escalated but the invoices had errors that needed to be reconciled.

However, as at 31st December 2020, tariff escalation for the period between August 2019 and May 2020 had not been applied resulting into a loss of revenue amounting to US$101,248.06 as shown in table 22.16 below.

Table 22.16: Loss of Revenue – ESCOM Muchinji

Period	Actual Invoiced(US$)	Amount which should have been invoiced if escalation was done (US$)	Effective escalation Impact (US$)
August 2019 - May 2020	3,216,164.74	3,317,412.80	101,248.06

- **Chambishi Industrial Zone**

On 30th August 2007, ZESCO Limited and Chambishi Industrial Zone signed a Power Purchase Agreement in which ZESCO agreed to supply Chambishi Industrial Zone with power not exceeding 100MVA at energy and capacity tariff rates of US$0.0189 per kwh and US$13.7 KVA per month respectively.

Clause 16.2 of the agreement provides for the energy and maximum demand components of the tariff to be escalated using USPPI (United States Producer Price Index) annually.

A review of a letter dated 24th September 2020 to Chambishi Industrial Zone written by ZESCO Limited revealed that ZESCO Limited had not escalated the tariff in accordance with the Power Purchasing Agreement for the years 2018, 2019 and 2020 resulting in revenue loss amounting to US$9,588,782.79 as at 31st December 2020. See table 22.17 below.

Table 22.17: Revenue Loss - Chambishi Industrial Zone

Charges	Actual Invoiced US$	Amount to have been invoiced if escalation was done US$	Effective ecalation Impact US$
Electrictity Charge	139,750,791.52	147,776,220.71	8,025,429.19
Duty	4,192,523.75	4,433,286.62	240,762.87
VAT	23,030,930.44	24,353,521.17	1,322,590.73
Revenue Lost			**9,588,782.79**

- **Botswana Power Corporation**

On 1st May 2017, ZESCO Limited entered into a Cross Border Power Supply agreement with Botswana Power Corporation (BPC) for a period of five (5) years at a tariff of US$ cents 12.8 per kWh, exclusive of VAT. The tariff was to be escalated annually using the USPP twelve (12) months from 1st May 2017.

However, as at 31st December 2020, ZESCO Limited had not escalated the tariff for the period between May 2018 and April 2020 resulting in loss of revenue amounting to US$358,393.11 as shown in table 22.18 below.

Table 22.18: Loss Resulting from Failure to Effect Escalation Clause

Period	Contract Energy	Actual Energy	Actual Invoiced (US$)	Amount which should have been invoiced if escalation was done (US$)	Effective Escalation Impact (US$)
May 2018 -April 2019	0.1304	0.128	5,672,223.22	5,772,257.32	100,034.10
May 2019 - April 2020	0.1304	0.128	5,947,262.58	6,205,621.59	258,359.01
Revenue Lost					**358,393.11**

- **Mpande Limestone**

On 30th December 2016, ZESCO Limited entered into a Domestic Power Supply agreement with Mpande Limestone for a period of five (5) years at energy and capacity tariff rates of US$0.036 per kWh and US$29.015 per KVA per month respectively, plus any other applicable taxes and levies.

Clause 17 of the agreement states, “Beginning the 31st December following the effective date and annually thereafter, both the Energy charge and Capacity Charge shall be escalated using USPPI.”

Contrary to the agreement, the tariffs had not been escalated for the period from January 2019 to December 2020 resulting in loss of revenue amounting to US$288,424.65. See table 22.19 below.

Table 22.19: Loss of Revenue: Mpande Limestone

No.	Charges	Actual Invoiced	Amount to have been invoiced if escalation was done US$	Effective Ecalation Impact US$
1	Electrictity Charge	8,836,926.95	9,078,326.89	241,399.94
2	Duty	265,107.81	272,349.81	7,242.00
3	VAT	1,456,325.56	1,496,108.27	39,782.71
	Revenue Lost			**288,424.65**

- **North Western Energy Company**

On 30th August 2007, ZESCO Limited entered into a Domestic Power Supply Agreement with North Western Energy for a period of fifteen (15) years at energy and capacity tariffs US$0.025 per kWh and US$ 10.1 per KVA per month respectively, plus any other applicable taxes and levies.

Clause 16.1 of the agreement states “the Indexation of the Energy and Capacity Charges shall be carried out in the twelfth (12th) month of each year from the Effective Date, using the United States Producer Price Index (USPPI).”

Contrary to the agreement, ZESCO Limited had not effected the escalation for the period from March 2014 to December 2020 resulting revenue loss of US$936,419.25 as shown in table 22.20 below.

Table 22.20: Loss of Revenue – North Western Company

No.	Charges	Actual Invoiced	Amount to have been invoiced if escalation was done US$	Effective ecalation Impact US$
1	Electrictity Charge	7,805,654.33	8,589,399.93	783,745.60
2	Duty	234,169.63	257,682.00	23,512.37
3	VAT	1,283,371.83	1,415,533.11	132,161.28
	Revenue Lost			**939,419.25**

Further, clause 16.3 of the agreement provides for the review of the tariff every five (5) years effective from 1st October 2012.

Contrary to the agreement, the power tariffs had not been reviewed between the periods from October 2018 to December 2020, as the last review was done in 2012.

- **Questionable Power Purchase Agreement - Itezhi Tezhi Power Corporation**

On 27th October 2014, ZESCO Limited and Itezhi Tezhi Power Corporation (ITPC) signed a Power Purchase Agreement in which ITPC being the seller was to sale power to ZESCO Limited at an actual billing yielding tariff of US$c 15/kWh. ZESCO being the purchaser was to purchase from the seller the available capacity of the facility and all of the Net Electrical Output.

Clause 15.1 of the agreement stipulates that the purchaser should pay to the seller, for each billing period, the capacity charge in respect of the available capacity (in MW) as calculated in accordance with schedule 3.

Further, clause 15.2 provides for the purchaser to pay the seller for each billing period, the variable charge for each kWh of Net Electricity Output delivered to the Delivery Point by the Seller as calculated in accordance with schedule 3.

A review of the Financial Model used on the Project Concept Document for the development, design, finance, construction, commission, own, operate and maintain a power generation facility with a net capacity of 120MW located on the Kafue River at Itezhi Tezhi Dam signed between TATA Power Company (Shareholders of ITPC) and ZESCO Limited revealed that the Power Purchase Agreement was supposed to be based on actual generated capacity which translated into tariff yield of US$c8.82/kWh as opposed to the available capacity which translated into a tariff yield of US$c15/kWh.

In this regard, ZESCO Limited was paying US$c6.18/kWh or 70% more than it should have been paying had the Power Purchase Agreement been in line with the Project Financing Agreement and the Energy Regulation Board approved tariff of US$c8.82/kWh.

However, a further analysis of ZESCO Limited's sales to various customers using the power procured from ITPC during the period under review at average sales rates revealed a profit of K13,358,221 in 2016 while losses of K489,066,928 and K5091,66,710 in 2017 and 2018 respectively, were recorded. The losses were due to high-cost price and a low sales price. See table 22.21 below.

Table 22.21: Power Purchase and Sale

Month	Energy kWh	Purchases Bef. Tax K	Sales Bef. Tax K	Losses ITPC Purchases K	Profits ITPC Purchases K
2016	861,533,030	557,336,610	570,694,831		13,358,221
2017	752,144,090	891,354,570	402,287,642	(489,066,928)	
2018	726,204,390	997,861,211	488,694,501	(509,166,710)	
Total	**1,613,677,120**	**1,448,691,180**	**972,982,473**	**(998,233,638)**	**13,358,221**

In this regard, the basis on which ZESCO Limited signed the Power Purchase Agreement with ITPC remained questionable as it did not adhere to the Project Financing Agreement and Energy Regulation Board approved billing rates and it did not favour financially, ZESCO Limited but ITPC.

ii. Failure to Supply Power - Sakunda Holding Limited

The Government of the Republic of Zambia was owed US$114,827,078 by the Government of the Republic of Zimbabwe.

