REPORT

of the

AUDITOR GENERAL

for 2014

on the

ACCOUNTS OF PARASTATAL BODIES

AND OTHER STATUTORY INSTITUTIONS

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Executive Summary

The audit and review of operations of selected parastatal bodies and other statutory institutions for the periods up to the year ended 31st December 2014 was conducted in accordance with the provisions of Article 121 of the Constitution of the Republic of Zambia, the Public Audit Act Cap 378 of the Laws of Zambia and the Public Finance Act No. 15 of 2004.

This Report contains twenty five (25) paragraphs out of which eighteen (18) are paragraphs on parastatal bodies and other statutory institutions that were audited and remained with unresolved issues as at 31st December 2015.

The eighteen (18) institutions that appear in this Report either had their operations reviewed or accounts audited for periods longer than one financial year as in most cases, their books of accounts are primarily audited by appointed auditors in line with the appropriate pieces of legislation. However, it is necessary that such accounts are reviewed and the results of such reviews submitted in compliance with the Republican Constitution and Public Audit Act.

The Report also includes results of the audits of Information Communication Technology (ICT) systems that the organisations have implemented in order to improve on the efficiency and effectiveness of service delivery. Notable observations included the failure to comply with the international standards on information technology and failure to adopt IT policies which could guide the operations of the institutions.

Some of the issues raised in this Report are:

i. Weaknesses in corporate governance,

ii. Weaknesses in the implementation of Information Communication Technology (ICT) systems,

iii. Failure to produce financial statements,

iv. Poor financial and operational performance,

v. Lack of title deeds for properties that should be owned by various institutions,

vi. Weaknesses in contract management.

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

Summary of Findings	**Amount K**
Non Remittance of Statutory Contributions	876,156,916
Inadequately Supported Payments	15,522,630
Irregular Payments	2,490,403
Unaccounted for Stores	358,398
Unretired Imprest	1,807,650
Missing Payment Vouchers	873,774
Wasteful Expenditure	396,275,835

Introduction

1. This Report on the accounts of selected parastatal bodies and other statutory institutions for the periods up to the year ended 31st December 2014 is submitted to the President for tabling in the National Assembly in accordance with the provisions of the Constitution of Zambia and the Public Audit Act Cap 378 of the Laws of Zambia.

Scope of Audit

2. The Report is a result of a programme of test checks and reviews of audited accounts of selected organisations for the financial years up to 31st December 2014.

   In preparing the 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 comments were received and varied materially with the facts presented, the paragraphs were accordingly amended.

Internal Control

3. In this Report, specific mention is made of non-preparation of financial statements, failure to remit statutory contributions, weaknesses in procurement procedures, irregular payments and poor financial performance among other issues by the respective organisations. These are clear indicators of internal control lapses in most parastatal and statutory organisations.

Institutions that have not Submitted Audited Financial Statements

4. There were twenty six (26) statutory and parastatal bodies that had not produced audited financial statements on the accounts for the financial years up to 31st December 2014 as detailed below.

	INSTITUTION	PARENT MINISTRY	PERIOD FOR WHICH THERE WERE NO AUDITED FINANCIAL STATEMENTS
1	National Food & Nutrition Commission	Ministry of Health	2009 to 2014
2	Zambia Medicines Regulatory Authority	Ministry of Health	2011 to 2014
3	General Nursing Council	Ministry of Health	2014
4	Hotel Tourism and Training Institute	Ministry of Tourism	Since inception in 2001
5	Citizenship Economic Empowerment Commission	Ministry of Commerce	2013 to 2014
6	Zambia Public Procurement Authority	Ministry of Commerce	2009 to 2014
8	Zambia Institute of Mass Communication	Ministry of Information	2013 to 2014
9	Independent Broadcasting Authority	Ministry of Information	2013 to 2014
10	Food Reserve Agency	Ministry of Agriculture	2012 to 2014
11	Livestock Development Trust	Ministry of Agriculture	2009 to 2014
12	Cotton Board of Zambia	Ministry of Agriculture	2014
13	Tobbacco Board of Zambia	Ministry of Agriculture	2014
14	Cotton Development Trust	Ministry of Agriculture	2012 to 2014
15	Chambeshi Water and Sewerage Company	Ministry of Local Govt	2012 to 2014
16	Luapula Water and Sewerage Company	Ministry of Local Govt	Since inception in 2008
17	North-Western Water and Sewerage Company	Ministry of Local Govt	2012 to 2014
18	Western Water and Sewerage Company	Ministry of Local Govt	2012 to 2014
19	Zambia Education Publishing House	Ministry of Education	2007 to 2014
20	Nitrogen Chemicals of Zambia	Ministry of Agriculture	2009 to 2014
21	National Housing Authority	Ministry of Local Govt and Housing	2012 to 2014
22	National Heritage Conservation Commission	Ministry of Tourism	2007 to 2014
23	National Youth Development Council	Ministry of Youth and Sport	2006 to 2014
24	State Loteries Board	Ministry of Commerce	2007 to 2014
25	Zambia Railways	Ministry of Works & Supply	2013 to 2014
26	TAZAMA	Ministry of Works & Supply	2013 to 2014

The non-production of audited financial statements by the above institutions is contrary to good practices and various enabling legislations governing the organisations.

Institutions Appearing in this Report

5. There are eighteen (18) institutions whose review of operations or audit results are contained in this Report.

The Copperbelt University (CBU)

Background

6. The Copperbelt University (CBU) is a public university which was established by the University Act of 1987 and came into effect on 1st December 1987. The University Act was repealed and replaced by the Higher Education Act No.4 of 2013.

The principal activities of the University are to:

- Provide university education,
- Promote research and advancement of learning,
- Disseminate knowledge and, and
- Hold out to all persons, who meet all the stipulated academic or professional qualifications, the opportunity of acquiring university education.

Administration

- **The University Council**

  The Higher Education Act No. 4 of 2013 provides for the establishment of the University Council which is a body corporate with powers, subject to the provisions of the Act, and is responsible for the governance, control and administration of the University.

  The Council consists of the following members appointed by the Minister of Education:

  - The Vice Chancellor
  - A Deputy Vice Chancellor
  - One member of staff of a local authority in whose area the higher education institution is located, who shall be nominated by the Local Authority
  - Two members of the academic staff of the higher education institution who are members of Senate, who shall be nominated by the Senate;
  - One member who is associated with higher education institution outside the Republic;
  - One member who is associated with other higher education institution within the Republic;

- One member who is a student of the higher education institution, who shall be nominated by the students of the higher education institution in accordance with such election procedure as the students' union may determine;
- One person who is a member of the non-academic staff of the higher education institution, who shall be nominated by the non-academic staff of the higher education institution in accordance with such election procedures the non-academic staff may determine;
- One 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;
- One member who is a graduate of the higher education institution and who is not a member of staff of that higher education institution;
- Three members of the trade, commerce and the professions, not being employees or students of the higher education institution, public or member of the Parliament, who shall be nominated by the recognised business or professional association or organisation in accordance with such procedure as the business or professional association may determine;
- One member of the National Assembly nominated by the Speaker; and
- One representative each from the Ministries responsible for higher education and finance.

- **Senate**

According to Section 35 of the Act, the Senate is the supreme academic authority of the University and, is responsible for organising, controlling and directing the academic work of the University, both in teaching and research.

The Senate membership comprises the Vice Chancellor as Chairperson; the Deputy Vice Chancellor; the Deans of Schools; not more than fourteen Professors and Associate Professors of the CBU; the Librarian; Directors of the centres, institutes, bureaux or other similar bodies of the University; the Dean of Students; not more than fourteen non-professorial academic staff of the University; two students and four other persons appointed by the Vice Chancellor.

Source of Funds

According to the Act, the sources of funds for the University shall consist of such monies as may–

- Be appropriated by the Parliament;
- Be paid to the public higher education institution by way of fees, subscription, contributions, grants or donations; and
- Otherwise vest in or accrue to the public higher education institution.

The University may also accept monies by way of grant or donations from any source in Zambia and, with the approval of the Minister, from any source outside Zambia.

Funding

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2012, 2013 and 2014, provisions in amounts totalling K181,246,016 were made to cater for various activities against which amounts totalling K250,692,107 were released resulting in an over funding of K69,446,091. See table below.

YEAR	Budget K	Released K	Over /(Under) Funding K
2012	56,408,107	107,304,107	50,896,000
2013	60,018,225	60,018,000	(225)
2014	64,819,684	83,370,000	18,550,316
TOTAL	**181,246,016**	**250,692,107**	**69,446,091**

In addition, the University collected amounts totalling K431,924,000 from tuition and accommodation fees and other sources as shown below.

SOURCE	2014 K'000	2013 K'000	2012 K'000	TOTAL K'000
Tuition	140,623	159,284	93,304	**393,211**
Accommodation	5,627	12,290	4,337	**22,254**
Other	4,840	6,454	5,165	**16,459**
TOTAL	**151,090**	**178,028**	**102,806**	**431,924**

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Copperbelt University revealed the following:

a. Financial Performance – Statements of Comprehensive Income

The Statements of Comprehensive Income for the financial year ended 31st December 2012, 2013 and 2014 were as follows:

	2014 K'000	2013 K'000	2012 K'000
Income			
Government grants - Recurrent Expenditiure	64,820	60,018	57,508
Government grants - Rationalisation	-	-	44,000
Government grants - Retirement benefits	18,550	-	5,796
Total Grants	**83,370**	**60,018**	**107,304**
Student Fees	146,250	171,574	97,640
Other Incomes	5,325	6,761	5,166
Total Income	**234,945**	**238,353**	**210,110**
Expenditure	**(398,538)**	**(345,912)**	**(345,912)**
Deficit for the Year	**(163,593)**	**(107,559)**	**(135,802)**
Other items of comprehensive income	-	-	-
Total Comprehensive loss for the year	**(163,593)**	**(107,559)**	**(135,802)**

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

i. Losses

The University made losses amounting to K135,802,000 in 2012 which slightly improved to K107,559,000 in 2013 but worsened to K163,593,000 in 2014.

ii. Staff Costs to Income Ratio

The income generated by the University during the period under review was not adequate to meet staff costs as shown in the table below.

	Yr to Dec 2014	Yr to Dec 2013	Yr to 31/03/2012
Income(K'000)	234,945	238,353	210,587
Total Staff costs(K'000)	285,460	234,443	182,957
Staff Cost as % of Revenue	**122%**	**98%**	**87%**

The University's total income in 2012 was K210,587,000 out of which amounts totalling K182,957,000 representing 87% went towards meeting staff costs. In 2013, this percentage increased to 98% with staff costs reaching K234,443,000 while total income was K238,353,000. In 2014, staff costs surpassed total income by K50,515,000 being K285,460,000 while total income was K234,945,000. This translated into a staff costs to income ratio of 122% in 2014. It was observed that although income reduced in 2014 from K238,353,000 generated in 2013 to K234,945,000 in 2014, staff costs incurred increased by 17.9 % from K234,443,000 in 2013 to K285,460,000 in 2014.

b. Financial Performance – Statements of Financial Position

The Statements of Financial Position for the CBU for the years ended 31st December 2012 – 2014 were as follows:

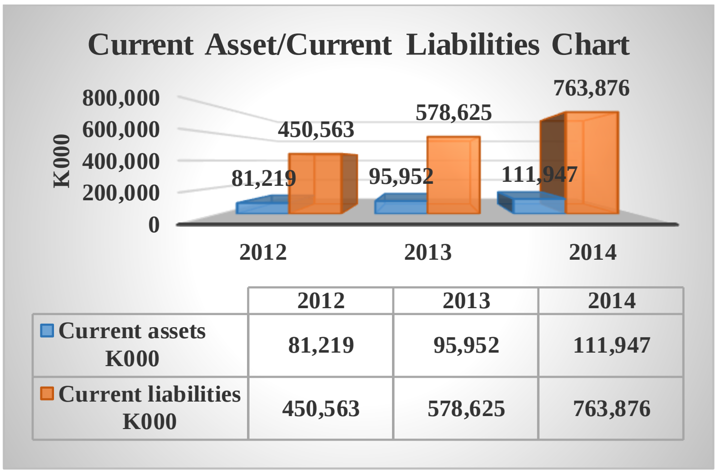
	2014 K'000	2013 K'000	2012 K'000
ASSETS			
Non-Current Assets			
Property, plant and Equipment	176,983	148,966	139,440
Investments	4,273	4,273	
	181,256	153,239	139,440
Current Assets			
Inventories	2,196	2,576	1,511
Trade and other receivables	87,575	79,396	50,700
Held to maturity financial assets	10,239	-	20,000
Cash and cash equivalents	11,937	13,980	9,008
	111,947	95,952	81,219
Total Assets	293,203	249,191	220,659
EQUITY AND LIABILITIES			
Funds and Reserves			
Capital funds	165	165	165
Grants and donations	58,440	36,228	32,132
Revaluation reserve	98,803	101,455	104,107
Accumulated deficits	(632,156)	(471,215)	(366,308)
	(474,748)	(333,367)	(229,904)
Non Current Liabilities			
Long term portion of interest bearing loan	2,642	1,193	-
Deffered Income	1,433	2,740	-
	4,075	3,933	
Current Liabilities			
Short term portion interest bearing loan	4,588	1,135	-
Bank overdrafts	-	2,550	429
Trade and other payables	44,058	14,780	10,906
Statutory deductions	515,160	408,804	329,848
Provision for contract gratuity and litigation	200,070	151,356	109,380
	763,876	578,625	450,563
Total equity and liabilities	293,203	249,191	220,659

An analysis of the statement of financial position revealed the following:

i. Liquidity - Negative Working Capital

Liquidity is the ability of the entity to meet its short term obligations as they fall due. The short term obligations include the current liabilities which have to be settled using current assets.

It was noted that the Copperbelt University's current liabilities exceeded current assets as at the end of each year under review as depicted in the chart below.



The current assets as at 31st December 2012 were K81,219,000 compared with current liabilities of K450,563,000 and current assets for the financial year ended 31st December 2013 were K95,952,000 while the current liabilities amounted to K578,625,000. The trend continued in 2014 with current assets of K111,947,000 while the current liabilities had increased to K763,876,000. This situation led to negative working capital as shown below:

Working Capital = Current Assets - Current Liabilities

	31st Dec 2014 K	31st Dec 2013 K	31st Dec 2012 K
Current assets	111,947	95,952	81,219
Current liabilities	763,876	578,625	450,563
Working Capital	(651,929)	(482,673)	(369,344)

therefore, the University had a negative working capital of K369,344 in 2012, which worsened to K482,673 in 2013 and further worsened to K651,929 in 2014.

ii. Failure to Meet Statutory Obligations

During the period under review, the liabilities in respect of the statutory contributions (ZRA and NAPSA) increased from K329,848,000 in 2012 to K515,160,000 in 2014. Included in the liabilities were penalties of K19,260,00 in 2012, K29,085,000 in 2013 and K36,014,000 in 2014, incurred as a result of failure to remit the funds to the respective institutions on time.

c. Weaknesses in Managing Procurements of Works, Goods and Services

i. Failure to Produce a Procurement Plan

Public Procurement Regulation No. 26 (1) states that "A Procurement Unit shall, in consultation with a user department, prepare a procurement plan for the procuring entity, for each financial year, containing the information required under Regulation No. 27". Further, Regulation No. 27 requires, among others, that an entity should include in its Procurement Plan:

- detailed breakdown of the goods, works and services required, the procuring agency's priorities, and an indication as to whether it will be necessary to carry out a prior study for tenders of works;
- a schedule of the delivery, implementation or completion dates for all goods, works and services required.

Contrary to the regulations, the University did not have a procurement plan during the period under review.

ii. Installation of the Multi-Purpose Marquee and Associated Works

During the period from June 2013 to June 2015, the University spent K5,937,488 on the procurement of a multi-purpose marquee (50m x 80m) which could accommodate 3,000 guests and other associated procurements to make the tent functional as listed below.

Procurement	Amount K
Multi Purpose Marquee	1,948,212
Site Preparatory Works	1,852,597
Graduation chairs	756,000
Air Conditioners	734,946
Drainage	77,798
Tables	567,936
	5,937,488

The following were observed:

- **Failure to Prepare a Project Procurement Plan**

  Contrary to Procurement Regulation No. 36 (1) which states that "A Procurement Unit shall, following receipt of an approved requisition, prepare a procurement plan for each individual procurement requirement", the University did not prepare a procurement plan for the project which would guide the process of procuring the marquee and its various associated works.

- **Questionable Use of Limited Bidding**

  Public Procurement Regulation No. 14 states that "A procuring entity may use limited bidding for goods, works or non-consulting services, where—

  i. the goods, works or services are only available from a limited number of suppliers;

  ii. there is urgent need for the goods, works or services, and engaging in open bidding would be impractical;

  iii. the requirement is of a specialised nature or relates to public safety or public security which makes open bidding inappropriate; or

  iv. open bidding has failed to secure an award of contract."

  Although the conditions required for use of limited bidding were not met, the University used limited bidding in the procurement of the marquee, site preparatory works, installation of air conditioners and purchase of graduation chairs.

- **Failure to State Specifications for the Marquee**

  The purchase requisition dated 14th June 2014 raised to request the purchase of the Marquee did not conform to the requirements of the Public Procurement Regulation No. 32 in that specifications such as the lifespan of the Marquee, its thickness and strength were not stated. Regulation No. 32 (1) states that "Every requisition for the procurement of goods shall be accompanied by a complete, precise and unambiguous description of the goods required, in the form of a statement of requirements".

iii. Consultancy Contract for the Construction of School of Medicine

On 25th February 2015, the Copperbelt University engaged its Practice Office under the School of Built Environment as Project Consultants on the construction works for the School of Medicine. The Contract price was K1,308,082 where 50% of the price was payable as advance and the rest was payable in stages during the contract.

As at the time of audit in October 2015, amounts totalling K637,627 had been paid to the consultants.

However, it was noted that although the contract was signed with the Practice Office, payment for the services rendered were being made to individual consultants and not the Practice Office. There was no work plan and report to indicate what each consultant was required to do and had actually done. Further, policies regarding such matters as provision of consultancy services by members of staff, how they are paid, use of university resources in the consultancy and the proportion retained by the university were not availed for audit.

iv. Unsupported Payments

Contrary to Financial Regulations No. 6.5.7 of the CBU, one hundred and ten (110) payments in amounts totalling K1,400,181 made during the period under review were not supported with relevant documents such as Goods Received Notes, Invoices, Cash sale receipts and Local Purchase Orders among others.

d. Irregular Implementation of New Conditions of Service

A review of the Collective Agreements between the Copperbelt University Council and the three University Union namely the Copperbelt University Allied Workers Union (CBUAWU), Copperbelt Senior Administrative, Professional and Technical Staff Union (CUSATSU) and Copperbelt University Academics Union (CBUAU) during the period under review revealed that only the collective agreements from January 2012 to December 2013 were approved. The conditions of service in effect from January 2014 to October 2015, had not been approved by the Ministry of Labour and Social Security as of October 2015.

The University had submitted the Collective Agreements for 2014 to the Ministry of Labour for approval. However, the Ministry in its response dated July 2015 did not approve the Collective agreements stating that parties to the collective agreement needed to revise the conditions of services which contributed to an increase in accrued retirement and gratuity provisions from K148,199,000 in 2013 to K200,070,000 in 2014. Despite the negative response from the Ministry, the University implemented the unapproved conditions of service.

Competition and Consumer Protection Commission

Background

7. The Competition and Consumer Protection Commission (CCPC) is a Statutory Body established under Section 4 of the Competition and Consumer Protection Act No. 24 of 2010. The Commission's principal aim is to safeguard competition and ensure consumer protection.

Source of Funds

According to the Competition and Consumer Protection Act No. 24 of 2010, the funds of the Commission shall consist of such moneys as may:

i. be appropriated by Parliament;

ii. be paid to the Commission by way of fees, levies, grants or donations; or

iii. vested in or accrued to the Commission.

Board of Directors

According to the first schedule (Section 4(3)) of the CCPC Act, the Board of the Commission shall consist of the following members appointed by the Minister:

i. A representative from the Ministry responsible for Commerce

ii. A representative of the Attorney General ; and

iii. Five other members, with experience and knowledge in matters relevant to this Act, appointed by the Minister.

The Chairperson and Vice-Chairperson of the Board are appointed by the Minister from amongst the members of the Board.

Administration of the Commission

The operations of the CCPC are coordinated and implemented by the Executive Director who is assisted by the Directors responsible for Consumer and Public Relations, Legal and Enforcement, Finance and Administration and Mergers and Monopolies.

The financial statements of CCPC are subject to audit by the Auditor-General in terms of the provisions of Article 121 of the Constitution of Zambia, Public Audit Act of 1980 and Public Finance Act No. 15 of 2004.

Funding

In the Estimates of Revenue and Expenditure for 2012 and 2013, provisions of K5,000,000 in each year were made to cater for operational activities of CCPC. The funding was in addition to the income collected from fees and fines in amounts totalling K3,908,607 in 2012 and K3,904,112 in 2013. In 2014, CCPC was funded amounts totalling K18,905,005. See table below.

Year	GRZ Funding K	Fines and Fees K	Total Funding K
2012	5,000,000	3,908,607	8,908,607
2013	5,000,000	3,904,112	8,904,112
2014	18,905,005	-	18,905,005

Accounting and Other Irregularities

A review of accounting and other records for the CCPC carried out in October 2015 revealed the following:

a. Non Remittance of Funds Held in Short Term Investment Accounts

In 2013, the Ministry of Finance issued an instruction to the Commission to transfer all moneys raised through fees and fines, and short term investments to the Government. Contrary to the instruction, the CCPC had not remitted amounts totalling K11,000,000 held in its investment accounts as of November 2015.

b. Unsupported Board Allowances

During the period under review, amounts totalling K148,205 were paid as sitting allowances to Board Members. However, the allowances were not supported with Board minutes and attendance registers making it not possible to establish whether or not the meetings were held.

c. Failure to Engage ZRA on Payment of Tax on Gratuity on behalf of Directors

According to the Income Tax Act Cap 323, all individuals in employment have an obligation to pay tax on their emolument;

Unless as provided for under Section 14 (2) of the Income Tax Act (2014) which states that, where the employer agrees to bear on behalf of an employee any tax due on any emoluments of the employee payable in any charge year, the employer shall give notice to the Commissioner General within fourteen (14) days of the beginning of the year or of the commencement of the employment in question, whichever is the later, stating, Section 2 (a), (b) and (c) of the Act respectively.

Contrary to the provisions, the Commission under Clause 8 (iii) of its contracts with Directors, agreed to pay tax on gratuities in amounts totalling K900,198 paid to three (3) directors without engaging the ZRA Commissioner General at the commencement of their employment.

It was further noted that out of the grossed up gratuity for the three (3) directors, tax in amounts totalling K278,796 was not remitted to the Zambia Revenue Authority despite being provided for in the Financial Statements.

d. Unapproved Increase of Professional Allowance

According to the conditions of service of 2013, an officer who possesses a relevant academic professional qualification such as a degree shall in addition to his or her salary be paid an allowance as follows:

- Directors (excluding the Executive Director) - K4,480
- Managers and other Professional Staff - K3,640

However, it was observed that during the period from January 2014 to date, there was an increase in the payment of professional fees as follows:

- Directors - K12,180
- Managers - K5,500
- Other Professional Staff (no increase) - K3,640

There was no evidence of minutes of the Board approving the revision of the professional fees for the managers.

e. Loans Exceeding Entitlements

According to the CCPC staff conditions of service under clause 28.0, a personal loan (Multi-Purpose Loans) is given up to 40 per cent of the officer's annual basic salary repayable over three years at 5% interest per annum on the outstanding balance.

However, fourteen (14) officers obtained personal loans in amounts totalling K895,135 which were over and above their entitlement of K575,888 as required by the conditions of service. In this regard, the officers were overpaid by K319,247.

f. Procurement of Vehicles Outside the Budget

On 31st July 2014, the Commission purchased a Vehicle (Jeep Grand Cherokee) at a cost of K398,600 for the Executive Director. A scrutiny of the 2014 final budget revealed that there was no budget line for the said vehicle. In addition, a sum of K13,791 was spent on the addition of side steps to the same vehicle on 8th September 2014.

Further, on 1st October 2014, another payment of K374,847 was made for the supply of three (3) motor vehicles for Directors at a total cost of K749,694. A scrutiny of the 2014 budget revealed that only two (2) of the cars for the Directors costing K500,400 were appearing on the budget. Therefore, the third car valued at K249,898 was not budgeted for.

Although in their response, management indicated that the budget was revised upwards from K600,000 to K1,100,400, the minutes indicating the revision were not availed for audit.

g. Unfilled Position of Internal Auditor

Despite the organization structure for the Commission providing for one auditor, the Commission had not employed an internal auditor to provide internal audit services.

h. Missing payments

Various payments in amounts totaling K27,512 made during the years under review were missing and thus could not be availed for audit.

i. Inadequately Supported Payments

Various payments in amounts totaling K784,521 and US$5,175 involving fifty two (52) transactions made during the period from January 2012 to December 2014 were not adequately supported with receipts, acquittal sheets, goods received notes and other relevant documents.

j. Unacquitted Funds

Payments in amounts totalling K28,500 involving two (2) transactions made in respect of allowances to various officers for meetings held during the period from 27th May to 17th November 2014 had not been acquitted as of October 2015.

k. Unretired Imprest

Imprest in amounts totalling K311,225 paid during the period under review had not been retired as of December 2015.

l. Lack of Disposal Details for Assorted Stores

Assorted corporate attire costing K670,218 involving forty two (42) transactions, purchased during the period under review had no receipt and disposal details.

m. Use of Personal Bank Accounts – Provincial Offices

During the period under review, the Commission deposited operational funds in amounts totalling K153,107 into personal accounts of either the Investigator or Administrative Assistant at the ten (5) provincial offices namely Kitwe, Chipata, Solwezi, Kasama and Mongu.

Citizens Economic Empowerment Commission

Background

8. The Citizens Economic Empowerment Commission (CEEC) was established under the Citizens Economic Empowerment Act No. 9 of 2006. The Commission has the following functions among others:

- To promote the empowerment of citizens that are or have been marginalised or disadvantaged and whose access to economic resources and development capacity has been constrained due to various factors including race, sex, education background, status and disability;
- To promote gender-equality in accessing, owning, controlling, managing and exploiting economic resources;
- To encourage effective and meaningful participation of targeted citizens in the economy in order to contribute to sustainable economic growth;
- To ensure equal opportunities for, and where necessary, ensure preferential treatment to, targeted citizens, citizens empowered companies, citizen influenced companies and citizens owned companies in accessing procurement contracts and other services of any state institutions; and,
- To review the framework for the provision of development services to micro and small businesses in response to changing circumstances.

Management of the Commission

The Act provides for the appointment of twelve (12) part-time commissioners who are appointed by the President for a term not exceeding three (3) years, subject to renewal. The Commission comprises the following:

i. The Chairperson

ii. The Secretary to the Treasury;

iii. The Permanent Secretary in the Ministry of Commerce, Trade and Industry;

iv. The Permanent Secretary in the Ministry of Labour and Social Security;

v. The Attorney-General or a representative of the Attorney-General;

vi. One person representing the youth;

vii. Two persons representing the private sector and civil society organisations;

viii. Three persons representing the university community, Central Statistical Office and the Trade Unions; and

ix. One person representing the disabled.

According to the Act, the Director General who is the Chief Executive Officer is responsible for the day to day running of the Commission and is assisted by three (3) heads of departments namely, Empowerment, Finance and Corporate Services.

Sources of Income

According to the Act, the funds of the Commission shall consist of:

- Such moneys as may be appropriated by Parliament for the purposes of the Commission
- Moneys received by way of fees, grants, loans or donations for the purpose of the Fund; and,
- Interest accrued from any investment made by the Commission or raised through the local stock exchange.

Secretariat

The Citizens Economic Empowerment Commission (CEEC) Secretariat is responsible for the implementation of the day to day affairs and decisions of the Commission.

The Commission is headed by the Director General and is assisted by the Directors of Finance and the Legal Counsel. Other members of senior management include fifteen (15) managers for internal audit, human resource, public relations and communications, business development, monitoring and evaluation, credit control, risk, as well as eight (8) provincial coordinators.

Funding

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2013 and 2014, a provision of K111,187,734 was made to cater for the Commission's operations and empowerment funds against which K89,011,882 was released as shown in the table below.

Year	Budget			Releases		
	Empowerment Fund K	Operation K	Total Budget K	Empowerment Fund K	Operations K	Total Releases K
2014	42,095,352	15,080,500	57,175,852	5,000,000	15,000,000	20,000,000
2013	38,400,000	15,611,882	54,011,882	54,011,882	15,000,000	69,011,882
Total	**80,495,352**	**30,692,382**	**111,187,734**	**59,011,882**	**30,000,000**	**89,011,882**

In addition, the Commission generated other income as shown in the table below.

Sources of Funds	2014 K	2013 K
Administrative Fees	-	23,230
Loan Interest Earned	22,413,951	13,964,517
Interest From Placements	964,661	1,500
Total	**23,378,612**	**13,989,247**

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Commission Head Office for the financial years ended 31st December 2013 and 2014 revealed the following:

a. Undisbursed Funds By Micro Finance Institutions

During the period from November 2013 to July 2014, the Commission funded amounts totalling K6,970,583 to two (2) Micro Finance Institutions namely; Gray Pages and CETZAM for onward disbursements to various clients. However, as of November 2015, amounts totalling K5,244,792 had been disbursed by the micro financial institution leaving a balance of K1,725,793. As of December 2015, the undisbursed funds had not been remitted to the Commission. See table below.

Micro Financial Institution	Amount Disbursed to Micro Finance K	Amount Disbursed to Clients K	Total Undisbursed K
GrayPages Financial Service	1,205,731	785,831	419,900
CETZAM	5,764,854	4,458,961	1,305,894
Total	**6,970,585**	**5,244,792**	**1,725,793**

b. Contract with ACCESS Bank Zambia Limited

A review of CEEC Credit Report dated January 2013, for the quarter ended 31st December 2012 revealed that the trade finance portfolio was being administered through an agent – Access Bank Zambia Limited who was engaged in December 2008. As of December 2010, a total amount of K25,181,188 was disbursed under the portfolio and as of December 2012, a total amount of K15,439,091 had been paid back by the applicants.

The following were however observed:

i. The Commission entered into the contract with the Bank without cash cover and as a result, the contract was suspended by CEEC following disputes between the two (2) parties. However, on 14th March 2013, a final award was made in favour of Access Bank from the High Court ruling at a sum of K3,188,800 plus interest at the Bank of Zambia lending rate from the 20th July 2012 to date of final payment.

ii. Although management reported that K25,181,188 was disbursed by the Bank and K15,439,091 had been recovered in the Credit Report, no list of the beneficiaries and how much had been recovered was availed for audit.

iii. As of October 2015, no evidence was availed to show that the remaining balance of K9,742,097 had been recovered by CEEC

c. Non-Performing Loans

A review of the Credit Report for 2015 revealed that CEEC had non-performing loans in amounts totalling K109,567,518 some of which had remained static for periods of over four (4) years as of November 2015.

In addition, the Commission failed to recover the collateral pledged as security for the loans disbursed. Subsequently, despite having eight (8) writs of possession cases in amounts totalling K4,662,084 the commission only managed to recover an amount of K454,307.

d. Trade Finance

i. Questionable Procurement of Dairy Animals

During the period from 12th May to 6th June 2014, amounts totalling K3,142,900 were paid to Genetic Breeders Zambia Limited on behalf of nineteen (19) farmers and four (4) cooperatives for the supply of eight hundred and sixty (860) dairy animals.

In addition, the Commission paid Genetic Breeders Zambia Limited (K280,700), Agriserve Zambia Ltd (K284,790) and Livestock Services (K2,114) to supply and deliver drugs and feed stocks for the dairy animals.

The following were observed:

- The signed contracts between the benefiting cooperatives, on whose behalf CEEC paid, and Genetic Breeders Zambia Limited were not availed for audit.
- A review of correspondence revealed that seventy (70) dairy animals were delivered and an amount of K17,871 was paid as insurance. However, there was no evidence to indicate that the animals had been delivered to the farmers.
- As of November 2015, the balance of seven hundred and ninety (790) dairy animals had not been delivered. Further, there were no records to show that the drugs and feed stock paid for had been delivered.

In response, management indicated that the animals had not been delivered because the supplier had not been granted an import permit by the Ministry responsible for Livestock.

ii. Questionable Contract with Great Minds Media Solutions Company Limited

On 3rd March 2014, the Commission signed a Memorandum of Understanding with Great Minds Media Solutions Company Limited for the production of the Mbonge Reality Show. A review of board minutes for a special meeting held on 25th July 2014 revealed that the duration of the project was initially six (6) months ending 3rd August 2014 but was extended by a further twelve (12) months ending 31st August 2015.

In this regard, as of November 2015, the Commission had spent amounts totalling K953,815 for the procurement of audio visual production equipment (K411,109), office furniture (K48,156), rentals (K46,000), allowances (K66,750), consultancy fees to five

(5) members (K336,000), a mentor (K15,000), telephone and internet services (K30,800).

However, the following were observed:

- The rationale of the Commission spending amounts totalling K411,019 for the procurement of audio/visual production equipment was questionable as this was not the core business of the Commission.

- In addition, although Management stated that Great Minds Media Solutions Company Limited was competitively selected, evidence of the expression of interest and evaluation minutes were not provided and as of November 2015, the Reality Show had not been produced.

Energy Regulation Board

Background

9. The Energy Regulation Board (ERB) was established in April 1995 under the Energy Regulation Act CAP 436 of the Laws of Zambia which was later amended by Act No. 23 of 2003. The principal objective of the ERB under this Act is to regulate undertakings in the energy sector.

Board of Directors

The ERB is governed by a board of directors consisting of seven (7) part-time members appointed by the Minister responsible for Energy. The members of the board are appointed from eminent persons who have adequate knowledge, experience and qualification in Engineering, Finance, Law, Natural Resources Management, Electricity Industry, Petroleum Industry and Administration.

The Chairperson and Vice Chairperson of the Board are appointed from among the members themselves. A member of the Board holds office for a period of three (3) years from the date of appointment and is eligible for re-appointment for one further term.

Management

The Executive Director (ED) who is the Chief Executive Officer (CEO) is responsible for the day-to-day operations of the Board, and is assisted by a Board Secretary, Directors of

Economic Regulation, Consumer and Public Affairs, Finance and Administration and Operations and Infrastructure Regulations.

Sources of Funds

According to the Act, the funds of the Board consist of such moneys as may:

- Be appropriated by Parliament for the purposes of the Board.
- Be paid to the Board by way of grants or donations, and
- Vest in or accrue to the Board.

Review of Operations

A review of operations of the Energy Regulation Board for the period from 1st January 2012 to 31st December 2014 revealed the following:

a. Unsupported Payments

Contrary to Financial Regulation Nos. 45 and 52, one hundred and forty nine (149) payments in amounts totalling K7,396,245 made during the period under review were not supported with relevant documents such as receipts and Local Purchase Orders among others.

b. Uncompetitive Procurement

Contrary to the Provisions of the Zambia Public Procurement Act of 2008 and its regulations, seventy two (72) payments were made during the period from January 2012 to December 2014 in amounts totalling K2,127,644 for the purchase of various goods and services that were not supported by three (3) quotations.

c. Failure to Allocate and Adequately Describe Assets

The ERB Finance and Accounting Manual Part (b) page 25, stipulates that all Board assets shall be adequately described so as to include an asset code, group code, and serial number. Contrary to this requirement, it was observed that office machines, computer hardware, motor vehicles, and office furniture all with a net book value of K61,471,259 as recorded in the financial statements could not be reconciled back to the fixed asset register as there was no detailed description such as office location, asset codes and serial number on the register to match with the physical inspection.

d. Management Information Systems - Lack of IT Strategic Plan

According to CoBIT APO02.05, Define the strategic plan and road map, an organization should create a strategic plan, to show how IT related goals will contribute to the enterprise's strategic goals.

During the period under review, the ERB operated without an ICT Strategic Plan. Consequently, IT enabled investments such as the custom made applications (Licensing and tracking software, consumer and complaints tracking system) were implemented without the guidance of an ICT strategic plan. As of November 2015, there was no ICT Strategic Plan in place.

Food Reserve Agency

Background

10. The Food Reserve Agency (FRA) was established in 1996 after the enactment of the Food Reserve Act of 1995.

The Government, through the FRA, has the responsibility to purchase agricultural crops from smallholder farmers who are located in economically disadvantaged areas around the country in accordance with the Food Reserve Act.

The functions of the Agency are to:

- Administer the National Strategic Food Reserve, purchase, import, sell or trade in a designated agricultural commodity;
- Establish a market information system of stocks for the National Strategic Food Reserve;
- Promote the use of approved standards of weighing and grading standards for designated agricultural commodities in accordance with the Weights and Measures Act and the Standards Act;
- Establish and conduct a programme under which storage facilities and equipment owned by the Government may be leased or sold;
- Assess storage requirements for marketing a designated agricultural commodity and plan for their establishment as needed; and
- Undertake such other functions as the Minister may assign to the Agency.

Administration of the Agency - Board of Directors

The Board of Directors oversees the operations of the Agency and comprises ten (10) part-time members as follows:

i. A representative from:

- the small scale farmers;
- the Zambia National Farmers Union;
- the Millers Association of Zambia; and
- the Bankers Association of Zambia;

ii. One (1) person from a co-operative;

iii. Two (2) senior officials from the Ministry of Agriculture and Co-operatives; one from the Department of Marketing and Co-operatives and the other from the Department of Agriculture;

iv. One senior official from the Ministry of Commerce, Trade and Industry;

v. One senior official from the Ministry of Finance; and

vi. A representative of the Attorney-General

The members of the Board of Directors, except for a representative from the small scale farmers, hold office for a period of three (3) years from the date of appointment and are eligible for re-appointment for a further term of three (3) years. The Board of Directors meet at least once every three (3) months and the Chairperson may call for a special meeting.

Management

The Executive Director, who is the Chief Executive Officer of the Agency, is responsible for the administration of the Agency and the implementation of the decisions of the Board of Directors. The Executive Director is assisted by Food Reserve and Marketing Manager, Finance Manager, Property Manager, Audit Manager and Legal Counsel.

Sources of Funds

The funds of the Agency consist of:

- Funds appropriated by the National Assembly for the purposes of administering the national food reserve;

- money by way of grants or donations;
- funds raised by way of loans from within Zambia, or subject to the approval of the Minister, from outside Zambia;
- charges and collection from fees in respect of programmes, publications, seminars, consultancy and other services provided by the Agency; and
- leasing of storage facilities and equipment.

Budget and Releases

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2012, 2013 and 2014, provisions in amounts totalling K2,384,551,439 were made to cater for the purchase and storage of National Food Reserves under the Strategic Food Reserves programme against which amounts totalling K2,209,219,711 were released. See table below.

Year	Budgeted Amount K	Total Released K
2014	1,273,061,944	1,097,730,216
2013	1,111,189,495	1,111,189,495
2012	300,000	300,000
Total	**2,384,551,439**	**2,209,219,711**

In addition, the Agency generated other incomes as shown in the table below.

Sources of Funds	2014 K	2013 K	2012 K
Local Maize Sales	548,186,352	954,214,145	506,211,629
Bank Loans	-	-	1,620,000,000
Leasing sheds, equipment, buildings	2,446,265	3,356,721	5,006,256
Rice Sales	301,549	1,236,760	3,580,434
Other Income	847,065	1,497,535	474,693
Total	**551,781,231**	**960,305,161**	**2,135,273,012**

Accounting and Other Irregularities

A review of operations of the Agency for the period 1st April 2012 to 31st December 2014, revealed the following:

a. Failure to Produce Audited Accounts and Annual Reports

Clause 12 (3) and 13(1) – (3) of the Food Reserve Act (Cap 225) under Part II of Financial Provisions, stipulates that the accounts of the Agency shall be audited annually by independent auditors appointed by the Agency, subject to the approval of the Minister and the Agency shall submit the report to the Minister who shall not later than seven (7) days after the first sitting of the National Assembly, lay the report before the National Assembly.

b. Crop Management - Purchase of Excess Maize than Available Storage Capacity

An examination of storage records revealed that the Food Reserve Agency's national storage capacity available was 750,000 MT in 2012 and 2013 while in 2014 the capacity was increased to 865,000 MT. However, FRA bought crops in excess of the storage capacity during the period 2012 and 2014 as shown in the table below.

Year	Purchased Crops (MT)	FRA Storage Capacity (MT)	Difference (MT)
2012	1,045,891	750,000	295,891
2013	426,463	750,000	(323,537)
2014	1,031,303	865,000	166,303

Consequently, despite the FRA making loss provisions of K101,184,910 the actual losses amounted to K325,361,320 resulting in excess losses of K224,176,320 during the financial year 2012.

c. Delays in Remitting Statutory Obligations

Although the Food Reserve Agency deducted NAPSA contributions in amounts totalling K3,806,199 from its employees during the period under review, the amounts were not remitted on time resulting in penalties amounting K4,641,040. As of November 2015, the penalties had not been settled.

d. Wasteful Expenditure - Purchase of Four (4) Cocoons

In 2012, Amiran Limited was engaged for the supply and delivery of four (4) Cocoons at a contract price of K440,075,129 (US$83,072) with a delivery period of 4 to 5 months and a warranty of five (5) years and the supplier was paid K392,791,829 (USD 74,146.50).

However, a physical inspection of the project sites carried out in January 2015 revealed that the cocoons that were installed had been dismantled as they were allowing water to seep through. As of October 2015, management had not taken any action against the supplier.

e. Properties without Title Deeds.

The Lands Act No. 29 of 1995 requires that institutions or individuals owning land should have or possess title deeds as proof of ownership. It was observed that Food Reserve Agency had sixty nine (69) properties that did not have title deeds contrary to the Act.

In his response dated 24th November 2015, the Controlling Officer stated that the Agency had commenced the process of obtaining title deeds in collaboration with the department of survey in the Ministry of Lands and that a team comprising staff from the department and FRA had been set up to undertake boundary surveys of the Agency's properties which is a pre-requisite to obtaining title. He added that the whole process of obtaining title is expected to be concluded by 2018.

However, it was not clear as to why the Agency only commenced this exercise in 2015 when some of the properties were obtained in 1996.

f. Lack of Assets Management Policy

The Asset Management Policy gives guidance on the acquisition, recording, use and disposal of an entity's non-current assets. Furthermore, Asset Management Policy also defines the parameters for updating the Fixed Asset Register including the date of purchase, location or beneficiary department, asset class, asset description, method of valuing asset, depreciation rate and asset code.

A review of records and documents availed for audit revealed that the Agency had no Assets Management Policy for the period under review. In this regard, it was not clear how the Agency was managing its assets.

Hotel and Tourism Training Institute (HTTI)

Background

11. The Hotel and Tourism Training Institute (HTTI) was established in 1989 following the dissolution of the National Hotel Development Corporation. Its main objective is to provide training in Hotel and Tourism management. The Institute runs the Fairview Hotel on a commercial basis and the hotel serves as its training centre.

Board of Trustees

The Institute is governed by a Board of Trustees consisting six (6) members appointed by the Minister of Tourism, Environment and Natural Resources. Board members hold office for a renewable period of three (3) years.

Management and Staff

The Institute is headed by an Executive Director who is appointed by the Board of Trustees and is responsible for the day to day operations. The Executive Director is assisted by the Director of Finance and Administration as well as the Director of Studies.

Sources of Funds

According the Trust Deed, the sources of funds of the Institute include:

- Fees, meals and accommodation;
- Loans;
- Government grants; and
- Donations

Accounting and Other Irregularities

A review of accounting and other records for the financial years ended 31st December 2012, 2013 and 2014 maintained at the Institute carried out in September 2015 revealed the following:

a. Failure to Constitute the Board of Trustees

The Institute had been operating without the Board of Trustee since January 2012.

b. Failure to Produce Audited Financial Statements and Annual Reports

Contrary to Clause 18 and 19 of Hotel and Tourism Training Institute Trust deed which requires Trustees to prepare the annual reports which include audited financial statements, the institution had not prepared annual reports since its creation on 27th July 2001.

c. Lack of Audit Committee

Contrary to Section 12 (2) of the Public Finance Act No.15 of 2004, the Institution did not have an audit committee during the period under review.

d. Inadequate Staffing of Internal Audit Function

The HTTI staff establishment provides for the positions of Internal Auditor and Assistant Internal Auditor in the Internal Audit Unit. However, the Unit was only manned by one officer who had not produced any audit report.

e. Failure to Complete Works

On 7th December 2013, the Institute engaged Energy Line Ltd for the electrical wiring of the Hotel building and supply of materials at a cost of K25,290 and the contractor was paid in full on 15th January 2014. However, as of October 2015, the contractor had not done electrical wiring costing K8,515 in the laundry, cold room, main kitchen and terrace bar.

f. Failure to Secure Title Deeds

According to the asset register, the Institute owns properties which include among others the Fairview Hotel situated at Stand Nos. 1132 and 6919 valued at K17,500,000 and farm land in Livingstone F/9239 valued at K1,700,000. However, as of October 2015, the Institute did not have title deeds for the properties.

g. Non Payment of Statutory Contributions

The Institution owed amounts totalling K1,793,285 to the Zambia Revenue Authority and Workers Compensation Fund Control Board in respect of statutory contributions as shown in the table below.

Institution	Amount Outstanding at 31/12/2014 K	Amount Due in During 2015 K	Amount Paid in 2015 K	Total Amount Outstanding K
ZRA - PAYE	1,180,405	418,200	-	1,598,604
Workers Compensation Fund Control Board	171,291	43,390	20,000	194,681
Total				**1,793,285**

Judiciary

Background

12. The Judiciary of Zambia is established under Article 91 of the Constitution. It comprises:

(*a*) the Supreme Court of Zambia;

(*b*) the High Court for Zambia;

(*c*) the Industrial Relations Court;

(*d*) the Subordinate Courts;

(*e*) the Local Courts; and

(*f*) such lower Courts as may be prescribed by an Act of Parliament

The functions of the Judiciary include the following:

- Administer justice through resolving disputes between individuals, and between state and individual,
- Interpret the constitution and the laws of Zambia,
- Promote the rule of law and contribute to the maintenance of order in society,
- Safeguard the constitution and uphold democratic principles, and
- Protect human rights of individuals and groups.

Funding

In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2014, a provision of K342,869,196 was made to cater for various activities against which amounts totalling K329,392,466 were released resulting in an underfunding of K13,476,731.

According to the financial statements (Statement C), as of 31st December 2014, amounts totalling K328,474,738 had been spent.

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Judiciary headquarters and selected stations for the financial year ended 31st December 2014 carried out in June 2015 revealed the following:

a. Inadequacies in Judiciary Infrastructure and Attire

Best practice requires that each judge or magistrate must have a court room and a chamber. A Chamber is a physical office of the judge or magistrate. The chamber must lead directly into the court room to ensure safety and respect for the judges and magistrates who do not have to use the same passages with the accused and members of the public. Further, based on acceptable practices, a judge cannot enter an open court without wearing court attire, called robes.

A physical inspection of the infrastructure, a scrutiny of the annual report for the year ended 31st December 2014 and discussions with Management revealed the following:

i. Failure to Document Standard Chamber Requirements and Court Attire

The standard requirements of the Chamber of the judge and magistrate were not detailed in any written policy documents. A chamber could be used to deal with some legal cases without entering the open court room hence it should be:

- Self-contained; equipped with bathroom and toilet facilities
- Furnished adequately with furniture such as office tables, conference tables and chairs so that the judge or magistrate could meet and hear litigants from his or her chambers and pass judgements from there
- Easy to access court rooms by direct passage from the chamber
- Near offices for support staff. The practice has been that each judge should have the following supporting officers:
- One (1) marshal – this is an officer that acts as middle man between the judge and the litigants and their lawyers
- One (1) research advocate – this is a legal professional that helps the judge in researching legal authorities and thereby produce judgements more efficiently.
- A court reporter – this officer records the proceedings of the court
- A court interpreter – this officer helps to interpret languages for the court and litigants to appreciate court proceedings
- Personal secretary – to manage the day to day administration of the chamber

However, these court requirements were not stated in any policy documentation or law making them vulnerable to changes that may hinder the administration of justice. In addition, a scrutiny of Practice Direction No.3 of 1977, availed for audit on the court attires in the Supreme, High and Subordinate Courts revealed that only the attire for the advocates was specified while the attire for the judges was not.

ii. Inadequate Chambers and Office space

The Supreme Court Judges and High Court Judges did not have adequate chambers as shown in the table below.

	REQUIRED CHAMBERS	ACTUAL CHAMBERS	SHORTFALL
Supreme Court	11	5	**6**
High Court	50	14	**36**
Industrial Relations Court	10	2	**8**
TOTAL	**71**	**21**	**50**

A total of seventy one (71) chambers were required to cater for the judges out of which twenty one (21) were available resulting in a shortfall of fifty (50) chambers.

Further, in some cases the judges used offices meant for support staff as chambers despite the offices not meeting the design requirements of chambers.

iii. Inadequate Court Rooms

The Judiciary did not have adequate court rooms to cater for the High Court and Industrial Relations Courts (IRC) as shown in the table below.

COURT LEVEL	NUMBER OF COURT ROOMS REQUIRED	NUMBER OF COURT ROOMS AVAILABLE	SHORTFALL
High Court	50	14	36
Industrial Relations Court	10	1	9
	60	**15**	**45**

Therefore, there was a shortfall of forty five (45) court rooms as at 31st December 2014 and as a result, judges had to alternate the use of the available rooms leading to delay in the disposal of court cases.

iv. Inadequate Modern Court Rooms

The modern court rooms are court rooms which should be furnished with equipment and systems which include the following:

- Microphones and speakers to facilitate clear and audible communications.
- Visual display system to project and display evidence for the public in attendance.
- Computers and monitors for the court to view computer soft copies of the evidence submitted.

However, out of the thirty one (31) court rooms inspected, only nine (9) were equipped with modern IT equipment.

v. Vacancies in the Establishment of Judges and Magistrates

According to Section 2 of the Supreme Court and High Court (Number of Judges) Act, the Judiciary was required to have a total number of fifty (50) high court judges. However, the judiciary was operating with inadequate number of judges in that there were only thirty eight (38) out of the fifty (50) High Court Judges required by Law resulting in a shortfall of twelve (12) judges.

Although the 2014 Annual Report for the Judiciary indicated that the magistrates of the subordinate and local courts were understaffed, there was no fixed Staff Establishment availed for audit against which the staffing levels could be compared and analysed. As of July 2015, there were 140 magistrates for the Subordinate Court and 435 for the Local Courts.

vi. Lack of Risk Management Systems

Best practice requires that an entity develops risk management systems that should deal with risk factors that may hinder it from discharging its legal functions and achieve its strategic objectives. However, as of December 2015, the Judiciary did not have documented risk management policies and systems in place.

b. Purchase and Refurbishment of the Former National Housing Head Quarters

On 25th September 2014, the Judiciary signed a consultancy contract with the National Housing Authority (NHA), for the preparation of designs, bills of quantities, and supervision of alteration and refurbishments of Judiciary offices on Stand No. 4668, Chilufya Mulenga Road, in Longacres of Lusaka Province and Construction of perimeter fence and walkway. The property was bought from the NHA which had used it as their Headquarters. The contract price was K867,814 with a contract duration of twelve (12) months. After the defect liability period, the Consultant was to submit a report on the completed works.

Further, on 28th October 2014, the Judiciary engaged NHA to undertake the alterations and refurbishment works at a contract sum of K7,138,676 for a period of thirty six (36) weeks. The Contractor took possession of the site on 3rd August 2014 and the project completion date was set for 29th August 2015 which was extended to 30th November 2015.

As of December 2015, NHA had been paid amounts totalling K2,305,387 (consultancy - K520,688 and construction works - K1,784,699).

The following were observed:

- **Single Sourcing of the Consultant**

  The NHA Consultants were selected without advertisement and thus were single sourced contrary to Public Regulation 8 (Schedule 2) which requires that selection of consultants with contract price in excess of K300,000 should be done using Open National Selection.

  Further, the procurement of the Consultant did not meet the legal requirements for Direct Bidding as provided for under the PPA. Section 32 (2) of the PPA states that "Direct bidding may be used where -

  - the goods, works or consulting or non-consulting services are only available from a single source and no reasonable alternative or substitute exists;
  - due to an emergency, there is urgent need for the goods, works or services making it impractical to use other methods of procurement because of the time involved in using those methods;
  - additional goods, works or services must be procured from the same source because of the need for compatibility, standardisation or continuity;
  - an existing contract could be extended for additional goods, works or services of a similar nature and no advantage could be obtained by further competition; or
  - the estimated value of the goods, works or services does not exceed the prescribed threshold.

  There was no evidence availed for audit to confirm that any of the criteria above was satisfied to allow the use of Direct Bidding.

- **Delayed Completion of the Project**

  On 12th August 2015, the Judiciary extended the completion date of the construction works from 29th August 2015 to 30th November 2015. However, as of December 2015, the works had not been completed with the following works outstanding:

  - Works on partitions, floor finishes, aluminium sections and roof cladding
  - Construction of walkway

c. Weaknesses in Managing Third Party' Accounts

The Judiciary maintains bank accounts into which monies are held in trust on behalf of third parties. The common monies held are:

i. Cash bail – this is money paid into court by an accused person guaranteeing that they will avail themselves for trial in court. The bail is held by the Court until the matter is disposed of after which it is returned to the accused person. If the accused person fails to attend trial the money is forfeited to the State.

ii. Maintenance of children – a parent may be compelled by the Courts to be bringing money into Court for the benefit and maintenance of his or her children.

iii. Judgement debt – a borrower may be compelled by the Court to pay an amount he or she owes into Court which in turn is paid out to the creditor.

The third party monies are held for every level of the court in Zambia other than the Local Courts.

The following were observed:

i. Under banking of Collections from Litigants

During the period under review, the Lusaka Subordinate Court collected amounts totalling K1,933,072 from litigants. However, only amounts totalling K1,821,093 had been deposited leaving a balance of K111,980 unbanked as of December 2015.

ii. Delayed Banking

Contrary to Financial Regulation No.121, there were delays of periods ranging from three (3) to fourteen (14) days in banking revenue in amounts totalling K194,599 collected during the period under review.

iii. Erosion of Clients Account by Bank Charges

It was observed that the Judiciary held third party funds in non interest earning accounts for the Mansa and Kawambwa Subordinate Courts which were nevertheless subject to bank charges. In this regard, there was an erosion of bank balances arising from bank charges. As of December 2014, the balances were eroded by K65,344 as shown in the table below.

DISTRICT	BANK	DETAIL	AMOUNT K
Mansa	ZANACO	Bank charges	23,575
Kawambwa	ZANACO	Bank charges	41,769
			65,344

Amounts totalling K65,344 had been deducted as bank charges from the bank amounts belonging to third parties.

iv. Failure to Provide Schedule of Unpaid Items

The Judiciary did not avail for audit scrutiny a schedule of unpaid items of the clients' accounts contrary to the requirements of the Call Circular No. 01 of 2015 issued by the Ministry of Finance. The Call Circular required that Controlling Officers with cash balances in 2014 arising from sums of money held in trust by, under the control of any court or officer of a court was to prepare and submit to the Ministry a schedule of unpaid items as at 31st December 2014. The failure to avail the schedule of unpaid items made it difficult to ascertain:

- The names of the beneficiaries whose money was still in court
- The amounts of monies owed to each
- The reasons for which the monies were brought in court
- The period the monies had been unclaimed
- The case record reference numbers related to each item

d. Failure to Pay Gratuity

A scrutiny of the Annual Report for 2014, for the Judiciary, revealed that as of December 2014, the Judiciary owed in excess of K80 million in unpaid gratuities to retired staff. The details of the persons to whom the amounts were owed and the exact amounts owed were not availed for audit.

e. Weaknesses in Managing the Sheriff's Office of Zambia

The Sheriff's Office was established by the Sheriff's Act Chapter 37 of the Laws of Zambia. The objective of the Office is to secure the rights of individuals and institutions through debt recoveries. This is done by enforcing court orders on defaulting individuals or institutions through seizure of their assets. The seized items are then sold off through public auction sales to recover owed amounts. The Office is headed by the Sheriff of Zambia who reports to the Registrar of the High Court.

The following were observed regarding the operations of the Sheriff's Office:

i. Lack of Bailiwicks Records

A bailiwick is an area for which a bailiff falling under the Sheriff of Zambia exercises powers of the Law. Section 6 (1) of the Sheriff's Act states that, "the Registrar may, by statutory notice, specify any area or areas which shall be bailiwicks, and may define the limits of such bailiwicks in such manner as he may deem sufficient". It was however noted that the Sheriff's Office did not have records pertaining to the number of bailiwicks in the Country and the extent of limits of such bailiwicks.

ii. Lack of Warehouses for Sheriff's Office

A physical inspection of the Sheriff's Office in Kitwe, Solwezi and Mongu Districts revealed that there were no warehouses to store seized items making the items vulnerable to loss through thefts.

f. Weaknesses in the Management of Judiciary Infrastructure

i. Subordinate Court Complex - Lusaka

A physical inspection of the Subordinate Court Complex in Lusaka revealed that the infrastructure had defects such as leaking roofs and cracked wall. See pictures below.

Leakage in passage

Cracks on the wall in a passage

ii. Ndola Subordinate Court

A physical inspection of the Ndola Subordinate Court revealed the following:

- All the chambers except for the Chief Resident Magistrates did not have tables for the litigants when the court sits in chambers
- Eight (08) ceiling board panels had fallen in Court room No. 4

- Inadequate storage cabinets and rooms for active and disposed cases posing a threat to loss of case records.

iii. Kitwe Subordinate Court

A physical inspection of the Kitwe Subordinate Court revealed the following:

- All the Court Rooms and Office of the Chief Resident Magistrates had old and damaged Furniture. Further, the roof in the Office of the Chief Resident Magistrates was leaking as evidenced by the water stained ceiling.
- There was no holding cell for female detainees and the officers guarding them did not have shelter.
- Some Chambers which include the Principal Resident Magistrates and the Magistrate Class 2 Chambers had no furniture to hold Chamber Matters.
- Court Room Number 5 did not have a dock.

iv. Solwezi Subordinate Court

A physical inspection of the Solwezi Subordinate Court revealed the following:

- Both Court Rooms had old and damaged Furniture.
- The Solwezi Magistrates Court uses a container as an exhibits room
- The two registries, namely the Criminal Registry and the Civil Registry did not have adequate space for storage of files and also office space.

v. Choma Subordinate Court

A physical inspection of the Choma Subordinate Court revealed the following:

- The court rooms had leaking roofs, cracked and peeled walls and floors. See pictures below.

Cracked wall

Opening between roof and wall

vi. Livingstone High Court and Subordinate Court

A physical inspection of the Livingstone High and Subordinate Court revealed the following:

- There was only one exhibit room for both Subordinate Court and High Court which was dilapidated and unsecure for storage of various exhibits some of which were dangerous weapons.
- The court rooms and offices had leaking roofs, cracked and peeled walls and floors.
- The registry does not have sufficient filling cabinets hence files are kept in boxes on the floor. See picture below.

Inadequate Storeroom

Storeroom without inner door (used for exhibits)

Leaking Roof

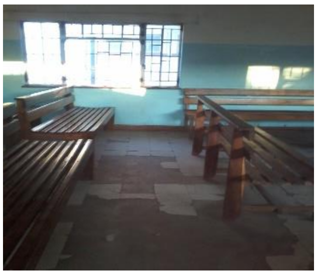
Cracked Wall

vii. Mongu Subordinate Court

A physical inspection of the Mongu Subordinate Court revealed the following:

- The court rooms had cracked and paint on the walls was peeling off, the roof was leaking, the tiles were worn out and the doors did not have mortice locks.
- The general, district registries and the Judge's secretary's offices had damaged roofs which were leaking.

In addition, one of the Magistrate chambers had a worn out door as can be seen in the photos below.



Worn out floor tiles *Worn out Door*

viii. Kabwe High and Subordinate Courts

A physical inspection of the High and Subordinate Courts revealed the following:

- There was no exhibit room for the Subordinate Court. Due to inadequate storage, the court rooms were being used for storing exhibits as can be seen in the photos below.
- Court rooms had leaking roofs, cracked floors and damaged doors as can be seen in the photos below.
- The registry had insufficient filling cabinets therefore files were being kept on the floor and on top of the existing filing cabinets.
- There was inadequate space for storage hence certain assets were being kept in the holding cells as can be seen below.

Exhibit kept in courtrooms *Worn out doors*

Case records kept on top of cabinets *A lawn mower in the holding cell*

National Heritage Conservation Commission

13. Background

The National Heritage Conservation Commission (NHCC) is a statutory body established under the National Heritage Conservation Commission Act of 1994.

The objective of the Commission is to conserve the historical natural and cultural heritage of Zambia.

Administration of the Commission

The National Heritage and Conservation Commission Act provides for the establishment of the Commission which consists of the following members:

- a Chairman;
- the Permanent Secretary in the Ministry responsible for heritage who shall be an ex-officio member; and
- not less than seven (7) but not more than ten (10) other members who shall be persons with experience in matters related to the functions of the Commission.

The chairman and the other members, except for the ex-officio, are appointed by the Minister for a term of not more than three (3) years and are eligible for re-appointment upon expiry of their term of office.

The Commission, with the approval of the Minister, appoints the Executive Director to manage the day to day operations of the entity. The Executive Director is assisted by four (4) regional directors for Northern, East Central, North West and South West.

The directors and managers are on three (3) year contracts and the rest of the staff is appointed on a permanent and pensionable basis.

Source of Funds

According to the NHCC Act, the sources of funds shall include, among others, such moneys as may:

- be appropriated by Parliament for the purposes of the Commission;
- be paid to the Commission by way of grants or donations; and
- vest in or accrue to the Commission

The Commission may also accept monies by way of grant or donations from any source in Zambia and, with the approval of the Minister, from any source outside Zambia.

Income

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2010 to 2014, provisions in amounts totalling K37,489,340 were made to cater for various activities against which amounts totalling K44,395,329 were released resulting in an overfunding of K6,905,989. See table below.

YEAR	Authorised Provisions K	Amount Released K	Over/(Under) Funding K
2010	4,512,690	4,609,260	96,570
2011	4,738,325	5,991,543	1,253,218
2012	4,738,325	7,128,325	2,390,000
2013	8,800,000	12,322,023	3,522,023
2014	14,700,000	14,344,178	(355,822)
Total	**37,489,340**	**44,395,329**	**6,905,989**

The Commission also collected income from entry fees and rentals in amounts totalling K42,458,477 against a budget of K50,244,177 resulting in a deficit of K7,785,700 as shown below.

Source Actual	2010 K	2011 K	2012 K	2013 K	2014 K	Total K
Entry Fees	7,121,161	8,099,687	7,783,164	8,318,480	8,986,809	40,309,301
Rental Income	317,115	302,637	394,905	640,214	494,305	2,149,176
Total	**7,438,276**	**8,402,324**	**8,178,069**	**8,958,694**	**9,481,114**	**42,458,477**
Budget						
Entry Fees	7,638,360	9,767,689	8,074,392	9,289,572	13,257,295	48,027,308
Rental Income	342,585	292,456	546,298	547,200	488,330	2,216,869
Total	**7,980,945**	**10,060,145**	**8,620,690**	**9,836,772**	**13,745,625**	**50,244,177**
Variance						
Entry Fees	(517,199)	(1,668,002)	(291,228)	(971,092)	(4,270,486)	(7,718,007)
Rental Income	(25,470)	10,181	(151,393)	93,014	5,975	(67,693)
Deficit	**(542,669)**	**(1,657,821)**	**(442,621)**	**(878,078)**	**(4,264,511)**	**(7,785,700)**

Other sources of funds received by the Commission were donor funds in amounts totalling K3,367,077 from various financiers for project activities as shown in the table below.

YEAR	PROJECT	AMOUNT K
2014	CHDA	717,164
	UNESCO	23,493
2013	PRP NTUMBACHUSHI	594,820
2010	ENRMMP	2,031,600
	TOTAL	**3,367,077**

Accounting and Other Irregularities

A review of accounting and other records for the financial years ended 31st December 2010 to 2014 revealed the following:

a. Failure to submit Annual Report to the Minister

Contrary to Part IV of the NHCC Act sections 24 and 25 which requires the Commission to submit annual reports and audited financial statements to the Minister as soon as practicable but not later than six (6) months after the expiry of each financial year for tabling in Parliament, the Commission did not submit the financial statements and annual reports for the financial years ended 31st December 2007 to 2014 to the Minister as of November 2015.

b. Weaknesses in the Operations of the Board

The Commission had two Boards of Directors during the period under review. One board governed the Commission from 1st January 2008 until 31st December 2010 when the three (3) years contract term expired. On 13th January 2011, the Minister extended the mandate of the Board of the Commission for two (2) months ending on 28th February 2011. On 7th June 2011, the Minister further extended the tenure of office of the Board of NHCC to 30th October 2011. However, for a period of eighteen (18) months the Commission operated without a Board until 8th May 2013 when the current Board was appointed.

The following rates were paid as sitting allowance to board members and those in attendance during the period under review.

RECIPIENT	Annual Allowance K	Sitting Allowance K
Board Chair	4,000	500
Vice Board/Committee Chair	3,000	500
Member	3,000	400
Staff in attendance	-	400

A review of the Board minutes and other documents provided for audit scrutiny revealed the following:

i. Over - Expenditure on Board Expenses

During the period under review, the Board failed to maintain its expenditure within the budget in that it spent K322,472 against a budget of K169,081 in 2010 and K242,116 against a budget of K111,000 in 2011 resulting in over expenditures of K284,507 (K153,391 in 2010 and K131,116). It was also observed that the Commission only convened one meeting in 2014 spending K46,997 against a budget of K100,004 resulting into under expenditure of K53,007. See breakdown in the table below.

YEAR	BUDGET K	ACTUAL K	VARIANCE K
2010	169,081	322,472	(153,391)
2011	111,000	242,116	(131,116)
2014	100,004	46,997	53,007
TOTAL	**380,085**	**611,585**	**(231,500)**

The Board convened five (5) full Board meeting and six (6) subcommittee meetings spending a total of K611,585. Out of the amount spent, amounts totalling K530,302 representing 87% of the total expenses, were spent on accommodation, food, conference facilities and traveling expenses while K81,283 was spent on payment of sitting and annual allowances to board members and those in attendance. The breakdown is shown below.

CATEGORY	No. of Members	AMOUNT K	% OF TOTAL
Board members sitting & annual allowances	10	70,283	11%
Staff members sitting allowances	10	11,000	2%
Accomodation, transport, Conferences & food		530,302	87%
Total		**611,585**	

There was no indication that the Commission took practical steps to control the expenditure on accommodation, transport and food.

ii. Lack of a Board/Governance Charter

Best practices require that the Board has documented governance arrangements. A Board Charter is a policy document that clearly defines the responsibilities and authorities of the Board of Directors (both individually and collectively) and management in setting the direction and control of the organization. However, it was observed that during the period under review, the Board did not have a board charter to describe its governance arrangements. In this regard, it was not possible to ascertain the effectiveness of the Board.

iii. Failure to Convene Board Meetings

It was observed that although the Minister appointed the current board on 8th May 2013, the Executive Director only wrote to each board member a year (12 months) later in May 2014, informing them of their appointment as Board members. It was further observed that although the board members became aware of their appointments in May 2014, the first board meeting was held eight (8) months later on 29th February 2015. In this regard, for a period of twenty (20) months, there was no Board meeting convened to deliberate on issues affecting the Commission. This was contrary to section 11(2) of Part II of the NHCC Act which states that the Commission shall meet for the transaction of business at least twice every twelve (12) months.

c. Lack of a Heritage Policy

In 2011, the Commission spent amounts totaling K707,244 on the formulation of the Heritage Policy. The purpose of the policy is to provide guidelines on heritage conservation and management so that the decisions made are prudent, responsible and informed. However, as of September 2015, the Heritage Policy was still in draft form.

d. Failure to Conserve and Promote Heritage

Section 8(2) d. Part II of the NHCC Act requires that the Commission maintains a national register of all national monuments and ancient heritage which it has acquired or which have been brought to its notice. The register is the official list of Zambia's heritage worthy of conservation. The heritage listed in the register includes sites, buildings, structures and immovable objects. However, a review of the register that had a total of three thousand six hundred and eighty seven (3,687) heritages revealed the following:

i. A total of five hundred and eighty four (584) sites, some of which were brought to the attention of the Commission from as far back as 1978, listed in the register had not been verified by the Commission as heritage as of November 2015.

ii. A total of two hundred and fifty two (252) heritages were not protected by the Commission and therefore could easily be destroyed or vandalised.

iii. Twelve (12) heritages declared as national monuments were not surveyed and mapped as required by Part V Sections 29 and 30 of the NHCC Act. See table below.

No.	DETAILS
1	House No. 1, Railway Museum- Low Residential House - South West Region
2	House No. 2, Railway Museum-Low Residential House South West Region
3	House No. 3, RM - Medium Residential House - South West Region
4	House No. 4, RM - Medium Residential House - South West Region
5	House No. 1, Kalomo Administrative House Nat. Monument - South West Region
6	House No. 393, Chilenje House National Monument - East Central Region
7	House No. 394, Chilenje House National Monument - East Central Region
8	House No. 395, Chilenje House National Monument - East Central Region
9	Stand No. 9304, Dedan Kimathi Road Office Block East Central Region
10	House No. 1. Old, Mbala Prison (National Monument) - Northern Region
11	House No. 3144B, Matero Township, Lusaka
12	Lundazi Castle Hotel, Lundazi – East Central Region.

e. Failure to Market and Advertise Heritage Sites

During the period under review, the Commission had planned to market and advertise twenty seven (27) heritage sites in order to promote the commercialisation of heritage resources. However, as of November 2015, only four (4) sites had been marketed and advertised.

f. Over Expenditure on Personal Emoluments

During the period under review, the Commission spent amounts totaling K52,292,149 on personal emoluments against the budget of K48,796,401 resulting into an over expenditure of K3,495,748 as shown in the table below.

YEAR	BUDGET K	ACTUAL K	(Over) /Under Expenditure K
2011	9,426,368	11,161,401	(1,735,033)
2012	9,964,633	11,444,260	(1,479,627)
2013	13,537,557	13,494,965	42,592
2014	15,867,843	16,191,523	(323,680)
TOTAL	**48,796,401**	**52,292,149**	**(3,495,748)**

g. Questionable Renewal of Contracts for Senior Management

Contrary to Section 15 Part III of the NHCC Act which states that the Executive Director is responsible for the administration of the Act subject to the control of the Commission, a review of personal files for senior management revealed that during the period under review the Executive Director (ED) renewed senior management contracts without seeking approval from the Board.

It was further observed that contrary to Clause 6.8 of the conditions of service which requires that officers in scales NHCC/CPS 1-4 be appointed on contract agreement for a period of three (3) years, the Executive Director's contract which is scale NHCC 1 was renewed for a period of five (5) years from 2nd October 2013 to 1st October 2018. The contract and its conditions of service were not presented to the Board for approval.

h. Lack of Reports after Training

The Commission's training policy clause 5.15 stipulates that an employee who completes training shall be requested to deposit a copy of training report or thesis/dissertation onto the documentation center of the Commission. Contrary to this condition, it was observed that although the Commission paid amounts totaling K82,202 during the period under review for staff training, there were no training reports/thesis deposited with the documentation centre making it difficult to ascertain the benefits derived from the trained members of staff to the Commission.

i. Lack of Title Deeds

The Lands Act No. 29 of 1995 requires that institutions or individuals owning land should have or possess title deeds as proof of ownership. It was however observed that the Commission had seven (7) properties whose value could not be ascertained which had no title deeds. See table below.

No.	PROPERTY DETAILS
1	Stand No. 140, Chishimba Falls Road (Wooden Office Block) -South West Region
2	Office space at Heritage House, Plot No. 118, Independence Avenue - Northern Region
3	Plot No.406 Lunzuwa Road - Northern Region
4	Stand No. 12 Farm No. 609 10th street, Chudleigh, East Central region
5	Stand No. 1260 Tuvwanganai Street-Directors Residence, Livingstone
6	Stand No. 727 Airport Road-Residential House, Livingstone
7	Stand No. 456 Mokambo Road, Livingstone

j. Weaknesses in Managing Liabilities

i. Lack of a Documented Risk Management Policy

The Commision did not have a documented risk management policy in place. As a result , no formal risk assessments had been carried out by the Commision in the years under review.

ii. Non Remittance of Statutory Contributions

A review of records at the Commission revealed that amounts totaling K46,389,702 were deducted as Pay As Your Earn and Pension contributions from the employees' emoluments during the period under review. However, these amounts had not been remitted to ZRA, NAPSA and ZSIC as of August 2015, as shown in the table below.

Name of Institution	Amount K
Zambia Revenue Authority (PAYE)	30,079,646
National Pension Scheme Authority (NAPSA)	14,067,445
Pension (ZSIC)	2,242,611
Total	**46,389,702**

The delay in remitting statutory contributions has resulted in the interest and penalty charges being levied against the Commission.

In this regard, amounts totalling K10,245,385 and K25,243,048 were outstanding as interest and penalty charges on NAPSA contributions and PAYE respectively.

k. Weaknesses in the Procurement of Goods, Works and Services

i. Inadequate Maintenance of Stores Records

Various assets and stores items costing K358,398 procured during the period under review were not entered in the relevant stores and assets records thereby making it difficult to verify their receipt and disposal.

ii. Wasteful Expenditure

During the period under review, NHCC spent amounts totalling K253,148 on the procurement of a Monitoring and Evaluation and Information Management System tools. However, as of November 2015, the tools were not in use rendering the expenditure wasteful.

l. Construction of Ablution Block, Walk Trails, Barricading and Steel Palisade Fence – Afriwoods & Development Ltd.

On 12th March 2013, NHCC entered into an agreement with Afriwoods and Development Limited for the construction of an ablution block, walk trails, barricading and erection of the steel palisade fence at Victoria Falls world heritage site in Livingstone at a contract sum of K2,232,241. The contract was for a period of two months with a commencement date of 19th March 2013 and a completion date of 16th May 2013. The contract was varied in works in amounts totalling K1,141,060 bringing the total sum to K3,373,301. Consequently, the completion period was extended to 7th July 2013. As of August 2015, amounts totalling K3,158,867 had been paid to the Contractor.

The terms of the contract agreement among others included the following:

- Liquidated damages at 5% and maximum of 2% per day of the contract sum
- Advance payment at 25%
- Performance Bond at 10%
- Defects liability period of 6 months

The scope of works included the following:

- Construction of ablution block

- Walk trails
- Barricading
- Erection of steel palisade fence

A review of the contract and other documents availed for audit revealed the following:

i. Lack of Performance Bonds

A performance bond is an undertaking by a bonding or insurance company (surety) to complete the construction in the event of default by the contractor, or to pay the amount of the Bond to the Employer. Contrary to the Contract, the contractor did not provide a performance bond at a rate of 10% of the contract price amounting to K223,224.

ii. Non Payment of Liquidated Damages

A review of the certificate of handover of completed projects revealed that Afriwood & Development Limited completed the works at Victoria Falls world heritage site and handed over on 23rd December 2013, six (6) months after the contract period completion date of 7th July 2013.

Although the Contractor was charged liquidated damages for delayed completion in accordance with Clause GCC 46.1 of the particular conditions of the contract at the rate of K1,144 per day from 7th July 2013 to 23rd December 2013, there was no evidence that the Commission had deducted the amount.

iii. Failure to Adhere to Site Instructions

Although the contract provided for penalties on late submission of the physical progress reports of K2,000 for every week of delay, the Contractor did not submit the reports and no action was taken by the Commission as of September 2015. Further, a review of the supervisor's reports revealed that the Contractor failed to follow architectural plan, specifications and measurements for the septic tank.

A physical inspection carried out on 16th September 2015 revealed that the water tank was erected too close to the ablution block and as a result, the walls of the ablution block are damaged by the water spilling from the water tank as shown in the pictures below:

Water tank erected too close to Ablution Bloc

Damaged ablution block walls due to water from the tank

iv. Irregular Extension – Construction of the Coffee Shop/Visitor's Shelter

On 31st July 2013, NHCC extended the contract of Afriwoods & Development Ltd for the construction of the ablution block, walk trails, barricading and erection of the steel palisade fence at Victoria Falls world heritage site in Livingstone to include the construction of the coffee shop/visitor's shelter at the Site at a sum of K632,060.

However, the extension of the contract was irregular as the original contract had expired on 7th July 2013. In this regard, the Commission was extending works on an expired and invalid contract.

m. Extension and Alteration of the Curio Market and Paving of the Visitor's Car Park – Kalomo Contractors Hardware Enterprises

On 8th April 2013, NHCC engaged Kalomo Contractors Hardware Enterprise for the extension and alteration of the curio market and paving of the visitor's car park at Victoria Falls World Heritage Site in Livingstone at a contract sum of K959,419. The contract was to run from 8th May 2013 to 22nd June 2013. Additional works and variations in amounts totalling K778,934 were added to the contract bringing the total amount to K1,738,353. As of August 2015, amounts totalling K1,708,351 had been paid to the contractor.

The scope of works included the following:

- o Extension of car park
- o Alteration of the curio market with twenty two (22) curio stalls
- o Paving of the visitor's car park

The terms of the agreement among others included the following:

- o Liquidated damages at 0.05 per day, maximum of 10%
- o Advance payment of up to 25%
- o Defects Liability period of twelve (12) months

A review of the contract document, progress reports and other correspondences revealed the following:

i. Lack of a Performance Bond

Contrary to section GCC49.1 of the Articles of Agreement, the contractor did not provide a performance bond at a rate of 30% of the contract price amounting to K287,826. According to the Articles of Agreement, a performance bond is an undertaking by a bonding or insurance company (surety) to complete the construction in the event of default by the contractor, or to pay the amount of the Bond to the Employer.