This was a debt owed by Central African Power Company (CAPCO) a former state-owned company of the Government of the Republic of Zimbabwe.

However, the date when the debt was accrued was not provided for audit, contrary to Section 7 (1) of the Public Audit Act No. 13 of 1994 which empowers the Auditor General to have access to information in performance of his duties.

At a meeting held on 14th February 2017, the two (2) Governments resolved to enter into a settlement agreement through a debt swap in which the Republic of Zimbabwe was to supply electricity to the Republic of Zambia equivalent to the outstanding amount.

In this regard, the Republic of Zimbabwe appointed Sakunda Holding Limited to export electrical energy to Zambia and ZESCO Limited was appointed by the Republic of Zambia as the sole off-taker of the electrical energy from Sakunda Holding Limited of up to 100MW (the "Maximum Capacity").

Subsequently, in June 2018, ZESCO Limited entered into a Power Purchase Agreement with Sakunda Holdings Limited where it was agreed that Sakunda Holding would deliver electrical energy up to the Maximum Capacity on or before 1st August 2018 (the "Scheduled Commence Date") to one or more points on the Zambian border (Delivery Points).

However, as at 31st December 2020, Sakunda Holding Limited had not supplied electricity to ZESCO Limited, equivalent to the debt.

iii. **Operating without a Contract - SNEL Kasenga**

On 19th January 1995, ZESCO Limited (supplier) signed an Export Power Purchase Agreement with SNEL Kasenga (purchaser) of the Democratic Republic of Congo to transmit electricity through an 11kV line from the Zambia to Kasenga in the Democratic Republic of Congo.

Clause 14 of the agreement stipulates that the agreement should continue in force for a period of five (5) years with effect from the date of signing it.

Between 19th January 1995 and 20th December 2013, new agreements were signed following expiration of previous ones.

However, a review of accounting documents revealed that in 2019 and 2020, ZESCO Limited supplied a total of 4,250,373kWh (US$510,558.10) without an agreement.

iv. **Failure to Revise Tarrifs**

A review of the Power Purchase Agreements for Mpande Limestone, Larfarge and Mabiza with ZESCO Limited provided that a cost-of-service study be done for 2017, on which the power tariff would be reviewed every three (3) years. However, no revision to the power tariff was done as the study had not been conducted.

v. **Loss Making Bulk Sales**

During the period under review, ZESCO Limited sold a total of 31,285,919,187.17kWh of electricity to six (6) bulk customers which generated revenue in amounts totalling at US$1,945,863,222.85.

However, the cost of sales was US$2,285,845,474.47 resulting in a loss of US$339,982,251.62 as the cost of producing the electricity per kWh (i.e own generation blended with purchases from Independent Power

Producers) was higher than the individual tariffs at which ZESCO Limited was selling this electricity to its customer. See table 22.22 below.

Table 22.22: Loss Making Bulk Sales

Customer	Sales (US$)	kWh	Average cost of sales tariff	Cost of Purchases (US$)	(Loss)/Profit (US$)
CEC	1,219,097,737.64	20,908,259,088.17	0.07	1,527,621,711.54	(308,523,973.90)
Kansanshi	562,877,588.43	7,848,370,330.00	0.07	573,426,073.68	(10,548,485.25)
Equinox,Lumwana	129,990,327.54	1,859,616,070.00	0.07	135,869,269.25	(5,878,941.72)
Northwestern Energy Corp.	2,945,694.29	54,132,000.00	0.07	3,955,050.40	(1,009,356.11)
Lafarge Cement	22,682,632.50	421,553,049.00	0.07	30,799,962.23	(8,117,329.73)
Zambezi Portland Cement	8,269,242.46	193,988,650.00	0.07	14,173,407.37	(5,904,164.91)
Total	**1,945,863,222.85**	**31,285,919,187.17**		**2,285,845,474.47**	**(339,982,251.62)**

vi. Loss on Local Power Purchase Agreements

A review of Local Power Purchase Agreements for the period under review revealed that ZESCO Limited procured power (electricity) from Independent Power Producers at higher rates or tariffs than it sold to its customers. In this regard, the Corporation purchased a total of 6,749,524,592.28 kWh of electricity from eleven (11) domestic PPA customers at costs amounting to US$1,781,302,250.84 which were sold at a total of US$402,324,247.61 resulting in a loss of US$1,378,978,003.22 as shown in table 22.23 below.

Table 22.23: Loss on Local Power Purchase Agreements

No.	Customer	Purchases		Average Sales	Estimated (Loss)/ Profit
		kWh	US$	US$	US$
1	Maamba	1,953,218,004.08	569,473,234.53	103,285,199.08	(466,188,035.45)
2	Karpower	1,284,470.11	272,842,025.25	42,710.86	(272,799,314.39)
3	ITPC	1,402,227,758.26	339,430,545.54	98,134,044.36	(241,296,501.18)
4	Ndola Energy	2,035,510,007.69	232,493,054.54	122,300,272.67	(110,192,781.87)
5	Lunsemfwa Hydro	1,127,662.49	78,069,551.89	67,524.60	(78,002,027.29)
6	EDM	899,736,996.00	116,036,095.53	50,956,316.81	(65,079,778.72)
7	Aggreko	352,828,330.00	83,940,357.61	22,343,903.10	(61,596,454.51)
8	SAPP-DAM	587,195.40	44,372,757.29	35,431.58	(44,337,325.71)
9	Eskom - Power	474,562.00	37,601,248.30	32,364.24	(37,568,884.06)
10	Ngonye	30,559,100.00	2,714,354.41	1,527,955.00	(1,186,399.41)
11	Bangweulu	71,970,506.25	4,329,025.95	3,598,525.31	(730,500.64)
	Total	**6,749,524,592.28**	**1,781,302,250.84**	**402,324,247.61**	**(1,378,978,003.22)**

vii. Accumulated Penalty Charges – Wasteful Expenditure

The PPAs that ZESCO Limited entered into under the Domestic and Cross Border Power Purchase Agreement provided that if any bill was not paid in full by ZESCO Limited on or before the due date of payment, ZESCO Limited should pay in addition a late payment charge an amount equal to interest calculated at the default interest rate on the unpaid amount for the number of days the payment was overdue, compounded monthly.

The contracts included Electricidade de Mozambique, Nampower Pty Limited of Namibia, Eskom of South Africa, Itezhi Tezhi Power Corporation, Lunsemfwa Hydro Power Company Limited, Maamba Collieries and Ndola Energy Company.

Contrary the agreements, ZESCO Limited delayed in making payments during the period under review resulting in accumulated penalty charges of US$70,059,280.65 as at 31st December 2020 on invoices which had been settled.

The payment of the US$70,059,280.65 in respect of penalty charges that had been outstanding for periods ranging from 56 to 1,189 days was wasteful as it could have been avoided by adhering to agreements. See table 22.24 below.

Table 22.24: Accumulated Penalty Charges

No.	Supplier	Amount Outstanding US$	Period Outstanding (Days)
1	Electricidade de Mozambique	5,223,719.96	56 to 1,056
2	Nampower Pty Limited	17,378.70	1,189
3	Eskom of South Africa	2,287,724.86	56 to 1,156
4	Itezhi Tezhi Power Corporation Limited	36,496,684.65	365 to 1,091
5	Lunsemfwa Hydro Power Company Limited	893,887.86	61 to 791
6	Maamba Collieries Limited	12,306,904.00	61 to 791
7	Ndola Energy Company	12,832,980.62	200 to 503
	TOTAL	**70,059,280.65**	

viii. Outstanding Payables

A review of financial records and creditors ledgers for the period under review revealed that ZESCO Limited owed it's local and cross border power suppliers amounts totalling US$797,902,517.54 as at 31st

December 2020, which have been outstanding for periods ranging from 366 days to 1,767 days. See table 22.25 below.