A physical verification carried out on 16th September 2015 revealed that the drainage system at the curio market had not been done and that only six (6) out of the ten (10) stalls that were added from the variation were constructed.

ii. Questionable Variations

On 11th June 2013, the contract was varied by an amount of K198,433 to include the paving of the VIP car park with interlocking concrete bricks.

However, the bill of quantities and approval for the variation were not availed for audit rendering the variation questionable.

iii. Irregular Additional Works

It was observed that although the contract period had ended on 22nd June 2013, the NHCC procurement committee approved variations in amounts totalling K462,351. However, the variations that were done in July and August 2013 were irregular as the contract had already expired.

iv. Delayed Completion and Unclaimed Liquidated Damages

A review of the certificate of handover revealed that the Project for the extension and alteration of the curio market and paving of the visitor’s car park at Victoria Falls world heritage site in Livingstone was completed on 25th June 2014, twelve (12) months after the contract completion date of 22nd June 2013.

It was further noted that although the contract provided for charging of liquidated damages, the Commission failed to claim liquidated damages at a rate of 5% or maximum of 10% of the contract sum.

n. Rehabilitation of the Railway Museum and Refurbishment of the Rolling Stock – Keysmar Services

On 15th May 2013, NHCC signed a contract with Kesymar Services for the rehabilitation of the Railway Museum and refurbishment of rolling stock at a contract sum of K408,900 for a period of six (6) weeks ending 30th June 2013. Additional works in amounts totalling K115,315 varied the contract to a contract sum of K524,215. As of August 2015, the contractor had been paid in full.

A review of the contract and other documents availed for audit revealed the following:

i. Irregular Additional Works/Variations

Although the contract end date was 30th June 2013, the NHCC procurement committee approved variations in amounts totalling K115,315 in July and August 2013. However, the variations were irregular as they were done after the contract had expired.

ii. Lack of Completion Certificate and Handover

Although the works had been completed and the site was in use, there was no completion certificate availed for audit as of September 2015. In this regard, it was not possible to ascertain the actual date of completion and handover of the site to NHCC.

iii. Dilapidated Gallery

A physical inspection of the museum carried out in September 2015 revealed that the entire ceiling in one room of the front gallery had collapsed due to damage by termites which had eaten away the planks and cracks had developed on the walls and the floor. See pictures below.

Collapsed ceiling board

Termite mound in the gallery

A cracked wall

o. South West Regional Office

During the period under review, South West regional office received funding in amounts totalling K5,392,011 from NHCC headquarters for operations and management of sites. A review of the accounting records and other documents availed for audit revealed the following:

i. Kalomo Administrator's House – Dilapidated state

A physical inspection of the Kalomo Administrator's House which is a national monument carried out in September 2015 revealed that the Monument was in a dilapidated state. Consequently, there were no tourist activities at the site. See pictures below.

Damaged roof *The Administrator's house rotten ceiling*

Cracked slab and septic tank due to shoddy works by Pozzolona Enterprises

ii. Livingstone Railway Museum - Non Maintenance of Rented Properties

A physical inspection of the Railway Museum which is under the care of the South West Region revealed that contrary to Clause 19.4.3 of the NHCC, Human Resource and Administration Policies which states that normal maintenance of the Commission houses shall be borne by the Commission, a physical inspection carried out on four (4) residential homes occupied by tenants revealed that the houses were not maintained despite the Commission earning rental income in amounts totalling K637,974 during the period under review. In particular, the following were observed:

- damaged ceiling,
- cracks in the walls,
- Blocked plumbing pipes, and
- Leakages in the Roof.

See pictures below.

Damaged ceiling *cracks in the walls* *Leakages in the Roof*

p. Construction of a Boundary Wall at the Railway Museum and Painting two Historic Buildings – the Anglican Church and Jewish Synagogue – Imaza Building Contractors

On 10th June 2013, NHCC entered into a contract with Imaza Building Contractors for the construction of a boundary wall at the railway museum and painting of two historic buildings – the Anglican Church and the Jewish Synagogue in Livingstone at a contract sum of K498,806 with a completion date of 15th July 2013. Works were varied in amounts totalling K196,050 bringing the total to K694,856. As of August 2015, the contractor had been paid in full.

The terms of the contract included among others, the following:

- Liquidated damages for the whole works at10%
- Advance Payment of up to 25% of the total contract sum
- Performance Bond of up to 25% of the total contract sum

A review of the contract and other documents revealed the following:

i. Delayed Completion and Failure to Claim Liquidated Damages

A review of the certificate of handover revealed that the construction of a boundary wall at the railway museum and painting of two historic buildings – the Anglican Church and the Jewish Synagogue in Livingstone was completed on 31st December

2013 five (5) months after the contract end date of 15th July 2013. No approved extension was availed for audit.

It was further noted that although the contract provided for charging of liquidated damages, the Commission failed to claim liquidated damages at a rate of 10% of the contract sum for the period of five (5) months from the contractor.

ii. Unsatisfactory Work

A review of a letter dated 30th December 2013 from NHCC to Imaza Contructors' revealed that work on one sliding entrance gate at the railway museum wall fence was not satisfactorily done in that the gate was 7 meters instead of the required 4 meters making it difficult to work properly. A physical verification carried out revealed that the gate had not been rectified as of September 2015.

iii. Lack of a Performance Bond

A performance bond is an undertaking by a bonding or insurance company (surety) to complete the construction in the event of default by the contractor, or to pay the amount of the Bond to the Employer. Contrary to Section GCC 48.1 of the contract, the contractor did not provide a performance bond at a rate of 25% of the contract price amounting to K124,702.

q. East Central Regional Office

During the period under review, East Central Regional Office received funding in amounts totalling K4,108,596 from NHCC headquarters for operations and management of sites. A review of the accounting records and other documents availed for audit revealed the following:

i. Missing Payment Vouchers

Contrary to Financial Regulation No. 65, fifteen (15) payment vouchers in amounts totalling K74,602 made during the period under review were not availed for audit.

ii. Construction of Visitor's Toilets at Embassy Park National Monument – Ailito Cleaning Services

The Commission allocated K180,000 for the construction of the visitors' toilets at embassy park out of which K80,000 was funded by GRZ and the balance from

Commission resources. In this regard, on 23rd October 2014, NHCC entered into a labour only contract with Ailito Cleaning Services for the construction of visitors' toilets at Embassy Park National Monument Site at a contract sum of K39,500 with a contract duration of two (2) months ending 22nd December 2014.

The terms of the payment were as follows:

- K9,875 down payment
- K9,875 after one month
- K19,750 on satisfactory completion of the works

As of September 2015, amounts totalling K36,765 had been paid to the contractor. Building materials were procured by the Commission at a total cost of K130,963. This brought the total amounts spent on the project to K167,728. A review of the contract and other documents availed for audit revealed the following:

- **Delayed Completion/Lack of Handover**

  A physical inspection carried out on 6th October 2015, nine (9) months after the expected completion date, revealed that the works had not been completed and the site had been abandoned by the contractor. See pictures below.

Incomplete visitors' toilet

- **Irregular Payment**

  Contrary to the payment terms of the contract which require that the final payment of K19,750 be made upon satisfactory completion of the works, it was observed that the contractor was paid K17,015 of the final payment of K19,750 before satisfactory completion of works.

iii. Tourism Concession Agreement – Lundazi Castle Hotel

On 5th October, 2001 GRZ acting through the Executive Director of NHCC entered into a Tourism Concession Agreement (TCA) with Lundazi Castle Holdings Limited for the purposes of carrying out tourism business activities for an initial term of twenty five (25) years on and around the site of Lundazi Castle Hotel situated in Lundazi District, Eastern Province.

Clause 2.1 (c) of the concession agreement stipulates that the concessionaire commits itself to a capital investment at the site in amounts totaling US$300,000 to be spent as follows:

- US$30,000 to be invested in the first year to finance the immediate repairs and renovations
- US$15,000 to be invested annually until the US$300,000 committed figure is attained.
- Under the concession, the Concessionaire was required to construct the following:
    - One Central Amenities Block
    - Eight (8) ordinary chalets
    - Two (2) VIP chalets
    - One (1) VIP Chalet
    - Other expenditure on Renovations (1 year)
    - Contingencies
    - Investment in Working Capital

However, the following were observed:

- Although the Concessionaire was required to construct eleven (11) chalets by 2008, as of September 2015, only six (6) chalets had been constructed.
- Contrary to Clause 3.2.11 (a) of the TCA which required the Concessionaire to submit to the Grantor the status of progress in implementing the capital investments and other developments, as of September 2015, the concessionaire had not submitted the expenditure details and status of

progress in implementing the capital expenditure for the period under review.

r. Northern Regional Office

During the period under review, Northern regional office received funding in amounts totalling K4,078,462 from NHCC Headquarters for operations and management of sites. A review of the accounting records and other documents availed for audit revealed the following:

i. The Lumangwe/ Kabwelume Falls Tourism Infrastructure Development Project – Failure to Remit Funds

In 2009, the Ministry of Tourism, Environment and Natural Resources released funds to NHCC in amounts totalling K3,075,000 for the purposes of providing tourism infrastructure at Lumangwe and Kabwelume Falls national monument in Mporokoso, Northen Province. However, NHCC Headquarters only remitted amounts totalling K2,541,798 to the Northern Regional Office leaving a balance of K533,202 which had not been remitted as of November 2015. Consequently, the Northern Region was unable to complete the project as two staff houses could only be built up to box level. See pictures below.

1x2 bedrooms staff house

1x3 bedrooms staff house

ii. Failure to Rehabilitate Director's Residence

A review of internal audit reports for the period under review revealed that the Commission procured timber worth K22,775 in 2013 for the rehabilitation of the roof which was in a bad state at the Director Northern Region's residence and works had not started as of December 2014. A physical verification carried out on 25th October 2015, revealed that the status had not changed. The timber in question was still lying at the director's residence and works had not commenced. See pictures below.

Timber piled at the Director's residence

Rotting ceiling board due to leaking roof

iii. Construction of the Proposed Tourism Development Infrastructure at Kalambo Falls – Curve Contractors

On 8th October 2012, NHCC entered into a contract agreement with Curve Contractors and General dealers for the construction of the proposed tourism development infrastructure at Kalambo falls at a contract sum of K831,473 with a completion period of twelve (12) weeks ending 8th January 2013. Works were varied in amounts totalling K200,810 bringing the total sum to K1,032,283 with an extension of three (3) months to 30th March 2013. As of August 2015, the contractor had been paid in full.

The terms of the agreement among others included the following:

- Liquidated damages at 0.5% of the value of the delayed works, maximum of 2%
- Advance payment of 15% of the contract sum after payment of Performance Security
- Defects Liability period of 6 months
- Performance Bond of 10% of the contract sum

The scope of works included the following:

- Installation of the low noise generator,
- Installation of overhead water tank and stands,
- Construction of camp pedestals and landscaping,
- Water reticulation,
- Construction of big shelter, bridge and braii stand, and
- Erection of guard rails and concrete trails.

A review of the contract document, progress reports and other correspondences availed for audit revealed the following:

- **Delayed Completion and Unclaimed Liquidated Damages**

  A review of the certificate of completion of works revealed that the construction of the tourism infrastructure Development at the Kalambo Falls Heritage Site in Mbala District was completed on 9th October 2013, six (6) months after the revised contract end date of 30th March 2013.

  It was further noted that although the contract provided for charging of liquidated damages, the Commission failed to claim liquidated damages at a rate of 0.5% or maximum of 2% of the value of delayed works for the period of six (6) months from the contractor.

- **Irregular Variation**

  A review of a letter dated 16th April 2013, from the Purchasing and Supplies Officer to the Executive Director revealed that the Commission procurement Committee approved variation of works and additional works in amounts totalling K200,810 on a contract that had an end date of 30th March 2013. In this regard, the commission was approving variation and additional works on an expired contract.

- **Weaknesses Identified in the Site Handover Report**

  A review of the site handover report dated 8th October, 2013 for the tourism infrastructure development at Kalambo Falls Heritage Site revealed the following:

  - The contractor failed to maintain the landscaping in accordance with the contract conditions which required the contractor to maintain it for six (6) months after the completion date,
  - The submersible pump for the water reticulation was not secured,
  - The big shelter was also used by the site attendants as they had no structure for them to use, and
  - Lack of security on the Site led to the theft of guard rails.

iv. **Failure to Maintain Tourism Infrastructure at Ntumbachushi Falls in Kawambwa**

Section 8(1) Part II of the NHCC Act states that the Commission shall conserve the historical, natural and cultural heritage of Zambia by preservation, restoration, rehabilitation, reconstruction, adaptive use and good management or any other means.

A physical verification carried out on 27th October 2015 revealed that contrary to the Act, the Commission did not maintain the old heritage infrastructure at Ntumbachushi Falls which included three (3) houses, a takeaway facility and a foot bridge over the stream. See pictures below.

Abandoned house and vandalised

Unmaintained footbridge passing over a stream

Podium like house

Takeaway facility

North Western Water and Sewerage Company

Background

14. The North Western Water Supply and Sewerage Company Limited (NWWSSCL) was incorporated in November 1999 in accordance with the provisions of the Companies Act and section 9 (c) of the Water Supply and Sanitation Act No. 28 of 1997. The Water Supply and Sanitation Act of 1997 was amended by Act No. 10 of 2005. The Company started operating in March 2000 with an authorised share capital of K2,000,000 divided into 2,000,000 Shares of K1.00 each.

The Company's primary business objective is to provide water and sanitation services in the urban and peri-urban areas of the North Western Province of Zambia as a commercially viable water supply and sanitation utility.

Shareholding in the company is based on the participating councils' customer base as follows: Solwezi (39%), Mwinilunga (12%), Kasempa (6%), Mufumbwe (6%), Kabompo (20%), Zambezi (13%), and Chavuma (4%).

Board of Directors

The company has a Board of Directors comprising ten (10) members as follows:

- a Mayor or Chairperson from one of the participating Councils
- a Town Clerk or Council Secretary from one of the participating Councils
- the Provincial Local Government Officer,
- a representative from the Engineering Institute of Zambia,
- two (2) representatives from the private sector in the province,
- a commercial consumer category representative,
- a domestic consumer category representative, and
- two (2) members to be appointed by the Minister, one of whom shall be the Chairperson of the Board.

The Board is responsible for the formulation of policy and general administration of the Company. The Board Members hold office for a term of not more than three (3) years and are eligible for reappointment upon expiry of their term of office subject to a review of their performance at every annual general meeting.

Management

The Managing Director is responsible for the day-to-day operations of the Company and is assisted by two (2) Directors, one in charge of Engineering and the other in charge of Finance and also by three (03) managers in charge of Public Relations and Commercial Services, Human Resources and Administration and Business Development and Risk Management. The Managing Director is appointed on a three (3) years renewable contract while the Directors and Managers are appointed on an initial three (3) years contract which is renewable every two (2) years. The Managing Director, Directors and Managers are appointed by the Board.

Management Information Systems

The Company operated three (3) main management information systems namely the Pastel Evolution ERP for processing billing and accounting transactions, the Bulk Messaging System (BMS) for sending reminders and alert messages to the company's customers and the Dove Payroll System for managing the payroll.

Sources of Funds

The sources of funds for the Company include, among others, sums of money as may be raised from its daily operations of sale of water, provision of sewerage services and income generated from various penalties and administrative charges. Other sources may include funding from the Government and Cooperating Partners.

During the period from 2012 to 2014, the company generated income in amounts totalling K54,084,860 as shown in the table below.

	31st Dec 2014 K	31st Dec 2013 K	31st Dec 2012 K	TOTAL K
Water Provision	19,777,157	15,112,903	13,446,988	48,337,048
Sewerage Services	176,563	788,305	108,969	1,073,837
Connection Charges	853,382	866,261	1,340,748	3,060,391
Capital Contribution	157,939	317,947	173,483	649,369
Meter Charges	276,128	66,017	622,070	964,215
TOTAL	**21,241,169**	**17,151,433**	**15,692,258**	**54,084,860**

In addition, the Company received grants in amounts totalling K6,345,660 during the period under review. See table below.

YEAR	AMOUNT K
2012	3,899,484
2013	1,457,706
2014	988,470
Total	**6,345,660**

Accounting and Other Irregularities

A review of operations of the Company for the period from 1st January 2012 to 31st December 2014 revealed the following:

a. Poor Physical and Environmental Security

CoBIT DSS01.04 Manage the Environment, stipulates that an entity should regularly monitor and maintain devices that proactively detect environmental threats (e.g., fire, water, smoke, humidity) and keep the ICT sites and server room clean and in a safe condition at all times (i.e., no mess, no paper or cardboard boxes, no filled dustbins, no flammable chemicals or materials).

The following were noted with regard to the environment where the servers were installed:

i. **Lack of Requisite Features – Server Room**

The server room lacked requisite fire suppression features such as water sprinklers, smoke detectors, portable or automatic fire extinguishers and a false floor.

ii. **Poorly Functional Air Conditioning Unit**

The server room was inadequately air conditioned as the air conditioner was malfunctioning and leaking posing risk of electric shock and damage to the equipment. See picture below.

The malfunctioning air conditioning unit

iii. **Lack of Server Rack**

The servers were not housed in server racks to properly secure the equipment from theft and vandalism. See picture below.

Unsecured Servers

Poor physical and environmental conditions in the server room could lead to damage of ICT equipment.

b. Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)

CoBIT DS4.2 IT Continuity Plans, requires organizations to develop IT Continuity plans based on a framework that are designed to reduce the impact of a major disruption on key business functions and processes.

As of September 2015, the Company did not have a DRP and a BCP in place.

c. Poor Administration of Backups - Lack of Backup Policy

CoBIT DS11.5 Backup and Restoration stipulates that backup and restoration procedures for the systems should be defined and documentation relating to such be aligned with business requirements and continuity plan.

During the period under review, the Company operated without a documented backup policy.

d. Failure to Carry out Backups for Payroll Data

As of September 2015, there was no backup carried out for payroll data during the period under review to ensure the integrity, preservation and easy restoration of data in an event that the system on which payroll data resides crashes.

e. Lack of Offsite Storage Facility for Backups

CoBIT DS 4.9 Offsite Backup Storage requires an organisation to Store offsite all critical backup media, documentation and other IT resources necessary for IT recovery and business continuity plans.

During the period under review, the company did not have an offsite location for storage of backups. As such, external hard drives on which backup of billing and accounting data was stored were stored within the same building.

f. Failure to Replace Failing Hard Drives on the Main Server

A physical inspection of the main server hosting the domain controller (Domain Controller Server1) conducted on 13th September 2015, revealed that the server's hard disk drives were configured using RAID 5 (Redundant Array of Independent Disks) technology. A RAID 5 volume is a combination of hard drives that are configured for data to be written across three (3) or more hard drives.

It was observed that out of the three (3) hard drives installed on the server, two (2) were failing, thereby rendering the server susceptible to crashing. As of November 2015, the failing hard disk drives had not been replaced.

g. Lack of Service Level Agreements (SLAs)

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 formalize the needs and expectations of the organisation and those of the service provider thereby minimizing 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 utilization of IT resources.

Commitment should include issues such as availability, reliability, performance, capacity for growth, levels of support, continuity planning, security and demand constraints.

As of November 2015, the Company did not have SLAs in place both with external service providers and internal end users regarding the use of the management information systems.

In this regard, amounts totalling K142,167 paid in respect of services rendered to the company in the period under review were not supported with SLA. The payments are as indicated in the table below.

Service Description	Vendor/Payee	Amount K
Internet	AfriConnect	9,447
Internet	Coppernet	7,101
Bulk SMS solution licence fees	Savannah	63,076
Licence fees for Sage Pastel ERP	Omni Africa	62,543
	TOTAL	**142,167**

h. Lack of Data Migration Procedures

According to CoBIT AI7.5 System and Data Conversion, organizations should plan data conversion and infrastructure migration as part of the organisation’s development methods, including audit trails, rollbacks and fall backs.

In September 2013, NWWSSCL migrated from Piano Billing System to Pastel Evolution ERP. However, there were no documented procedures on how the data migration from Piano to Pastel Evolution was conducted.

As such, the integrity and completeness of migrated billing data from Piano to Pastel ERP could not be established.

i. Lack of Support and Maintenance Agreements

CoBIT DS2 on Managing of Third-Party Services stipulates the need to assure that services provided by third parties (suppliers, vendors and partners) meet business requirements for an effective third-party management process. This process is accomplished by clearly defining the roles, responsibilities and expectations in third-party agreements as well as reviewing and monitoring such agreements for effectiveness and compliance.

As of September 2015, the Company did not have support and maintenance contracts with vendors for critical systems namely the Bulk Short Messaging System (BMS), Sage Pastel ERP and the Dove Payroll.

j. Lack of Documented Procedures – System and Transaction Data

According to CoBIT AI6.1 Change Standards and Procedures, formal change management procedures should be established to handle in a standardized manner all requests (including maintenance and patches) for changes to applications, procedures, processes, system and service parameters, and the underlying platforms.

As of September 2015, the Company did not have documented procedures for handling and administering changes to both systems and transaction data.

A review of documents pertaining to customer water bills, receipts and water readings in the Sage Pastel ERP, Municipal Billing module and accounting module for the period from November 2014 to March 2015 revealed that the reversals and adjustments in amounts totalling K708,781 were passed without being supported by approved documents.

k. Lack of IT Risk Management Framework

COBIT PO9.4 requires that an organization establishes a risk management framework that is aligned to the organization's (enterprise's) risk management framework.

As of September 2015, the Company had a corporate risk management policy in place. However, the policy did not adequately address IT risks such as highlighting how IT related risks should be profiled on the risk severity scale and how the identified risks can be managed or mitigated.

l. Failure to Fill Vacant ICT Positions

COBIT PO4.12 on IT Staffing requires an organisation to evaluate staffing requirements on a regular basis or upon major changes to the business, operational or IT environments to ensure that the IT function has sufficient resources to adequately and appropriately support the business goals and objectives.

A review of the company's ICT organogram revealed that the structure provided for three (3) ICT staff namely, ICT officer and two (2) support positions of Assistant ICT officer (Systems) and Assistant ICT Officer (Hardware) out of which only one (1) position of Assistant ICT Officer was filled leaving the other two (2) positions vacant, as of September 2015.

The position of ICT officer fell vacant after the resignation of the officer in June 2015 while that of the Assistant ICT officer (Hardware) has never been filled.

As a consequence, the Assistant ICT Officer (Systems) was carrying out all the tasks of the ICT sections which included: attending to ICT hardware faults, database management, systems, network tasks, administrator rights to both database and application level, resulting in the absence of segregation of duties in the ICT section which rendered the entire system vulnerable to abuse.

m. Poor Administration of the Active Directory (AD)

Active Directory (AD) is a directory service implemented by Microsoft for Windows domain networks. An AD domain controller authenticates and authorises all users and computers in a Windows domain type network - assigning and enforcing security policies for all computers and installing or updating software.

NWWSSCL had an Active Directory which it was utilizing to administer and manage internal mail and the users on its management information systems.

The following weaknesses were observed in the management of the AD:

i. **Failure to adhere to Password Policies**

According to the NWWSSCL's Domain Policy on password settings, a password should have at least the following properties:

- Minimum length of seven (7) characters;
- Password should have a history (days) of twenty-four (24);
- Maximum password age (days) of sixty (60);
- Minimum password age (days) of one (1);

ii. **User Passwords Set Never to Expire and Separated Staff still Active on the System**

During the period under review, there were thirty nine (39) out of the ninety (90) active users whose passwords were set not to expire contrary to the domain policy which requires the password to expire after sixty (60) days. Included in the thirty nine (39) users were six (6) users who had domain administrator privileges.

iii. **Failure to De-activate Dormant User Accounts**

There were three (3) users whose accounts should have been considered for de-activation in that they had not logged on to the system for a period exceeding the password age limit of thirty (30) days set on the Active Directory. The accounts were dormant for periods ranging from one hundred and eleven (111) to two hundred and eight (208) days.

iv. **Separated Employees Still Active on the AD**

There were four (4) employees who were separated from the company whose user accounts were still active on the AD and had not been disabled or locked-down as of September 2015. Of the four (4) user accounts, one (1) had administrator privileges.

The implication of failure to de-activate these users was that their accounts could be used by hackers or un-scrupulous individuals to gain access to the company resources.

n. Poor Administration of Systems

ISO/IEC 27001:2013 A.9.4.2 Secure log-on Procedures, requires that access control policy, access to systems and applications shall be controlled by a secure log-on procedure.

Further, best ICT practice requires that the business processes should be carried out by the system owners and system administration be carried out by system administrators.

A review of the company's MIS revealed the following weaknesses:

i. System Administrators with Business Process Privileges - Pastel Evolution ERP

The company was registered to operate the following Sage Pastel modules, among others: Account Receivable, Accounts Payable, Contract Management Basic, Point of Sale, Fixed Asset, BIC Standard, Audit Tool, Procurement and Municipal billing.

It was observed that the Assistant ICT officer (System) who had system administrator rights to the application had also full rights and privileges to carry-out business processes on the accounts receivable module, such as ability to add, delete, view or modify accounting data.

In addition, the Billing Officer, had administrator privileges to the municipal billing module to assign or revoke user rights to the billing application and also full rights to the menu and authorisation roles to carry out all business transactions such as ability to add, edit, view, or modify billing transactions.

As a consequence of system administrators performing business transactions, there was inadequate segregation of duties rendering the system susceptible to abuse or manipulation.

ii. Failure to Deactivate the User Account of a Separated ICT Staff - Sage Pastel

A user account with administrator privileges which was used by a former ICT officer who separated from the company on 10th June 2015 was still active on the system as of September 2015.

The implication of a former system administrator being active on a business application was that the system was susceptible to unauthorised access which may result in data manipulation and financial loss to the company.

iii. Poor User Account Administration - Dove Payroll

CoBIT DS 5.4 *User Account Management,* stipulates that requesting, establishing, issuing, suspending, modifying and closing user accounts and related user privileges should observe a set of user accounts management procedures including an approval procedure outlining the data or system owner granting the access privileges.

A system administrator account of any system has the overall privileges to perform all functions of the system, as such, the use of default Administrator account for business processes transactions should not be allowed. Instead, personalized user profiles based on the end-user roles should be created as this will give the end-user privileges only to the roles they are assigned and also enhance user accountability.

A review of the user account settings on Dove Payroll revealed that accounting staff were using the system administrator account ‘’Administrator’’ to process business transactions and had not created personalised user accounts with a unique user ID and password.

Consequently, it was not possible to establish accountability for transactions that were performed on the system using this account.

o. Installation of Questionable Programs on Computers

ISO/IEC 27001:2013 *A12.2.2 Restrictions on software Installation,* requires that rules governing the installation of software by users be established and implemented.

A review of the computer used by the Assistant ICT Officer (Systems) on which Pastel Evolution was also installed, revealed that the computer was installed with questionable programs which were not related to the company’s business or objectives resulting in the Company’s systems and network being susceptible to malware. See table below.

Programme Name	Publisher/vendor	Date installed	Comment
DeepFritz	ChessBase	31/08/2015	Game Software
YTD Video	GreenTree Application SRl	4/6/2015	For downloading videos
Steam	Valve Corporation	18/2/2014	Games software
WatchTower Library 2014	WatchTowerBible Tract Society	20/03/2015	Religious materials

p. Lack of Insurance Cover for ICT Equipment

Best practice in ICT recommends that an organisation obtains insurance cover for its valuable assets. This ensures that the risk of loss or significant damage to ICT equipment is mitigated, thus ensuring minimal disruption to operations.

As of September 2015, the Company had not renewed the insurance cover which had expired on 17th September 2013 for its ICT assets and accessories. As such, critical ICT assets such as servers and other computer peripherals with a combined book value of K623,342 as of 31st December 2013 did not have insurance cover.

q. Failure to Utilise Modules Paid for in SAGE Evolution ERP

During the period under review, the Company procured the Sage Evolution Pastel ERP at a cost of K65,543 for processing billing and accounting transactions. The Company paid for nine (9) modules of which three (3) modules namely; Business Intelligence Center (BIC), Procurement and Customer Relationship Management Premium for which licenses costing K6,935 were purchased, were not in use as of September 2015.

r. Operations of the Board

The Board of Directors was appointed on 15th August 2012 following the dissolution of the previous Board by the Minister of Local Government and Housing (MLGH) on 22nd November 2011. The Company operated without a Board for a period of nine (9) months. Although the Board was appointed in August 2012, it only held its meeting in October 2013 fourteen (14) months after appointment. In this regard, the company operated for a period of twenty three (23) months without Board supervision. During the time without the supervision of the Board, the Company operated under the MLGH.

The remuneration of the Board included sitting allowances, subsistence allowances, transport and duty allowance as tabulated below:

TYPE OF REMUNERATION	RATE	BENEFICIARY
Subsistence Allowance	K1000 per day	Directors
Sitting allowance	K600 per sitting	Chairperson
Sitting allowance	K550 per sitting	Other directors
Sitting allowance	K400 per sitting	Committee chairperson
Sitting allowance	K350 per sitting	Committee members
Duty Allowance	K200 per day	Directors
Public Transport refund by receipt		Directors

The Board had two (2) sub committees namely the Technical Committee and the Finance, Audits and Staff Committee. Although the frequency of Board meetings was not specified, its Committees meet at least three (03) times per year.

Regarding the operations of the Board, the following were observed:

i. Questionable Board Expenditure

A scrutiny of the Financial Statements for the year ended 31st December 2014 revealed that the Company incurred expenses relating to the operations of the Board in amounts totalling K58,683. A scrutiny of the ledger revealed that the expenditure was incurred as sitting allowances, transport refunds, travel imprest and subsistence allowances. The expenditure was questionable due to the following:

- Failure to provide Board Minutes – Although the Company availed the minutes of the Board for 2013, it did not avail the minutes of the 2014 Board and its Committee meetings.

- Failure to provide attendance register – The attendance registers were not made available for audit review relating to Board meetings held in 2014 therefore casting doubt on whether any meetings took place.

Further, although the Board did not operate in 2012, it was observed from a scrutiny of the Financial Statements for 2012 that the Company incurred K34,048 in relation to the operations of the Board.

ii. Irregular Rate of Board Allowances

Best practice requires that one does not approve their own conditions of service. It was however, observed that the remuneration of the Board had not been presented to the shareholders or the Ministry of Local Government and Housing for approval. The rates of Board allowances were revised from the old rates as tabulated below.

TYPE	OLD RATE	NEW RATE	BENEFICIARY
Sub Allowance	K600 per day	K1000 per day	Directors
Sitting allowance	K400 per sitting	K600 per sitting	Chairperson
Sitting allowance	K360 per sitting	K550 per sitting	Other directors
Sitting allowance	K200 per sitting	K400 per sitting	Committee chair
Sitting allowance	K180 per sitting	K350 per sitting	Committee members
Duty Allowance	K80 per day	K200 per day	Directors
Public Transport refund by receipt			Directors

It was noted that the new rates were implemented in December 2013 before they were approved by the shareholders.

iii. Questionable Composition of the Board

The Ministry of Local Government and Housing issued Ministerial guidelines, Circular Number MLGH/102/17/1, dated 1st December 2011 to all Commercial Utilities (CUs) on the size, composition and chairmanship of the Board of Directors for the CUs. The Circular provided that each CU should have a Board made up of ten (10) members.

A scrutiny of appointment letters of the Board, curriculum vitae and minutes of the Board meetings undertaken availed for audit scrutiny revealed that although the Board of NWWSSCL was fully filled, the composition did not fully adhere to the Ministerial Guidelines as four (4) stakeholders were not represented as tabulated below.

REPRESENTATION	STATUS
Mayor or Council Chairperson from one of the partictipating councils nominated by fellow councillors	Vacant
Representative from the Engineers Institute of Zambia	Vacant
Representative from the Private Sector drawn from within the area of operation	1Filled 1Vacant
Community Representative from the Commercial Consumer	Vacant

In addition, it was observed that instead of having one representative from domestic consumer, the Board had three (3). Further, there were two (2) members, a priest and a retired teacher who did not represent any stakeholders as required by the Ministerial guideline.

s. Internal Audit Weaknesses

i. Lack of Internal Audit Charter

Standard No. 1000 of the International Standards for the Professional Practice of Internal Auditing provides that “The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.” However, contrary to the requirements of Standard No. 1000, the NWWSSCL did not have an Internal Audit Charter.

ii. **Failure to Recruit an Internal Auditor**

The Organization Structure of the NWWSSCL provides for the Office of an Internal Auditor which functionally reports to the Audit Committee of the Board and administratively to the Managing Director. The draft Job Description in use during the period under review provided that the duty of the Internal Auditor was to provide effective management of the Internal Audit Unit and provide advice to the Board and Senior Management on policy matters, regulations and operational systems. However, the Company had been operating without an Internal Auditor since 19th May 2014 when the last Internal Auditor resigned. Further, the following were noted:

- A scrutiny of the Board minutes availed for audit revealed that the matter of the vacant position of Internal Auditor had not been tabled and discussed by the Board and its Audit Committee.

- The Company had not made efforts to recruit an Internal Auditor as there was no evidence of such efforts such as adverts or report.

t. **Financial Performance – Statement of Comprehensive Income**

The Statements of Comprehensive Income for the NWWSSCL for the years ended 31st December 2012 – 2014 were as follows:

	2014 (Draft) K	**2013 K**	**2012 K**
Revenue	21,241,169	17,151,433	15,692,257
Cost of Sales	(4,623,249)	(4,704,542)	(3,923,109)
Gross profit	**16,617,920**	**12,446,891**	**11,769,148**
Other income	773,053	1,005,829	347,951
Operating Expenses	(17,630,289)	(14,482,625)	(11,904,075)
Operating loss	**(239,316)**	**(1,029,904)**	**213,025**
Finance Income	5,373	5,712	7,474
Loss before tax	**(233,943)**	**(1,024,192)**	**220,498**
Taxation	-	-	-
Loss for the year	**(233,943)**	**(1,024,192)**	**220,498**

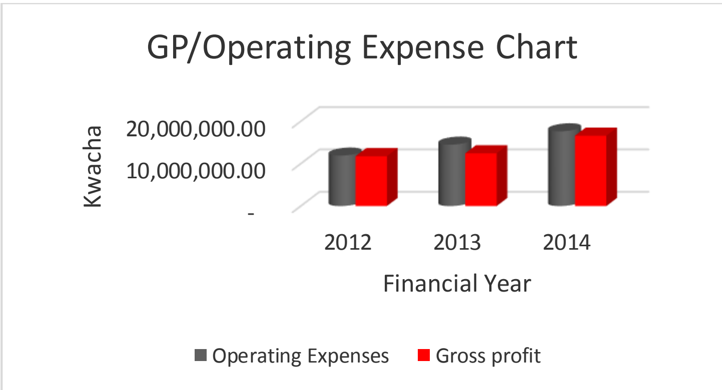
i. **Net Profit Margin Ratio**

The Net Profit Margin of an entity measures the amount of revenue and other incomes it retains after all its expenses are deducted. An analysis of the profit margins for the Company for the period under review revealed declining margins as shown in the table below.

Net Margin Ratio =((Profit/ (Loss) for the year) / (Revenue)) x 100			
	2014	**2013**	**2012**
Revenue (K)	21,241,169	17,151,433	15,692,257
Profit / (Loss) for the year (K)	(233,943)	(1,024,192)	220,498
Net Margin	-1%	-6%	1%

As can be seen from the table above, the company did not generate net profit margins in excess of 1% throughout the period under review despite having gross profit margins that exceeded 70% for the same period. In 2012, the Company's net profit margin was 1.4% but this deteriorated to a negative margin of 6.0% in 2013 due to the loss of K1,024,192 it incurred in that year. In 2014, the Company incurred a loss of K233,943 resulting in a negative margin of 1.1% for that year.

The negative margins were caused by the Company's failure to keep its operating expenses below the amounts of gross profits (GP) it had generated as can be seen in the chart below.



As can be seen in the chart above, operating expenses in the period under view were higher than the gross profits resulting in the failure to generate profits and improve the company's bottom line. The operating expenses in 2012 were K11,904,075 while the gross profit was K11,769,148 and this worsened in 2012 with the expenses reaching K14,482,625 while gross profit was K12,446,891. In 2014, there was no improvement as operating expenses reached K17,630,289 while the gross profit was at K16,617,920.

ii. Operating Expenses as a Percentage of Revenue

A scrutiny of the Statement of Comprehensive Income for the NWWSSCL revealed that the Company failed to bring operating expenses as a percentage of revenue below 75% in the period under review as shown in the table below.

Operating Expenses as a Percentage of Revenue = ((Operating Expenses) / (Revenue)) x 100			
	2014	2013	2012
Operating Expenses (K)	17,630,289	14,482,625	11,904,075
Revenue (K)	21,241,169	17,151,433	15,692,257
Operating Expenses to Revenue (%)	83.0	84.4	75.9

As can be seen in the table above, 75.9% of revenue generated in the year 2012 went to meet operating expenses. However, this worsened in 2013 and 2014 as the operating expenses reached 84.4% and 83% respectively indicating challenges in managing costs.

It was further observed that the major component of the operating expenses was staff costs comprising salaries, wages and allowances with its percentage to revenue increasing as shown in the table below.

Staff Costs as a Percentage of Operating Costs = ((Staff Costs) / (Operating Expenses)) x 100			
	2014	2013	2012
Salaries, Wages & Allowances (K)	10,560,882	8,995,782	6,680,111
Other Operating Expenses (K)	7,069,407	5,486,842	5,223,964
Total Operating Expenses (K)	17,630,289	14,482,625	11,904,075
Staff Costs to Operating Expenses (%)	60	62	56
Revenue	21,241,169	17,151,433	15,692,257
Staff Costs to Revenue (%)	50%	52%	43%

As can be seen in the table above, staff costs as a percentage of revenue were 43% in 2012 but worsened to 52% in 2013 before marginally improving by two (2) percentage points to 50% in 2014. The increase in staff costs in relation to revenue reflected reduced staff efficiency as increases in staff costs did not improve the revenue generated.

u. Financial Positions as at 31st December 2012, 2013 and 2014

	2014	2013	2012
ASSETS			
Non - current assets			
Property, Plant and Equipment	76,085,978	74,666,406	74,666,405
Capital Work in Progress			-
	76,085,978	**74,666,406**	**74,666,405**
Current assets			
Inventory	2,006,776	1,628,066	2,034,954
Trade and Other Receivables	20,339,370	14,051,561	8,103,689
Cash and Cash Equivalents	485,389	720,775	8,591,353
	22,831,535	**16,400,402**	**18,729,996**
Total Assets	**98,917,513**	**91,066,808**	**93,396,401**
EQUITY AND LIABILITIES			
Equity			
Issued Capital	510	510	510
Capital Reserves	4,212,183	4,212,183	4,212,183
Revaluation Reserves	2,059,852	2,059,852	2,059,852
Accumulated losses	(19,343,506)	(19,649,314)	(19,666,842)
	(13,070,961)	**(13,376,769)**	**(13,394,297)**
Non-Current Liabilities			
Amount pending allotment of shares	74,218,718	74,218,718	74,218,718
Grants	22,911,607	20,723,798	18,578,388
Finance Lease			
Other Long-term Liabilities	1,355,112	688,714	536,364
	98,485,437	**95,631,231**	**93,333,471**
Current liabilities			
Finance Lease		-	-
Bank Overdraft	**388,133**	134,526	52,385
Taxtion payable	-	-	-
Borrowings	**200,704**	114,743	251,402
Trade and Other Payables	**12,914,200**	8,563,078	7,222,930
	13,503,037	8,812,347	7,526,717
Total equity and liabilities	**98,917,513**	91,066,808	87,465,891

An analysis of the Statement of Financial Position revealed the following:

i. Receivable Turnover Ratio

The receivable turnover ratio measures the number of times on average an entity converts receivables into cash in a year and reveals how active and successful a company is in collecting its outstanding receivables. An analysis of the receivable turnover for the NWWSSCL showed declining efficiency at collecting receivables as can be seen in the table below.