Table 22.25: Outstanding Payables

No.	Supplier	Amount Outstanding US$	Period Outstanding (Days)
1	Electricidade de Mozambique	36,665,143.63	366 - 1,605
2	Karpower International	162,284,067.01	1,017 - 1,396
3	Nampower Pty Limited	532,348.63	1,256 - 1,767
4	Zimbabwe Electricity Supply Authority	1,852,998.64	366 - 1,246
5	Itezhi Tezhi Power Corporation Limited	285,658,281.48	366 - 1,457
6	Kariba North Bank Extension	4,431,028.12	366
7	Lunsemfwa Hydro Power Company Limited	43,475,160.50	366
8	Maamba Collieries	132,775,233.56	366 - 700
9	Ndola Energy Company	130,228,255.97	395 - 1,006
	Total	**797,902,517.54**	

ix. Outstanding Receivables – Power Supply Agreements

The Power Purchase Agreements that ZESCO Limited has entered into under the Domestic/Foreign Bulk Power Supply Agreements provides for the following:

- Within fifteen (15) days following the end of every month after the first supply date, ZESCO Limited shall prepare and deliver to Power Supply Agreements (PSA) at the address specified herein an invoice for the power tariff calculated in accordance with this agreement and containing the information and calculations. The Power Tariff charge shall be payable to ZESCO Limited or such an account as may from time to time be advised to PSA by ZESCO Limited.

- PSA undertakes to pay an invoice prepared in accordance with the provisions of this Agreement and delivered to PSA, within fourteen (14) days following the receipt thereof.

- ZESCO Limited shall provide PSA with such further information or particulars as PSA may reasonably request in order to substantiate an invoice delivered by ZESCO Limited, but no such request shall prejudice or delay payment of the amount due in respect of such invoice.

- Save as provided, if within 30 days of the receipt by PSA of an invoice submitted, PSA does not question or dispute that invoice, it shall be considered correct and complete and conclusive between the parties, except for manifest or deliberate error.

- If any item or any part of an item shown on an invoice rendered by ZESCO Limited is disputed or subject to question by PSA, then the payment by PSA of the remainder of the invoice shall not be withheld on those grounds.

A review of the receivables age analysis revealed that PSA customers owed ZESCO Limited amounts totalling US$520,647,237.58 (Local customers US$489,986,092.83 and Exports US$30,661,144.75). Out of these receivables, 72% in amounts totalling US$373,008,799.58 had been outstanding for periods exceeding 90 days as shown in tables 22.26 and 22.27 below.

Table 22.26: Outstanding Local Debtors

Customer	1-30 days US$	31-60 days US$	61-90 days US$	Over 90 days US$	Outstanding Balance US$
CEC	21,236,721.23	17,257,079.59	17,701,218.88	287,310,200.94	343,505,220.65
Kansanshi	8,645,192.73	9,180,639.92	9,209,113.59	7,168,420.01	34,203,366.24
Lumwana	2,050,351.73	1,996,815.35	2,022,550.35	42,895,523.82	48,965,241.25
Universal				2,250,745.22	2,250,745.22
North Western	259,543.44	249,867.17	287,924.14	89,396.48	886,731.22
Chambishi	2,823,705.58	2,742,460.18	2,735,105.57	3,581,718.65	11,882,989.98
Kalumbila	9,076,193.68	8,960,492.85	8,783,858.97	21,471,252.76	48,291,798.26
Total	**44,091,708.39**	**40,387,355.06**	**40,739,771.50**	**364,767,257.87**	**489,986,092.83**

Table 22.27: Outstanding Debtors – Exports

Customer	1-30 days (US$)	31-60 days (US$)	61-90 days (US$)	Over 90 days (US$)	Outstanding Balance (US$)
BPC	566,087.54	558,589.30	92,863.17	-	1,217,540.01
NAMPOWER	3,063,519.06	1,494,837.92		-	4,558,356.98
TANESCO	301,275.70	308,353.10	326,364.50	8,696.21	944,689.51
SNEL	246,989.93	229,352.04	235,702.45	1,849,408.82	2,561,453.24
SNEL FRONTIER				551.69	551.69
ZESA CHIRUNDU	35,361.46	34,226.89	38,016.25	363,768.62	471,373.22
ZESA IMBALANCE				27,412.88	27,412.88
EDM				363.05	363.05
EDM ZUMBO	22,133.00	23,042.00	24,942.50	597,489.50	667,607.00
SNEL HV	4,901,650.74	4,603,011.57	3,772,204.94		13,276,867.26
SOUTHERN AFRICAN POWER POOL	231,339.62	459,454.28	187.53	5,322,850.94	6,013,832.37
ZESA HV				71,000.00	71,000.00
ESCOM MALAWI	311,563.44	319,916.11	218,617.99	-	850,097.54
TOTAL	**9,679,920.49**	**8,030,783.22**	**4,708,899.34**	**8,241,541.71**	**30,661,144.75**

x. Failure to Charge Interest on Debtors Balances

The Power Purchase Agreements (PPAs) ZESCO Limited signs with its customers have penalty clauses imbedded which obligates the Customers to pay interest on unsettled invoices and this is compounded until payment is made to ZESCO Limited.

A review of PPAs and debtors age analysis for each year under review revealed that ZESCO had not charged interest on outstanding Debtors Invoices totalling US$1,854,093,562.1 in respect of nine (9) domestic Customers (US$1,842,100,893.01) and two (2) foreign (US$11,992,669.09) customers as at 31st December 2015, 2016, 2017, 2018 and 2019 with periods exceeding sixty (60) and ninety (90) days. See tables 22.28 and 22.29 below.

Table 22.28: Debtors Balances on which Interest had not been Charged – Domestic Customers

Customer	Interest /Penalty clause	2019 US$	2018 US$	2017 US$	2016 US$	2015 US$	Total US$
CEC	✓	326,248,141.05	288,587,561.19	290,026,250.67	338,469,483.50	214,243,392.81	1,457,574,829.22
Kansanshi	✓	25,022,726.33	15,332,528.19	9,104,336.48	67,684,693.52	10,074,892.69	127,219,177.20
Lumwana	✓	46,968,425.90	46,960,849.26	48,722,157.00	62,957,202.46	29,419,649.32	235,028,283.94
Northwestern	✓	636,864.06	87,464.64	86,045.74	147,257.07	182,679.66	1,140,311.17
Chambishi	✓	9,140,529.80	5,399,321.52	2,495,745.84	1,409,291.74	1,276,448.57	19,721,337.47
KCM-Nampundwe	✓	-	-	437,196.89	-	-	437,196.89
Mpande	✓	640,379.94	8,762.89	-	-	-	649,142.83
Mabiza	✓	330,614.28	-	-	-	-	330,614.28
Total		**408,987,681.36**	**356,376,487.70**	**350,871,732.61**	**470,667,928.29**	**255,197,063.05**	**1,842,100,893.01**

Table 22.29: Debtors Balances on which Interest had not been Charged – Cross Border Customers

Customer	Interest /Penalty clause	2019 US$	2018 US$	2017 US$	2016 US$	2015 US$	Total US$
NAMPOWER	✓	1,494,837.92	878,070.82	2,578,416.28	2,483,507.34	2,100,268.11	**9,535,100.47**
TANESCO	✓	643,413.81	281,193.71	826,008.28	355,548.23	351,404.58	**2,457,568.62**
Total		**2,138,251.74**	**1,159,264.53**	**3,404,424.56**	**2,839,055.57**	**2,451,672.69**	**11,992,669.09**

As at 31st December 2020, the interest amount that should have been charged to debtors for failing to pay within the agreed time was not availed for audit as ZESCO Limited had not established the amounts for the period under review.

23. RECOMMENDATIONS

To address the weaknesses identified in this report, I recommend the following:

i. The appointing authorities must always ensure that the parastatal bodies and other statutory institutions have functional boards of directors to strengthen corporate governance;

ii. The boards of directors for parastatal bodies and other statutory institutions must ensure that financial reports are prepared annually in compliance with the Companies Act Chapter 338 of the Laws of Zambia;

iii. The boards of directors for parastatal bodies and other statutory institutions must ensure that effective performance assessment systems for management are implemented;

iv. Parastatal bodies and other statutory institutions must devise recapitalisation plans to improve their financial and operational performance;

v. The responsible ministries for parastatal bodies and other statutory institutions must ensure that sufficient funds are sourced to enable these institutions meet their mandate;

vi. Management of parastatal bodies and other statutory institutions should address the internal control weaknesses identified in this report to enhance systems and protect assets. The controls include acquisition of title deeds for land owned by the institutions;

vii. The responsible ministries for parastatal bodies and other statutory institutions must ensure that pensions funds are managed prudently;

viii. The responsible ministries for parastatal bodies and other statutory institutions must ensure that there is optimal management of loans;

ix. The responsible ministries for parastatal bodies and other statutory institutions must ensure that Energy Funds are managed prudently; and

x. The management of the parastatal bodies and other statutory institutions must ensure that weaknesses in contract management identified in this report are urgently addressed to enhance the ability of the affected entities to execute their mandates effectively.

24. ACKNOWLEDGEMENTS

I wish to thank all my staff for their hard work during the course of the audits to ensure that this report is produced despite challenges faced during the audit process. I also wish to express my gratitude to the Controlling Officers of Line Ministries and Chief Executive Officers of Parastatal Bodies and Other Institutions and their staff for their cooperation. It is because of their cooperation that I was able to carry out the audits in an objective, efficient and effective manner.

25. RECOMMENDATIONS OF THE COMMITTEE ON PARASTATAL BODIES

This Report does not include outstanding issues for the Reports of the Auditor General on the Parastatal Bodies and Other Statutory Institutions for financial years ended 31st December 2015, 2016, 2017 and 2018 as the Action Taken Reports from the Ministry of Finance had not been adopted by Parliament at the reporting date.

Appendix 3 to this Report summarises the status of the unresolved issues for which necessary remedial action is required.

26. CONCLUSION

This Report has highlighted various areas of weaknesses in the management of Parastatal Bodies and Other Statutory Institutions which need to be addressed for these institutions to effectively execute their mandates.

PART III

APPENDICES

APPENDIX 1

List of Institutions in the Report whose Financial Statements are Certified by the Auditor General

No.	INSTITUTION
1.	National Institute for Scientific and Industrial Research
2.	Occupational Health and Safety Institute
3.	University Teaching Hospitals
4.	Zambia National Broadcasting Corporation

APPENDIX 2

List of Institutions in the Report whose Financial Statements are Certified by Private Auditors

No.	INSTITUTION
1.	Development Bank of Zambia
2.	Energy Regulation Board
3.	Indeni Petroleum Refinery Company Limited
4.	Kwame Nkrumah University
5.	Local Authorities Superannuation Fund
6.	Mulungushi University
7.	National Pension Scheme Authority
8.	National Savings and Credit Bank
9.	Public Service Pensions Fund
10.	Tazama Pipelines Limited
11.	Zambia Institute for Tourism and Hospitality Studies
12.	Zambia National Building Society
13.	Zambia Postal Services Corporation
14.	ZCCM-IH
15.	ZESCO Limited

APPENDIX 3

SUMMARY OF UNRESOLVED ISSUES AS AT 31st DECEMBER 2019

JUDICIARY

2012 Para (7) (9) (f)	*Failure Deliver Projects on Time*
2012 Para (7) (9) (h)	*Questionable Payment of Retention Funds Mulobezi*
2013, 2014, 2015, 2016 Para (5) (5)	*Construction of Ndola Main Urban Local*
2013, 2014, 2015, 2016 Para (5) (5) (5.2)	*Construction of Baluba Urban Local Court*
2013, 2014, 2015, 2016 Para (5) (5) (5.4)	*Construction of Kapiri Mposhi Urban Local Court*
2013, 2014, 2015, 2016 Para (5) (5) (5.5)	*Construction of Makululu Local Court*
2013, 2014, 2015, 2016 Para (5) (5) (5.6)	*Contract Agreement for Citing, Drilling and Equipping Of a Borehole*
2013, 2014, 2015, 2016 Para (5) (5) (5.7)	*Construction of Nkana Rural Local Court*
2013, 2014, 2015, 2016 Para (5) (5) (5.8)	*Construction of Kitwe Local Court*
2014 Para (13) (12) (a) (iv)	*Delayed Completion of the Project*
2014 Para (13) (12) (b) (iii)	*Erosion of Clients Accounts by Bank Charges*
2014 Para (13) (12) (c)	*Failure to pay Gratuity*
2014 Para (13) (12) (d) (i)	*Weaknesses in Managing the Sheriff's Office of Zambia*
	Lack of Bailiwicks Records
2014 Para (13) (12) (e) (i)	*Weaknesses in the Management of Judiciary Infrastructure - Subordinate Court Complex-Lusaka*

2014 Para (13) (12) (e) (iii)	*Kitwe Subordinate Court*
2014 Para (13) (12) (e) (iv)	*Solwezi Subordinate Court*
2014 Para (13) (12) (e) (v)	*Choma Subordinate Court*
2014 Para (13) (12) (e) (vi)	*Livingstone High Court and Subordinate Court*
2014 Para (13) (12) (e) (vii)	*Mongu Subordinate Court*
2014 Para (13) (12) (e) (viii)	*Kabwe Subordinate Courts*
2015 Para (9) (9) (a) (i)	*Inadequacies in Judiciary Infrastructure Structure - Chambers and Office Space*
2015 Para (9) (9) (a) (ii)	*Lack of Court Rooms*
2015 Para (9) (9) (d)	*Weaknesses in Managing Contribution Project*
	Matero-II Local Court
2015 Para (9) (9) (e)	*Court Physical Inspection*

2013, 2014, 2015, 2016 para (5) (5.1) - Construction of Ndola Main Urban Local Court.

2013, 2014, 2015, 2016 para (5) (5) (5.2) - Construction of Baluba Urban Local Court

2013, 2014, 2015, 2016 para (5) (5) (5.3) - Construction of Twapia Urban Local Court

2013, 2014, 2015, 2016 para (5) (5) (5.4) - Construction of Kapiri-Mposhi Urban Local Court

2013, 2014, 2015, 2016 para (5) (5) (5.5) - Construction of Makululu Local Court

2013, 2014, 2015, 2016 para (5) (5) (5.6) - Contract Agreement for citing, drilling and equipping of a Borehole.

2013, 2014, 2015, 2016 para (5) (5) (5.7) - Construction of Nkana Rural Local Court

2013, 2014, 2015, 2016 para (5) (5) (5.8) - Construction of Kitwe Local Court

2013, 2014, 2015, 2016 para (5) (5) (5.9) (i) - Failure to provide Performance Security against the Contract

2013, 2014, 2015, 2016 para (5) (5) (5.9) (ii) - Delays in Completing the Works

2013, 2014, 2015, 2016 para (5) (5) (5.10) (i) - Failure to Provide Performance Bond

2013, 2014, 2015, 2016 para (5) (5) (5.10) (ii) - Failure to supervise construction works by the Contracts Manager.

2013, 2014, 2015, 2016 para (5) (5) (5.10) (iii) - Failure to complete the Construction works as per Contract Agreement

ELECTORAL COMMISSION OF ZAMBIA

2013, 2014, 2015, 2016 para (3) (3.1) - *Delay in paying salaries & allowances to Officers*

2013, 2014, 2015, 2016 para (3) (3.8) (i) - Misapplication of funds

MINISTRY OF AGRICULTURE

Food Reserve Agency

2013, 2014, 2015, 2016 Para (4) (4.2) (a,b,c)Poor Management of Construction Projects.