Receivable Turnover Ratio = (Revenue) / (Trade and other receivables)			
	2014	**2013**	**2012**
Revenue (K)	21,241,169	17,151,433	15,692,257
Trade and Other Receivables (K)	20,339,370	14,051,561	8,103,689
Receivable Turnover (times)	1.0	1.2	1.9

As can be seen from the table above, the receivables turnover ratio for the NWWSSCL was 1.9 times in the year 2012. This reduced to 1.2 times in 2013 reducing further to 1.0 in 2014 reflecting declining collection efficiency. Further, the debt collection period was increasing in the period under review as can be seen in the table below.

Receivable Turnover Days = (Trade and Other Receivables) / (Revenue) x 365 Days			
	2014	**2013**	**2012**
Revenue (K)	21,241,169	17,151,433	15,692,257
Trade and Other Receivables (K)	20,339,370	14,051,561	8,103,689
Receivable Turnover (days)	350	299	188
Debt Collection day per Policy			

As can be seen in the table above, in 2012 the Company took on average 188 days to collect cash from its receivables but this period increased to 299 in 2013 and 350 days in 2014. This resulted in trade receivables increasing at a higher rate compared to the sales.

ii. Total Asset Turnover Ratio

The Total Asset Turnover Ratio highlights how effective management is at using both current and non-current Assets. This helps to determine the effectiveness of the company's asset base in producing sales. From the table below, it can be seen that the Assets are increasing at the same rate as the revenue for the period under review.

Total Asset Turnover Ratio = (Revenue) / (Total Assets)			
	2014	2013	2012
Revenue (K)	21,241,169	17,151,433	15,692,257
Total Assets (K)	98,917,513	91,066,808	93,396,401
Total Asset Turnover (times)	0.2	0.2	0.2

As can be seen from the table above, the NWWSSCL's Total Asset Turnover ratio was 0.2 times for all the three years under review. This was an indication that the company was failing to improve its performance.

v. Comparative Performance in the Water and Sanitation Sector

Commercial Utilities (CUs) in the Water Sector operate as monopolies in their respective regions of operations. In order to introduce competition, NWASCO, as a regulator of the sector, carries out comparative performance. This involves measuring performance of a CU against the sector benchmarks and averages in operational parameters. The parameters include reduction of Non-Revenue Water (NRW), metering ratio and hours of water supply. In this way, progress made in the sector by each CU is determined. Each CU is thus motivated to improve its previous performance ranking as well as outperform other CUs.

A review of the NWASCO reports for period 1st January 2011 to 31st December 2014 revealed the following:

i. Operational Cost Coverage by Collection

Operational cost coverage by collection measures the extent to which the level of collection is able to cover all the operational costs. The calculation does not include income from other fees (such as penalties, meter charges, surcharges), Government and Cooperating Partners. The benchmark for the sector is that 100% operational cost should be covered by the company's collections.

A scrutiny of the Sector Reports for the period 1st January 2012 to 31st December 2014 revealed that the ratio declined as shown in the table below.

Period	Cost Coverage	Benchmark	Comment
2012	106%	100%	Benchmark exceeded
2013	106%	100%	Benchmark exceeded
2014	54%	100%	Benchmark not attained

It can be seen from the above table that although in the period 2012 and 2013, the company exceeded the required ratio for cost coverage, in 2014 the ratio reduced by fifty percentage points to 54% which was below the required benchmark.

ii. Sanitation Coverage

Sanitation coverage consists of the population serviced by offsite (centralized system) and septic tanks only. The benchmark for the sector is 80% minimum coverage.

During the period under review, the company did not reach the acceptable minimum of 80% as tabulated below.

PARAMETER	2012	2013	2014
Sanitation Coverage	27%	31%	34%

As can be seen in the table above, the Company had not reached the required bench mark on sanitation coverage ratio.

w. Irregularities in Billing Systems Administration

A review of the customer data on the Pastel Evolution ERP System revealed the following weaknesses:

i. Customer Accounts with Incomplete Details on the System

The company's Know Your Customer Forms (KYC) requires that prior to water account opening, a customer should, among others, provide details of full names, plot number, street name, area, premise type (whether domestic or non-domestic) and in case of domestic, whether its low cost or high cost residential area, postal address and applicants designation.ie tenant or owner) and applicant's telephone number.

A review of the customer master database for the period under review revealed that there were eight thousand four hundred and twenty-four (8,424) customer accounts that had incomplete records on the system as they lacked physical addresses and contact details.

The implication of missing customer details such as customer contact details meant alert messages and reminders could not be sent to the customers using the Bulk Messaging System (BMS). The missing customer details are summed up in the table below:

Missing Details	No. of Customers
Physical Address	223
Contact Numbers	8,201
TOTAL	**8,424**

ii. **Unbilled Customer Accounts**

Water utility companies receive directives from NWASCO to put certain accounts on zero charge based on erratic water supply, among others**.** In addition, accounts that have been moved to prepaid category would also be indicated as zero charged on post-paid.

A review of the customer master database revealed that there were three hundred and ninety three (393) customer accounts that were not defined on the company tariff plan as the accounts had either been allocated tariff plan such as 'other' or was completely not defined. As of September 2015, three hundred and seventy two (372) customers were owing the company unsettled balances in amounts totalling K1,211,588.

As of September 2015, the Company had not carried out a meter verification exercise to ascertain whether the stated customer accounts were active and in existence.

iii. **Customers with Duplicate Account Numbers**

According to the company's policy, each metered customer should be assigned a unique customer account number and meter. For each customer account created, the system also assigns a unique customer ID to distinguish it from other accounts already created.

A review of the customer master database revealed that two (2) customers had duplicate account numbers. A scrutiny of the accounts details revealed that the customer accounts had unique customer IDs implying that the accounts must have been created twice on the system.

An analysis of the accounts revealed that the customers had different account balances with the company, one owing the company while the other either fully paid or in credit, as shown in the table below:

CUSTOMER	NAME	CUSTOMER_ID	PHYSICAL_ADDRESS	AREA	BALANCE
ZM0615	D Sandu	6201	Zambezi	1 - DOM	63.66
ZM0615	D Sandu	6202	Zambezi	1 - DOM	(142.00)
ZM0703	Ng-onga Jane	6290	Zambezi	1 - DOM	442.07
ZM0703	Ngonga Jane	6291	Zambezi	1 - DOM	

The implication of duplicate customer accounts was that the company may lose its revenue through conflicting customer account balances which may result in failure to collect revenue.

iv. Failure to Remit Collections from Water Sales by Kiosks

The company operates water kiosks in densely populated areas which are not serviced. The water kiosks are manned by agents appointed by the NWWSSCL who sale the water on its behalf and remit the proceeds to the company. Each water kiosk has a customer account number to distinguish it from other water kiosks.

A review of the customer master database revealed that the agents were not remitting proceeds of water sales to the company. As such, as of September 2015, eighty two (82) agents were owing the company amounts totalling K180,642 in unremitted water sales while eleven (11) agents had credit balances of K2,241.

As of September 2015, management did not provide explanation for the credit balances. In addition, the company did not have any agency agreement with the operators of the water kiosks.

v. Customers with Zero and Negative Water Consumption

Zero or negative water consumption can be caused by various reasons such as stuck meters, vacant property, inactive accounts, new connection, tampered meter or failure to access customer property, among others.

- **Zero Consumption**

  A review of the consumption report revealed that there were four thousand six hundred and sixty two (4,662) customers that had zero consumption during the financial year ended December 2014. The figure of zero consumption represented 36% of the total customer base of thirteen thousands and fifty nine (13,059) maintained on the customer master database. The reasons for zero consumption are summarized in the table below.

REASON	NUMBER OF CUSTOMERS
Not Defined	607
No reading from Piano	2
No one home	5
No consumption	3,975
New accounts	63
Inactive	5
Gate locked	3
Dog	1
Construction	1
Total	4662

A further analysis of customers with zero consumption, revealed that one thousand four hundred and fifty seven (1,457) active accounts, excluding new connections, had zero consumption for period ranging between four (4) and twelve (12) months.

- **Negative Consumption**

  A further analysis of the consumption report revealed that forty-nine (49) customers had negative consumption for periods ranging from one (1) to seven (7) months.

  However, as of September 2015, management had not provide reasons for the negative water readings consumption taken from the installed customer meters.

vi. Customers Billed On Average Consumption Over Three Months

According to the NWSCO sector report for 2014, No.5.4.1 *stuck and Defective Meters*, states that when a meter becomes faulty, a customer should be billed based on an average metered consumption for at least the immediate past three (3) months. The meter should not remain faulty for more than three (3) months.

A review of the meter reading report revealed that thirty-three (33) active metered customers were billed on average metered consumption for period in excess of three (3) months and ranged from four (4) to eight (8) months. As such, the customers were billed as though they were on a fixed tariff plan thereby depriving them of the benefit of being metered.

As of September 2015, management had not provided the status for each meter to explain the fixed meter readings and consumption billed to customers. As such, it was difficult to establish whether the meters were faulty or the meter readers were merely guessing the meter readings.

vii. Failure to Disconnect Past Due Customer Accounts

The NWWSSCL Commercial Policy No. 10.1 *Withdrawal of Service to Customer Premises* states that the company will withdraw service to a customer when the customer defaults in settlement of bills. The following conditions *(as indicated on the water bill)* apply:

v. All invoices shall be due for payment on the 15th day following the invoice month.

vi. Customers who do not settle their bills by the due date are subject to the disconnection of water supply.

A review of the company's customer age analysis report for the year ended 31st December 2014, revealed that three hundred and twenty seven (327) customers owed the company amounts totalling K168,805 in unsettled bills for periods exceeding thirty (30) days, implying that the bills had not been settled on the due date of 15th day following the invoice month.

Of the outstanding amount in excess of thirty (30) days, K1,932 was owed by three (3) customers who were wrongly put on Government tariff.

As of September 2015, the customer accounts had not been disconnected and continued to be billed, contrary to the company's commercial policy.

viii. Metered Customers on Meter Reading Report not on the Customer Master

A customer master database is a database where a company maintains a record of all its customers including customer details such as meter numbers, customer account, names, physical address among others. A meter reading report contains details such as water consumption readings and meter numbers.

A comparison of the meter reading report that indicates details such as water consumption, meter readings and the customer master database revealed that one hundred and forty six (146) metered customers on the meter reading/consumption table were not on the customer master database.

The implication was that the company was supplying services to the customers who were not captured on the company customer data base *(Customer Master)* resulting in the under-statement of the company's customer base.

ix. **Metered Customers on the Customer Master not on the Meter Reading Report**

There were four hundred and forty four (444) metered customers on the customer master who were not on the meter reading report. The implication was that the metered customer could be receiving company services without being billed as the meter reading reports will not capture these clients.

x. **Failure to Refund Customers' Water Reconnections Capital Contributions**

According to the company policy and approved water tariffs effective February 2014, NWWSSCL on New Water Connections, a standard water connection of up to 50 meters shall be charged at the rate of K617. Connections in excess of 50 meters shall be treated as a project as follows:

- The district offices of the company shall calculate the full cost of connection including labour.
- The customer shall pay 40% of the total cost with a minimum charge of K617 per connection,
- The customer shall pay the total cost of connection but upon connection and creation of account, shall be credited with 60% of the amount paid which shall be recovered through billing.

An analysis of the water reconnection revenue account revealed that a total of one hundred and seventy-one (171) customers had paid capital contribution for non-standard water connections in amounts totalling K483,302 out of which 60% of the amount paid in amounts totalling K289,981 should have been credited to the customer water accounts.

However, as of September 2015, the customer accounts had not been credited with the 60% of the total cost paid for non-standard water connections. The water accounts were created on the system and connected to the company network. The table below summarizes the payments made in 2014 and 2015.

Year	No of Customers	Total Amount Paid K	60% Refund K
2014	100	255,107	153,064
2015	71	228,194	136,917
TOTAL	**171**	**483,302**	**289,981**

xi. Discrepancies between Revenue Recorded in Financial Statement and Billing Report

A comparison of the billing figure on the billing summary derived from the Municipal billing to the financial statement for the year ended 31st December 2014 revealed a discrepancy in that the billing summary report showed K17,342,353 while the financial statements showed K20,053,285 resulting in an over-statement of revenue in the financial statement by K2,710,932.

As of September 2015, management did not provide reconciliation statement to explain the difference in the billing figures in the draft financial statement and billing summary report.

xii. Discrepancies between Debtors Balances in Pastel Evolution and the Financial Statement

A comparison between the trade customer age analyses in Pastel Evolution to the draft financial statement for the year ended 31st December 2014 revealed a discrepancy in that the debtors ledgers in the Pastel Evolution showed K18,017,047 while the financial statements showed K18,607,197 resulting in an over-statement of accounts receivable balance in the financial statement by K590,150 as indicated in the table below.

Aging (Days)	F/S K	Pastel Ledger K	Difference K	% of Debt F/S	% of Debt Pastel
0-30 Days	2,506,915	2,374,152	132,763	13%	13%
31-60 Days	699,000	640,430	58,570	4%	4%
61-90 Days	551,690	560,011	(8,321)	3%	3%
Over 90 Days	14,849,592	14,442,454	407,138	80%	80%
TOTAL	**18,607,197**	**18,017,047**	**590,150**		

As can be seen from the table above, 80% of the debtor's balances were over 90 days implying that the company was having challenges in collecting cash from sales billed to customers.

Of the total amount of trade receivables of K18,017,047 in the Pastel ledger, K10,595,835 representing 59% of total debtors, was government debt owed by one hundred and ninety-four (194) government institutions, of which K9,589,318 had been outstanding for periods exceeding 90 days.

xiii. Customers on Wrong Tariff Plan

A review of the customer master revealed that eighty three (83) customers consisting of individuals, church organisations and business institutions were placed on Government tariff *(Tariff 3-GRZ/IN)* instead of the correct tariff plan such as 1-Dom for domestic customers and 2-Com for commercial customers.

The implication of a wrong tariff plan is that it may lead to incorrect billing of services.

xiv. Irregular Receipting of Cash Sales by Cashiers

According to NWWSSCL Commercial Policy No.8.0 Payment for Services, all payments must be receipted and clearly state the nature of payment and it is an offence to: (i) receive any money without authority and (ii) receive money without issuing an official receipt. Further, no receipt shall be issued for more than one payment type.

The company uses Pastel Evolution ERP which has a receipting module to generate cash sales receipts which cashiers issue to customers. All receipts and invoice numbers are issued in sequence from the system and therefore cannot issue duplicate numbers.

The following weaknesses were however noted in receipting for cash sales at the Point of Sales (PoS) by cashiers:

- **Duplicate Receipt/Invoice Numbers**

  An analysis of the detailed collection report revealed that there were two (2) duplicate invoice numbers with a net amount totalling K300.

- **Irregular Gaps in Receipt Sequences**

  A further analysis of the detailed receipt collection report for receipt sequence to ascertain completeness of revenue collection, revealed gaps in the sequence of receipt numbers.

  A test check of receipt ranges from 91,868 to 91,939 revealed that there were seventy two (72) gaps in the receipt sequence numbers.

  However, management did not provide an explanation of the reported gaps in the receipts sequence generated from the system. In addition, physical receipts were not availed for audit scrutiny. As such, the exact financial loss to the company could not be ascertained due to the nature of the error.

x. Weaknesses in Managing Expenditure

i. Questionable Expenditure – Statutory Management of Another CU

On 17^{th} December 2012, the Ministry of Local Government and Housing (MLGH) appointed the North Western Water Supply and Sewerage Company Ltd (NWWSSCL) as a Statutory Manager of the Chambeshi Water and Sanitation Company (CHWSC) following the suspension of the operating licence for the CHWSC.

The following were observed:

- **Failure to Avail Documentation Relating to Appointment as Statutory Manager**

  Although the Company availed for audit scrutiny the NWASCO Sector report for 2014 that indicated that NWWSSCL was appointed Statutory Manager for CHWSC, it did not avail the actual appointment letters or any agreements relating to the appointment. In this regard, it was not possible to determine the terms under which the Company was to manage the CHWSC.

- **Lack of Board Oversight**

  There was no evidence availed for audit scrutiny to show that the Board of the NWWSCL was involved in overseeing the Statutory Management of CHWSC. In this regard, no work plans, budgets and progress reports were brought before the Board regarding the activities and expenses the NWWSCL was to incur and had incurred in running the CHWSC. Further, the selection of the personnel to be involved in the statutory management was done without the involvement of the Board.

- **Failure to Secure Reimbursement of Statutory Management Expenses**

  The NWWSSCL incurred expenses relating to the Statutory Management of the CHWSC in amounts totalling K503,044 during the period from December 2012 to October 2014. The expenses incurred included travel allowances and fuel for the Managing Director and the Acting Director of Finance of NWWSCL.

Section 21.(8) of the Water Supply and Sanitation Act states that "Any expenses connected with the appointment of a statutory manager and the management of a utility or service provider by the statutory manager shall be a charge on the revenues of the utility or service provider to which the statutory manager is appointed." It was however observed that the Company had born expenses relating to the Statutory Management on behalf of the CHWSC. As of November 2015, CHWSC had not reimbursed NWWSSCL.

ii. Irregular Legal Expenses

The Company incurred K30,000 towards legal expenses relating to defending its Public Relations and Commercial Manager (PRCM) in two (2) counts of criminal offences relating to unlawful entry to the premises of another citizen with intent to annoy and assaulting the citizen in whose premises he had unlawfully entered and occasioned him actual body harm. On 30th July 2015, the Court convicted the PRCM in his private capacity of the two (2) counts and sentenced him to six (6) months suspended sentence.

The expenditure was irregular in that the court cases were against the PRCM in his personal capacity and were not in any way related to the operations of the Company.

However, the details of the total amount charged by the Lawyers was not availed for audit scrutiny.

iii. Questionable Approval of Payments

It was observed that five (5) payments in amounts totalling K113,427 in respect of advances and imprest made by the Company were questionable in that in some cases, the payments were approved by junior staff while in other cases, they were approved by the beneficiaries themselves.

iv. Missing Payment Vouchers

Contrary to Financial Policies of the NWWSSCL Clause 3.4, twenty eight (28) payment vouchers in amounts totalling K335,251 made during the period under review were not availed for audit.

v. Inadequately Supported Payments

Contrary to Financial Policies of the NWWSSCL Clause 6.8, one hundred and sixty (160) payments in amounts totalling K2,719,375 made during the period under review were not supported with relevant documents such as goods received notes, invoices, cash sale receipts and local purchase orders among others.

vi. Unretired Accountable Imprest

Contrary to Financial Policies of the NWWSSCL Clause 6.8, accountable imprest in amounts totalling K1,496,425 issued to various officers during the period under review had not been retired as of November 2015.

y. Weaknesses in Managing Staff Costs

The NWWSSCL Organisation Structure had three (03) categories of staff comprising Senior Management, Middle Management and Unionised Staff with the Management being divided into Grade 1 to Grade 3 (G1 – G3). The Middle Management was categorised into G4 and G5 while G6 to G8 were for the unionised staff. During the period under review, the Company incurred staff related costs and had staffing levels as tabulated below.

Personnel and Expenses	**2014**	**2013**	**2012**
Salaries and Wages (in Kwacha)	1,678,137	7,894,545	5,687,188
Key Management and Directors Salaries (in Kwacha)	8,882,745	1,101,238	992,923
Total Staff Costs (in Kwacha)	**10,560,882**	**8,995,782**	**6,680,111**
Average number of persons employed during the year was:			
Human Resource and Adminstration	6	6	6
Engineering	69	62	56
Public Relations	23	26	25
Finance	7	7	9
Business Development	3	2	0
Manging Director's Office	7	6	5
Average Staffing Levels	**115**	**109**	**101**

The following were observed regarding the management of staff costs:

i. Failure to Define Competence Levels for Staff

The Company did not have specifications of professional and academic qualifications and work experience requirements for the various positions on its organisation structure making it vulnerable to recruitment of inappropriate personnel.

ii. Questionable Recruitments

The Company recruited seven (7) employees to various positions during the period under review without following Recruitment Policies and Guidelines. Clause 4 of the Recruitment and Placement Policy lays down the following procedures in recruiting staff: anticipation of vacancy, collection of information about a vacancy, advertising, short listing, interviewing, formal interviews for experienced and trained applicants and aptitude tests for school leavers, final selection, induction and follow-up.

A scrutiny of personal files for the seven (7) employees revealed that the procedures detailed above were not followed during the recruitment process.

iii. Failure to Follow Staff Promotion Procedure - Engagement of the Director Finance

On 7th September 2015, the Finance Manager was promoted to the position of Director of Finance. However, the promotion was done without following the Recruitment and Placement Policies of the Company. Clause 19.2.2 of the Recruitment and Placement Policies stated that "promotion of personnel to higher level of job involves assessment of likely candidates for both performance in their current jobs and suitability for the higher jobs. Promotion may be based on merit, seniority or both. Seniority should never be the sole determinant. A well designed assessment panel has lot of merit". However, there was no assessment panel constituted to assess the suitability of the candidate. Further, the candidate did not undergo staff performance appraisal for the year 2013.

iv. Questionable Payment of Performance Bonus to the Managing Director

During the period under review, the Managing Director claimed and was paid performance bonuses in amounts totalling K37,904 as shown in the table below.

Date	Details	Amount K
2/1/2013	Advance against 2011 and 2012 performance bonus	10,000
12/6/2013	Performance bonus for 2011	17,760
12/6/2013	Performance bonus for 2012	20,144
		47,904
	Less advance	10,000
	Total Paid	**37,904**

However, the payments of performance bonus for the period 2011 and 2012 was questionable as it did not meet requirements of the Conditions of Service. Clause 3.11.3 of the Conditions of Service for the Managing Director (MD) which stated that "the Company shall run an independent scheme called Performance Incentive Scheme (PIS) for the employee achieving yearly objectives as agreed with the Board paid pro-rata to a maximum of one month basic pay. The

Appraisal shall be based on the Performance Contract signed with the Board." The payment of performance bonuses by the Company was questionable due to:

- During the period from 2011 to 2012, the Company was under the oversight of the MLGH as there was no Board. A review of correspondence files with MLGH revealed that there was no performance contract signed for 2012 with the MLGH. Without the performance contract, the bonus could not be determined rendering the payment irregular.
- There was no appraisal carried out by the MLGH during the period it provided oversight.

v. Payment of Transport Allowance in Excess of Entitlement

Condition of Service for Unionised Employees No.40.0 *Transport Allowance*, states that employees in salary scales G5 to G8 shall be entitled to transport allowance of K180 per month.

Contrary to the above requirements, one hundred and thirteen (113) employees were paid transport allowance at rates in excess of the entitlement resulting in an overpayment of K21,610.

z. Weaknesses in Managing Non-Current Assets

i. Lack of Title Deeds

The Lands Act No. 29 of 1995 requires that institutions or individuals owning land should have or possess title deeds as proof of ownership. A review of the asset register for NWWSSCL revealed that the Company had 164 properties with book values in amounts totalling K9,281,438,155 which had no title. Among the properties were Company Head Quarters called Mema House and four (4) Staff houses.

ii. Failure to Update the Asset Register

A scrutiny of the asset register revealed that it had not been updated since 31st December 2011. The Company had acquired and disposed of assets during the period under review as shown in the table below. However, these movements in assets had not been reflected in the asset register.

YEAR	LAND AND BUILDINGS K	PLANT AND MACHINERY K	MOTOR VEHICLES K	OFFICE EQUIP & FURNITURE K	TOTAL ADDITIONS K	TOTAL DISPOSALS K
2012						
Additions	315,000	856,265	619,089	37,910	**1,828,264**	
Disposals	-	-	-	-		-
2013						
Additions	21,850	377,201	947,545	1,091,372	**2,437,968**	
Disposal	-	-	117,255	-		**117,255**
						-
2014						
Additions		1,394,818			**1,394,818**	
Disposal	-	-	-	-		-
				TOTAL	**5,661,050**	**117,255**

iii. Inadequate Information in the Fixed Asset Register

The information contained in the Asset Register was limited in that it did not show the location, motor vehicle registration numbers, and serial numbers for the assets owned making it difficult to match the physical assets to those recorded in the fixed asset register.

As a result, various motor vehicles, office furniture and fixtures and fittings valued at K88,846,958 purchased between 2012 and 2013 could not be matched/or traced to the asset register.

iv. Lack of Asset Identification Numbers on Assets

Best practice requires that assets of an organisation should be clearly labelled with unique identification numbers for easy identification. A physical inspection of assets revealed that the assets had no unique asset identification numbers which could be matched to the fixed asset register.

v. Failure to Avail Vehicle Allocation Lists

The Company did not avail lists of vehicles allocated to various officers making it difficult to ascertain that the fuel drawn by the vehicles used by staff was in line with their entitlements.

In this regard, it was not possible to verify the expenditure of K443,691 in 2012, K497,150 in 2013 and K551,217 in 2014 on fuel purchases incurred by the Company.

aa. Weaknesses in Managing Payables - Failure to Remit Statutory Contributions

During the period under review, it was observed that although the institution deducted statutory contributions in the form of Pay As You Earn (PAYE) from the employee’s salaries on a monthly basis, it did not remit the contributions to the Zambia Revenue

Authority resulting in amounts totalling K4,414,981 being outstanding as at 31st December 2014.

National Youth Development Council

Background

15. The National Youth Development Council (NYDC) was established by the National Youth Development Council Act No. 7 of 1986 which was later repealed and replaced by Act No. 13 of 1994.

The functions of the Council include:

a. To advise the Minister on programmes relating to youth development;

b. To coordinate youth activities;

c. To evaluate and implement youth programmes;

d. To assist and encourage organisations interested in youth development in the initiation of youth training and development programmes;

e. To initiate, operate and manage non-profit making or profit making projects in support of youth development; and

f. Such other functions as the Minister may, from time to time, direct.

Council

According to the National Youth Development Council Act, the Council is a policy making body and comprises:

i. The Director of Youths;

ii. Twenty two (22) representative members appointed by the Minister, of whom-

- Not more than four (4) shall be public officers;
- Not more than twelve (12) shall be persons from various youth organisations;
- Not more than three (3) shall be persons from various organisations interested in youth development; and
- Not more than three (3) shall be persons from amongst members of the public who have distinguished themselves in youth development.

The Chairman and a Vice Chairman of the Council are appointed by the Minister from amongst the members.

Management

According to Section 13 (1) and (2) of the Act, there shall be a Secretary of the Council who shall be a public officer and such other public officers as are necessary to carry out the functions of the Council.

The Secretary shall be responsible for the administration of the day to day affairs of the Council.

Accounting and Other Irregularities

An examination of accounting and other records maintained at the National Youth Development Council (NYDC) head office for the financial year ended 31st December 2014 carried out in June 2015 revealed the following:

a. Failure to Prepare Financial Statements and Non Maintenance of Books of Accounts

According to Sections 22 and 25 of the National Youth Development Council Act No 13 of 1994, the Council is required to submit annual reports to the Minister as soon as practicable but not later than six (6) months after the expiry of each financial year for tabling in Parliament.

Contrary to the Act, the Council did not prepare financial statements for the financial years ended 31st December 2006 to 2014.

b. Irregularities in the Payment of Allowances

A provision of K1,500,000 was made in the Estimates of Revenue and Expenditure for the financial year ended 31st December 2014 as operational grants of the Council and the whole amount was released.

However, the following was observed:

i. Overpayment of Council Allowances

A total budget of K154,710 was approved by the Council for board and sub-committee meetings for the year ended 31st December 2014.

However, an analysis of expenditure records revealed that amounts totalling K365,320 were applied on meeting the Council Chairman’s expenses in respect of subsistence, sitting and out of pocket allowances, per diem for travel abroad, fuel, talk time, air ticket and visa fees during the period under review. This resulted in an over expenditure of K210,610 for which there was no authority for variation from the Controlling Officer.

ii. Double Payment of Allowances

During the period under review, the Acting Council Secretary approved payments to the Chairman for sitting allowances in addition to being paid subsistence allowances for trips outside the station.

In this regard, amounts totalling K155,534 were paid (subsistence allowance - K103,784 and sitting allowances - K51,750) resulting in a double payment of allowances.

In their response dated 31st August 2015, management stated that the payments were made on the insistence of the Chairman himself that he was entitled to both allowances when out of station.

iii. Irregular Payment of Council Allowances

According to Section 10 (1) and (2), the Council may establish committees and delegate to any such committee any of its functions as it deems fit and appoint members who are or are not members of the Council. Further, the Council shall cause minutes to be kept of the proceedings of every meeting of the Council and of every meeting of any committee established by the Council.

In this regard, ten (10) sub committees were created by the Council and fifteen (15) additional members were appointed by the Chairman to sit in various committees of the Council. However, of the fifteen (15) additional members, ten (10) letters of appointment were availed for audit while the appointment letters for the remaining five (5) members were not availed for audit.

It was also observed that the Council and its sub committees sat thirty three (33) times, drawing allowances for the meetings in amounts totalling K363,407 during the period from December 2013 to December 2014.

However, only twenty six (26) copies of minutes were provided for audit scrutiny out of thirty-three (33) meetings leaving seven (7) Council meetings not supported by minutes.

In particular:

- Only ten (10) copies were duly signed by Councillors tasked with the duty to do so.
- Nine (9) copies were not signed at all.
- Four (4) copies were partially signed by at least one Councillor.
- Three (3) copies were not dated.

In view of the above, it was not possible to confirm the validity and authenticity of the Council and subcommittee minutes kept by the Council and justify the payment of allowances.

In their response dated 31st August 2015, management stated that the Council Chairman called for these committee meetings where management was not allowed to be part of and efforts by management to get some of the signed minutes from the sub-committees had failed.

c. Irregular Recruitment of Staff

According to the 2014 Budget Address dated 11th October 2013 by the Minister of Finance, paragraph 89, all Government institutions were to observe a two (2) year public sector salary/ wage moratorium and defer new recruitments to 2015.

Contrary to the directive from the Ministry of Finance, it was observed that the Council recruited forty one (41) Officers in August 2014 for the positions of Assistant Directors, Youth Service Hub Officers, Youth Hub Assistants, Technical Assistants, an Administrative Officer, an Assistant Accountant and Drivers without Cabinet Office or parent Ministry authority.

In this regard, the Council paid salaries in amounts totalling K565,510 to the (41) Officers during the period under review. The Council also paid rentals for the officers in amounts totalling K222,400 during the same period.

In their response dated 31st August 2015, management stated that the Council erred in establishing Provincial Hub Centres and recruitment of Hub Officers as authority was not sought from the relevant authorities and the two activities were not budgeted for.

d. Misapplication of Funds for Terminal Benefits

During the period under review, amounts totalling K717,597 were owed to separated staff. Owing to several litigations against the Council for failure to settle terminal benefits, the Ministry of Youth and Sport provided amounts totalling K1,000,000 towards the dismantling of arrears for the financial year ending 31st December 2014.

In this regard, the Ministry released a total amount of K1,000,000 for dismantling of arrears during the period under review against which amounts totalling K118,435 were applied on the dismantling of arrears while amounts totalling K881,565 were applied on Council's operational costs such as payment of Councillors' allowances and salaries for newly recruited staff activities not related to the purpose for which the funds were appropriated.

e. Outdated Youth Organisations Register

According to Section 15 of the Act, the Council shall keep and maintain a register of every youth organisation in Zambia. Upon payment of a registration fee, the Council shall issue a certificate of registration.

The register of youth organisations made available for audit revealed that during the period 2008 to 2014, seven hundred and sixty four (764) youth organisations were registered with the Council countrywide. However, the register was not up to date as it had not captured all youth organisations. In this regard, it was observed that youth organisations that had accessed funding from the Youth Development Fund (YDF) under the Ministry of Youth and Sport were not included in the register at the Council.

The register of youth organisations availed for audit was inconclusive as it did not include registration dates for two hundred and forty two (242) organisations, youth organisations registered in 2014 and no details of organisations deregistered during the period under review were maintained.

Further, the Council did not take any punitive action against those youth organisations that were not paying membership and renewal fees as stipulated in the Act.

f. Irregular Awarding of Grant to Luangwa Skills Development Cooperative

According to the NYDC application form for federated fund for youth development, any youth organisation wishing to access the fund should fill out the application form which should be accompanied by the following documents:

i. Project budget
ii. Detailed project work plan
iii. Certified photocopies of the Organisation's registration/ affiliation
iv. Organisation constitution/ profile
v. Minutes of previous meetings

A review of documents revealed that on 9th September 2014, the Council paid K10,000 to Luangwa Skills Youth Development Cooperative as a Grant to facilitate the acquisition of equipment.

It was observed that despite the payment being made, the Cooperative did not attach any project budget, detailed work plan, certified copies of the Organisation's registration or its constitution.

g. Unauthorised Travel Abroad

According to Cabinet Office Circular No 14 of 2013, Controlling Officers are required to seek prior authorisation from the Office of the Secretary to the Cabinet for all Public Service officers travelling on duty outside Zambia.

However, the Chairman travelled to the United Kingdom on 14th March 2014 without authority from the Secretary to the Cabinet.

h. Lack of Title Deeds for Council Properties, Plot 10423/196 and 179, Chainama, Great East Road

A review of the Council's asset register revealed that in May 1988, the Council purchased fifteen (15) houses from the National Housing Authority (NHA) at a total cost of K3,838,979.

However, it was observed that Plot 10423/196 and 179, Chainama, Great East Road, both valued at K1,589,100 did not have title deeds and were not insured.

Road Development Agency

Background

16. The Road Development Agency (RDA) is established by the Public Roads Act No 12 of 2002 which Act also established the National Road Fund Agency (NRFA) and Road Transport and Safety Agency (RTSA).

RDA is responsible for planning, maintaining and managing the core road network. The total core road network is 40,113 km comprising 3,088 km of Trunk roads, 3,691 km of Main roads, 13,707 km of District roads, 5,294 km of Urban Roads and 14,333 km of Primary Feeder roads.

Administration of the Agency

The Public Roads Act No 12 of 2002 provides among other things that the composition of the Agency Board shall consist of part time members appointed by the Minister as follows:

a. A representative of the National Council for Construction

b. A representative of the Zambia National Farmers Union

c. A representative of the National Science and Technology Council

d. A representative of the Engineering Institution of Zambia

e. A representative of the Chartered Institute of Transport

f. A representative of:

- the ministry responsible works and supply;
- the ministry responsible for communication and transport,
- the ministry responsible for local government and housing,
- the ministry responsible for finance;
- the ministry responsible for tourism;
- the ministry responsible for agriculture; and
- the Attorney General

g. the Director of the Road Transport and Safety Agency;

h. the Director of the National Road Fund Agency; and

i. One other person.

The Director of the Road Traffic and Safety Agency and the Director of the Road Fund Agency referred to in paragraph (g) and (h) of subsection (1) are ex-efficio members of the Agency Board and shall have no vote.

The chairperson is appointed by the Minister while the Vice Chairperson is elected by the members of the Agency Board.

The Agency Board reports to the Committee of Ministers on Road Maintenance Initiative at such times and such places as the Minister may determine.

The Board of Directors appoints the Director and Chief Executive Officer (CEO) who is responsible for the day-to-day administration of the agency and is assisted by the Manager Corporate Services, Construction and Maintenance, Planning and Design; and heads of departments. The director, managers and heads of departments are appointed on a three-year renewable contract and the rest of staff are appointed on a permanent and pensionable basis.

Sources of Funds

According to the Act, the funds of the Agency shall consist of such moneys as may:

- Be appropriated to the Agency by Parliament for the purpose of the Agency,
- Be allocated to the Agency from the Fund,
- Be paid to the Agency by way of grants or donations, and
- Vest in or accrue to the Agency.

The Agency may:

i. Accept moneys by way of grants or donations from any source in Zambia and subject to the approval of the Minister, from any source outside Zambia;

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

iii. In accordance with the regulations under this Act, charge fees for the services provided by the Agency.

Funding

In the Estimates of Revenue and Expenditure for the years ended 31st December 2012, 2013 and 2014, authorised provisions totalling K248,105,331 were made to cater for the operations of the Road Development Agency against which K282,694,750 was received representing 114% funding as shown in the table below:

Year	Total Authorised Provision K	Actual Releases K	Over/(Under) Funding K
2012	50,693,574	77,693,575	27,000,001
2013	84,005,003	84,005,004	-
2014	113,406,754	120,996,171	**7,589,417**
TOTAL	**248,105,331**	**282,694,750**	**34,589,418**

Accounting and Other Irregularities

An examination of financial and other records maintained by the Road Development Agency-(RDA) for the financial years ended 31st December 2012, 2013 and 2014 revealed the following:

a. Lack of Board

Contrary to the provisions of the Act, RDA operated without a Board during the period from January 2012 to December 2013 as only the chairperson was in place. In addition, although other board members were appointed in December 2013, as of November 2015, there was no representation from the Attorney General's chambers.

Further, it was observed that despite not having a Board in place, amounts totalling K68,800 were paid to the board chairman as sitting allowances for Board meeting during the period 26th December 2012 to 7th July 2013.

b. Road Tolling

Following the enactment of Statutory Instrument No. 73 of 2013, the Road Development Agency (RDA) was mandated to implement the provisions of Tolls Act No. 14 of 2011, by operating the instruments of the Tolling Regulations of 2013 and enforcing the law, accordingly.

According to the Tolls Act No. 14 of 2011, the Road Development Agency has been mandated through this Act to establish and provide for the operation of toll roads; provide for the charging and collection of tolls; provide for private sector participation in the tolling of roads; repeal and replace the Tolls Act, 1983; and provide for matters connected with, or incidental to, the foregoing. Consequently, on 1st November, 2013, RDA implemented Phase 1 of the tolling system through which trucks above 6.5 tonnes passing through weighing bridge pay tolls.