2013, 2014, 2015, 2016 Para (4) (4.3) Poor Storage of Tarpaulins

2013, 2014, 2015, 2016 Para (4) (4.4) (ii) New Sheds in Mwinilunga

2014 Para (11) (10) (a) Failure to produce Audited Accounts and Annual Reports

2014 Para (11) (10) (b) Delays in Remitting Statutory Obligations

2014 Para (11) (10) (d) Properties without Title Deeds

Nitrogen Chemicals of Zambia Limited

2012 Para (16) (18) (a) - Weakness in the collection of Receivables

2012 Para (16) (18) (b)- Failure to settle Accounts Payables

2012 Para (16) (18) (c)- Outstanding Litigations in favour of Nitrogen Chemicals of Zambia for Years 2009 -2012

2012 Para (16) (18) (d) Non-Remittance of Statutory Obligations

2015 Para (15) (15) (e) Non-Payment of Statutory Contributions

2015 Para (15) (15) (g) Questionable Fertilizer Sales

2015 Para (15) (15) (h)	*Supply of Fertilizer Mumbwa District Farmers Association*
2015 Para (15) (15) (i)	*Failure to Supply – Braithweit Investments Zambia*
2015 Para (15) (15) (k)	*Irregular Transaction- Maluba M. Trading*
2015 Para (15) (15) (p)	*Non-Delivery of Conveyor Belt*
2015 Para (15) (15) (q) (iii)	*Unreconciled Returned Fertilizer Bags- Kabwe K549,024*
2015 Para (15) (15) (r) (iii)	*Inadequate Machinery and Plant Equipment Loader*
2015 Para (15) (15) (r) (iii)	*Sewing Machines*
2015 Para (15) (15) (r) (iv)	*Lack of Plant Machinery and Equipment Replacement Policy*
2015 Para (15) (15) (r) (iv)	*Failure to Repair Ammonium Nitrate, Plants and Nitric Acid Plant*
2015 Para (15) (15) (r) (v)	*Non-Implementation of off take Agreement*
2015 Para (15) (15) (r) (vi)	*Poor Management of Non-Current Assets, Failure to Acquire a New Fire tender*
2015 Para (15) (15) (r) (vi)	*Dilapidated Structure*
2015 Para (15) (15) (r) (vi)	*Failure to insure Property, Plant and Equipment*

Tobacco Board of Zambia

2015 Para (18) (18) (d)	*Failure to Recover GRZ and TBZ Out growers Loans*

MINISTRY OF COMMERCE TRADE AND INDUSTRY

Citizen Economic Empowerment Fund

2012 Para (5) (7) (b) (i) -	*Empowerment fund- unreconciled Loan Recoveries*
2012 Para (5) (7) (b) (ii) -	*Site Visits to CEEC Sponsored Business Entities*
2014 Para (9) (8) (a) (i)	*Undisbursed Funds by Micro Finance Institutions Gray Pages Financial Solutions, CETZAM Financial Services Plc*

2014 Para (9) (8) (b)	*Contract with ACCESS Bank Zambia Limited*
2014 Para (9) (8) (c)	*Non-Performing Loans*
2014 Para (9) (8) (d) (i)	*Questionable Procurement of Dairy Animals*

Consumer and Competition Protection Commission

2014 Para (8) (7) (c)	*Failure to Engage ZRA on Payment of Tax on Gratuity on behalf of Directors*

Zambia Development Agency (ZDA)

2012 Para (20) (22) (a)-	*Unreimbursed borrowings from Escrow Account*
2012 Para (20) (22) (b) (i)-	*Non-Remittance of Statutory Contributions*
2012 Para (20) (22) (e) -	*Fixed Assets*

MINISTRY OF COMMUNICATION AND TRANSPORT

Mpulungu Harbour Corporation

2013, 2014, 2015, 2016 Para (8) (8) (8.5)	*Unsupported Payments- K127,702*

National Airports Corporation Limited

2012 Para (17) (19) (19) (e)	*Abandoned Aircraft – MK Airlines*
2012 Para (17) (19) (a)	*Nonperforming Contract – Unitech System Inc.*

Tanzania Zambia Railway Authority

2015 Para (17) (17) (e) (i)	*Lack of Performance Security*
2015 Para (17) (17) (e) (ii)	*Contract to Supply and Install Workshop Equipment-Mpika Workshop, Lack of Performance Security*
2015 Para (17) (17) (e) (iii)	*Failure to Supply and install Lighting System – Mpika Workshop*
2015 Para (17) (17) (f) (i)	*Management of Property and Infrastructure Abandoned Property*
2015 Para (17) (17) (f) (ii)	*Lack of Title*
2015 Para (17) (17) (e) (i)	*Land Encroachment on Railway Strip*
2015 Para (17) (17) (e) (i)	*Failure to Remit Statutory Contributions*

Zamcargo and Logistics Ltd

2013, 2014, 2015, 2016 Para (21) (21) (21.2) Irregular Payment of Out of Pocket Allowance on Local Trips (Irregular - US$5,871.20 and Overpayment - US$3,858)

2013, 2014, 2015, 2016 Para (21) (21) (21.4)(c.i) Unfilled Position

2013, 2014, 2015, 2016 Para (21) (21) (21.4)(c.iii) Wasteful Expenditure-Payment in lieu of Notice US$8,239

2013, 2014, 2015, 2016 Para (21) (21) (21.4)(c.iv) Irregular Payment of Car Allowance-Regional Manager

2013, 2014, 2015, 2016 Para (21) (21) (21.5) (ii)- Contract with Mining Agricultural & Construction Services Limited for Repair of Liebherr Reach stacker

2013, 2014, 2015, 2016 Para (21) (21) (21.6)(ii)-Lack of Title Deed for Plot Number 1616 MASAKI

2013,2014,2015,2016 Para (21)(21)(21.6)(iii)Lack of Ownership details for leased Shed

2013, 2014, 2015, 2016 Para (21) (21) (21.6)(iv)Failure to Replace Stolen Motor Vehicles

2013, 2014, 2015, 2016 Para (21) (21) (21.6)(v)Failure to Dispose Obsolete Machinery

2013, 2014, 2015, 2016 Para (21) (21) (21.6)(vi) Loss of Government Land for a Dry Port-Nakonde

Zambia Railways Limited

2012 Para (18) (20) (b) (i)	*Irregularities in Staff Related Costs Non-Remittance of Statutory obligations*
2012 Para (18) (20) (c) (i)	*Deterioration of Infrastructure during Concession Period Dilapidated Workshop Buildings*
2012 Para (18) (20) (c) (ii)	*Vandalized Heavy-Duty Equipment*
2012 Para (18) (20) (c) (iii)	*Vandalized Level Crossings*
2012 Para (18) (20) (d) (i)	*Failure to account for Traction Motor and Compressor Exhausters Sent To South Africa*
2012 Para (18) (20) (d) (v)	*Irregular Exchange of Locomotive Engines*
2012 Para (18) (20) (e)	*Irregularity in the Sale of Properties*
2012 Para (18) (20) (g)	*Irregular Sale of Land*
2014 Para (24) (23) (a)	*Failure to account for traction motors and compressor Exhausters sent to South Africa*
2014 Para (24) (23) (c) (ii)	*Payment of Christmas Bonus for Board Members*
2014 Para (24) (23) (d) (i)	*Irregularities in Management of Funds, Euro Bond, Misapplication of Funds, Unsupported Payment*
2014 Para (24) (23) (e) (i)	*Irregularities in the Management of contracts Over Commitment on procured Contract- Signalling and Telecommunication Equipment, Inadequate Funds for Procured Contract, Failure to Pay Huawei International For the installation of Telecommunication Equipment Failure to commence works by Bombardier Transportation Denmark AS*
2014 Para (24) (23) (e) (iii)	*Loss of Nine Coaches*
2014 Para (24) (23) (e) (iv)	*Failure to Deliver Flash Butt by Diamond Motors Limited*

MINISTRY OF ENERGY

Indeni Petroleum Ltd

2013, 2014, 2015, 2016 Para (4) (4) (4.6) (i) Overdue Receivables

2013, 2014, 2015, 2016 Para (4) (4) (4.6) (ii) Receivable Turnover Days/Debt Collection Period

2013, 2014, 2015, 2016 Para (4) (4) (4.7) Non-payment for corrosion of Plant Equipment due to processing of Contaminated Crude Oil

2013, 2014, 2015, 2016 Para (4) (4) (4.8) Non-recoverability of Crude Stock

2013, 2014, 2015, 2016 Para (4) (4) (4.9) Non-delivery of goods by Apple Construction

2013, 2014, 2015, 2016 Para (5) (5) (5.9) Failure to provide Performance Security

2013, 2014, 2015, 2016 Para (5) (5) (5.9) (ii) Delays in Completing the Works

2013, 2014, 2015, 2016 Para (5) (5) (5.10) (i) Failure to Provide Performance Bond

2013, 2014, 2015, 2016 Para (5) (5) (5.10) (ii) Failure to Supervise Construction works by the Contract Manager

2013, 2014, 2015, 2016 Para (5) (5) (5.10) (iii) Failure to complete the Construction works as per Contract Agreement

ZESCO Limited

2014 Para (22) (21) (f) (ii) Contract for Design, Procure, Build and Commission Hyro Power Stations

2014 Para (22) (21) (f) (iii) Connection of Luangwa District to the National Grid Project

2014 Para (22) (21) (h) (i) Poor Management of Non-Current Assets Failure to Revalue Fixed Assets

2014 Para (22) (21) (h) (ii) Non-Disposal of obsolete Stocks

2014 Para (22) (21) (h) (iii)   Failure to pass Title of Assets to ZESCO Limited

MINISTRY OF FINANCE

National Savings and Credit Bank

2013, 2014, 2015, 2016 Para (12) (12) (12.2) (ii)Failure to Remit Pay As You Earn (PAYE)

K8,087,161

2013, 2014, 2015, 2016 Para (12) (12) (12.4)	*Unrecovered Loans – K560,598*
2013, 2014, 2015, 2016 Para (12) (12) (12.5)	*Non Recovery of Loans – Head Office*
	K2,911.676

2013, 2014, 2015, 2016 Para (12) (12) (12.6) - Failure to Adhere to Loan Agreement – Bunjimi Assets Plus, Loans K476,264

2013, 2014, 2015, 2016 Para (12) (12) (12.7) - Failure to deliver Service

Pensions and Insurance Authority

2013, 2014, 2015, 2016 Para (16) (16) (16,2) Irregular payment of Procurement Committee Allowance – K123,362

2013, 2014, 2015, 2016 Para (16) (16) (16,3)(i)Failure to Surrender Original Title

Documents

2013, 2014, 2015, 2016 Para (16) (16) (16,3)(ii)Failure to Provide Collateral Equivalent to

house Loans Obtained

2013, 2014, 2015, 2016 Para (16) (16) (16,4)(i) Failure to Adequately Protect Members'

Interest

2013, 2014,,2015,2016 PARA (19)e(iii) - Failure to Provide Collateral Equivalent to House Loans

Obtained.

2013, 2014,2015, 2016 PARA (19)f(iii) TAZARA pension Trust Scheme - *Failure to Adequately Protect Members' Interest*

2013, 2014, 2015, 2016 PARA (20) a (ii) - National Heritage Conservation Pension Trust Scheme

Public Service Pension Fund

2013, 2014, 2015, 2016 Para (17) (17) (17.1)(i) Excessive Number of Board Meetings-K8,817,846

2013, 2014, 2015, 2016 Para (17) (17) (17.3) (i)Irregular Inclusion Members to the Funds After Enactment of the NAPSA Act

2013, 2014, 2015, 2016 Para (17) (17) (17.4)(i)Equity Investment

2013, 2014, 2015, 2016 Para (17) (17) (17.5) (i)Irregularities in the Procurement of Standby Generator

Zambia Revenue Authority

2015 Para (21) (21) (a) Lack of Tile Deeds – Non-Current Assets

Zambia State Insurance Corporation

2012 Para (22) (24) (a) (iii) - Delayed Projects Implementation

2012 Para (22 (24) (b) (i) - Government Indebtedness to ZSIC

2012 PARA (22) (24) (b)(iii) Non remittance of Statutory Contributions

2012 Para (22) (24) (b) (vii)- Review of Internal Audit Reports on Investments

2012 Para (22) (24) (b) (vii) -Failure to conduct Risk Assessment

2012 Para (22) (24) (b) (vii) -Failure to monitor the Investment

2012 Para (22) (24) (b) (vii)- Investment in Circle Pharmaceuticals Africa US$700,000

2012 Para (22) (24) (b) (vii) -Investments in Freshpikt

2012 Para (22) (24) (b) (vii)- Investments in Non-Performing Projects – Kitwe Development Limited

MINISTRY OF HIGHER EDUCATION

Copperbelt University (CBU)

Copperbelt University (CBU)	*Failure to state Specifications for the Marquee*

Kwame Nkrumah University

2015 Para (10) (10) (g)	*Lack of Title Deeds*

Mulungushi University

2012 Para (8) (10) (a) -	*Non-Remittance of Statutory Contributions*
2012 Para (8) (10) (b) -	*Lack of Title Deed for Water Works Land*
2015 Para (12) (12) (c) (iii	*Unreceipted Deposits for More than 12 Months*
2015 Para (12) (12) (f) (i)	*Civil Works, Construction of Phase One of Alternative Sources-Chindwin*

University of Zambia

2012 Para (9) (11) (a) (b)-	*Statement of Financial Position – Unaccounted for Income*
2012 Para (10) (12 (b) (i) -	*Statement of Financial Position – Failure to Collect Receivables*

MINISTRY OF HOUSING AND INFRASTRUCTURE

National Housing Authority

2015 Para (14) (14) (c) (iii)	*Breach of Conditions of the Scheme*
2015 Para (14) (14) (f) (iii)	*NHA-CJI Joint Venture*
2015 Para (14) (14) (h)	*Non-Remittance Statutory Contributions*

MINISTRY OF INFORMATION AND BROADCASTING

Zambia Institute of Mass Communication Education Trust

2013, 2014, 2015, 2016 Para (22) (22) (22.2)	*Lack of an Internal Audit Function*
2013, 2014, 2015, 2016 Para (22) (22) (22.8)	*Obsolete Studio Equipment*

Zambia National Broadcasting Corporation

2013, 2014, 2015, 2016 Para (24) (24) (24.2) (i) Agreement Star Times Weaknesses in the Joint Borrowing with Top-Star Communications Company Ltd US$232,181,138.85

2013, 2014, 2015, 2016 Para (24) (24) (24.2) (ii) Failure to produce Escrow Account Management Agreement

2013, 2014, 2015, 2016 Para (24) (24) (24.3) Financial Performance-Statement of Comprehensive Income Negative Profits Margins

2013, 2014, 2015, 2016 Para (24) (24) (24.3) (i) - Staff Costs Compared to Revenue Generated

2013, 2014, 2015, 2016 Para (24) (24) (24.3(a)(ii) Statement of Financial Position as at 31st December 2014

2013, 2014, 2015, 2016 Para (24) (24) (24.3) (b) Current Ratio Receivable Days

2013, 2014, 2015, 2016 Para (24) (24) (24.3) (c) Negative Equity (from-K942,693,851 in 2012 to K1,078,529,639 in 2016)

2013, 2014, 2015, 2016 Para (24) (24) (24.4) Failure to Generate Positive Cash Flows from Operating Activities

2013, 2014, 2015, 2016 Para (24) (24) (24.4) (a) Analysis of Net Increase in Cash and Cash Equivalent

2013, 2014, 2015, 2016 Para (24) (24) (24.5)(iii) Declining Cash Inflows from Investment in an Associate From K49,980,000 in 2014 to K13,506,500 in 2016

2013, 2014, 2015, 2016 Para (24) (24) (24.5) (iv)Non-Remittance of Statutory Contributions - K458,824,474