Under phase 1, eight (8) weighing bridges had been operated namely Kazungula, Livingstone, Kafue, Kapiri Mposhi, Kafulafuta, Solwezi, Mpika and Mwami. Further, International trucks pay their road tolls at entry boarder points through Road Transport and Safety Agency (RTSA) under the SADC reciprocal protocols. However, the following observations were made:

i. Failure to Reconcile the Weighbridge Accounts

Revenue collection system at the weighbridges was semi-automated in that the activities of producing the axle load certificates at the point of weighing vehicles was not integrated to calculation of fees that the vehicles are supposed to pay as this was calculated manually.

Further, the reconciliations between the registers that records all traffic that passes through the weighbridges with the actual vehicles charged was not done therefore making it difficult to establish whether or not all eligible vehicles paid the required fees.

ii. Lack of Accurate Means to Confirm Weights of Abnormal Loads

Clause 11 to 14 of the Statutory Instrument (SI) No. 28 of 2007 of the Public Roads (Maximum Weight of Vehicles Regulations, 2007) requires a person intending to drive or use or cause or permit to be driven or used on any public road any motor vehicle exceeding the limits of weights or dimensions specified in the regulations to apply for a special permit to do so.

However, the Agency had no accurate means of confirming weights for vehicles which could not be weighed on the current weighbridges due to either over width, overweight or over length. The accuracy of the axle weights and gross vehicle mass indicated on the abnormal load permits therefore, could not be guaranteed as the Agency depended on the information indicated by the transporters on application for special permit and the internet.

c. Irregular Investment of K3,000,000

Section 22, (1), and (2) and (3) of the Public Finance Act No.15 of 2004, states that moneys standing to the credit of the Republic in the Treasury Account or any other bank account and not required for any purpose may be authorized to be invested by the

Secretary to the Treasury with a bank at call or subject to notice not exceeding twelve months or in any of the investments authorized by law for the investment of trustee funds.

Contrary to the above provisions, it was observed that on 12th November 2012, RDA invested K3 million from the operational funds in a thirty (30) days fixed deposit Account without obtaining Treasury Authority.

d. Lease of Office Space - Partitioning and Installation of Air Conditioners

On 14th January 2013, RDA signed a contract with Valis Properties of Lusaka for lease of Office space along Alick Nkata road at a monthly rental of K71,064. As of June, 2013, a total of K558,560 had been paid to Valis Properties.

During the year under review, the Road Development Agency engaged Michel Design Studios of Lusaka to partition blocks 1 and 2 of the rented building. The scope of work included the design, supply and construction of the internal partitioning, fitting of hinged doors to natural aluminium and 6mm glass, realign staircase and sand blast film with RDA logo engraved on each door. As of December, amounts totalling K740,080 had been paid to the contractor and K362,264 for the procurement of thirty eight (38) air conditioners bringing the total amount to K1,102,344.

The following were observed:

i. Failure to Avail Contract Document

There was no contract availed for audit scrutiny for the partitioning of the office block and therefore, the total contract sum could not be established.

ii. Questionable Portioning of the Office block

Although, the works had been completed and the office fully occupied by RDA, no details were provided in the lease contract on how RDA would recover the cost of refurbishing the office should the lease be terminated.

e. Wasteful Expenditure

During the period under review, three (3) payments in amounts totalling K273,652 were made by the Agency in respect of legal fees and compensation for wrongful dismissal. However, the expenditure was wasteful as it could have been avoided had the correct procedures for dismissal been followed.

f. Irregular Sales of Motor Vehicles to Officers

Clause 13.2 of the General Management Conditions of Service on the sale of personal to holder vehicles states that:

- The employee to whom the vehicle is sold should have completed three years continuous service with the Agency.
- The employee should have been using the car for at least three years on personal-to-holder basis.
- The Agency has obtained replacement vehicle for the employee.
- The selling price for the vehicle shall be 15% of the original cost or 25% of the market value whichever is the greater.

During the period under review, five (5) motor vehicles purchased at the total cost of K3,697,611 and used for periods ranging between one (1) and twenty one (21) months were sold to five officers at prices in amounts totalling K751,503 as shown in the table below.

Position	Period Served	Make of Motor Vehicle	Registration No.	Mileage Covered (km)	No. of Years Vehicle Used	Purchase Price K	Offer Price K
Director and CEO	9 months	Toyota Landcruiser Prado	ALT 1135	50,360	12 months	700,315	112,050
Former CEO	15 months	Toyota Landcruiser GX	ALD 4003	15,000	10 months	806,536	161,307
Senior Engineer	6 months	Toyota Landcruiser Prado	ALC 9634	29	1 month	756,183	189,182
Manager - Procurement	3 months	Toyota Landcruiser Prado	ALD 6717	25	1 month	660,357	165,089
Former Director and CEO	4 months	Toyota Landcruiser Prado	ALF 2847	49,284	21 months	774,221	123,875
Total						**3,697,611**	**751,503**

In this regard, the decision to sell the vehicle at such reduced prices for vehicles purchased at very high costs and used within such short periods was against the conditions of service and therefore irregular.

Rural Electrification Authority (REA)

Background

17. The Rural Electrification Authority (REA) was established by the Rural Electrification Act No. 20 of 2003.

Under Section 4 (1) of the Act, the functions of the Authority include to:

- Administer and manage the Rural Electrification Fund;

- Develop, implement and update rural electrification master plans for systematic electrification of rural areas;
- Promote utilization of available rural electrification technological options to enhance the contribution of energy to the development of agriculture, industry, mining and other economic activities in rural areas;
- Mobilise funds from within and outside Zambia in support of rural electrification;
- Offer, on a competitive basis, the construction of rural electrification projects and periodically publish information on programs being carried out;
- Design and offer, on a competitive basis, to developers or operators, smart subsidies for capital costs on projects that are designed to supply energy for development of rural areas;
- In conjunction with stakeholders, develop mechanisms for operation of the grid extension networks for rural electrification and other rural energy supply systems;
- Recommend to Government policies for the enhancement of access to electricity by the rural population; and
- Undertake such other activities as are conducive or incidental to the performance of its functions under the Act.

Administration of the Authority - Board of Directors

The Authority's Board of Directors provides overall guidance in the planning and implementation of the Authority's activities. The Board of Directors consists of seven (7) part-time members appointed by the Minister of Mines, Energy and Water Development, as follows:

i. The Permanent Secretary to the Ministry responsible for Energy;

ii. The Permanent Secretary to the Ministry of Finance;

iii. The Permanent Secretary to the Ministry responsible for Local Government;

iv. A representative of the Economics Association of Zambia;

v. A representative of the financial sector nominated by the Bankers' Association of Zambia;

vi. A representative of a non-governmental organization engaged in rural development projects; and

vii. A representative of the Engineering Association of Zambia; provided that two (2) of the members appointed under this subsection shall be women.

The board members are appointed for a term of three (3) years and are eligible for re-appointment for a further term of three (3) years.

The current REA Board of Directors were appointed on 30th August 2012.

The Board Members and Sub Committee members are entitled to a sitting allowance as follows:

Meeting Type	Category	Rate K
Board Meeting	Board Chairperson	5,000
	Board Member	4,500
Sub Committee Meeting	Chairperson	4,500
	Member	3,500

Rural Electrification Authority (REA) Secretariat

The Rural Electrification Authority (REA) Secretariat is responsible for the implementation of the decisions of the Authority as the day to day affairs of REA.

REA is headed by the Chief Executive Officer (CEO) and is assisted by four (4) Directors for Technical Services, Support Services, Finance and Human Resource and Administration. Other members of senior management included two (2) managers for Procurement and Supply and Corporate Affairs, as well as the Legal Counsel and the Chief Internal Auditor.

Sources of Funds

According to the Rural Electrification Act No. 20 of 2003, which established the Rural Electrification Authority (REA) and the Rural Electrification Fund (REF), three (3) sources of funds were identified as follows:

i. Such moneys as may be appropriated by Parliament for the purpose;

ii. All electricity levy collected;

iii. Such moneys as may be paid to the Fund by way of loans, grants or donations.

Budget Provision and Releases

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2012, 2013 and 2014, a total provision of K286,500,000 was made in respect of the REA operations out of which amounts totalling K221,306,570 were released resulting in an underfunding of K65,193,430 as tabulated below.

Year	Budget K	Actual K	Variance K
2014	65,000,000	61,181,570	(3,818,430)
2013	59,500,000	60,625,000	1,125,000
2012	162,000,000	99,500,000	(62,500,000)
	286,500,000	**221,306,570**	**(65,193,430)**

In this regard, the Authority was not adequately funded to undertake its mandate.

Accounting and Other Irregularities

A review of accounting and other records maintained at the Authority Head Office for the financial years ended 31st December 2012 to 31st December 2014 revealed the following:

a. Unremitted Income to REA

Part IV section 18.3 of the Rural Electrification Act, stipulates that the Minister of Finance shall ensure that all monies collected as electricity levy are paid directly into the rural electrification fund within twenty one (21) days of the collection of the monies.

During the period under review, amounts totalling K88,475,321 (K32,284,018 in 2012 and K56,191,303 in 2013) were collected by ZESCO Limited as electricity levy. However, the funds were remitted to Ministry of Finance and as of November 2015, the funds had not been remitted to REA. See table below.

Month	Amount (2013) K	Amount (2012) K
January	4,351,988	2,384,806
February	4,290,177	2,499,630
March	4,343,548	2,434,854
April	4,567,694	2,497,345
May	4,717,099	2,616,075
June	4,316,837	2,594,153
July	5,133,078	1,994,100
August	4,863,538	2,754,169
September	4,765,753	3,032,384
October	4,804,892	3,098,834
November	4,960,134	3,158,834
December	5,076,565	3,218,834
Total	**56,191,303**	**32,284,018**

b. Unsupported Payments

Contrary to Financial Regulation No.52, five (5) payments in amounts totalling K73,387 made during the period under review were not supported with relevant documents such as receipts and invoices, among others.

c. **Contract for the Provision of Consultancy Services for the Proposed Chunga and Lunga Solar Mini Grid Projects**

In May 2014, the Authority signed a contract with a consultant for the provision of consultancy services on market assessment, financial and economic appraisal for the proposed Chunga and Lunga Solar Mini Grid Projects at a contract sum of K223,308. As of December 2014, the consultant was paid the contract price in full.

However, the following were observed:

i. There was no documentary evidence to show that tender procedures were followed in the engagement of the consultant. Therefore, it was not possible to ascertain how the consultant was selected.

ii. There were no minutes availed to show that the board reviewed and adopted the market assessment, financial and economic appraisal projects.

iii. The contract completion date was not stated in the contract.

d. **Contract for the Procurement Strategy for the Rural Electrification Projects**

In October 2013, the Authority engaged an independent consultant to review the procurement strategy for the Rural Electrification Projects at a contract sum of K148,274 and the consultant was paid in full.

However, the following were observed:

i. There was no documentary evidence to show that tender procedures were followed in the engagement of the consultant. Therefore, it was not possible to ascertain how the consultant was selected.

ii. As of November 2015, the procurement strategy had not been adopted by the board and was still in draft form.

e. **Wasteful Expenditure - Developing of Business Model**

In January and February 2014, amounts totalling K38,599 were paid to Energy Management Services for the development of a business model. As of November 2015, the business model had not been implemented rendering the expenditure wasteful.

f. **Construction of Substation - Chinsali Project**

In August 2013, the Rural Electrification Authority (REA) awarded a contract to Chamb Investments for the construction of 2.5 MVA 66/ 33kV substation in Chinsali District at a contract price of K4,679,030. The contract had a start date of 13th October 2013 and an initial completion date of January 2015 but was later extended to 31st August 2015.

The scope of works included installation of 66kV switch bay, installation of 33kV outgoing line switch bay and installation of an indoor Control and Protection System.

As of 31st December 2014, the contractor had been paid amounts totalling K2,422,875.

A physical inspection carried out in July 2015 revealed the following:

i. The contractor was not on site

ii. The digging of trenches where the transmission lines were to be installed had not been completed.

iii. Materials such as transformers, pipes and electrical equipment were found lying idle and unsecured at the site rendering them prone to theft/pilferage.

iv. A review of correspondence dated 6th August 2015, referenced REA/101/9/85 (NP-1) on extension of the completion period revealed that the performance security expired on 31st May 2015 and had not been renewed.

Excavation done on site and materials in the background

TAZAMA Pipelines Limited

Background

18. The TAZAMA Pipelines Limited was established in 1966 to construct and operate a pipeline between the port of Dar-es-Salaam in Tanzania to Ndola in Zambia for the purpose of transporting crude oil or its refined petroleum products.

On 17th January 1967, the Governments of the Republic of Zambia and United Republic of Tanzania signed a convention relative to the construction and operation of a pipeline for the transportation of refined petroleum products or crude oil from Dar-es-Salaam on the Tanzanian coast to a point in Ndola in Zambia. Under the convention, the Governments of Tanzania and Zambia granted the company, among others, exemption from income tax and any other taxes chargeable on the income or turnover of corporations, in an effort to minimise the cost of end-products.

The pipeline covers a distance of 1,710 kilometres comprising 954 kilometres of eight (8) inch diameter and 798 kilometres of twelve (12) inch diameter pipelines and currently has an annual throughput capacity of 800,000 metric tons. The company also operates a tank farm facility situated at Kigambani in Dar-es-Salaam which comprises six (6) tanks with a holding capacity of 232,000 cubic meters. Pumping is achieved through seven (7) pump stations, five (5) in Tanzania and two (2) in Zambia.

The company currently oversees the refining process and sell of petroleum products on behalf of Government. TAZAMA also manages the Ndola Fuel Terminal (storage) on behalf of Government. The Ministry of Energy and Water Development appoints and authorises crude oil or its refined petroleum products importers for whom TAZAMA Pipelines Limited transports the feedstock on their behalf. TAZAMA enters into storage and transportation agreements with the Government for the duration of the authorised volumes to provide contractual guidelines to the two parties and include, among other things, compensation for losses, shortages and efficiency.

Capital Structure

The company is jointly owned by the Government of the Republic of Zambia (Class A) and the United Republic of Tanzania (Class B). The shares for the Zambian Government are held by the Ministry of Finance. The Tanzania Government holds its shares through Tanzania Petroleum Development Corporate (TPDC).

The company's authorised share capital consist of 50 billion ordinary shares of K1 each comprising 33,333,334,000 of Class "A" (67%) and 16,666,666,000 of Class "B" (33%) shares.

Administration

The company is governed by a Board of Directors comprising seven (7) members from the two (2) shareholders, four (4) Directors are appointed by subscribers of Class A shares and three

(3) Directors are appointed by subscribers of Class B shares with Zambia providing the Chairperson.

The day to day operations of the company are managed by the Managing Director who is assisted by Director of Operations and Engineering, Financial Controller, Director of Administration and Legal Services who are based at Head office in Ndola. In addition, there are two Regional Managers based in Dar es Salaam and Bwana Mkubwa in Ndola supervising the day to day maintenance and operations of the pipeline. The regional managers report to the Director of Operations and Engineering. There is also a Terminal Manager who oversees the maintenance and operations of the Ndola Fuel Terminal.

The Board of Directors appoints the Managing Director and directors on a renewable three (3) year term of office. The rest of staff are appointed on a permanent and pensionable basis. The total authorised staff establishment of the company was 410 as of 31st March 2014.

Sources of Funds

The major sources of funds for TAZAMA Pipelines Limited are pumping and storage fees, agency fees, rental income from the TAZAMA housing units.

TAZAMA Management Information Systems

TAZAMA operates two systems namely;

- **MicroPay Payroll System**

  This is the system that is used for processing management and general payroll.

- **Microsoft Navision**

  This is the system that is used for processing the financial transactions.

Review of Operations

A review of the audited accounts, ICT systems and other relevant documents for financial years ended 31st March 2012 to 31st March 2014 including a physical inspection of infrastructure conducted in February 2015 revealed the following:

a. Failure to Convene Board Meetings

The Board of Directors had not convened to review the affairs of the company since its last meeting of October 2014.

Although in their response management stated that they held a Special Board meeting in December 2014, evidence to that effect was not provided for audit verification.

b. Financial Performance

An analysis of the financial statements for the period ending 31st March 2012 to 31st March 2014 revealed the following:

i. Profitability

The aim of an organization is to make profit and have an adequate return on capital employed.

Statements of Comprehensive Income

	2014	2013	2012
	K	K	K
Turnover	138,910,218	155,800,305	151,641,808
Pumping costs	(168,508,794)	(137,005,561)	(144,841,374)
Gross Profit	(29,598,576)	18,794,744	6,800,434
Other operating income	12,683,464	6,782,262	14,180,493
	(16,915,112)	25,577,006	20,980,927
Admin and financial expenses	(87,342,819)	(71,886,057)	(71,476,285)
Agency fees	13,722,700	11,835,056	36,496,813
Other income	6,962,685	35,436,723	5,101,971
Operating Profit/(Loss)	(83,572,546)	962,728	(8,896,574)
Interest expense	(250,244)	(387,579)	(521,904)
Prov. for retirement benefits	(21,162,749)	(19,345,471)	(19,573,054)
Exchange (losses)/ gains	(6,346,435)	(798,236)	(3,400,526)
Profit before taxation	(111,331,974)	(19,568,558)	(32,392,058)
Taxation	-	-	-
Net Profit /(Loss) for the year	(111,331,974)	(19,568,558)	(32,392,058)
Other items of Comprehensive income	-	-	-
Exchange difference/foreign operations	15,492,960		
Total Comprehensive Loss for the year	(95,839,014)	(19,568,558)	(32,392,058)

- **Increasing Costs**

The company recorded losses of K32 million in 2012, K19 million in 2013 and K95 million in 2014 representing an increase of 196%.

In response, management stated that in October 2011, the Government of the Republic of Zambia reduced the ERB approved pumping and agency tarriffs by US$5 and US$10 respectively. This, in addition to lower pumping levels had a negative effect on the profitability of the company.

Management further indicated that it will continue to control costs and that it had adopted an activity based budget and tight monitoring of costs by ensuring that only budgeted for activities were undertaken. However, no evidence was availed to prove that costs had been controlled.

- **Decline in Pumping Yield**

  During the period under review, the pumping yield declined from 596,094 metric tonnes in 2012 to 519,726 metric tonnes in 2014 representing a decline of 15%. The decline was attributed to old age of the pumping equipment and leakages on the aging pipeline.

  Management stated that it had put in place measures such as intelligent pigging project, replacement of 40+ years old pumping equipment and replacement of all 8 inch sections with 12 inch pipe. However, there was no indication of progress made and when the replacements would be completed.

ii. Liquidity

The liquidity of the entity means being able to pay debts as they fall due. The objective of working capital management is to minimise the risk of insolvency while maximising the return on the assets.

Statements of Financial Position - 31st March, 2012 to 2014

	2014	2013	2012
	K	K	K
ASSETS			
Non-current assets			
Property, plant and equipment	919,358,552	928,962,045	955,421,025
Investment	5,000	5,000	5,000
	919,363,552	928,967,045	955,426,025
Current assets			
Inventories	41,233,823	37,112,268	21,543,550
Debtors and other receivables	18,057,804	29,620,482	47,237,175
Bank balances and cash	12,768,712	55,451,349	44,774,825
	72,060,339	122,184,099	113,555,550
Total assets	**991,423,891**	**1,051,151,144**	**1,068,981,575**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	25,000,000	25,000,000	25,000,000
Revaluation reserve	551,591,461	582,710,376	613,829,291
(Accumu losses)/retained profit	(64,233,983)	486,116	(11,064,241)
	512,357,478	608,196,492	627,765,050
Non-current liabilities			
Long - term loans	34,809,149	36,360,648	37,614,559
Due to the Government of the Republic of Zambia	181,230,550	181,230,550	186,385,004
	216,039,699	217,591,198	223,999,563
Current liabilities			
Creditors and other payables	186,708,263	173,127,285	167,861,795
Short term indebtedness	76,318,451	52,236,169	49,355,167
	263,026,714	225,363,454	217,216,962
Total equity and liabilities	**991,423,891**	**1,051,151,144**	**1,068,981,575**

The liquidity position of the Company during the period under review was as shown below.

	2014 K'000	2013 K'000	2012 K'000
Current Assets	72,060,339	122,184,099	113,555,550
Current Liabilities	285,026,714	225,363,454	217,905,300
Working Capital	(185,966,375)	(103,179,355)	(103,661,412)
Current Ratio	1:03	1:02	1:02
Quick Ratio	1:09	1:03	1:02

As can be seen from the table above,

- o The current and quick ratios for the Company were below the recommended ratios of 2:1 and 1:1 respectively, during the period under review.
- o TAZAMA Pipelines Limited operated with a negative working capital throughout the period under review.
- o Receivable days were ranging between 47 and 113 contrary to the credit policy which provides for 30 days credit period.
- o The asset utilisation ratios were ranging between 20% and 21% which was below the recommended average of 50%.

Further, the reserves declined from K602,765,050 in 2012 to K487,357,478 in 2014 representing a percentage decline of 19%. The decline was caused by a drop in the profitability of the company over the years.

c. Irregularities in Staff Related Cost

i. Over Expenditure

A review of the personnel expenses for the financial years ended 2012 to 2014 revealed that expenditure exceeded the budget provision by K95,895,581 as shown below.

A/C	DETAILS	2012		2013		2014		
		Over Expenditure	%	Over Expenditure	%	Over Expenditure	%	Total Over Expenditure
701	Salaries & Wages - Basic	1,516,358	0	3,618,659	0	6,504,905	0	11,639,922
702	Overtime	6,161,174	3	5,709,158	2	8,764,392	2	20,634,724
703	Holiday Allowance	287,224	1	324,374	1	126,780	0	738,378
704	Leave Passage			194,011	0	1,433,213	1	1,627,224
707	School fees & Education allowance	1,880,349	1	1,055,093	0	4,368,391	1	7,303,833
708	Terminal Gratuity	9,752,385	1	17,320,929	9	20,108,207	19	47,181,521
709	Casual Labour	469,922	0	1,625,225	1	1,204,002	0	3,299,149
717	Leave Commutation			89,824	0	3,060,043	3	3,149,867
721	Telephone allowance	6,658	0	141,431	1	78,656	0	226,746
724	Entertainment allowance					94,218	0	94,218
	TOTALS	**20,074,070**		**30,078,705**		**45,742,807**		**95,895,581**

It was however observed that there was no authority from the board for the over expenditure in the personal emoluments expenses ranging from 5% to 1,907%.

ii. **Educational Allowance - Lack of Supporting Documentation**

During the period under review, amounts totalling K5,465,747 (Tanzania- K3,311,830 and Zambia-K2,153,923) were paid as educational allowance for all members of staff without supporting documents such as invoices, receipts and birth certificates among others.

iii. **Irregular Payment of Bonuses**

During the period under review, the TAZAMA Pipelines Limited paid senior and middle management staff amounts totalling K2,473,388 (Zambia - K1,342,714 and Tanzania - K1,130,674) as Christmas bonuses. However, the payments were irregular as they were not approved by the board.

d. Lack of Title Deeds

A review of records relating to ownership of properties belonging to TAZAMA Pipelines revealed that the Chinsali and Kalonje pump stations had no title deeds.

e. Non Remittance of Statutory Obligations

Section 5.20.4 and 5.20.5 of the TAZAMA Pipelines Limited procedures manual stipulates that PAYE should be paid to Zambia Revenue Authority (ZRA) by the due date as advised by ZRA and that all other statutory payments will be remitted within the limits as stipulated by the regulatory bodies.

Contrary to the above, TAZAMA Pipelines Limited owed a sum of K48,253,419 in respect of statutory obligations to ZRA as of October 2015.

f. Irregularities in the Selection of Contractors, Implementation and Management of Projects

i. **Irregular Engagement of Contractor for Tank No. 3 at the Tank farm**

On 16th October 2013, TAZAMA Pipeline Limited management engaged Taningra contractor (T) Limited to repair Tank three (3) at the tank farm at a contract sum of K1,715,664 (US$263,948.30). However, the engagement was irregular in that the contractor was single sourced without obtaining authority from the Zambia Public Procurement Authority.

ii. **Over Commitment on Procured Contract – Supply, Delivery and Replacement of Main Engines**

In July 2013, TAZAMA Limited engaged Mantrac (T) Limited of Tanzania for the supply, delivery and replacement of main engines at six (6) pumping stations at the contract sum of K210,159,040 (U$32,332,160.20).

However, contrary to Section 31 of the Public Procurement Regulations of 2011 which states that a procuring entity shall ensure that adequate funds were available prior to initiating procurement proceedings, management had over-committed the Company by K180,909,040 (US$27,832,160.20) as only K29,250,000 (U$4,500,000) was provided for in the budget.

Water Resources Management Authority

Background

19. The Water Resources Management Authority (WARMA) is a statutory body created under the Water Resources Management (WRM) Act No. 21 of 2011. Its functions and powers are as follows; provide for the management, development, conservation, protection and preservation of water resource and its ecosystems; provide for the equitable, reasonable and sustainable utilisation of the water resource; create an enabling environment for adaptation to climate change; provide for the constitution, functions and composition of catchment councils, sub-catchment councils and water users associations; and provide for the domestication and implementation of the basic principles and rules of international law relating to the environment and shared water resources as specified in the treaties, conventions and agreements to which Zambia is a State Party. WARMA which replaced the defunct Water Board commenced operations in April 2013.

Source of Funds

The funds of the Authority shall consist of such moneys as may:

i. Be appropriated to the Authority by Parliament for the purposes of the Authority,

ii. Be paid to the Authority by way of fees, charges, grants or donations; and

iii. Otherwise vest in or accrue to the Authority.

Board of Directors

According to section eleven of the WARMA Act, the Minister shall appoint the members of the Board as follows:

i. Four (4) persons with expertise in any of the following:
   - Environmental management
   - Hydropower
   - Engineering; and
   - Commerce and industry

ii. One person from each of the following groups:
   - Farmers
   - Traditional authorities; and
   - Consumers

iii. A representative of the Attorney-General;

iv. One representative each of the Ministries responsible for water resources, local Government, agriculture and the environment;

v. The Commissioner of Lands; and

vi. One other person

The Chairperson and Vice Chairperson are appointed by the Minister.

Administration of the Authority

The operations of the Authority are coordinated and implemented by the Director General who is currently assisted by the legal counsel, Finance Manager and a Liaison officer.

Funding

During the financial years 2013 and 2014, the Authority was funded K2,240,692 and K3,160,871 respectively, by the Government. In addition, K517,218 was brought forward from 2012. The Authority also received refunds amounting to K739,104 in 2013 and Cooperating partners (GIZ) funded amounts totalling K45,000 in 2014 as shown in the table below:

	2013 K	2014 K
Balance as at 1st January 2013	517,218	-
Grant	2,240,692	3,160,871
GIZ	-	45,000
Refunds	739,104	-
Total	**3,497,015**	**3,205,871**

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Authority headquarters carried out in January 2015 revealed the following:

a. Board Related Matters

The Water Resources Management Authority Act No. 21 of 2011 states the following:

- That the Authority shall be governed by a Board of Directors appointed by the Minister of Mines, Energy and Water development,
- That board members shall sit at least once every three (3) months and that minutes of every meeting shall be kept,
- That board members are entitled to sitting allowances for every sitting.

The Board members serving during the period under review were appointed in April of 2013.

However, the following were observed:

i. Overpayment of Allowances

An examination of the WARMA Board compesation policy which was approved by the Minister of Mines, Energy and Water Development on 6th September 2013, revealed that the Board Chairperson and Vice Chairperson were entitled to the following:

- Allowances of K4,000 for the Board Chairperson and K3,000 for the Vice Chairperson per sitting
- A monthly fuel allocation of 400 litres equivalent to K3,680 for the Board Chairperson,
- A monthly allowance of K8,000 for the Board Chairperson and K6,000 for the Vice Chairperson,

- Monthly airtime of K750 for the Board Chairperson and K350 for the Vice Chairperson,
- A quarterly fee of K8,000 for the Board Chairperson and K7,000 for the Vice Chairperson,
- An annual fee of K9,000 for the Board Chairperson.

During the period under review, the Board Chairperson and his Vice despite being entitled to a total remuneration of K105,700 were paid amounts totalling K186,700 resulting in an overpayment of K81,000.

ii. Questionable Payment of Allowances to Board Members

According to the Water Resources Management Authority Act, 2011, first schedule, section 7(2), part 1 sub article 10, the Authority was to maintain minutes for all Board meetings held.

A review of the register of meetings carried out in January 2015 revealed that during the period from May 2013 to December 2014, the Authority held forty three (43) meetings in 2013 and fifty three (53) meetings in 2014 and that amounts totalling K1,829,894 were paid as sitting allowances to the Board and its Sub Committees.

A further review of records revealed that contrary to the Act, although amounts totalling K406,739 were paid in respect of sitting allowances to Board members for the year 2013, there were no minutes recorded.

It was also observed that the Board Chairperson was involved in the day to day running of the institution and had an office allocated to him.

iii. Questionable Payment of Allowances

During the period under review, the Authority held a ceremony to welcome the incoming Director General. In this regard, the Authority paid amounts totalling K28,150 to Board members, representatives from the Ministry and support staff as allowances. The propriety of paying the allowances was questionable.

iv. Payment of Travel Allowances to Board Members - Staff Identification

During the period under review, WARMA did not have a Board Charter that defined the roles and responsibilities of the Board.

Consequently, in December 2014, amounts totalling K110,126 were paid to Board members for the purpose of visiting the provinces for staff identification, an activity which should ordinarily be undertaken by management.

In addition, it could not be established whether the Board members travelled as there were no reports availed for audit.

v. **Questionable Recruitment of Director General**

The current Managing Director of WARMA was appointed by the WARMA Board on 12th May 2014, after the termination of the secondment for the Interim Managing Director who was seconded to WARMA from the Ministry of Mines Energy and Water Development in May 2013.

A review of the personal file for the current Managing Director revealed no evidence of recruitment procedures being followed such as advertising of the position in the public media, minimum qualification(s) and relevant experience, short listed candidates, interview score sheets and results, matrix assessment for top candidates for the positions and the report/recommendation from the interviewing panel.

Although in their response management stated that the position was advertised in the national newspapers of which the current Director General applied and attended interviews and that all documents relating to the recruitment of the Director General were available for verification with the WARMA Board Chairman, the information was not provided at the time of audit verification.

vi. **Failure to Remit Taxes**

Contrary to the Income Tax Act, deductions of taxes in amounts totaling K140,111 made from WARMA staff salaries in 2014 were not remitted to Zambia Revenue Authority as of November 2015.

Western Water and Sewerage Company

Background

20. The Western Water and Sewerage Company was established as a Company incorporated as a Private Company limited by shares under the Companies Act CAP 388 of the Laws of Zambia on 20th March 2000, in pursuant of Section 9 of the Water Supply and Sanitation Act No. 28 of 1997.

The company is a commercial water utility limited by shares owned by six (6) local authorities in Western Province. The company's share capital is K5,000 divided into 2000 shares of K2.5 each. The Company's shareholding is as shown below:

Council	# of Shares	% Share Capital
Mongu Municipal Council	333.333	17%
Kaoma District Council	333.333	17%
Sesheke District Council	333.333	17%
Senanga District Council	333.333	17%
Kalabo District Council	333.333	17%
Lukulu District Council	333.333	17%

The Company exists to provide improved supply of clean drinking water and adequate sanitation services in all the urban and peri-urban centres of Western Province. Currently, the Company serves nine (9) districts namely Mongu, Kaoma, Senanga, Sesheke,, Lukulu, Kalabo, Shangombo, Limulunga, and Mwandi.

The Board of Directors

The Company has a Board of Directors comprising of the following:

- One Mayor or Council Chairperson from participating councils
- One Town Clerk or Council Secretary from participating councils
- One Provincial Local Government Officer or representative
- One representative from the Engineering Institution of Zambia
- Two representatives from the private sector drawn from within the area of operation that is NGOs, Zambia Association Chamber of Commerce, Bankers Association of Zambia, Law Association of Zambia among others.
- One community representative from the domestic consumer category
- One community representative from the commercial consumer category
- Two members appointed by the Minister, one of whom shall be the Chairperson of the Board.

Management

The Company is headed by a Managing Director who is assisted by four (4) managers namely Technical Manager, Finance Manager, Commercial Services Manager and Human Resources and Administration Manager.

Source of Funds

The sources of funds for the company include, among others, such sums of money as may be raised from its daily operations of sale of water, provision of sewerage services and income generated from various penalties and administrative charges. The other sources may include funding from the Government of the Republic of Zambia and Cooperating Partners.

During the period under review, the company generated income from sales of water and received grants from the Government and Donors as shown in the table below.

SOURCE	2014 K	2013 (April to Dec) K	2012 T0 2013 (April to March) K
SALES	12,264,043	8,032,817	7,312,754
GRZ	-	280,000	160,000
DANIDA	-	900,000	-
DTF	-	165,189	-
AQUAYA	12,678	169,532	-
TOTAL	**12,276,721**	**9,547,538**	**7,472,754**

The funds from sales were spent on operational support whilst Government and Donor funds went towards various projects undertaken by the Company.

Accounting and other Irregularities

An examination of accounting and other records maintained at the Company and visits to selected stations carried out in August 2015 revealed the following:

a. Failure to Recruit Management Staff

During the period under review, WWSC failed to recruit officers for the positions of Technical Manager, Finance Manager, Commercial Services Manager and Human Resources and Administration Manager. As of September 2015, the positions had not been filled.

b. Lack of Authority to Transfer Assets and Liabilities from Shareholders

As part of the requirement for the formation of the Company, all local councils were to surrender their water systems network and other related infrastructure to WWSC. Although the Company had started operating using the assets from the shareholding councils, there was no statutory instrument passed to formally hand over the assets from the councils. In addition, management did not avail a list of liabilities that were transferred from the councils to the Company. It was therefore not possible to confirm ownership of the assets and confirm the liabilities acquired from the councils.

c. Non Preparation of Financial Statements

Part VIII Section 164. (1) of the Companies Act of 1994, Cap 388 requires that directors of a company should cause the following financial statements to be made within three (3) months after the end of each financial year:

i. A Statement of Comprehensive Income (Profit and Loss Account) for the financial year then ended, being a profit and loss account that gives a true and fair view of the profit or loss of the company for that financial year;

ii. A Statement of Financial Position (Balance Sheet) as at the end of the financial year then ended, being a balance sheet that gives a true and fair view of the state of affairs of the company as at the end of that financial year;

It was however observed that the company had only prepared accounts for the year ended 31st March 2013 whilst the accounts for the period from 1st April 2013 to 31st December 2013 and the financial year ended 31st December 2014 had not been prepared as of September 2015.

d. Weaknesses in the Management Information Systems

WWSC has three (3) IT systems namely the Piano System used for billing, the Pastel Accounting Package used for processing accounting transactions and the Dove Payroll used for processing the payroll.

However, the following were observed:

i. Failure to Adopt ICT 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 among others:

- Information System Audit and Control (ISACA) Standards and Guidelines,
- Control Objectives for Information and related Technologies (COBiT),
- International Organization for Standardization/International Electro-technical Commission (ISO/IEC), and
- CISCO guidelines.

Despite the availability of various frameworks which WWSC could have utilised or adopted, the Company had not adopted any ICT Standards and frameworks for managing its ICT operations as of September 2015.

ii. Lack of IT Strategic Plan

CoBIT APO02.01 states that the organisation should provide a holistic view of the current business and IT environment, the future direction, and the initiatives required to migrate to the desired future environment.

As of September 2015, WWSC had no ICT Strategic Plan and it had been operating without an overall Strategic Plan since 2009. This implies that IT investment in applications and infrastructure were being done without alignment to the Company's overall goals and objectives.

iii. Lack of an Information Security Policy

An information security policy outlines all of the policies, procedures, plans, processes, practices, roles, responsibilities, resources, and structures that are used to protect and preserve information. It should be approved by management, be published and communicated to all employees and relevant external parties.

According to ISO/IEC 27001: 2013 A.5 security policy, the objective of an information security policy is to provide management direction and support for information security in accordance with business requirements and relevant laws and regulations.

WWSC operated without an information security policy during the period under review. As a result, procedures related to password management, change management, patch management, user acceptance administration, disposal of IT equipment and privacy issues were done without policy direction.

iv. Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)

Disaster recovery and IT continuity planning help institutions prepare for and resume operations in the event of disruption, whether the event might be a power outage, fire or system failure.

CoBIT DS4.2 IT Continuity Plans, requires organizations to develop IT Continuity plans based on a framework that is designed to reduce the impact of a major disruption on key business functions and processes.

WWSCL operated without a BCP and DRP during the period under review.

Therefore, if adverse conditions occurred such as a fire or significant damage to its infrastructure, there are no documented procedures and infrastructure for the company to follow and use to resume normal operations for its critical systems within a reasonable time period to ensure business continuity.

v. Lack of Control Over the Piano System

The Piano System was supplied by the Germany Technical Services (GTZ) at no cost. The system was developed and supported by one programmer who owned the source code. However, the programmer of the system died in 2012. In addition, the company has no escrow agreement to cover its interests.

This implies that the company has no control over the continued operation of the billing system which is currently in use.

vi. Lack of Segregation of Duties

According to COBiT DSS08.02 Segregation of Duties requires that there is division of roles and responsibilities that reduces the possibility for a single individual to compromise a critical process. This ensures that personnel are performing only authorised duties relevant to their respective jobs and positions.

The following were however observed:

- The system had only one person who was managing pastel system and dove payroll. This implies that one person had the right to initiate, process, amend and authorise transactions on the system thus exposing it to intentional manipulation and fraud.
- Although each user on the piano system had a specific role that was assigned to them, a review of the of the user authorisation matrix revealed that the system was not configured to restrict each user to their functions.

vii. Lack of Support and Maintenance Contracts

CoBIT APO09.03 Define and Prepare Service Agreements, the Company must define and prepare service agreements based on the options in the service catalogues. Include internal operational agreements clearly defining the roles, responsibilities and expectations in third-party agreements as well as reviewing and monitoring such agreements for effectiveness and compliance.

Despite WWSC paying K24,277 to Classic Computers for support and maintenance of DOVE and PASTEL Accounting Package during the period under review, the company had no support and maintenance contracts. Consequently, the company was granting the vendors access to the system including personal data contained on the system without any agreements between the parties.

Additionally, the basis of making the payments amounting to K24,277 to the vendors was questionable.

viii. Expired License for Pastel Evolution

According to CoBIT BA109 Manage Software Licenses, an entity must ensure that optimal numbers of licenses are acquired, retained and deployed in relation to required business usage and that the software installed is in compliance with license agreements.

As of September 2015, the license for PASTEL Evolution software had expired. Consequently, the company could not process any transaction on the system. This implies that all reports that were generated from the system as of September 2015, did not present the true position relating to the affairs of the company because of a number of unposted transactions on the system.

ix. Non Operation of the Audit Trail Function on the Systems

COBiT BAI03.05 Application Control and Auditability requires that business controls are implemented into automated application controls such that processing is accurate, complete, timely, authorised and auditable.