2014 Para (23) (22) (h) Misapplication of Funds-Digital Television Migration

2014 Para (23) (22) (I) (ix) Failure to Re-Master Tapes, Outdated Storage Media

MINISTRY OF LABOUR AND SOCIAL SECURITY

National Pension Scheme Authority

2012 Para (21) (23) (b) (i) - Outstanding Contribution Payments – Arrears

2012 Para (21) (23) (b) (ii) - Employers who ceased operations

2012 Para (21) (23) (b) (iii)- Employers who changed locations

2012 Para (21) (23) (c) (i) - Management of Levy Business Park – Questionable Payment - K8,526,101,801) maintenance expenditure and K2,056,364,260 - Wages on behalf of Liberty Properties)

2012 Para (21) (23) (c) (i)- Unremitted Funds
2012 Para (21) (23) (d)- Undischarged Guarantee

2012 Para (21) (23) (e)- Outstanding Rent Debtors

2013, 2014, 2015, 2016 Para (11) (11) (11.2) (ii)Irregularities in the Management of Contributions Defaulting Employers

2013, 2014, 2015, 2016 Para (11) (11) (11.4) (i)Failure to claim funds from the Council paid for the Encroachment

Para (11) (11) (11.4) (ii) Failure to Secure refund for construction of the Twenty Seven manholes

2013, 2014, 2015, 2016 Para (11) (11) (11.5) Absentee Tenants- Mongu

2013, 2014, 2015, 2016 Para (11) (11) (11.6) Duplicated Payments

Workers' Compensation Fund Control Board

2013, 2014, 2015, 2016 Para (20) (20) (20.4) Car Park- Questionable Procurement/idle Property

MINISTRY OF MINES

Ndola Lime Co. Ltd

2013, 2014, 2015, 2016 Para (13) (13) (13.1) Financial Performance-Statement of Profit and Loss And Other Comprehensive Income for the Financial Year Ended 31 March, 2014, 2015 and 2016

2013, 2014, 2015, 2016 Para (13) (13) (13.3) Inefficient Structuring of an Engineering *and Procurement Conracts (EPC)*

2013, 2014, 2015, 2016 Para (13) (13) (13.4) (i) Defective Mining Equipment

2013, 2014, 2015, 2016 Para (13) (13) (13.4) (ii) Lack of Refectory Bricks for Vertical Kilm

2013, 2014, 2015, 2016 Para (13) (13) (13.6) (i) Contract for the Supply of 2000 Replica Jerseys-Yesu Sports

2013, 2014, 2015, 2016 Para (13) (13) (13.7) (b) Non-Payment of Terminal Benefits

MINISTRY OF TOURISM AND ARTS

Hotel and Tourism Training Institute (HTTI)

Para (12) (11) (a)	*Failure to Constitute the Board of Trustee*
2014 Para (12) (11) (b)	*Lack of Audit Committee*
2014 Para (12) (11) (d)	*Failure to complete works*
2014 Para (12) (11) (e)	*Failure to secure Title Deeds*

Mulungushi Village Complex

2015 Para (13) (13) (e)	*Failure to collect Rentals from Government*
2015 Para (13) (13) (b)	*Failure to Settle internal frozen Terminal Benefits*
2015 Para (13) (13) (i)	*Failure to Rehabilitate and Maintain Investment Property*

National Heritage Conservation Commission

2014 Para (14) (13) (a) (i)	*Weaknesses in the Operations of the Board Lack of Board/Governance Charter*
2014 Para (14) (13) (b)	*Lack of a Heritage Policy*
2014 Para (14) (13) (e)	*Lack of Title Deeds*
2014 Para (14) (13) (h) (ii)	*Failure to Adhere to Site Instruction*

2014 Para (14) (13) (i) (ii)	*Extension and Alteration of the Curio Market and Paving of the Visitor's Car Park- Kalomo Contractors Hardware Enterprises*
2014 Para (14) (13) (k) (i)	*South West Regional Office Kalomo Administrator's House- Dilapidated state*
2014 Para (14) (13) (k) (ii)	*Livingstone Railways Museum-Non-Maintenance Rented Properties*
2014 Para (14) (13) (I) (i)	*Construction of a Boundary Wall at Railway Museum and Painting two Historic Buildings-the Anglican Church and Jewish Synagogue Imaza Building Contractors* *Delayed Completion and failure to claim liquidated Damages*
2014 Para (14) (13) (I) (ii)	*Unsatisfactory work*
2014 Para (14) (13) (m) (ii)	*Construction of Visitor's Toilets at Embassy Park National* *Monument Ailito Cleaning Services, Delayed Completion/Lack of Handover Irregular Payment*
2014 Para (14) (13) (m) (iii)	*Tourism Concession Agreement – Lundazi Castle Hotel*
2014 Para (14) (13) (n) (i)	*Northern Regional Office, The Lumangwe/Kabwelume Falls* *Tourism Infrastructure Development Project, Failure to Remit Funds*
2014 Para (14) (13) (n) (ii)	*Failure to Rehabilitate Director's Residence*

Construction of the Proposed Tourism Development

Infrastructure at Kalambo Falls -Curve Contractors,

Delayed Completion and unclaimed Liquidated Damages

2014 para (14) (13) (n)(iii) *Irregular Variation, Weaknesses identified in the Site Handover Report.*

National Parks

2015 Para (22) (22) (c) Questionable Presence of a South African Company in Lusaka National Park

2015 Para (22) (22) (d) Undelivered Materials

2015 Para (23) (23) (b) Failure to Remit Statutory Contributions

2015 Para (23) (23

Zambia Wild Life Authority

2012 Para (23) (25) (e) - *Failure to Collect Revenue from Masebe Game Ranch*

2012 Para (23) (25) (f) (ii) - *Failure to Remit Loan Recoveries to Financial Institutions*

2012 Para (23) (25) (f) (ii)- *Failure to remit Statutory Contributions*

2012 Para (23) (25) (g) (i) *Questionable issuance of Local Purchase Order (LPO)*

2012 Para (23) (25) (g) (ii)- *Failure to Execute Contract in Full*

2012 Para (23) (25) (g) (iii)- *Failure to Declare Interest*

2012 Para (23) (25) (h)- *Lack of Proper Armory Building- Area Management Units*

2012 Para (23) (25) (h) (i) *Encroachment into Game Management Area Mumbwa East/Lower Zambezi National Park*

2012 Para (23) (25) (h) (ii)- *Companies Operating without Tourism Concession Agreements*

2012 Para (23) (25) (h) (iii)- Failure to Collect Debt Related to Fixed Lease and variables Fees

MINISTRY OF WATER DEVELOPMENT, SANITATION AND ENVIRONMENTAL PROTECTION

Chambeshi Water and Sewerage Company Limited

2015 Para (7) (7) (a)	*Failure to prepare Audited Financial Statements*
2015 Para (7) (7) (d)	*Questionable Board Expenses*
2015 Para (7) (7) (g)	*Lack of Title Deeds for surrendered Assets*
2015 Para (7) (7) (j)	*Non-Remittance of Statutory Contributions*
2015 Para (7) (7) (k) (i)	*Projects and Contracts. Delayed Completion of Works*
2015 Para (7) (7) (k) (iii)	*Falling Walls on the Spillway-Lubu Earth Dam-Chinsali*

Eastern Water and Sewerage Company

2012 para (12) (14) (e) - Un-accounted for Water

2012 para (12) (14) (f) **-** Failure to remit Statutory Contributions

2013, 2014,2015, 2016 Para (2) (2) (2.1) (iv)- Lack of Board of Directors

2013, 2014, 2015, 2016 Para (2) (2) (2.4) (iv) - Sanitation Coverage

2013, 2014, 2015, 2016 Para (2) (2) (2.4) (v) - Staff Cost in Relation to Billing and Collection

2013, 2014, 2015, 2016 Para (3) (3) (3,1) - Delay in Paying Suppliers and Allowances to Officers