The Dove had an embedded audit trail function which was not operational, while the Piano system did not have an audit trail. Therefore, transactions processed on the two (2) systems were not logged so as to assist management in identifying unauthorised changes to the systems and business transactions.

x. Lack of Insurance Cover for Information Technology (IT) Equipment

According to the company's financial statements for year ended 2013, WWSC did not insure its IT equipment valued at K287,313.

xi. Failure to Update Assets Register

International Accounting Standards (IAS) No. 16 *Property, Plant and Equipment* requires entities to maintain an updated fixed asset registers which among others should indicate, the date assets was procured, the cost, asset description, serial numbers, location among others.

Contrary to the above requirement, WWSC had not updated its IT assets register as of September 2015. In addition, the cost, asset location and serial numbers for the assets in the current register were not indicated.

xii. Lack of a Network Monitoring Tool

COBiT BAI03.05, Network Security requires the use of security techniques and related management procedures (firewalls, security appliances, network segmentation, and intrusion detection) to authorise access and control information flows from and to networks.

A network monitoring tool monitors the entire network communication and notifies the administrator of any irregularities on the network.

WWSC operates a Wide Area Network (WAN) for its branches. However, as of September 2015, the company had no tool to monitor the network communication for all its branches. As a result, it was not able to detect network link failures and bandwidth problems on time.

xiii. Physical Access and Information Processing Facility (IPF)

CoBIT DSS05.05 Physical Security Measures, stipulates that an entity should define and implement physical security measures in line with business requirements to secure the location and the physical assets.

Further, according to ISO/IEC 27000 A9.1.4, Protecting against External and Environmental Threats, an entity should ensure that physical protection against damage from fire, floods, earthquakes, explosion, civil unrest and other forms of natural or man-made disasters are designed and applied.

A physical inspection of the server room revealed the following weaknesses:

- Access to WWSC's server room was through a pool office. In addition, WWSC did not maintain a log book of personnel accessing the server room.

- The server room door was not secured with either a grill door or logical access such as biometric readers. Entry to the server room was through lock and key.
- The server room did not have smoke detectors and fire suppression equipment such as dry sprinklers and fire extinguishers.

e. Weaknesses in the Administration of the Active Directory

Active Directory (AD) is a directory service implemented by Microsoft for Windows domain networks. An AD domain controller authenticates and authorises all users and computers in a Windows domain type network—assigning and enforcing security policies for all computers and installing or updating software.

WWSC had an Active Directory which was hosted by Microlink Limited which was used to administer the users on the network before they are given access to any management information systems. However, the following were observed:

i. Lack of Contract – Microlink Limited

Despite Microlink Ltd hosting the active directory containing personal information for the company, there was no formal agreement between the two parties.

ii. Failure to Disable Default Administrator Account

Microsoft best practice on Active Directory requires that the default system administrator account which is the overall system owner be stripped off its rights after it has been used to create a new named overall administrator account with similar rights. The default administrator account should be disabled and the new named administrator account should be used in emergency cases only and the password to it should be complex and locked in a secure place.

WWSC had a default in-built administrator account named ‘administrator’ which was active. The account was being used for all system administration tasks.

iii. Inappropriate Administration of the Schema and Enterprise Admin Group

Microsoft windows server contains a group called the Schema and Enterprise Administrator. The schema describes the type of data that will be held and manipulated, and its properties. It defines the structure of the database, access operations, and integrity procedures.

Enterprise Admin group have the most rights on the Active Directory (AD). Members of the group have full control of all domains. By default, this group is a member of the Administrators group on all domain controllers.

Prominent among the rights of members of this group are the ability to; force shutdown from a remote system, allow log on locally, manage auditing and security log, take ownership of files or other objects and shut down the system.

The schema and enterprise group is supposed to be used for specific administration tasks and it should have no permanent member i.e. members should be removed after a specific task.

The schema and enterprise group had two (2) members including the administrator account which was shared by IT staff thus exposing the active directory to unauthorized modification, misuse or deletion of data either intentionally or unintentionally.

iv. Use of Operating Systems that have Reached End of Life Support

According to ISO/IEC 27001:2013 A12.6.1 Management of Technical Vulnerabilities, an organization should obtain timely information about technical vulnerabilities of information systems being used. The exposure of such vulnerabilities should be evaluated and appropriate measures taken to address the associated risk.

In addition, Microsoft Corporation, the support services for the windows XP operating system with Service Pack 2 expired on 13th July 2010 whilst that for Service Pack 3 expired on 8th April 2014.

WWSC had forty (40) active computers, out of which seven (7) computers representing 18% were running on windows XP Professional (6) and windows vista (1) which was no longer being supported.

Included in the six (6) computers that were running on Windows XP was the computer where payroll for both unionized and senior management was being run. This implies that the computers including the payroll data were more susceptible to malware and virus attacks that could compromise and/or corrupt data on the system.

v. Poor Password Administration

Best practice requires that only service accounts and system users should have a password that never expires.

Best practice for minimum password complexity requires a password to be at least eight (8) characters in length and be a mix of upper case, lower case, numbers and special characters.

Users were setting up passwords which could not meet the minimum required best practice standards. For example, users on active directory had passwords with seven (7) digits.

Further, according to ISO/IEC 27001A 11.3.1 Password Use; users should be required to follow good security practices in the selection and use of passwords. In addition, users should change passwords at regular intervals or based on the number of accesses (Passwords for privileged accounts should be changed more frequently than normal passwords) and avoid re-using or recycling old password. The following were observed:

- **Active Accounts were not Adhering to the Password Policy**

  Seventeen (17) active accounts whose passwords were set to expire were not adhering to the password policy in that some passwords were last changed as far back as April 2014.

  In addition, there were three (3) users with passwords set never to expire.

- **Failure to Set Account Lockout Threshold**

  Account lockout policy disables user's account if an incorrect password is entered for a specified number of times over a specified period. The policy settings help to prevent unauthorized user from guessing users' passwords and reduces the likelihood of successful attacks on the network.

  According to Microsoft Best Practice on Account lockout threshold policy, the policy setting should be set at a high enough number that authorized users are not locked out of their user accounts simply because they mistype a password. It is advisable to specify a value of fifty (50) invalid logon attempts

Under the AD, the Account Lockout Threshold was set to ‘No lockout’**.** The implication of this setting was that the systems were vulnerable to password attacks as unauthorised users could make unlimited attempts to gain access without being locked out.

f. Internal Control Weaknesses

i. Lack of the Risk Management Policy

The NWASCO Corporate Governance Guidelines for the commercial water utilities provides that the Board shall ensure that the Company has in place a corporate strategy and a formal risk management process, both approved by it, and that the Board should regularly monitor strategy implementation and verify the effectiveness of the risk management processes.

It was observed that the Company had no risk management policy in place and as a result, there were no systems for identifying, analysing and mitigating key business risks, including approved risk limits.

ii. Failure to Prepare Bank Reconciliation Statements

Financial and Administrative procedures No. 6.19 requires that bank reconciliations are prepared at the end of the month. However, it was observed that no bank reconciliations were prepared for the financial year ended 31st December 2014.

Further, a sample of reconciliations for the financial year ended 31st December 2013 for Senanga and Mongu Districts had errors of misposting totalling K37,880 and included postings of transactions from the 2014 financial year.

g. Irregularities in Staff Costs - Recruitment of staff not Provided for in the Establishment

During the period under review, WWSCL introduced four (4) positions consisting of one (1) Senior Procurement Officer and three (3) regional managers. However, the introductions of the positions had no Board approval. In this regard, the emoluments totalling K72,480 paid to the four (4) officers was therefore irregular.

h. Financial Performance - Statement of Comprehensive Income for the Year Ended 31st March 2013

	K
Revenue	
Commercial Consumption	817,343
Connection/Reconnection	350,402
Institution Consumption	962,336
Domestic Consumption	5,184,935
Total Revenue	**7,315,016**
Cost of Sales	(4,327,518)
Gross profit	**2,987,498**
Other Income	2,078,311
Operating expenses	**(7,372,074)**
Profit /Loss for the year	**(2,306,265)**

As can be seen in the table above, the company recorded a loss of K2,306,265 in the year ended 31st March 2013. The loss was attributed to high employee costs (K3,186,796) and depreciation (K1,679,710) representing 66% of the operating expenses.

i. Financial Position – Statement of Financial Position

	31st March2013 K'
ASSETS	
Non Current Assets	
Property, Plant and Equipment	39,661,667
Current Assets	
Inventory	105,526
Trade and Other Receivables	7,597,417
Cash and Cash Equivalents	11,475,332
Total Assets	58,839,942
EQUITY AND LIABILITIES	
Equity	
Share Capital	5,000
Reserves	20,144,401
Retained Loss	5,979,932
	14,169,469
Non-Current liabilities	
Capital grants	25,690,667
Current liabilities	
Trade and Other payables	10,501,176
Capital Grants	8,478,620
	18,979,796
Total Liabilities	44,670,473
Total Equity and Liabilities	**58,839,942**

The following were observed:

i. Liquidity

The current ratio is a liquidity ratio that measures a company's ability to pay off its short term liabilities as and when they fall due using its current assets. Although the current ratio depends on the industry in which the company is operating, the ideal current ratio in most industries is 2:1.

The current ratio for the Company for the financial year ended 31st March 2013 was 0.6:1. In this regard, the current ratio for the Company was below the ideal ratio of 2:1 and therefore the Company may have difficulties in meeting its short term liabilities as they fall due.

ii. Failure to Provide for Bad Debts

As of December 2014, WWSC had outstanding debtors in amounts totalling K17,537,636. It was however observed that the company did not provide for bad debts despite some debts being irrecoverable as they have been unpaid since 2000 and some customers have since relocated to other places. See table below.

Financial Year	Receivables K	Provision for Bad Debts.
31st March 2013	7,597,417	Nil
31st December 2013	8,781,098	Nil
31st December 2014	17,537,636	Nil

iii. Failure to Amortise Grants

It was observed that wrong postings were made for the Amortization of grants during the period under review. The grant account was not being debited with the amortization amount for the funds spent during the respective financial years. In this regard, the ledgers had an amortisation provision of K2,078,311 for the year ended 31st Mar 2013, K1,149,340 for the financial year ended 31st December 2013 and K 943,625 for the financial year ended 31st December 2014

j. Assets

i. Failure to Recognise Assets in the Financial Statements

IAS 16 states that assets should be recognised in the financial statements if it is probable that future economic benefits attributed to the assets will flow to the entity and their cost can be reliably measured. Contrary to the standard, the Company did not recognise twelve (12) motor vehicles valued at K1,156,056 in the financial statements for the financial year ended 31st March 2013.

In addition, contrary to the WWSC Financial Policies, the twelve (12) motor vehicles were not recorded in the fixed assets register.

ii. Non-Remittance of Statutory Contributions

During the period under review, WWSC deducted amounts totalling K4,329,963 from its employees in respect of statutory contributions to Zambia Revenue Authority, National Pension Scheme Authority and Workers Compensation Fund Control Board. However, as of September 2015, the funds had not been remitted to the respective institutions. See table below.

Institution	Amount K
ZRA (PAYE)	4,216,516
NAPSA Contributions	52,853
Workers Compensation Fund	60,594
Total	**4,329,963**

k. Weaknesses in Accounting for Revenue

i. Failure to Collect Revenue

Operational and maintenance cost coverage by collection, measures the extent to which the level of collection is able to cover all the operational costs. The calculation does not include income from other fees (such as penalties, initial installation of meter charges, surcharges, Government and cooperating partners). The benchmark for the sector is that 100% operational cost should be covered by the company's collections.

During the period under review, the company failed to meet the required bench mark as can be seen from the table below.

Period	Cost Coverage	Benchmark	Comment
2012/13	77%	100%	Less than required
2013	82%	100%	Less than required
2014	78%	100%	Less than required

It was observed that WWSC was owed a total of K17,537,635 in accumulated debt, as at 31st December 2014, arising from the provision of water and sanitation services to its customers. Despite the liquidity problems, the company was failing to collect the debt on time. See table below.

Financial Year	Debtors Amount K
31st March 2013	7,597,417
31st December 2013	8,781,098
31st December 2014	17,537,635

ii. **Loss of Revenue through Non-Revenue Water**

The company was losing revenue through leakages and water supplied but not billed. The range of Non-Revenue Water during the period under review was between 41% and 64% against the recommended 25%. This is against the background that the company does not meet the water supply requirements of its customers.

iii. **Lack of Interface between the Billing and Accounting System**

WWSCL had a billing system called Piano which was used to gather information on all sales figures for water bills and sewerage that are then fed into the accounting system called Pastel.

However, there was no automated information interface between the Piano and Pastel as such data had to be manually uploaded from the billing to the accounting system. This exposed the system to errors and intentional manipulation of the figures.

According to WWSCL commercial policy, a customer is expected to pay the water bills within a period of 14 days after they have received the bill.

The following was however observed:

- **Failure to Collect Debt**

  A review of the billing system revealed that the company had four thousand four hundred and seventy two (4,472) customers from whom they had not collected amounts totaling to K77,543,185 as of September 2015. The debt which constituted 35% of GRZ entities and 65% of domestic customers had been outstanding since 2000.

  Included in the K77,543,185 debt as of September 2015 was debt in amounts totaling K61,030,254 that had been outstanding for more than two (2) years, some of which might be irrecoverable.

  It was however observed that the company had not made any provisions for bad debts in its financial statements during the period under review. This implies that the debtors were overstated in the financial statements.

- **Lack of Debt Collection Policy**

  It was observed that the company had no debt collection policy in place. Consequently, there was no policy direction with regard to how debt was managed.

- **Failure to Disconnect Defaulting Accounts**

  According to the WWSCL Disconnection Policy, supply of water to a customer should be terminated when no payment for the billed services is received within fourteen (14) days.

  A review of the system revealed that there were four thousand one hundred and thirteen (4,113) customers who were due for disconnection as there were owing K5,138,482 which constituted 30% of GRZ institutions and 70% of domestic clients. However, the accounts had not been disconnected as of September 2015.

iv. Metered Customers Billed without Receiving a Service

A review of the billing report and the physical verification carried out revealed that twenty eight (28) metered customers were billed despite not receiving any service from the company.

As such, the basis of the billings were questionable as there was no movement in the meter readings.

v. Lack of Data Integrity on the System

The company's Know Your Customer Forms (KYC) requires that prior to water account opening, a customer should, among others, provide details of full names, plot number, street name, area, premise type (whether domestic or non-domestic and in case of domestic, whether its low cost or high cost residential area) postal address and applicants designation. ie tenant or owner and applicant's telephone number.

An analysis of the customer database on Piano in September 2015 revealed the following;

- Four thousand nine hundred and sixty three (4,963) accounts did not have meter numbers**.**
- Twenty four (24) accounts did not have the full customer's details as the name, plot number, area were missing.

Consequently, it was difficult to ascertain how physical follow ups were being done in the event of non-payment of water bills.

vi. Disconnected Accounts Still Receiving Service

There were one hundred and thirty (130) disconnected accounts as of August 2015.

However, a physical verification revealed that three (3) of the ten (10) sampled households were still receiving the service despite having been disconnected.

vii. Bills on Disconnected Accounts

A comparison of the disconnected report with the billing report revealed that eight hundred and ninety eight (898) disconnected customers were billed amounts totalling K566,236.

It is questionable how the system was billing accounts that were disconnected. This implies that the revenue and the debtors' figures in the financial statements were misstated.

l. Irregular Sourcing of Bank Overdraft

On 18th February 2014, the company signed an overdraft agreement to supplement working capital requirements and meet salary obligations worth K300,000 with Investrust Bank Plc. The overdraft was for a three (3) year period subject to review every twelve (12) months. The Company paid K10,015 arrangement fees and K50,574 interest on the overdraft in 2014.

The selection of Investrust Bank was not done competitively thereby exposing the Company to possible costly financing. There was also no evidence availed to show that the Board considered other financing offers before settling on Investrust Bank.

m. Failure to Meet Water and Sanitation Sector Bench Marks

Commercial Utilities (CUs) in the Water Sector operate as monopolies in their respective regions of operations. In order to introduce competition, National Water Supply and Sanitation Council (NWASCO), as a regulator of the sector, carries out comparative performance review. This involves measuring performance of a CU against the sector benchmarks and averages in operational parameters. The parameters include reduction of Non Revenue Water (NRW), metering ratio and hours of water supply. In this way, progress made in the sector by each CU is determined. Each CU is thus motivated to improve its previous performance ranking as well as outperform other CUs.

A review of the NWASCO reports for the period 1st April 2012 to 31st December 2014 revealed the following:

- **Reduction in Sanitation Coverage**

  Sanitation coverage consists of the population serviced by offsite (centralised system) and septic tanks only. The benchmark for the sector is 80% minimum coverage.

  During the period under review, WWSC's sanitation coverage reduced from 42% in 2012/13 to 39% in 2014.

- **Water Service Coverage**

  Water service coverage is the population serviced by domestic connections only through individual household connections, kiosks, public stand posts and shared taps.

  During the period under review, WWSC did not reach its strategic goal and sector benchmark of 100% as shown in the table below.

Period	Water Service Coverage	Benchmark
2012/2013	58%	80%
2013	49%	80%
2014	50%	80%

  As can be seen above, the water service coverage was below the benchmark ratio of 80%.

- **Hours of Supply**

  This service indicator depicts the average duration of water supply at the customer connection and is specific to an area. CUs are therefore required to display at all pay points the guaranteed hours of supply for a particular area.

  During the period under review, WWSC did not attain the sector benchmark of 18 hours and the hours had remained static for three (3) years as shown in the table below.

Period	No. Hours	Bench Mark(hrs)
2012/13	13	18
2013	13	18
2014	13	18

n. Procurement of Goods and Services - Irregular Award of Contract

On 7th September 2012, a decision was made by the Procurement Committee to award a contract to Daytem Environmental Services to supply and deliver Leak Detective Equipment for Kaoma District at a total cost of K406,261 VAT Exclusive

However, the WWSC signed the contract with Daytem Environmental Services at a contract sum of K471,263 VAT inclusive and the supplier was paid in full. It is not clear why WWSC signed a contract for K471,263 inclusive of VAT contrary to the Procurement Committee's recommended contract price of K406,261 VAT Exclusive.

Furthermore, the equipment had not been utilised since it was procured rendering the expenditure wasteful.

o. Poor Management of Water Reticulation Projects

i. Water Reticulation in Mulobezi and Sesheke – Abandoned Works

On 16th December 2011, BestBrands Zambia Ltd was engaged to work on a water reticulation system at Sichili in Mulobezi at a contract price of K3,900,000 for a period of 211 days or 7 months. The project commenced on 15th January 2012. The scope of work included:

- Drilling and equipping two (2) boreholes,
- Supply and installation 254m^3 GRP elevated tank,
- Installation of rising and distribution lines,
- Construction of two (2) kiosks; and
- Construction and equipping of an office block,

On 6th July 2012, Best Brands contract was varied to include additional works in Sesheke at a cost of K735,993. The scope of woks included:

- Sealing of leaking Tank,
- Fabricating the frame for the floater and delivery of the floater drums,
- Supply and install tank and connect to the existing network.

The following were observed:

- The contract was extended from 22nd August 2012 to 21st November 2012 as the contractor had not completed the works. On 3rd July 2013, another revised contract was signed and extended the contract period to 12th August 2013.

- As of November 2015, the contractor abandoned works at Sesheke and Sichili.

At the time of termination, the status of the projects was as follows:

- **Sichili Water Works**

  A total amount of K3,602,999 had been paid for works at Sichili leaving a balance of K297,000. The following works were still outstanding: the distribution network, equipping of the boreholes, building of water kiosks, building office block and the valve chambers

- **Sesheke Water Works**

  A total amount of K666,378 was paid leaving a balance of K69,614 and no works were done at the Katima Plant intake. In addition, the floater was not completed although some of the floater materials were on site and the tank which was sealed was leaking and not being used.

Drums for the floater

Leaking Tank

It was further observed that WWSC did not charge the contractor any liquidated damages for breach of contract and the security bond of K165,189 recovered was insufficient to complete the remaining works.

ii. Wasteful Expenditure - Mwandi Water Project

In August 2013, a water reticulation system was implemented at Mwandi at a total cost of K2,747,982 under the Mwandi Water Project. The reticulation system comprised a 5,000 m distribution network, two (2) water kiosks and a GRP elevated tank.

However, the tank collapsed in January 2015 after being in use for only seventeen (17) months. Consequently, the reticulation system that was implemented was not being utilised. As of September 2015, the tank had not been repaired, rendering the expenditure wasteful. See pictures below.

Collapsed Tank

iii. Kaoma Rehabilitation and Extension Water Supply Network – Collapsed Borehole

On 1st May 2012, Logical Systems was engaged to carry out the rehabilitation and extension of water supply network in Kaoma District at a contract price of K3,189,640 for a period of 170 days.

The scope of work included:

- Rehabilitation of 2no. existing boreholes and replacement of pumps and construction of pump fences
- Drilling and equipping of 3 new boreholes
- Replacing of raw water pipelines from the main well field to the treatment plant
- Replacement of high lift pumps at the water treatment plant and installation of new chlorination system,
- Replacement of 1430 m of treated water main pipeline,
- Repair of leaking 2 no. x 441 m3 elevated steel tanks.
- Construction of 254 m3 elevated GRP tank; and
- Extension of water distribution network.

A review of records and physical verification revealed the following:

- Works were handed over in March 2014 and the contractor was paid in full,
- The defect liability period ended in March 2015,
- In April 2015, one of the drilled boreholes collapsed,

- The GI water pipes in the water network had several leakages from the raising main due to iron corrosion,
- Borehole number six (6) was not operational as the motor was burnt; and
- The tanks that were sealed were leaking.


Tanks that leak


Collapsed Borehole


Leaking GI pipes

ZESCO Limited

Background

21. ZESCO Limited is a Company limited by shares, incorporated and domiciled in the Republic of Zambia. It has a total authorised share capital of 200,000 ordinary shares of K2 each out of which 96,895 ordinary shares in amounts totalling K193,790 were issued and fully paid.

The general functions of ZESCO Limited are to generate, acquire, transmit, convert and supply electricity. Other functions include to establish, operate, control and to manage undertakings for the generation or supply of electricity as a public undertaking.

Administration

- **Board of Directors**

  ZESCO Limited has a Board of Directors consisting of not less than six (6) and not more than ten (10) members appointed by the Minister of Energy and Water Development. The Board has authority to adopt, make, and alter by-laws for the regulation and furtherance of the purposes for which ZESCO Limited was established. In addition, the Board has powers to borrow money and mortgage or charge property and other securities for any debt and liability of ZESCO Limited.

  The board members are not full time therefore they do not have strict conditions of service. However, the Government decides the terms and conditions under which the board operates.

- **Management and Staff**

  The Managing Director who is responsible for day-to-day operations of the Company is appointed by the Board on a five (5) year renewable term. The Managing Director is assisted by the Chief Operating Officer who is also appointed by the Board on a five (5) year renewable term.

Sources of Funds

According to the provisions of the Articles of Association, the sources of funds for ZESCO Limited include, among others, such sums of 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.

Management Information Systems

Zesco Limited has two major systems namely the Business Information System (BIS) and the Supervisory Control and Data Acquisition System (SCADA).

The BIS is used in business and commercial areas such as Customer Management and Billing, Prepaid, Stores and procurement, Accounting and Finance Management.

The SCADA system is used at the National Control Centre to monitor the power grid from 66kV to 330 kV voltage levels and is interfaced to the three (3) major power stations namely Kafue Gorge, Kariba North Bank and Victoria Falls. In addition, the SCADA is interfaced to computer based substation automation systems at major substations such as Leopards Hill, Kabwe Step-down, Lusaka West, Kitwe, Kansanshi and Lumwana. The SCADA system is also used at the Regional Control Centres (RCCs) located in Lusaka and Kitwe to monitor the distribution network from 400 kV to 33 kV.

Review of Operations

A review of the information systems and an examination of accounting and other records as well as physical inspections of selected infrastructure projects for the financial years ended 31st December 2011 to 31st December 2013 carried out during the period from November 2014 to February 2015 revealed the following:

a. Lack of a Risk Management Policy

The Corporation is exposed to an entire spectrum of risks ranging from business to operational, economic and environmental risks. However, the Corporation operated without a risk management policy during the period under review.

In response, management indicated that the policy document was available and awaited Board Approval.

b. Lack of Approved Policy Documents

It was observed that Zesco Limited operated without policy documents on the treasury, disposal of assets, assets management and transport.

In response, management stated that policies were available and awaited Board approval.

c. Weaknesses in Management Information Systems

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

The IT audit review of ZESCO Limited Information Management System and other records maintained at the ZESCO Limited Headquarters in Lusaka and selected offices was carried out using the Information Systems Audit and Control Association's Control Objectives for Information and related Technology (CoBIT) framework which is generally an internationally accepted and applicable framework. The audit revealed the following weaknesses:

i. None Adoption of Internationally Recognised ICT Framework

As of September 2015, the Company had not adopted any IT framework to manage its Information and Communication Technology (ICT) environment whose estimated value was K29,966 million.

As such, ZESCO Limited did not have a sound basis or systematic means for bench-marking or measuring performance of its ICT activities or processes during the period under review. Consequently, during the period under review, ZESCO Limited operated without an approved ICT strategic plan contrary to CoBIT APO 02.05 which requires that an organisation should define the strategic plan and road map of how IT related goals will contribute to the enterprise strategic goals.

Further, due to the failure to adopt a framework, there was lack of IT representation at the policy making level as the ICT function at ZESCO Limited was not at directorate level. The Senior Manager - IS reported to the Director – Business Development, while ICT security reported to Director Legal.

It was also observed that SCADA was not part of the ICT department but was being managed as a separate unit.

ii. Failure to Fill Vacant ICT Positions

A review of the ICT organisation structure revealed that out of the one hundred and twenty one (121) authorised positions, only sixty seven (67) positions representing 55% percent were filled as of December 2015. Of the vacant positions, twenty five (25) were for critical positions that would ensure segregation of duties such that no individual could have unfettered rights and privileges on the system. The ICT positions are indicated in the table below.

Positions	Prosposed	Filled	Vacancy
Principal Functional Administrator	3	1	2
Senior Fuctional Administrator	3	0	3
Functional Administrator	9	8	1
Systems Analysts	2	0	2
Senior Systems Analysts	3	2	1
IS Engineers	9	1	8
IS Senior Engineers	11	3	8
TOTAL	**40**	**15**	**25**

iii. Inadequate Security over the Disaster Recovery Site (DRS)

Best practice recommends that the same logical and physical controls at the primary site should be replicated at the Disaster Recovery Site (DRS) to ensure protection of IT resources and expedient resumption of operations in case of disruption at the primary site.

An inspection of a DRS at one of the regional offices revealed that there was no fire suppression equipment installed and that the site was not adequately secured.

iv. Poor Contract Management - Provision of Internet Services to ZESCO Limited by Telecom Namibia

On 1st October 2009, ZESCO Limited and Telecom Namibia signed a Service Level Agreement for the provision of fully managed internet services at a monthly sum of US$54,878. The agreement provided for the vendor to provide internet services at a speed of 25 Mbps (symmetrical) for both download and upload.

In particular, the following were noted:

- **Failure to have a Contract in Place**

  There was no written contract in place between ZESCO Limited and Telecom Namibia for the provision of internet services despite the company paying a monthly rental charge of K540,878 (US$54,878) for internet services since 2009.

  As of December 2014, ZESCO Limited had paid Telecom Namibia a sum of K6,231,907 (US$623,190.65) despite not having a written contract in place.

- **Poor Service Provision**

  A test check of internet service at ZESCO Limited being provided by Telecom Namibia revealed that the average internet speed was 4.74 Mbps downlink and 20.32 Mbps uplink against the agreed service level of 25 Mbps for both download and upload agreed in the Service Level Agreement as of July 2015.

In response, management indicated that it was in the process of executing the contract with Telecom Namibia setting out terms which would be availed for audit verification by 30th June 2015.

As of October 2015, a contract between ZESCO Limited and Telecom Namibia had not been formalised.

d. Financial Affairs of ZESCO Limited

Statements of Comprehensive Income	**Nine Months 2013**	**2013**	**2012**	**2011**
	K'000	**K'000**	**K'000**	**K'000**
Turnover	-	3,024,896	2,614,239	2,106,895
Cost of Sales	-	(535,487)	(418,003)	(322,281)
Gross profit	-	2,489,409	2,196,236	1,784,614
Other operating income				
Amortisation of capital grants and capital contributions	-	40,210	34,419	31,806
Interest income	-	482	560	203
Rental income	-	1,611	1,388	1,463
Other income	-	81,340	67,056	54,055
	-	2,613,052	2,299,659	1,872,141
Depreciation	-	(210,247)	(203,869)	(201,435)
Employee Remuneration	-	(1,422,059)	(1,243,714)	(897,543)
Other operating expenses	-	(369,075)	(289,219)	(375,107)
Profit before exchange difference, finance costs and taxation	-	611,671	562,857	398,056
Exchange gains	-	800,615	672,517	411,785
Exchange Loss		(864,886)	(795,386)	(501,442)
Profit from operations	-	547,400	439,988	308,399
Finance costs				
Interest payable on bank overdraft	-	(4,523)	(2,262)	(1,847)
Interest payable on borrowings	-	(11,154)	(8,413)	(11,698)
Profit before taxation	-	531,723	429,313	294,854
Income tax recoveries/(charges)	-	(220,169)	(122,798)	38,061
Profit for the year	-	311,554	306,515	332,915

An analysis of the Statement of Comprehensive Income revealed the following:

i. Employee Remuneration

Staff costs increased from K897,543,000 in 2011 to K1,422,059,000 in 2013 representing a percentage increase of 58%. The staff cost to turnover ratio increased from 43% to 47% over the same period.

It was also observed that the company overspent by between 15% and 38% above its budget for staff costs during the period under review as shown in the table below.

	Nine Months 2013 K'000	2013 K'000	2012 K'000	2011 K'000
Actual Staff Costs	882,159	1,422,059	1,243,714	897,543
Budget	638,208	913,243	968,211	777,632
Over Expenditure	**(243,951)**	**(508,816)**	**(275,503)**	**(119,911)**
Percentage of Budget	38%	56%	28%	15%

In their response, management attributed the increase in staff costs during the period to the company growth demanding customer quality service coupled with Government policies on elimination of casualization and ZESCO Limited converted 1,400 temporary employees into long term contracts in response to Government pronouncements and directives.

ii. Profitability

Although ZESCO Limited recorded profits during the period under review as shown above, it was observed that the profit reduced from K332,915,000 in 2011 to K311,554,000 in 2013 representing a percentage reduction of 6%.

Management attributed the reduction in Company profits in the period under review to increased operational costs while conducting business with uneconomical tariffs and that ZESCO Limited has continued selling its power at low tariffs while the company's obligations continued to rise during the period.

Other factors included the capitalisation of investments in capital projects overtime which resulted into increased depreciation costs in the period which adversely contributed to reduction in period profits and the continued maintenance of the distribution and transmission systems which triggered increased period costs.

e. Financial Position of the Corporation

Statements of Financial Position	Nine Months 2013 K'000	2013 K'000	2012 K'000	2011 K'000
ASSETS				
Non - current assets				
Property plant and equipment	-	6,152,094	4,628,745	4,013,174
Investment in joint venture	-	137,857	80,633	39,256
Loan due from related party	-	1,235,774	1,108,302	461,514
Deferred tax asset	-	199,282	234,090	192,264
	-	7,725,007	6,051,770	4,706,208
Current assets				
Inventories	-	401,972	293,919	155,623
Trade receivables	-	1,225,122	1,123,608	778,681
Amounts due from related parties	-	22,273	20,943	211,810
Bank balances and cash	-	1,846,078	468,747	236,636
Taxation recoverable	-	-	-	2,658
	-	3,495,445	1,907,217	1,385,408
Total assets	-	11,220,452	7,958,987	6,091,616
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	-	194	194	194
Share pending allotment	-	1,654,806	276,531	148,429
Revaluation reserve	-	725,437	793,820	862,203
Retained profits	-	2,229,319	1,849,382	1,474,484
	-	4,609,756	2,919,927	2,485,310
Non - current liabilities				
Long term loan	-	2,759,994	2,013,973	1,055,058
Obligation under finance leases	-	13,428	3,483	10,391
Capital grants and contribution	-	881,290	804,200	688,377
Deferred liabilities	-	1,256,033	949,533	653,256
Deferred taxation	-	-	-	-
	-	4,910,745	3,771,189	2,407,082
Current liabilities				
Deferred liabilities	-	116,541	56,006	49,270
Short term loan	-	265,252	95,123	105,987
Obligation under finance leases	-	10,004	7,990	6,691
Trade and other payables	-	963,587	949,468	1,037,276
Taxation payable	-	344,567	159,284	-
	-	1,699,951	1,267,871	1,199,224
Total equity and liabilities	-	11,220,452	7,958,987	6,091,616

An analysis of the Statement of Financial Position revealed the following:

i. Return on Capital Employed

The Return on Capital Employed (ROCE) indicates the return on the shareholders' investment. During the period under review, the ROCE was below the projected figures as shown in the table below.

Year	2013	2012	2011
Projected ROCE	9	11	9
Actual ROCE	5.7	6.6	6.3

The above scenario indicates that ZESCO Limited was not generating adequate returns on the capital employed.

In response, management stated that the challenges of uneconomical tariffs have adversely affected the return on capital employed. The tariff has been very low while operational costs have been increasing in relation to inflation and other variables outside management control.

ii. Uncontrollable Increase in Receivables

Although the Company reported profits during the period under review, most of its money was locked up in trade and other receivables which increased from K778,681,000 in 2011 to K1,225,122,000 in 2013 representing a percentage increase of 57%. It was also observed that debtor days had increased from 135 days in 2011 to 148 days in 2013.

Management attributed the increase in receivables and debtors days to failure by Government and water utilities to meet their obligations on electricity bills although ZESCO Limited managed to debt swap amounts totalling K352,000,000 with Zambia Revenue Authority.

However, management has implemented prepaid metering on Government institutions namely Zambia Police, Ministry of Defence and others so that there is no further growth in debt.

iii. Solvency of the Corporation

During the period under review, the non-current liabilities of the corporation increased from K2,407,082,000 in 2011 to K4,910,745,000 in 2013 representing a percentage increase of 104%. This led the debt ratio to remain above the recommended ratio of 0.5. See table below.

Debt to Total Assets Ratio	
2013	0.59
2012	0.63
2011	0.59

It was also observed that the short-term borrowings such as bank overdrafts had increased from K105,987,000 in 2011 to K265,252,000 in 2013 representing a percentage increase of 150%. This therefore means that the Corporation is heavily dependent on debt as can be seen from the gearing ratios which were above normal for the period under review:

Gearing Ratio	
2013	107%
2012	129%
2011	97%

In response, management attributed the adverse solvency of the company to failure to have economical tariffs coupled with lack of capitalisation by the shareholder in the company which has led to the company placing reliance on expensive debt finance in order to meet its obligations.

f. Poor Management of Investments

i. Outstanding New Installations

During the period under review, the customer base of ZESCO Limited increased from 418,651 in 2011 to 475,777 in 2012 and 527,378 in 2013, representing an increase of 26%.

It was however observed that ZESCO Limited had a backlog of 30,416 customers who had paid amounts totalling K113,343,509 for new installations. The works had been outstanding for periods ranging from three (3) months to three (3) years.

Inquires made with senior officers indicated that the backlog was as a result of management's failure to procure the necessary electrical materials and accessories.

As of October 2015, no tangible action had been taken to clear the backlog of customers.

In response, management stated that they have identified the bottlenecks contributing to the high connection backlog and measures have been put in place to arrest the negative trend.

These measures include:

- Improvements in the supply of materials for construction works and new installation.
- Zesco was supposed to effect new cost reflective connection fees for standard jobs on 1st April 2015. However, ERB instructed ZESCO not to effect the new connection fees and this will further put strain on the ZESCO coffers resulting in

continued delayed connections. An analysis of construction jobs and payments shows that customers are only contributing 30% towards the total cost; and

- Outsource construction works process to make it more effective.

ii. Contract for the Design, Procure, Build and Commission Hydropower Stations

On 31st July 2009, the Government of the Republic of Zambia (GRZ) and China National Electrical Engineering Company (CNEEC) signed a Letter of Intent for the purpose of negotiating the possibility of CNEEC working with ZESCO Limited to develop the Lusiwasi and Lunzua hydropower projects in Zambia, with ZESCO Limited being nominated by the GRZ as its implementing agent. In this regard, the GRZ requested the Export-Import Bank of China (CEB) to extend a Preferential Buyer's Credit for both projects amounting to 85% of total project cost with CNEEC mandated to arrange for the financing.

On 21st July 2011, ZESCO Limited entered into two (2) contracts with CNEEC for the design, procurement and commission of a 84.4 MW Lusiwasi Hydropower Station and a 14.8 MW Lunzua Hydropower Station at contract sums of US$163,944,861.43 and US$51,619,356.90 respectively. It was agreed that CNEEC would facilitate 85% of project costs from the China Exim Bank and GRZ would provide the 15% from its own resources.

The initial contract completion date was 12th September 2012 but was later revised to 7th September 2014.

It was however observed that:

- Contrary to the provisions of Article 54(3) of the Constitution of Zambia, the contract documents were not made available to the Attorney General for advice.

- The contractor CNEEC was single sourced contrary to the provisions of Public Procurement Act of 2008,

- Contrary to Section 13 (2) c of the Public Procurement Act of 2008, which demands that as a pre-requisite, investment funds must be made available before the contract is signed, ZESCO Limited signed the contract and made advance payment of US$32,334,632.75, being 15% of the project cost between 21st December 2010 and 23rd August 2011 while CNEEC did not facilitate its contractual obligation of facilitating 85% of the cost of the project.

- An inquiry into CNEEC's background in March 2012 revealed that the Company did not perform to the required standards of good workmanship and quality delivery on previous contracts. In this regard, ZESCO Limited management notified the Contractor of its intentions to terminate the contract. However, the contractor was not ready and willing to refund the advance payment of US$32,334,632.75.

In this regard, the Government decided to terminate the Contract with CNEEC in October 2011 for the anomalies stated above. However, upon consultation between GRZ and ZESCO Limited, it was decided that the contract be reinstated in order to avoid the additional costs that would arise from termination. Upon reinstating CNEEC in June 2012, ZESCO Limited agreed with the Contractor (CNEEC) that the implementation would start with Lunzua and after completion, execute the Lusiwasi Lower project and that the 15% Advance Payment (both for Lunzua and Lusiwasi Contracts) in amounts totalling US$32,334,632.75 which were done for Lusiwasi be channelled to the Lunzua Project.

The Contractor only mobilised to site at the end of September 2012 to establish site in readiness for commencement of main works and in September 2014 commenced the final commissioning of the generating plant.

The Lunzua Hydro Power Station was officially commissioned on 9th April 2015.

A physical inspection of the project in December 2015 revealed the following:

- A number of items still needed to be put into operation to provide a facility fit for commercial operations namely the telecommunication system and inter-tripping for the Mbala power line; and a large number of unresolved non-compliance items still needed to be addressed by the Contractor which will require unit shut down to complete towards the end of 2015;
- The office block was not in use despite having been completed; and,
- The bridge on the access road to the power station had collapsed.

Collapsed Bridge

In response, the Generation Development Division responsible for the implementation of the rehabilitation and uprating of existing small hydropower stations project under which the above falls stated that:

- The telecommunication system installation on the Lunzua-Nkamba Bay 66kV line (Power Line Carrier – PLC) had been delayed due to the inaccessibility of Nkamba Bay Substation as bridges leading to the station were washed away in the 2012-13 rainy season. The Roads Development Agency (RDA) is in the process of repairing the bridges. Installation was rescheduled for April 2015, depending on the progress in opening roads leading to the station by the RDA.

- Defect resolution has been on-going since the resumption of commissioning works in January 2015. Non-compliance rectification, especially on non-mission critical facilities, is allowed even during commercial operation as long as this is done within the defect liability period (12 months from issue of operational acceptance certificate) due to the complex nature of the works.

As of December 2015, the complete resolution of defects in specifications as indicated in the engineer's report had not been done and the new offices were not in use.

iii. Connection of Luangwa District to the National Grid Project

On 20th June, 2011, ZESCO Limited entered into a contract agreement with PME Power Solutions (India) Limited to design, manufacture, test deliver, install, complete and commission certain facilities namely connection of the 132kV line in Luangwa to the National Grid at a fixed contract price of K630,388,771 (US$63,388,771).

The project comprised three contracts namely:

- **Contract 'A' 132kV Transmission Line**

  Construction of 210km of 132kV transmission line on steel towers from Leopards Hill Substation in Lusaka through Mpanshya in Rufunsa to Chitope in Luangwa district,

- **Contract 'B' and 'D': Substations**

  Extensions of Leopards Hill 330kV and 132kV Substations, construction of 132/33kV green field automated substations at Mpanshya and Chitope; and

Luangwa Town 33/11kV Substation all complete with associated Protection, Metering and SCADA equipment; and

- **Contract 'C': 33kV Distribution Networks**.

  Construction of 147km of 33kV overhead lines from Mpanshya and Chitope to the surrounding communities. Further, construct several 33/0.4kV Substations and association 400V Arial Bundled Conducted (ABC) together with Automatic Meter Reading (AMR) system.

In addition to the above, construction of twenty (20) housing units at Leopards Hill; and six (6) staff houses and a commercial office each at Mpanshya and Chitope.

The duration of the project was initially eighteen (18) months up to June 2014 but was later extended to 31st August 2015.

A scrutiny of the project and other relevant records revealed the following:

- **Failure to Start the Contractual Works on Time**

  Contrary to Article 3.1 (e) of the contract document which stipulated that the start date shall be thirty (30) days after contract effectiveness, it was observed that the contractor was in breach of this condition as execution of works only started in 2014.

- **Failure to Complete Project Despite Being Paid 75% of the Contract Sum**

  As at 1st September 2013, the Contractor, PME Power Solutions (India) Limited had been paid a sum of K470,331,458 (US$47,331,458.29) out of the total contract sum of K630,388,771 (US$63,388,771), representing 75% of the contract sum and as of December 2015, the project had not been completed. In addition, ZESCO Limited had not claimed liquidated damages for the delayed completion of the project.

A physical inspection of the project revealed the following:

- **Contract A: 132kV Transmission Line**

  Revision of 132kv transmission line engineering and tower spotting for the 168 km route section from Leopards Hill substation where bush clearing and access track for construction had been completed.

Bush clearing, soil investigation for the 168 km route section and access road construction from Mpanshya to Chitope commenced in October 2014.

Outstanding works included among others, three hundred and one (301) foundations, erection of five hundred and seventy one (571) towers and construction of 7 km of the road. As of December 2015, the contractor had abandoned the works.

- **Contract B and D: Substations**

At Luangwa town, the only works undertaken were construction of control building up to foundation level and cable trench, bush clearing at the proposed area for the construction of the substation as well as importing and stabilising of gravel as shown in the picture below.

Construction of the substation at Luangwa at foundation level

At Mpanshya proposed substation, 65% of works had been completed in that the casting concrete for the transformer plinths had been done, steel for foundation concrete reinforcement for the substation structures had been delivered to the site and the guard house had been completed.

Four (4) staff houses had been constructed up to roof level while one was being roofed.

As of July 2015, only one worker was looking after the uncompleted housing units.

Outstanding works included among others, construction of the control building, cable trench and substation roads, erection of support structure and placing of the power transformers on plinths. See picture below.

Incomplete Substation at the Mpanshya

At Chitope, the construction of switchyard platform was at foundation level, the land had been excavated but laterite had not yet been imported and compacted and the land had not been fenced.

In addition, the control building had been constructed up to foundation level.

Outstanding works included among others, construction of equipment foundation, steel structures and installation of equipment. See picture below.

Incomplete Substation at Chitope

At Leopards Hill, out of the twenty (20) housing units, four (4) had been roofed, fourteen (14) were at roof level and two (2) were at slab level and the contractor had since abandoned the works. See picture below.

Incomplete Houses at Leopards Hill Substation

Outstanding works included, among others, construction of substation roads and stone pitching, construction of equipment foundations, steel structures and installation of equipment.

As of December 2015, the project had not been completed and ZESCO Limited had not claimed liquidated damages.

g. Unmanageable Receivables

i. Mining and Export Debtors

It was observed that the mining and export debtors had increased from K317,894,759 in 2011 to K509,832,460 as of September 2013 representing an increase of 60% during the period under review as shown in the tables below.

Category	9 Months 2013	2013	2012	2011
Mines (K)	417,463,860	438,086,907	400,232,212	280,488,896
Exports (K)	92,368,601	134,584,387	138,378,699	37,405,863
TOTAL AMOUNT (K)	509,832,461	572,671,294	538,610,911	317,894,759
Percentage of Trade Receivables	0.43	0.47	0.48	0.41

In response, management stated that all mining customers were current except for CEC and Lumwana who were not paying the full invoices issued due to the tariff increments effected in April 2014 as they had challenged ERB through the courts of law.

The export customers are current except for SNEL of DR Congo whom ZESCO Limited has since engaged to settle the outstanding arrears.

As of December 2015, SNEL of DR Congo had not started servicing the debt.

ii. Government Indebtedness

A scrutiny of financial statements for the period under review revealed that GRZ indebtedness to ZESCO increased from K126,504,000 in 2011 to K133,300,000 in 2013 representing a percentage increase of 5%.

In response, Management stated that in 2009 the Secretary to Cabinet issued a Circular to all Government institutions to allow ZESCO Limited to install pre-paid meters.

Following this instruction, ZESCO proceeded to install pre-paid meters in all areas where the project was being implemented and has gone on a nationwide programme to install pre-paid meters at customer premises and this included Government institutions. However, there were some sensitive Government institutions that had requested that pre-paid meters are not installed. These included Government Hospitals and other institutions such as the Zambia Army, ZAF and Airports. For such institutions, Revenue collection staff was continuously visiting them for payments.

The installation of pre-paid meters was an effort to halt the growth of the debt and collect revenue from the non-paying Government institutions and other spending agencies. This had also been observed by the reduction in post-paid billing for Government institutions.

The other approach taken by ZESCO was to engage the Ministry of Finance over the possibility of settling the debt through a debt swap.

As of December 2015, the debt swap agreement had not been finalised.

h. Poor Management of Non-Current Assets

i. Failure to Revalue Fixed Assets

A review of financial statements and the fixed assets registers revealed that property, plant and equipment had not been revalued for over thirteen (13) years contrary to International Accounting Standard (IAS) No.16, thereby under valuing the assets of the Corporation as they do not reflect the fair values.

In response, ZESCO Limited management acknowledged that assets valuation has not been undertaken for the last 13 years and indicated that efforts in the past to get a firm to value the assets has failed three (3) times.

Currently, ZESCO management is in a process of identifying a consultant to properly define the terms of reference and later develop the request for proposals, this current tender closed on 27th March 2015 and evaluation of bidders done.

The recommendation of successful bidder were done and ZPPA approval was being awaited as of June 2015.

As of December 2015, a valuation firm had not been engaged and the revaluation of the assets had not been done.

ii. Non Disposal of Obsolete Stocks

A scrutiny of records at Zesco Ltd head office and physical inspection revealed that there were assorted obsolete stocks at eighteen (18) storage sites with an estimated value of K5,564,572. The assorted obsolete items had been in storage for periods ranging from ten (10) to twenty (20) years thereby subjecting them to pilferage and taking up storage space.

In this regard, Zambia Development Agency granted authority to ZESCO Limited in June 2014 to dispose of obsolete stocks. However, the company had not disposed of the items as of March 2015.

In response, management explained that necessary approvals have been obtained from the Board and ZDA and ZESCO Limited has since accelerated the process of engaging the auctioneer to undertake this assignment. The terms of reference have been concluded and procurement is in the tendering process for the provision of auctioneering services.

However, as of October 2015, the auctioneer had not been engaged and obsolete assets remained in storage.

iii. Failure to Pass Title of Assets to ZESCO Limited

ZESCO owned dwelling houses and commercial buildings dispersed across the country.

A review of ZESCO Limited's assets revealed that title deeds for thirty eight (38) properties had not passed to ZESCO Limited as of July 2015.

In response, management submitted that significant progress has been made on obtaining title deeds from Ministry of Lands and will continue to pursue acquisition of title through the recent engagement of the Registrar of Lands at the Ministry.

As of October 2015, the title of the thirty eight (38) properties had not passed to ZESCO Limited.

i. Out of Service Diesel Power Generating Machines - Mufumbwe

Only one of the three (3) generators in Mufumbwe was in operation as of December 2015. The power generating machines which were out of service were installed on 13th March 2010 and 8th November 2012 and had been out of service for approximately two (2) years.

j. Poor Operations of Small Hydro Power Stations - Lusiwasi Power Station

According to the monthly report for June 2015 and a physical site inspection conducted in December 2015, the power station plant availability was at 73.02% and recorded a total energy loss of 8,973,230.70 KWh to date.

This was attributed to:

- The failure to fill vacant positions of key operational staff namely Winch Operator (2), Water Plant Operator (2), Mechanical Technician, Civil/Plumber/Carpenter (1) and other officers to man the dam,
- The failure to repair Machine Unit No. 2 which had been out of service since 2008 because of the damaged runner and faulty excitation system,
- Failure to automate the de-silting which was hand operated,
- machine test alarms which were out of service, and
- Inadequate transport coupled with a lack of an emergency response vehicle.

As of December 2015, no action had been taken by management to address the adverse situation.

Zambia National Broadcasting Corporation

Background

22. The Zambia National Broadcasting Corporation (ZNBC) is a statutory body established by the Zambia National Broadcasting Corporation Act of Parliament in 1987. The corporation is wholly owned by the Government and its principal activity is to provide information, entertainment and education to the people of the Republic of Zambia.

Administration

ZNBC is governed by a Board of Directors which consists nine (9) part time directors appointed by the Minister on recommendation made by the appointments committee, subject to ratification by the National Assembly.

The Board of Directors appoints the Director General and his Directors on a renewable three (3) year term of office.

The Director General is responsible for the day to day operations of the corporation and is assisted by the Corporation Secretary and directors in charge of Finance, Marketing, Sales and Special Projects, Human Resource and Administration, Engineering and Technical services, Programmes, News and Current affairs and the Northern Region.

Source of Funds

According to the provisions of the Act, the funds of the Corporation shall consist of such moneys as may be:

- payable to the Corporation in terms of this Act;
- appropriated by Parliament for the purpose of the Corporation;
- paid to the Corporation by way of grants or donations; and
- vested in or accrue to the Corporation.

Review of Operations

A review of operations of the Corporation for the financial years ended 31st March 2012 to 31st December 2014 revealed the following:

a. Financial Performance – Statement of Comprehensive Income

	31st Dec 2014 (Draft) K	31st Dec 2013 K	Nine Months to 31st Dec 2012 K	31st Mar 2012 K
Revenue	101,566,059	90,611,233	47,075,850	56,549,086
Other income	1,450,822	10,647,388	1,126,483	1,538,979
Programming expenses	(5,334,177)	(11,700,330)	(8,355,151)	(4,165,562)
Advertising and promotion expenses	(2,283,947)	(1,264,537)	(1,081,612)	(1,155,490)
Administrative expenses	(224,950,571)	(144,007,047)	(79,628,306)	(94,502,429)
Other operating expenses	(24,321,422)	(114,025,410)	(28,590,004)	(91,917,310)
	(255,439,295)	**(260,349,936)**	**(116,528,590)**	**(190,201,812)**
Results from operating activities	(153,873,236)	(169,738,703)	(69,452,740)	(133,652,726)
Net financing income/(costs)	(3,129,835)	1,739,015	(328,794)	(1,659,780)
Share of profit of equity-accounted investee	50,390,825	27,526,079	17,750,109	20,357,980
Deficit for the year	**(106,612,246)**	**(140,473,609)**	**(52,031,425)**	**(114,954,526)**
Tax	(48)			(338,257)
Other comprehensive income	-	-	-	-
Total comprehensive income	**(106,612,294)**	**(140,473,609)**	**(52,031,425)**	**(115,292,783)**

An analysis of the Statement of Comprehensive Income revealed that the Corporation recorded deficits of K115,292,783 in the year ended 31st March 2012. Although there was an improvement in the nine (09) month period to 31st December 2012, the improvement was not adequate as the Corporation still recorded a deficit of K52,031,425. This however worsened to K140,473,609 in the year ended 31st December 2013. The decline was caused by increases in administrative and other operating costs by more than fifty percent (50%) as tabulated below:

Administrative Expenses				Other Operating expenses		
Period	Amount K	Change K	% Increase	Amount K	Change K	% Increase
9 monthsto 31/12/2012	76,628,047			28,590,004		
12 months to 31/12/2013	144,007,047	67,379,000	88	114,025,410	85,435,406	299
12 months to 31/12/2014	224,950,571	80,943,524	56	24,321,422	-89,703,988	-79

As can be seen from the above table, during the year ended 31st December 2013 administrative expenses increased by K67,379,000 representing 88% from what was recorded in the nine (9) months period ending 31st December 2012. In addition to the increases in administrative expenses, operating expenses increased by K85,435,406 representing 299% during the same period. The increases in the two types of expenditure worsened the deficit position of the Corporation as seen at the end of 2013. The reduction in other operating expenses in 2014 was because the Corporation had not yet provided for increase in penalties and interest charges on delayed remittance of statutory obligations.

The Continuous incurring of deficits threatens the Corporation's going concern.

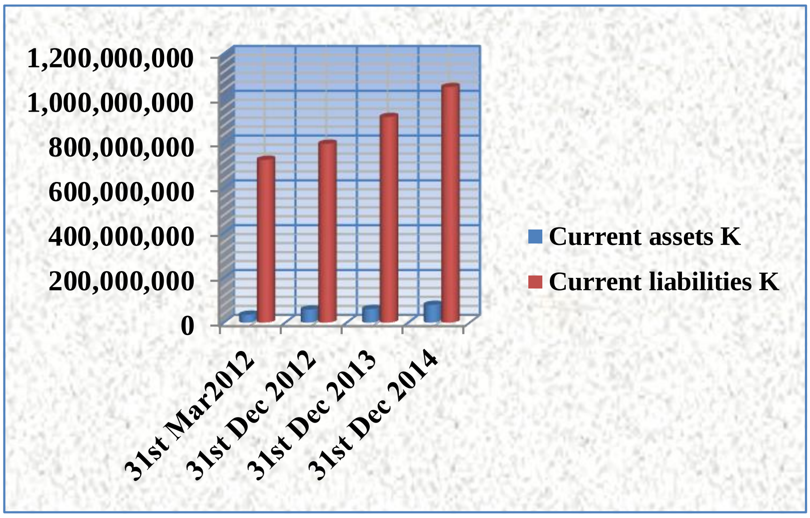
b. Financial Position – Statement of Financial Position

	31st Dec 2014 (Draft) K'000	31st Dec 2013 K'000	31st Dec 2012 K'000	31st Mar 2012 K'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	72,850,296	66,547,275	43,294,014	37,450,976
Investments	16,097,535	15,686,709	14,620,630	15,490,521
	88,947,831	**82,233,984**	**57,914,644**	**52,941,497**
Current Assets				
Inventories	471,416	510,900	560,681	358,373
Trade and other receivables	71,842,296	58,382,965	51,334,070	29,053,261
Prepayments	1,206,071	123,777	611,646	159,523
Cash and cash equivalents	5,427,289	1,609,534	5,561,364	5,519,138
	78,947,072	**60,627,176**	**58,067,761**	**35,090,295**
Total Assets	**167,894,903**	**142,861,160**	**115,982,405**	**88,031,792**
Funds, Grants and Liabilities				
Funds and Grants				
Capital fund	32,679	32,679	32,679	32,679
General reserves	(969,404,664)	(862,792,370)	(722,318,762)	(670,287,337)
Capital grants fund	76,901,397	72,061,894	40,379,903	32,087,174
Non distributable reserves	15,000	15,000	15,000	15,000
	(892,455,588)	**(790,682,797)**	**(681,891,180)**	**(638,152,484)**
Non-Current Liabilities				
Loans and borrowings	-	1,012,140	108,334	1,083,334
Capital grants	9,435,517	15,096,214	29,199,396	8,802,835
	9,435,517	**16,108,354**	**29,307,730**	**9,886,169**
Current Liabilities				
Loans and borrowings	-	666,667	1,299,999	1,299,999
Bank overdraft	9,402,389	3,283,897	3,213,711	2,957,609
Trade and other payables	1,040,374,367	912,346,822	761,713,928	709,702,282
Current tax liabilities	1,138,217	1,138,217	1,138,217	1,138,217
Provisions	-	-	1,200,000	1,200,000
	1,050,914,973	**917,435,603**	**768,565,855**	**716,298,107**
Total Equity and Liabilities	**167,894,902**	**142,861,160**	**115,982,405**	**88,031,792**

An analysis of the Statement of Financial Position revealed the following:

i. Poor Liquidity - Negative Working Capital

The Corporation's current liabilities exceeded current assets as at the end of each year under review as depicted in the chart below.



As can be seen in the chart above, the current liabilities were persistently higher than the current assets for each year under review. While current assets did not reach K100 million, the current liabilities were all in excess of K700 million. This situation led to negative working capital as tabulated below:

	31st Dec 2014 K	31st Dec 2013 K	31st Dec 2012 K	31st Mar 2012 K
Current assets	78,947,072	60,627,176	58,067,761	35,090,295
Current liabilities	1,050,914,973	917,435,603	797,873,585	726,184,276
Working Capital	(971,967,901)	(856,808,427)	(739,805,824)	(691,093,981)

As can be seen from the table above, working capital was negative K691,093,981 as at 31st March 2012, but kept worsening throughout the period under review reaching negative K971,967,901 as at 31st December 2014.

The negative working capital was mainly attributable to:

- Accumulation of unpaid statutory obligations in form of Pay As You Earn (PAYE) and National Pension Scheme Authority (NAPSA) pension contributions,
- Poor management of receivables leading to growing provisions for bad debt expenses,

- Uncollected tax refunds of withholding taxes on the dividends received by the Corporation. The Corporation's income is tax exempt but its dividends received were taxed, and

- Growing terminal benefit provisions and other staff payables.

ii. Loans and Overdraft

On 13th May 2013, the Corporation signed an agreement with Finance Bank Zambia Ltd (FBZ) for an overdraft of K5.5 million and a loan facility of K2 million. The purpose of the loan was to refinance a loan of K3.9 million, while the purpose of the overdraft was to refinance an overdraft of K3.5 million obtained from First Alliance Bank (FAB) Ltd. The terms of the FBZ Agreement were as follows:

- The overdraft was payable on demand,

- The loan was repayable over three (3) years through monthly instalments involving principal and interest portions,

- Interest rate applicable to both was 16.25% per annum on compound basis,

- Arrangement fee: 1.5% flat rate recoverable upfront on the facility amount.

The loan and overdraft were secured on property Plot No. 37/M Twin Palm, Leopards Hill Road in Lusaka City. The title deeds for the properties were consequently handed over to FBZ. As at 31st December 2014, the Corporation had an overdraft balance of K8,628,385 on its FBZ account and had paid interest of K1,371,615 on the overdraft.

The following issues relating to the Loan and Overdraft Agreement were observed:

- **Failure to Obtain Board Authority on Excess Overdrafts**

  The Board authorised the Corporation to obtain an overdraft of K5.5 million which it revised on 14th April 2014 to K10 million. The revision was meant to cater for meeting operational needs of the Corporation. A scrutiny of bank statements for the FBZ account revealed that on 1st October 2014, the Corporation had an overdrawn balance of K13.5 million. In this regard, the excess overdraft of K3.5 million was not supported with board authority.

- **Single Sourcing of Financier**

  The selection of FBZ was not done competitively thereby exposing the Corporation to possible costly financing. There was no evidence availed for audit scrutiny to show that the Board in making its decision was availed with possible offers from different financiers other than FBZ.

- **Security for the Loan and Overdraft**

  It was not clear as to why the Corporation had pledged Plot No. 37/M Twin Palm, Leopards Hill Road in Lusaka City as security which is critical to the operations of the Corporation as it houses transmitters and the masts for the antennas.

iii. Debt Collection Period

An analysis of trade receivables days revealed that the Corporation was not efficient at collecting payments from its credit customers. On average, the Corporation was taking periods ranging from 135 days or four (4.5) months to 407 days or fourteen (14) months as compared to the credit period of forty five days (45) days provided in the credit policy as can be seen in the table below.

Receivables days = $\frac{\textbf{Trade receivables x 365}}{\textbf{Revenue}}$

	Yr to Dec 2014	Yr to Dec 2013	9 months 31/12/2012	Yr to 31/03/2012
Total Receivables (K)	71,842,296	58,382,965	51,334,070	51,334,070
Less:				
Staff receivables (K)	2,408,970	2,106,471	2,326,755	
Other receivables (K)	40,654,031	25,956,311	30,036,106	
Receivables (K)	**28,779,295**	**30,320,183**	**18,971,209**	**51,334,070**
Revenue (K)	78,092,134	62,556,099	36,455,963	46,021,076
Receivables days	**135**	**177**	**190**	**407**

As can be seen from the above table, throughout the period under review, the Corporation was failing to collect debts on a timely basis from its clients thereby tying working capital in receivables for longer periods than necessary.

c. Statement of Cash Flows

	31th Dec 2014 K	31th Dec 2013 K	31th Dec 2012 K	31th Mar 2012 K
Operating activities				
Deficit for the year	(106,612,294)	(140,473,608)	(52,031,425)	(115,292,782)
Amortisation of capital grant included in other income	(821,191)	(821,191)	(60,049)	(52,026)
Interest income	(25,848)	(467,008)	79,733	(189,241)
Interest expense	2,008,876	837,355	624,371	1,271,944
Dividend income	-	-	-	
Depreciation	7,088,639	5,310,199	2,002,369	3,373,117
Foreign exchange difference on loans & borrowings		-	-	
Share of profit of equity	(50,390,825)	(27,526,079)	(17,750,109)	(20,357,980)
Provision written back	-	(1,200,000)	-	1,200,000
Loss/(profit) on disposal of equipment	-	-	-	1,152
Income tax expense	48	-	-	338,257
	(148,752,597)	**(164,340,332)**	**(67,135,110)**	**(129,707,559)**
Changes in operating assets and liabilities				
Change in inventories	39,484	49,781	49,781	(27,372)
Change in receivables	(13,459,331)	(7,048,895)	(22,280,809)	(1,239,541)
Change in prepayments	(1,082,294)	487,869	(452,123)	544,153
Change in payables	128,027,546	150,632,894	52,011,464	109,249,087
	113,525,405	**144,121,649**	**29,328,313**	**108,526,327**
Cash (Used in) generated from operations	**(35,227,192)**	**(20,218,683)**	**(37,806,797)**	**(21,181,232)**
Interest received	25,848	467,008	79,733	189,241
Interest paid	(2,008,876)	(837,355)	(624,371)	(1,271,944)
	(1,983,028)	**(370,347)**	**(544,638)**	**(1,082,703)**
Net cash in/(out) flow from operating activities	**(37,210,220)**	**(20,589,030)**	**(38,351,435)**	**(22,263,935)**
Cash flows from investing activities				
Acquisition of property & equipment	**(13,644,945)**	**(28,563,460)**	(7,866,060)	(5,990,383)
Proceeds from sale of equipment	**253,235**	-	20,653	30,005
Dividends received	**49,980,000**	**26,460,000**	18,620,000	19,318,250
net cash used in investing activities	**36,588,290**	**(2,103,460)**	**10,774,593**	**13,357,872**
Cash flows from financing activities				
Capital grant received	-	**18,400,000**	28,749,339	13,756,222
Finance Bank Loan	-	**2,000,000**	-	(1,300,000)
Repayment of short-term loan	**(1,678,807)**	**(1,729,526)**	(975,000)	-
Net cash from financing activites	**(1,678,808)**	**18,670,474**	**27,774,339**	**12,456,222**
Net increase in cash and cash equivalents	**(2,300,738)**	**(4,022,016)**	**197,497**	**3,550,159**
Cash and cash equivalent at the beginning of the year	**(1,674,363)**	**2,347,653**	2,561,531	(988,630)
Cash and cash equivalent at the end of the year	**(3,975,101)**	**(1,674,363)**	**2,759,028**	**2,561,529**

International Accounting Standard (IAS) No.7 requires that an institution generates cash flows from three categories of sources – operating activities, investing activities and financing activities. For the Corporation, operating activities are those concerned with providing programmes and advertising. Investing activities are those concerned with acquisition and disposals of long term assets. Financing activities are concerned with raising and repayment of long term capital.

The Corporation's cash and cash equivalents were negative at the end of each year under review as can be seen in the table below.

	31th Dec 2014 K	2013 K	31th Dec 2012 K	31th Mar 2012 K
Opening Cash and Cash equivalents	(1,674,363)	2,347,653	2,561,531	(988,630)
Cash flow	(2,300,738)	(4,022,016)	297,497	3,550,159
Cash and Cash equivalent at the Year end	**(3,975,101)**	**(1,674,363)**	**2,859,028**	**2,561,529**

The negative cash flows recorded over the period were mainly attributable to the Corporation's failure to generate net cash in flows from operating activities. Cash flows from operating activities deteriorated from negative K22,263,935 in year ended 31st March 2012 to negative K37,210,220 in the year ended 31st December 2014. Some of the factors contributing to negative cash flows from operating activities were:

- Increased investments in receivables and inventories for longer periods meant that more cash than necessary was being tied in those assets, and
- Higher payments of interest arising from increases in overdrafts.

d. Appointment of Directors

According to the ZNBC Act, the Board shall appoint the Director General and other staff as it considers necessary for the performance of the functions of the Corporation. However, it was observed that three (3) officers were appointed by the Minister responsible for Information and Broadcasting. See table below.

POSITION	DATE OF APPOINTMENT	METHOD OF APPOINTMENT	APPOINTING AUTHORITY
Director General	10/6/2011	Single Sourced	Ministry
Director General	3/7/2012	Single Sourced	Ministry
Director Programmes	10/6/2011	Single Sourced	Ministry

In their response, Management stated that the institution had no Board of Directors from 2011 until December 2013 during which period it was under the oversight of an interim Board appointed by the Ministry comprising the Permanent Secretary and the Director General. However, there was no evidence availed for audit scrutiny to show that the Resourcing Policy that requires that the positions should be advertised internally or externally was followed when the directors were engaged.

e. Turnover of the Directors General

There was a high staff turnover in the office of the Director General of the Corporation in that four (4) persons had been engaged in the position in a space of four (4) years. The duration of the contract of the Director General was three (3) years. However, as can be seen from the table below, three (03) of the persons that served in that position did not complete their contract tenure.

	Date of Appointment	Date of Separation	Duration
Director General	02.06.10	06.10.11	15 months
Director General	06.10.11	07.03.12	6 months
Director General	23.03.12	16.06.14	15 months
Director General	06.10.14	Still Running	

In this regard, amounts totalling K2,005,590 were paid to the officers as terminal benefits when it could have only paid K1,041,523 had the Director General appointed in 2010 been allowed to complete his tenure. See table below.

	DATE OF SEPARATION	CONTRACT SHOULD HAVE ENDED ON	REASON FOR SEPARATION	BENEFITS PAID	AMOUNT K
Director General	06.10.11	01.06.13	Not specified	Full Benefits	1,041,523
Director General	07.03.12	05.10.14	Went into foreign service	Full Benefits	138,791
Director General	16.06.14	22.03.15	Resigned to Join IMF	Pro rata to time served	825,276
Total					**2,005,590**

f. Unexplained Terminations of Staff Contracts of Employments

The table below shows eight (8) members of staff that were separated by the Corporation either by means of termination of their contracts or by being given early retirement.

MAN No.	DESIGNATION	REASON FOR SEPARATION	SEPARATED ON	BENEFITS K
1015	Head - Radio Commercialisation	Retired by ZNBC	31.08.2013	1,882,394
1130	Director General	Contract Termination for unknown reasons	06.10.2011	1,041,523
951	Head - Production and Operations	Contract Termination for unknown reasons	31.01.2012	377,127
736	Controller - TV	Contract Termination for unknown reasons	31.01.2012	532,321
934	Head - Special Projects	Contract Termination for unknown reasons	31.01.2012	192,119
1432	Director Marketing & Sales	Contract Termination for unknown reasons	31.01.2012	853,284
1499	Director General	Contract Termination for unknown reasons	08.06.2012	138,791
1283	Director Marketing & Sales	Contract Termination for unknown reasons	23.12.2012	94,822
			TOTAL	5,112,381

The Premature terminations meant bringing forward payment of benefits of staff that otherwise would have been paid years later. The terminated staff had remained with years of service ranging from one (1) to twelve (12) before normal separation. In this regard, amounts totalling K5,112,381 were brought forward and paid in terminal benefits to the eight (8) retired employees.

g. Separation of the Head – Taskforce Radio Commercialisation

On 20^{th} May 2013, the Corporation terminated employment for the Head – Taskforce Radio Commercialisation. He was given three (3) months' notice of termination of employment effective 31^{st} August 2013.

In this regard, as of March 2015, amounts totalling K1,882,394 had been paid to the officer.

However the following were observed:

i. Contrary to the Conditions of Service applicable to non-represented staff, the officer was paid terminal benefits similar to those of normal retirement despite the fact that he had not attained the age for normal retirement of fifty five (55) years.

ii. Clause 12(a) of the Conditions of Service provided that an employee in his salary scale would be entitled to accrue leave days of 3.5 per month up to a maximum of 136.5 days from the date of commencement of employment. However, contrary to the Conditions of Service, the Corporation paid the officer 292 leave days resulting in an excess of 156 leave days valued at K56,323.

iii. Clause 42 of the Conditions of Service stated "The Corporation shall endeavour to provide the employee with the working tools such as Talk Time for the employee's mobile phone for the purpose of enabling the employee execute work assignments accordingly." Contrary to the Conditions of Service, the Corporation paid the officer amounts totalling K10,250 as talk time for forty one (41) months to the year 2017. The payment was questionable as it covered the period outside which the officer would be an employee of the Corporation.

h. Misapplication of Funds - Digital Television Migration

The Corporation received amounts totalling K14,111,438 from the Ministry of Information and Broadcasting Services (MIBS) to undertake various digital migration activities during the period under review.

Best practice requires entities under-taking projects to open separate project bank accounts for easy management of projects.

ZNBC did not maintain a separate project bank account for funds received for Digital Migration Project.

A review of the Internal Audit Report for October 2014 revealed that amounts totalling K9,435,517 meant for Digital Migration activities were used towards the payment of salaries.

In addition, bank reconciliations and project cash books were not maintained for the Digital Migration Project.

i. ZNBC Pension Scheme - Failure to Establish the Pension Scheme Under a Trust

Section 8(2) of the Pension Scheme Regulation Act states that "every pension scheme, other than a scheme established by a written law, shall be established under an irrevocable trust". Further, Section 3(b) defines a trust as a legal entity, separate from the employer, in which the pension scheme funds are accumulated and includes a multi-employer trust or a single employer trust. Contrary to this provision, the Pension Scheme of the Corporation was not established under a trust.

In addition, section 18. (1) (b) of the Pension Scheme Regulation Act states that "A pension scheme shall lay down the rights and obligations of the members in writing in the pension plan rules, a copy of which shall be given to each member". Contrary to the provision, the Pension Scheme did not have pension plans.

Further, section 24(1) of the Act states that "Each pension scheme shall have an investment policy so as to:

- achieve and secure profitable investments; and
- maintain at any time the real value of its members' accrued portable benefits."

However, the Corporation had not invested any of the contributions it was collecting in any assets to the benefit of its employees.

j. Non-Remittance of Statutory Contributions

As of December 2015, the Corporation owed the Zambia Revenue Authority (ZRA) amounts totalling K766,558,953 in respect of unremitted Pay As You Earn (PAYE) and Value Added Taxes (VAT) contributions as tabulated below.

	Amount K
PAYE	257,763,228
VAT	508,795,725
Total	**766,558,953**

k. Procurement of Goods, Services and Works - WAN Contract with ZAMTEL

A review of the proposed Wide Area Network (WAN) implementation plan dated 24th June 2014 revealed that ZNBC engaged ZAMTEL Limited to implement the WAN project. The WAN project was to cover the following ZNBC sites: Lusaka Mass-media and seven (7) regional offices namely; Livingstone, Kitwe, Kasama, Mansa, Chipata, Mongu and Solwezi.

The scope of works for the contractor (Zamtel) included:

- Installation and configuration of ZNBC devices;
- Testing network connectivity;
- Recording test results for all devices;
- Saving and backup configuration for all devices; and
- Provide a network design

The following were however observed:

i. Failure to Provide the WAN Contract

ZNBC did not have a contract in place with Zamtel for the implementation of the WAN project. In this regard, it was difficult to ascertain the contract sum of the project, terms of engagement, commencement and end date for the project.

ii. Undelivered Cisco Routers

On 21st June 2013, the Corporation paid Zamtel a total of K66,500 for seven (7) Cisco routers as part of WAN implementation activities. However, as of February 2015, three (3) routers costing K28,500 had not been delivered.

iii. Television Transmitter Contract (Rohde and Schwarz) and Generator contract (Agro-Fuel Investments Limited)

In January 2013, the Corporation and Agro- Fuel Investment Limited entered into a contract at a contract sum of K1,177,200 for the supply, delivery, installation, testing and commissioning of a 750 KVA Generator Set, complete with accessories at Mass Media, Lusaka, Zambia.

Further, on 19th March 2013, Rohde and Swharz Middle East and Africa FZ-LCC was engaged to supply and deliver a UHF Television Transmitter and a 500W

Radio Transmitter complete with accessories at a contract price of K3,395,752 (€486,302.36).

However, the following were observed with regard to the two contracts:

- **Contracts Signed without Approval of Attorney General**

  Section 1 of the Public Procurement Act No. 12 of 2008 stipulates that, 'A procuring entity shall, before entering into any international agreement relating to procurement, obtain the approval of the Authority, and the advice of the Attorney General.'

  Contrary to the above, the Corporation did not provide evidence that the Attorney General's prior legal advice was obtained before the contracts were signed between ZNBC and Rohde and Schwarz for the supply and delivery of television transmitters and also with Agro-Fuel Investment Limited for the supply and installation of the generator set.

- **Unspecified Contract Period**

  According to Section 55 (1) of the Public Procurement Act No. 12 of 2008, a standard contract should clearly state the contract period.

  The contracts signed between ZNBC and Rohde and Schwarz for the supply and delivery of Television and Radio transmitters and with Agro Fuel Investment for the supply and installation of the generator set did not specify commencement and end dates.

- **Contract without a Date**

  The contract signed between ZNBC and Agro-Fuel Investment was not dated and the parties to the contract did not indicate the date of signing the contract.

l. Management Information Systems

The Corporation operates three (3) systems namely: the News Manager System used for News Management Solutions, Sun Systems used for managing financial transactions and the Micro Payroll System used to process pay roll transactions.

The following were observed:

i. **Failure to Adopt ICT Standards and Frameworks**

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

- Control Objectives for Information and related Technology (CoBIT),
- Information Technology Infrastructure Library (ITIL),
- ISO/IEC 27001: 2013 Information Security Management Systems(ISMS),
- ISO/IEC 20000 IT Service Management (ITSM).

Despite the availability of various frameworks which ZNBC could have utilised or adopted, the corporation had not adopted any ICT Standards and framework for managing its ICT operations as of October 2015.

As a result of not adopting any ICT framework or standards the Corporation did not have a sound basis or systematic means for benchmarking or measuring performance of its ICT activities or processes. Consequently, it was difficult to establish how the corporation was identifying, improving and modifying any weaknesses in the various ICT or engineering control areas.

ii. **Failure to Insure ICT Equipment**

As of October 2015, the Corporation had not insured all its ICT assets. As such, the Corporation had challenges to replace the un-insured assets damaged by natural or man-made acts such as sabotage or theft resulting in some instances in the disruption of service delivery.

The total value of the un-insured ICT and broadcasting assets could however not be established as the Corporation did not maintain a Fixed Assets Register that would indicate details such as, date of procurement, asset description, purchase cost and net book values.

iii. **Failure to Repair the Damaged Shortwave Transmitter**

In November 2012, a Shorthorn Shortwave Transmitter developed a fault and had not been repaired or replaced as of October 2015. The actual cause of the fault could not be established as the Incident Report was not provided for audit. The repair cost for the damaged transmitter was estimated at K771,650 or US$115,000 (at K6.70: US$ 1). As a result, Radio 2 on short wave had stopped transmitting since November 2012.

iv. Lack of Service Level Agreements (SLAs)

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 formalize the needs and expectations of the organisation and those of the service provider thereby minimizing 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 utilization of IT resources.

Commitment should include issues such as availability, reliability, performance, capacity for growth, levels of support, continuity planning, security and demand constraints.

The corporation did not have SLAs in place both with external service providers and internal end users regarding the use of the management information systems.

In this regard, amounts totalling K314 594.45 paid in respect of services rendered to the corporation in the period under review were not supported with SLA. The payments are as indicated in the table below.

Service Description	Vendor / Payee	Amount K
Internet	ZESCO	272,340
Internet	CopperNET	31,407
Web Hosting	ZAMNET	10,847
SMS Solution License Fees	Not Provided	
Total		**314,594**

The lack of SLAs is likely to result in unclear roles and responsibilities in the use of ICT resources leading to miscommunication, poor service delivery and undetected service degradation.

v. Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)

Disaster recovery and IT continuity planning help institutions prepare for and resume operations in the event of disruption whether the event might be a power outage, fire or system failure .