2013, 2014, 2015, 2016 Para (3) (3) (3.8) (i) - Misapplication of Funds

Lukanga Water and Sewerage Company Limited

2012 Para (13) (15) (a) (i)	*Company Performance Unaccounted for Water (Non-Revenue Water)*
2012 Para (13) (15) (c) (ii) -	*Collection of Trade Receivables*
2012 Para (13) (15) (d) -	*Non-payment of Statutory Obligations*
2012 Para (13) (15) (e) (i)	*Revenue cancelled Receipts Wrongly Posted to Customer Accounts*
2012 Para (13 (15) (e) (ii) -	*Failure to avail Cancelled Receipts*
2012 Para (12) (14) (e) -	*Un-accounted for Water*
2012 Para (12) (14) (f) -	*Failure to Remit Statutory Contributions*
2012 Para (14) (16) (e) -	*Failure to remit Statutory Contributions*
2015 Para (11) (11) (d) (ii)	*Properties without Title Deeds/Lack of Statutory Instrument To Transfer Assets*
2015 Para (11) (11) (e) (i)	*Irregularities in Revenue Collection, Missing cancelled/Void Receipts*
2015 Para (11) (11) (e) (ii)	*Gaps Receipt Sequences*
2015 Para (11) (11) (f)	*Non-payment of Statutory Obligations*

Mulonga Water and Sewerage Company Limited

2013, 2014, 2015, 2016 Para (9) (9) (9.3) Failure to Produce Audited Financial Statements

2013, 2014, 2015, 2016 Para (9) (9) (9.6) (i) Properties without Title Deeds

2013, 2014, 2015, 2016 Para (9) (9) (9.6) (ii) Failure to Value MWSC Properties

2013, 2014, 2015, 2016 Para (9) (9) (9.8) (a.i) Delayed Implementation of Kasumbalesa Project

2013, 2014, 2015, 2016 Para (9) (9) (9.8) (b.i) Failure to avail Variation Order

2013, 2014, 2015, 2016 Para (9) (9) (9.8) (b.ii) Stalled Works

2013, 2014, 2015, 2016 Para (9) (9) (9.8) (b.iii) Delayed implementation of Repair Works

Collapsed Embankment

2013, 2014, 2015, 2016 Para (9) (9) (9.9) Failure to Replace Water Testers

North Western Water and Sewerage Company

2014 Para (15) (14) (c)	*Poor Administration of Backups – Lack of Backup Policy*
2014 Para (15) (14) (i)	*Failure to Utilize Modules Paid for in SAGE Evolution ERP*
2014 Para (15) (14) (j) (ii)	*Irregular Rate of Board Allowances*
2014 Para (15) (14) (k)	*Internal Audit Weaknesses, Lack of Internal Audit Charter*
2014 Para (15) (14) (o) (i)	*Irregularities in Billing Systems Administration Customer*
	Accounts with Incomplete Details on the System
2014 Para (15) (14) (o) (ii)	*Unbilled Customer Account*
2014 Para (15) (14) (o) (iii)	*Customers with Duplicate Account Numbers*
2014 Para (15) (14) (o) (iv)	*Customers with Zero and Negative Water Consumption,*
	Negative Consumption
2014 Para (15) (14) (o) (v)	*Customers Billed on Average Consumption Over Three Months*
2014 Para (15) (14) (o) (vi)	*Failure to Disconnect Past Due Customer Accounts*
2014 Para (15) (14) (o) (vii)	*Metered Customers on Meter Reading Report not on the*
	Customer Master
2014 Para (15) (14) (o) (viii)	*Metered customers on the customer Master not on the Meter Reading Report*

2014 Para (15) (14) (o) (viii) *Metered Customers on the customer Master not on the Meter Reading Report*

2014 Para (15) (14) (p) (v) *Weaknesses in Managing Staff Costs- Questionable Recruitments*

Nkana Water and Sewerage Company

2013, 2014, 2015, 2016 Para (14) (14) (14.1) Expiry of the Tenure of the Board 2013,

2014, 2015, 2016 Para (14) (14) (14.2) Operating Losses – Statement of Comprehensive Income

2013, 2014, 2015, 2016 Para (14) (14) (14.7) Casualization of Labour

Southern Water and Sewerage Company

2015 Para (16) (16) (e) *Questionable Acquisition of a House*

2015 Para (16) (16) (f) - *Failure to Remit Withholding Tax*

2015 Para (16) (16) (e) *Failure to Pass Title of Assets to SWSC*

Water Resources Management Authority

2014 Para (20) (19) (a) (ii) *Questionable Payment of Allowances to Board Members*

2014 Para (20) (19) (a) (iii) *Questionable Payment of Allowances*

Western Water and Sewerage Company

2014 Para (21) (20) (o) (ii) *Wasteful Expenditure-Mwandi Water Project*

2014 Para (21) (20) (o) (iii) *Kaoma Rehabilitation and Extension Water Supply Network- Collapsed Borehole*

2014 Para (21) (20) (f) (i) *Internal Control Weaknesses, Lack of the Risk Management Policy*

2014 Para (21) (20) (k) (iii) *Lack of interface between the Billing and Accounting System, Failure to Collect Debt*

2014 Para (21) (20) (m) - Failure to Meet Water and Sanitation Sector Benchmarks Reduction in Sanitation Coverage, Water Services Coverage, Hours of Supply

MINISTRY OF WORKS AND SUPPLY

Roads Development Agency (RDA)

2014 Para (17) (16) (a) *Lack of Board*

2014 Para (17) (16) (b) *Irregular Investment of K3,000,000*

2014 Para (17) (16) (e) *Irregular Sales of Motor Vehicles to Officers*

MINISTRY OF YOUTH AND SPORT

National Youth Development Council

2014 Para (16) (15) (a) (i) *Irregularities in the Payment of Allowances and Overpayment Of Council Allowances*

2014 Para (16) (15) (a) (ii) *Double Payment of Allowances*

2014 Para (16) (15) (a) (iii) *Irregular payment of Council Allowances*

2014 Para (16) (15) (b) *Irregular Recruitment of Staff*

2014 Para (16) (15) (c) *Misapplication of Funds for Terminal Benefits*

2014 Para (16) (15) (f) *Lack of Title Deeds for Council Properties, Plot 10423/196 And 179, Chainama Great East Road*

MINISTRY OF LOCAL GOVERNMENT

Local Authorities Superannuation Fund

2013, 2014, 2015, 2016 para (6) (6) (6.1) - Lack of segregation of duties – Director Finance and Pensions Administration.

27. APPENDIX 4 – GLOSSARY OF TERMS

Audit Finding	The result of audit procedures and tests conducted by the auditor.
Committee on Parastatal Bodies	A sessional committee of the National Assembly established in terms of the standing orders. The committee examines the Reports of the Auditor General, as part of its mandate of examining the accounts of Parastatal Bodies and Other Statutory Institutions.
Controlling Officer	An officer designated as such by the Secretary to the Treasury to maintain accounts of a Ministry, Province or Agency.
Irregularity	Breach of laws, regulations or rules.
Imprest	Funds or moneys issued out to facilitate payments of a minor nature, meet expenses when the officer is travelling on duty or to facilitate the purchase of goods and services whose value cannot be ascertained at the time.
Outstanding Issues	Audit queries that remain unresolved in the Treasury Minutes (Action Taken Reports) prepared by the Ministry of Finance on the Reports of the Auditor General.
Parliament	Legislative organ of Government.
Statutory Obligations	Obligations that do not arise out of a contract but are imposed by law
Unaccounted for Revenue	Revenue collected but neither banked nor cash found on hand.
Unvouched Expenditure	Payment vouchers not availed for audit because they are either missing or payment vouchers that are not adequately supported with documentation.
Unretired Imprest	Imprest not accounted for.
Unaccounted for Stores	Missing stores items without evidence of how they were received and utilised.
Wasteful Expenditure	Expenditure incurred without benefits derived.