CoBIT DS4.2, IT Continuity Plans, requires organisations to develop IT Continuity plans based on a framework that is designed to reduce the impact of a major disruption on key business functions and processes.

As of October 2015, the Corporation did not have a BCP and a DRP for the IT and broadcasting systems it was operating. Therefore, if adverse conditions occurred such as a fire or significant damage to its infrastructure, it is unlikely that the corporation would be able to resume normal operations within a reasonable time period.

vi. Lack of Backup Management Policy

According to CoBIT DS11 Manage Data, effective data management requires identifying data requirements. The data management process also includes the establishment of effective procedures to manage the media library, backup and recovery of data, and proper disposal of media. Effective data management helps ensure the quality, timeliness and availability of business data.

However, the Corporation operated without a backup policy for the period under review.

In addition, the Corporation did not have an offsite location for storage of backups. As such, backups carried-out on Sun and Micro Payroll Systems were stored within the same building thereby exposing the backup data to the same risk as the original data.

vii. Lack of Data Classification Policy

CoBIT APO01.06 Define Information (data) and System Ownership, requires that an organisation defines and maintains responsibilities for ownership of information (data) and information systems and ensure that owners make decisions about classifying information and systems and protecting them in line with this classification.

As of October 2015, the Corporation did not have a data classification policy in place for its information asset. As such, the corporation’s information was not grouped and protected according to its criticality to the organisation.

viii. Weaknesses in the Sun System - Lack of Audit Trail

CoBIT AI2.3 Application Control and Auditability requires that business controls are implemented into automated application controls such that processing is accurate, complete, timely, authorised and auditable. An audit trail allows for the tracking, analysis and determination of any changes that may have been done on the system. It should be regularly reviewed by management, Internal Audit and IT managers. Any issues discovered should be dealt with in accordance with the organization's procedures.

During the period under review, ZNBC operated without an audit trail on Sun Accounting System. The Sun System in use was version 5.21 which did not have an audit trail functionality. As such, it was difficult to establish traceability and accountability of transactions processed on the system.

ix. Poor Management of Libraries

- **Lack of Data Migration Policy**

  According to CoBITBAI07.02 System and Data Conversion, organisations should plan data conversion and infrastructure migration as part of the organisation's development methods, including audit trails, rollbacks and fall-backs.

  The Corporation did not have a policy or procedures in place for migrating data from media which are either obsolete or unreadable with the passage of time.

  As such, the Corporation may lose data as the media becomes damaged with time or data becomes unreadable.

- **Lack of Integrated Library System (ILS)**

  An integrated library system (ILS) also known as a library management system is an Enterprise Resource Planning (ERP) system for a library used to order, acquire, receive, invoice, catalogue, circulate, track and shelve library materials. It aids in easy management of library resources through a computerized environment.

  It usually encompasses the following modules: Acquisition (ordering, receiving, and invoicing library resources); Cataloguing (classifying and indexing library materials); Circulation (lending materials to patrons and receiving them back) and Serials (tracking library materials lent out).

The Corporation had three (3) main libraries namely Archive library, News library and Audio libraries which maintained various valuable and quantities of data in various media storage formats.

However, as of October 2015, the Corporation did not have an ILS for an effective and efficient management of its library resources.

- **Poor Physical and Environmental Controls**

  Despite the libraries storing valuable national and the Corporation's data, they did not have adequate security controls such as grill doors or logical access controls to restrict entry by unauthorised persons.

  In addition, environmental controls were poor in the Corporation's libraries in that humidity and temperatures which are supposed to be kept within the ambient ranges of 8^{o}- 22^{o} Celsius were not controlled due to lack of an air conditioning system. Most media formats such as open reel and cassettes are sensitive to temperature and humidity conditions. Further, the archive library did not have fire extinguishers and had some wooden shelves.

  The implication was that most data was susceptible to loss and could subsequently be rendered un-readable from the media formats in which it is stored due to unfavourable environmental conditions and passage of time.

- **Inadequate Library Space**

  The Corporation libraries had inadequate space. As such some library materials such as tapes and cassettes were not shelved but kept in card boxes on the floor.

- **Failure to Re-master Tapes**

  Re-mastering is the creation of secondary copy from a primary (master) copy to ensure that master copies have copies which can be stored in an off-site location. This is important to preserve the integrity of data on the primary (master) copy.

  During the period under review, the Corporation did not create secondary copies from the master tapes. The implication was that the Corporation was susceptible to loss of vital data as the master copies were the ones that were lent out to be used to air programmes.

- **Outdated Storage Media**

  The Archive library houses important footage on Zambian's heritage and culture. Most of the media on which this data is stored such as open reels, cassettes (Umatic, VHS and Betacam) are obsolete and the equipment required to read them is not readily available.

Zambia Railways Limited

Background

23. Zambia Railways Limited (ZRL) was established in 1976 following the split up of the Rhodesia Railways whose network covered Northern Rhodesia (Zambia), Southern Rhodesia (Zimbabwe) and Bechuanaland (Botswana).

In July 1998, Government earmarked ZRL for commercialization and for exploration of the possibility of entering into concessions for some or all of the operations of the company.

In February 2003, the assets of ZRL were concessioned to Railways Systems of Zambia with a view to improving the performance of the railway operations and infrastructure. The concession included the use of infrastructure as well as a set of core operating assets, comprising locomotives, wagons and maintenance facilities.

The concession agreement did not outline the roles of ZRL but according to management, the roles of ZRL were as follows:

a. To monitor the Railway Concessions in the country;

b. Monitoring the compliance with the terms of the GRZ/RSZ Concession Agreement;

c. Processing of applications for Railway Infrastructure;

d. Custody of railway infrastructure assets and overseer of the asset inventory;

e. To resolve the outstanding liabilities, disposing of surplus assets, winding up non-core activities of the concessioned railways; and,

f. Carrying out any other functions legally assigned by Government.

Administration - Board of Directors

The Railways Act Cap 453 of the Laws of Zambia provides that the Board of Directors shall consist of a minimum of five (5) and maximum of fifteen (15) members.

Management

The day to day management of ZRL is the responsibility of the Managing Director who is the Chief Executive Officer appointed by the Board, and is assisted by the Company Secretary, Director of Finance and Administration and Director of Technical Services.

The Managing Director, Directors and heads of department are engaged on four (4) year contracts while the rest of the staff are employed on permanent and pensionable basis.

Management Information Systems

Zambia Railway Limited (ZRL) operates and manages seven (7) main systems namely: the Movement and Consignment Management System used for the generation of freight bills, freight revenue reports and capturing of the freight consignment, Sage 300 Premium and Wiz Count Accounting Systems used to handle financial and procurement transactions, the Dove Payroll used for processing of the payroll, Dove System used for processing of human resources information, the Online Auto GPS System used for monitoring of fleets of locomotives and vehicles and the Google Apps for Business used for email and online file management.

Sources of Funds

The sources of funds for the Company include, among others:

i. Rental income,

ii. Concession fees,

iii. Bank interest,

iv. Any funds appropriated by Parliament and contributions by donors.

Outstanding Matters

In paragraph 18 of the Report of the Auditor General on the accounts of Parastatal Bodies for 2012, mention was made on various accounting and other irregularities. A review of the situation in May and June 2015 revealed that the following matters remained outstanding from the previous audit and there was no evidence of any tangible action taken to resolve them.

a. Failure to account for traction motors and compressor exhausters sent to South Africa

b. Unaccounted for wagons,

c. Unaccounted for coaches,

d. Irregular hire of locomotives to SNCC; and

e. Irregular exchange of locomotive engines.

Review of Operations

A review of operations for the Zambia Railways Limited (ZRL) for the financial years ended 31st December 2012 to December 2014 revealed the following:

a. Weaknesses in Management Information Systems

A review of the IT operations using the Information Systems Audit and Control Association's Control Objectives for Information and related Technology (CoBIT) framework which is an internationally accepted and applicable framework revealed that the ZRL had not adopted any IT framework to manage the operations and administration of the Information and Communication Technology (ICT) environment.

As a result of not adopting any ICT framework or standards, the company did not have a sound basis or systematic means for benchmarking or measuring performance of its ICT activities or processes. Consequently, it was difficult to establish how the company was identifying, improving and modifying any weaknesses in the various ICT or ICT related activities and functions.

As of October 2015, ZRL had not identified and adopted any ICT framework. As a result of not adopting any ICT framework, the following were observed:

i. Lack of an IT Steering Committee

CoBIT PO4.3 on the establishment of an IT Steering Committee states that an IT Steering Committee (or equivalent) composed of executive, business and IT management should be established to:

- Determine prioritisation of IT enabled investment programmes in line with the enterprise's business strategy and priorities.

- Track status of IT projects and resolve resource conflict.
- Monitor service levels and service improvements.

The ZRL proposed, acquired and implemented ICT activities and systems such as; Sage 300 ERP System, Dove Payroll System, Dove Human Resource System, Passenger Train Ticketing System, Google App+ (Internal Mail), Train Management System, Enterprise Asset Management and Wide Area Network (WAN) to connect Lusaka, Kitwe, Kabwe, Ndola and Livingstone in amounts totalling K18,381,559 (US$2,450,874.55) without constituting an IT steering committee or its equivalent to oversee the ICT projects and activities. See table below.

System Name	Value of System		Status
	K	US$	
Google Apps+(Internal Mail)	170,625	22,750.00	Implemented
MotonMon(Tracking of locomotives)	91,872	12,249.60	Implemented
Microsoft Enterprise licences	3,719,062	495,874.95	WIP
Train Management System	11,250,000	1,500,000.00	WIP
Ticketing system (passager trains)	900,000	120,000.00	Proposed
Enterprise Asset Management System	2,250,000	300,000.00	Proposed
Wide Area Network (WAN)	35,090	431,345.33	Implemented
TOTAL	**18,381,559**	**2,882,219.88**	

Exchange rate used as of June 2015: K7.500 = 1.00 US Dollar

ii. Lack of an Approved Information Security Policy

An Information security policy outlines all of the policies, procedures, plans, processes, practices, roles, responsibilities, resources and structures that are used to protect and preserve information. It should be approved by management, be published and communicated to all employees and relevant external parties.

According to ISO/IEC 27001:2013 A.5 Security Policy, the objective of an information security policy is to provide management direction and support for information security in accordance with business requirements and relevant laws and regulations.

ZRL had a draft information security policy which was formulated in September 2014 and as of May 2015, the policy had not been approved by the Board of Directors.

In the absence of an approved policy, the basis upon which the corporation was making ICT security decisions could not be established.

A further review of the draft information security policy revealed that the following important aspects were not defined, among others:

- Assignment and communication of responsibilities and authorities for roles relevant to information security;
- Password complexity and interval of password change for users logging on to ZRL information systems;
- Controls and policy on mobile computing;
- The intervals in which the policy should be reviewed to ensure its continued suitability, adequacy and effectiveness.

As of October 2015, the draft policy had not been submitted to the Board for approval.

iii. Failure to Provide Insurance Cover for the ICT Assets

Best practice in ICT recommends that an organisation obtains insurance cover for its valuable assets. This ensures that the risk of loss or significant damage to ICT equipment is mitigated and ensure minimal disruption to operations.

As of October 2015, ZRL did not provide insurance cover for its ICT assets and other valuable assets critical to the rail business such as transmitters, signalling and telecommunication equipment and ICT assets such as computers, servers and other ICT peripherals.

The total value of the ICT assets not insured could however not be established as the company did not maintain a fixed assets register that would indicate details such as, date of procurement, asset description, purchase cost and net book values.

iv. Lack of Documented Change Management Procedures

According to CoBIT AI6.1 Change Standards and Procedures, formal change management procedures should be established to handle in a standardised manner all requests (including maintenance and patches) for changes to applications, procedures, processes, system and service parameters, and the underlying platforms.

ZRL did not have documented change management procedures for handling and administering changes to both systems and transaction data.

As of October 2015, ZRL had not adopted any change management procedures for administering users to the system and migration of accounting data from Wiz-Count system; an accounting package used for processing accounting transactions and other systems which were handled-down from the previous owners Rail Systems Zambia Limited (RSZ) for which ZRL has no control over.

v. **Lack of Service Level Agreements (SLAs)**

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 formalize the needs and expectations of the organisation and those of the service provider thereby minimizing 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 regarding the utilization of ICT resources.

Commitment should include issues such as availability, reliability, performance, capacity for growth, levels of support, continuity planning, security and demand constraints.

ZRL did not have SLAs with internal end users regarding the use of the management information systems.

In addition, SLAs and license agreements with external service providers were not established.

In this regard, amounts totalling K2,529,892 paid in respect of licence fees and services by the company during the period under review were not supported with SLA and license agreements. The payments are as indicated in the table below.

Service Description	Vendor/Payee	Amount K
Internet	MTN Zambia	338,119
Internet	Afri-connect	37,877
Internet	Real Time	450,892
Internet	Paratus Telecommunications	247,153
Internet	Internet Technologies	228,889
Mobile telephone communication services	MTN Zambia	1,034,715
Sage annual license fees	Sage ERP Africa	116,007
Payroll Annual license fees	Dove Computing Ltd	76,239
	TOTAL	**2,529,892**

The lack of SLAs can result in unclear roles and responsibilities in the use of ICT resources and service provision leading to miscommunication, poor service delivery and undetected service degradation. In addition, the firm cannot establish whether its deriving value for money from the services rendered.

vi. Lack of Support and Maintenance Agreements

CoBIT DS2 on Managing of Third-Party Services requires the need to assure that services provided by third parties (suppliers, vendors and partners) meet business requirements for an effective third-party management process. This process is accomplished by clearly defining the roles, responsibilities and expectations in third-party agreements as well as reviewing and monitoring such agreements for effectiveness and compliance.

ZRL did not have support and maintenance contracts with suppliers of the systems used for accounting, payroll and locomotive and vehicle monitoring with Netone, Dove Computing Limited and MotoMon Limited as tabulated below.

System Name	2ndLevel Support as per system description	System use
Sage ERP Accounting	Netone	Accounting
Dove Payroll and Human Resource	Dove Comuting Ltd	Payroll and HR
Online Auto GPS System	MotonMon	Locomotive and vehicle monitoring

The implications of not having support and maintenance agreements are that in the event of failure to address system malfunctioning by the company's ICT staff who provide first level support, there could be disruption of business operations as no platform exists for incidence escalation.

vii. Lack of Backup Management Policy

According to CoBIT DS11 Manage Data, effective data management requires identifying data requirements. The data management process also includes the establishment of effective procedures to manage the media library, backup and recovery of data, and proper disposal of media. Effective data management helps ensure the quality, timeliness and availability of business data.

Further CoBIT DS 4.9 Offsite Backup Storage, stipulates that back-up copies of information and software should be taken and tested regularly in accordance with an agreed back-up policy. Adequate back-up facilities should be provided to ensure that all essential information and software can be recovered following a disaster or media failure.

ZRL operated without a backup policy for the period under review. As a result, the following weaknesses were noted:

- **Failure to Carry out Backup Copies of Payroll Data**

  The company did not maintain backup copies for personnel and payroll for the Dove Personnel and Dove payroll systems, respectively for the period under review. Consequently, the company did not have historical data in soft copies for its personnel and payroll data. As such, when the Dove Payroll system crushed in January 2015, the company could not conduct payroll data restoration for the financial years from 2013 and beyond due to non-maintenance of backup copies.

- **Data Retention Period**

  The company did not have a stipulated data retention period for accounting, human resource data, payroll and customer data and the disposal thereof.

- **Lack of Prescribed Storage Media**

  The company did not have prescribed media for storage of backups of data such as external hard drives, magnetic tapes or DVD-ROMs for long-term retention of data.

- **Lack of Off-site Storage Location**

  Although the company carried out backups both on the server and external hard drive for customer consignment notes and accounting data for the MCM System and Sage ERP Systems respectively, the backups were not stored offsite but were maintained within the server room. Consequently, backup copies were exposed to the same risk as processed or primary data.

- **Failure to Test Backups**

  During the period under review, ZRL did not undertake testing of backups for accounting data and customer data that was carried out on MCM and Sage ERP Systems to ascertain the integrity of backed up data.

  The implication of failure to test backups was that the data may not be restorable thereby leading to loss of company data.

- **Failure to Maintain a Backup Log**

  Best practice requires that a log is maintained for all the backups that have been carried out.

  It was observed that ZRL did not maintain backup logs for backups carried out on MCM and Sage ERP Systems during the period under review. As such, no records were maintained each time the backups were carried out by the IT department.

viii. Lack of Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP)

Disaster recovery and IT continuity planning help institutions prepare for and resume operations in the event of disruption, whether the event might be a power outage, fire or system failure.

CoBIT DS4.2 IT Continuity Plans, requires organisations to develop IT Continuity plans based on a framework that is designed to reduce the impact of a major disruption on key business functions and processes.

As of October 2015, ZRL did not have a BCP and a DRP for its IT and rail transport systems it was operating. Therefore, if adverse conditions occurred such as a fire or significant damage to its infrastructure, it is unlikely that the company would be able to resume normal operations within a reasonable time period.

ix. Inadequate Security to the Wireless Accessibility

ZRL had a wireless internet access point at its head office. The company was using a Wi-Fi Protected Access (WPA) Pre-Shared Key (PSK) wireless protocol for its network. The weakness of WPA-PSK is that it is susceptible to brute force and dictionary attacks. In addition, if one user is compromised, then all users can be hacked.

As of October 2015, the company was still using a Wi-Fi Protected Access (WPA) Pre-Shared Key (PSK) wireless protocol for its network and had not changed to more secure wireless protocols such as WPA-2.

x. Lack of Network Monitoring Mechanism(s)

According to ISO/IEC 27001: 2013 A.13.1.1 Network Controls, Networks should be managed and controlled to protect information in systems and applications.

In order to achieve this, mechanisms such as network monitoring tools can be utilized to monitor the entire network communication and notify the administrator of any irregularities on the network.

ZRL operates both Local Area Network (LAN) and Wide Area Networks (WAN) at its Kabwe head office as well as WAN network-linkages with Lusaka, Kitwe, Ndola and Livingstone. However, it was observed that the Company did not have monitoring tools to monitor its network communication on both the LAN and WAN as of June 2015.

As a result, the IT staff was only using improvised free-software-downloaded monitoring tools for monitoring its network. The implication was that these improvised tools may not be effective as they were not provided by the vendors and were not approved by management for use in the company.

xi. Failure to Deploy Anti-Virus Software and Expired Firewalls License

ISO/IEC 27001:2005 A12.6.1 Control of Technical Vulnerabilities requires the organizations to obtain timely information about technical vulnerabilities of information systems being used. The exposure of such vulnerabilities should be evaluated and appropriate measures taken to address the associated risk.

This control measure reduces the risk resulting from exploitation of published technical vulnerabilities.

The following weaknesses were noted:

- **Expired Firewall**

ZRL has a firewall that controls in and out bound data traffic for the company. A review of the firewall dashboard however revealed that the license had expired as of May 2015.

A peer-2-peer (P-2-P) network is created when two or more computers are connected and share resources without going through a separate server computer that manages the domain. A check of firewall policy configuration at ZRL revealed that peer-2-peer (P-2-P) was open.

The implication was that the company was exposed to various vulnerability attacks such as denial of service (DoS) attacks where legitimate company users will be denied access to the system and back door attackers would remotely access company resources.

Further, P-2-P provides less security in that viruses and malwares can easily be transmitted over this P-2-P architecture and also data recovery or backup is rendered very difficult as each computer would be required to have its own backup system.

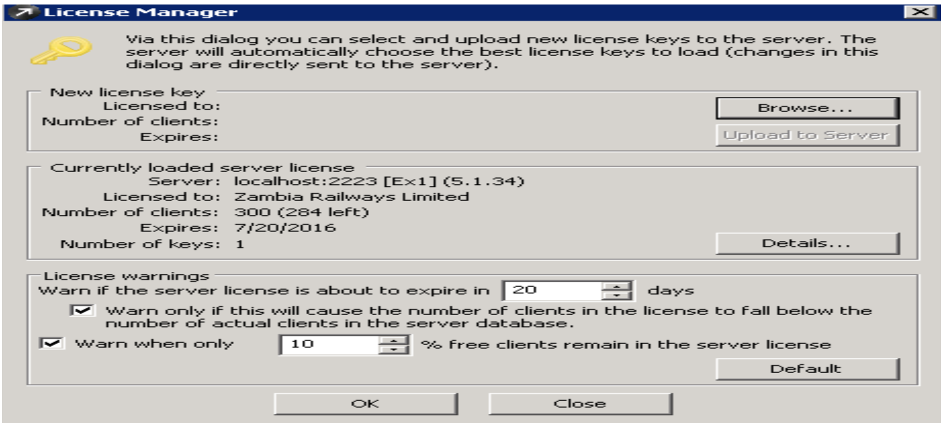
- **Failure to Deploy Anti-virus License**

ISO/IEC 27001:2013 A12.2.1 Controls against Malware, requires that detection, prevention and recovery controls to protect against malware be implemented, combined with appropriate user awareness.

The company had 300 licenses for the ESET NOD 32 anti-virus whose license was due to expire on 20th July 2016.

A review of the anti-virus license manager however revealed that only 16 computers were deployed with the anti-virus leaving 284 licenses un-deployed to computers. This implied that a total of 284 computers were operating without antivirus protection installed on them thereby rendering them vulnerable to malware and virus attacks.

The cost paid for the anti-virus licenses could not be established as the payment details were not availed for audit.



Expired firewall license creates a false sense of security and exposes the company to intrusion attacks. In addition, without anti-virus software being deployed, the system is susceptible to loss of data.

xii. Wasteful Expenditure – Expired Google Apps for Business

On 10th September 2014, ZRL entered into an agreement with Sharp Move Trading (pty) for the provision of mail services at an annual contract price of K170,625 (US$22,750) broken down as US$50 for each licence comprising of 325 user licenses and US$20 for continuous support for the named number of licenses.

A review of the schedule provided by IT for user of the service revealed that a total of eighteen (18) users had either never logged on to the mail service or last used the mail twelve or more months ago as of January 2015 resulting in a wasteful expenditure in amounts totalling K6,750.

xiii. Poor Physical and Environmental Security

CoBIT DS 12.2 Physical Security Measures, stipulates that an entity should define and implement physical security measures in line with business requirements to secure the location and the physical assets.

Physical security measures must be capable of effectively preventing, detecting and mitigating risks relating to theft, temperature, fire, smoke, water, vibration, vandalism, power outages, chemicals or explosives.

Furthermore, best practice requires that a server room is in a conducive and safe condition at all times (i.e., no mess, no paper or cardboard boxes, no filled dustbins, no flammable chemicals or materials, maintain ambient temperatures of between 18˚c - 25˚c) and has restricted access.

As of May 2015, the following were noted:

- **Lack of a Designated Server Room**

  ZRL did not have a designated server room to accommodate its servers. The company was using an office adjacent to the IT Assistant as an improvised server room.

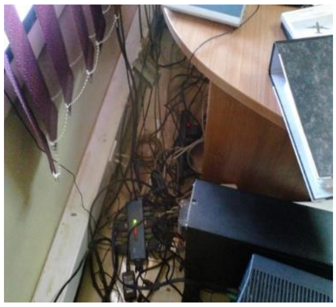
  The room did not have a logical access system and no log or record was maintained for persons accessing the room.

- There were no servers' racks to accommodate the servers which were instead placed on the floor.

- The room did not have fire extinguishers, smoke or fire detectors installed that could be used in an event of fire.

- The network and power cables were not properly trunked.

Servers placed on the floor



Switch Room

The company had a switch room from where it received external network feed for internal distribution. The switch room was located on an upper floor office. However, the following were noted with regard to the switch room.

- The switch cables were not properly trunked.

- There were no fire extinguishers in the switch room to be used in case of fire.

- The room was located within a bigger room used to store boxes and other obsolete furniture and IT equipment

- The room was made of wooden boards which was susceptible to fire.

Switch cables not properly trunked

Storage room within switch room office

xiv. Poor Patch Management

A patch is a security update that is designed to fix vulnerability in an application or software. Patch management is a strategy and process used to determine what patch should be applied to which application or software and when.

ISO/IEC 27001:2005 A12.5.3 Restrictions on Changes to Software Packages, states that modification to software packages should be discouraged and only limited to necessary changes and all changes should be strictly controlled.

The following were observed with regard to the ZRL's patch management procedures:

- **Lack of Patch Management Policy**

  The company did not have a policy on administering patches on the system.

- **Failure to Install Security Updates/Patches on Critical Servers**

  Microsoft security updates are required to address various vulnerabilities such as security bypass, disclosure of information, remote code executions.

  It was noted that ZRL did not deploy any patches on its critical servers that were running services such as accounting, procurement, freight cargo consignment and monitoring, domain controller among others despite the servers running critical services for the company. The implication was that the servers were vulnerable to security breaches.

xv. Use of Operating Systems that have Reached End of Life Support

According to ISO/IEC 27001:2013 A12.6.1, Management of Technical Vulnerabilities, an organisation should obtain timely information about technical vulnerabilities of information systems being used in a timely fashion, the exposure of such vulnerabilities should be evaluated and appropriate measures taken to address the associated risk.

When an operating system reaches the end of support date, Microsoft Corporation, as manufacturers of the product, no longer provide new security updates, issue fixes to non-security related problems or offer online technical content updates.

The implications of running an operating system that is not supported is that the systems are prone to freezing, crashes , malware attacks and unauthorized access to data.

A review of operating systems that ZRL was operating revealed the following:

- **Windows Servers**

  The Company was running the under listed servers, which had since reached their end of life support:

Name of Server	Operating System Version	Functions	Main stream support End Date
RSZ-Kab-acc-01	Windows server 2003	Accounting and HR mgt	13-07-2010
FP-Server	Windows server 2003	Persnonal files and backup mgt	13-07-2010
Exe-file	Windows server 2008 R2 Ent	DNS, DHCP	13-01-2015
Exs File	Windows server 2008 R2 Ent	Domain Controller	13-01-2015
DC03.zrl.com	Windows server 2008 R2 Ent	Domain Controller, DNS	13-01-2015

- **Use of Microsoft Windows XP Operating System on Computers**

  According to Microsoft Corporation, the support services for the windows XP operating system with Service Pack 1 and 2 expired on 10th October 2006 and 13th July 2010 respectively whilst that for Windows Vista Pack 3 and Windows vista expired on 8th April 2014 and on 12th July 2011 respectively.

  ZRL had four hundred and twenty nine (429) active computers, out of which seventy nine (79) computers were running on windows XP Professional while eighteen (18) computers were running on Windows Vista.

  The operating systems of computers running on Windows XP and Windows vista had expired and as such were susceptible to viruses and other malware attacks that could compromise and/or corrupt company data.

xvi. Poor Administration of Systems

ISO/IEC 27001:2013 A.9.4.2 Secure Log-On Procedures, requires that access control policy, access to systems and applications shall be controlled by a secure log-on procedure.

iv. **Shared User Account and Password - Dove Payroll**

ZRL had three (3) payroll users, one financial accountant responsible for processing management payroll and two (2) accounts assistants responsible for processing unionised payroll. It was observed that the three (3) users logged onto the system using the default system user name 'administrator', ID 'System' and password. As such, the users were sharing the password and user IDs.

In addition, all the three (3) users had the same menu and authorisation roles to carry out all the business function on Dove Payroll System such as the ability to delete, edit, view or modify payroll data. This entailed that there was no segregation of duties mapped on the user authorisation matrix of Dove Payroll rendering accountability difficult due to the shared user IDs and password.

v. **Lack of Control over the Movement Consignment Management (MCM) System**

The MCM System is used for capturing of consignment notes and train lists for the freight business and was handed down to ZRL from Rail Systems Zambia Limited (RSZ) after the expiry of the concessionary agreement.

ZRL did not have full rights over the system in that as of May 2015, the system had not been officially handed over from the developers (owners) to ZRL.

In this regard, ZRL did not have the rights to modify any settings to the systems as the source code has been retained by the developer. In addition, the MCM had six (6) active users whose accounts were set not to expire.

xvii. **Vandalised Centralised Train Control System (CTC)**

ZRL was using the CTC System which was installed in 1985 by Seimens of Germany at a total cost of US$15 million as well as the analogue train telecommunication system by Adyin Monitor Systems of USA at a total cost of US$8 million.

The purpose of the CTC system with its integral parts such as electrical powered control panel and analogue phones is to coordinate and control train traffic movements on the ground. Train movements and positions are tracked on the panel as electrical dots for which the controllers then use the visual information on the screen panel to communicate with train operators on the ground using analogue phones thereby ensuring safety of both train operators and other stakeholders such as road users on train junctions.

However, as of May 2015, the control panel was not working as signaling cables and other accessories controlling it had been vandalized. The controllers were only using analogue phones to control and coordinate train movements.

Non-functional control panel of the CTC   *Train involved in an accident at rail track-road junction*

In response, management stated that following the revocation of the concession agreement to RSZ in 2012 and the subsequent ushering in of ZRL, plans are now underway to acquire a modern and safer train operating system consistent with the business growth plan of the company.

As of October 2015, management had commenced the acquisition of the modern safety train operating system to ensure safe and effective coordination of train movements. Consequently, train movements remained a hazard both to train operators and road users, particularly at junctions where roads and rail tracks meet.

b. Failure to Prepare Financial Statements

According to Section 164 (1) of Part viii of the Companies Act, Cap 388 of the Laws of Zambia, Directors of a Company are required to prepare financial statements for each financial year which should give a true and fair view of the financial position of the company.

Contrary to the Act, as of November 2015, Zambia Railways Limited had not prepared financial statements for the financial years ended 31st December 2013 and 2014.

c. **Irregularities in Staff Related Matters**

i. **Failure to Remit Statutory Contributions**

During the period under review, amounts totalling K8,691,483 deducted from employees remunerations in respect of PAYE, pension contributions and Workers Compensation Fund Control Board contributions had not been remitted to the respective institutions as of November 2015.

ii. **Payment of Christmas Bonus for Board Members**

Contrary to the entitlements and conditions of board members of Zambia Railways which only entitles board members to quarterly fees, during the period under review, the board members were paid amounts totalling K27,200 as Christmas bonuses.

d. **Irregularities in Management of Funds**

i. **Euro Bond**

On 20th February 2013, Zambia Railways Limited (ZRL) received a total of K618,532,000 (US$120,000,000) from the Government for the rehabilitation of railway network and rolling stock.

A total of K571,463,867 had been utilised as of 30th March 2015. Bank charges were K2, 010,553 (K1, 866,712 for letters of credit charges and K143,792 as other bank charges). Interest earned from the investments as at 31st March 2015 was K9,740,127 and the account balance as at 31st March 2015 was K42,068,133 made up of K10,000,000 in short-term investments at Investrust Bank, K31,500,00,000 (US$4,200,000) BancABC and K1,184,039 Project Account ZANACO.

The following were observed:

- **Misapplication of Funds**

  During the period from February 2013 to March 2015, amounts totalling K6,852,097 out of the K618,532,000 funded for the rehabilitation of the railway network and rolling stock was applied on unrelated activities such as payment of salaries, clearing of outstanding suppliers' bills (water bills, stationery and air tickets) and landscaping of the Corporate Office in Lusaka.

- **Unsupported Payments**

  In February 2014, Zambia Railways Limited engaged thirty three (33) local contractors to carry out rehabilitation and maintenance works of the railway line for a period of one year.

  Clause 39 of the contracts stated that the contractors shall submit to the Project Manager monthly statements of the estimated value of work executed less cumulative amounts certified previously. Further, the Project Manager shall check the contractors' monthly statement and certify the amount to be paid to the contractors and the value of work executed shall be determined by the Project Manager.

  Contrary to the provisions of the clause, twenty six (26) payments in amounts totaling K2,238,162 made during the period under review were not supported with relevant documentation such as contractors' payment certificates and track maintenance claim forms.

e. Irregularities in the Management of contracts

i. Over Commitment on Procured Contract - Signaling and Telecommunication Equipment

In February 2014, Zambia Railways Limited engaged BHG Zambia Alliance for the rehabilitation of signaling and telecommunication equipment at a contract price of K326,399,797 (U$50,999,968).

However, contrary to Section 31 of the Public Procurement Regulations of 2011 which states that a procuring entity shall ensure that adequate funds were available prior to initiating procurement proceedings, management had over committed the Company by K317,500,597 (US$49,763,968) as only K8,899,200 (U$1,236,000) was provided for in the budget.

Consequently, the project had stalled after the advance payment of K80,280,994 as Zambia Railways Limited failed to issue letters of credit in favour of the consortium as stipulated in Clause 16.1.2 of the Special Conditions of the contract due to inadequate funds.

ii. Failure to Execute Contract - BUK Truck Parts Ltd

On 18th October 2013, Zambia Railways Limited entered into a contract with BUK Truck Parts Ltd for the supply of 300,000 cubic meters of ballast at a contract sum of K58,613,640. The contract was for a period of nine (9) months commencing on 18th October 2013 and ending on 30th June 2014. As of August 2015, Zambia Railways Ltd had paid BUK Truck Parts Ltd amounts totalling K19,648,171.

However, the following were observed:

- On 1st July 2014, Zambia Railways Limited irregularly paid a second advance of K2,500,000 to BUK Truck Parts Ltd bringing the total advance paid to K14,613,486 representing 25% of the contract price. This was contrary to the terms of the contract which provided for the payment of an advance of 20%. As of October 2015, the advance had not been recovered.

- As of May 2015, eleven months after the agreed delivery date of July 2014, only 48,075 cubic meters of ballast valued at K9,392,836 had been delivered.

  It was however observed that despite the poor performance of the supplier, as of May 2015, Zambia Railways Ltd had not claimed liquidated damages from BUK Truck Parts Ltd as provided for in Clause 27.1 of the General Condition of the Contract.

iii. Loss of Nine Coaches.

On 11th October 2013, nine (9) passenger coaches valued at K9,446,400 were gutted by fire in Natebe Livingstone. It was however observed that the coaches were not insured and consequently not replaced as of November 2015.

iv. Failure to Deliver Flash Butt by Diamond Motors Limited

On 15th July 2013, Zambia Railways Limited entered into a contract with Diamond Motors Limited in the sum of K11,970,544 (US$2,660,121) for the supply and delivery of Flash Butt Welding Machines, thermit welding equipment and thermit welding portions for use in the rehabilitation of rolling stock.

According to the contract, the delivery was to be completed within nine (9) months after signing the contract and receipt of 25% advance payment.

Further, Clause 27.1 of the contract stipulates that if the supplier fails to deliver any or all of the goods by the dates of delivery, the procuring entity may without prejudice to all its other remedies under the contract, deduct from the contract price, as liquidated damages, a sum equivalent to the percentage specified in the SCC of the delivered price of the delayed goods for each week or part thereof of delay until actual delivery, up to a maximum deduction of the percentage specified in the SCC. Once the maximum is reached, the procuring entity may terminate the contract pursuant to GCC Clause 35.

As of May 2015, twenty two (22) months after signing the contract, a payment of K4,983,912 (US$1,107,536.78) was made, one flush butt had not been delivered and no claim of liquidated damages was made as provided for under Clause 27.1 of the contract.

v. Failure to Code Radio Communication Equipment

ISO/IEC 27001:2013 A.8.1.1 Inventory of Assets, requires that assets associated with information and information processing facilities shall be identified and an inventory of these assets shall be drawn up and maintained. The objective of the control measure is to ensure that organizational assets are identified and appropriate protection responsibilities defined.

During the period under review, ZRL had deployed Base Transreceiver Station (BTS) equipment used for its internal radio communication to nineteen (19) sites along the line of rail. The communication equipment was riding on the Zamtel communication towers which also had various other BTSs for other communication companies such as Airtel, MTN and Cell-Z.

A physical verification conducted of the BTS equipment revealed that the equipment was not labelled with the company's unique identification marks. As such, it was difficult to identify which BTS equipment was owned by the company.

vi. Inadequate Security Over Communication Equipment

A physical inspection of the company's Base Transceiver Station (BTS) and its associated equipment in Chisamba, Livingstone, Choma and Monze revealed that some sites hosting the communication equipment had inadequate security in that the sites were not manned or guarded, lacked fencing parameters and the surroundings were not properly maintained as they were over-grown with grass as shown in the picture below**.**

Un- fenced BTS Equipment, Muzoka, and Choma *BTS Equipment at Senkobo site over grown* with grass

f. Physical Inspection of the Railway line

i. Encroachments in Kafue, Choma and Livingstone

According to the Railway Act, Cap 453 section 62 railway reserve land (railway strip) of 50 metres from the centre of the line on both sides of the railway line should be maintained.

It was observed that the railway line has been encroached in Kafue, Choma and Livingstone as shown in the pictures below.

Encroachments at Kafue town

Encroachments at Namatama in Livingstone

ii. Vandalised Crane Lines at Kafue Offloading Bay

It was observed that the crane lines that were going to the offloading bay in Kafue were found to be vandalized and the offloading bay was encroached and occupied by some local people who had turned the offloading bay into building blocks making plant.

Vandalized crane lines at Kafue loading and offloading bay

Block making machine and blocks at the loading bay

iii. Poor Track Rehabilitation Work

During the period under review, Zambia Railways Limited embarked on a programme to rehabilitate the mainline. The rehabilitation involved the replacement of rotten wooden sleepers with concrete sleepers, provision of adequate ballast and conversion of the short rails into long welded rails in order to increase the speed to 80km/h for passenger trains and 65km/h for freight trains.

As of June 2015, the programme to rehabilitate the line had been completed and the ZRL had spent amounts totalling K60,341,412.

However, the following were observed:

- **Lack of Ballast**

  A normal jointed track should have ballast of between 760 and 890 cubic metres in one kilometre and the track requires a ballast cushion of between 250mm and 300mm under the sleeper.

  The depth of the ballast on the mainline from Victoria Falls to Kitwe and from Livingstone to Mulobezi varies between 50mm and 160mm on some section and other sections have completely no ballast contrary to the required depth of 250mm to 300mm.

  In this regard, the mainline cannot be properly levelled and alignment by the tamping machines which require a minimum cushion of 200mm and concrete sleepers. See picture below.

Section between Lusaka and Kafue lacking ballast

- **Gaps on the Rails Ridges**

  It was observed that the entire line to Mulobezi was not welded, and in some parts the joints on the rails were not mounted with flash bolts to help the rails from separating and leaving gaps on the rail, this increased the chances of derailments as shown in the pictures below.

Unwelded rail at km 163 main line

Unwelded line at km 89.25 Mulobezi line

- **Rotten Wooden and Steel Sleepers**

  The wooden sleepers section from Kapiri Glass factory railway crossing to Kafulafuta and between Magoye and Monze were rotten. See pictures below.

A section with rotten sleepers between Magoye and Monze

- **Vandalised Walkways**

  It was observed that all the bridges along the main line other than Kafue River Bridge had vandalized sidewalks as shown in the picture below:

Lubombo bridge with vandalized sidewalks

- **Culverts in Bad State – Mulobezi Line**

  It was observed that most of the culverts on the Mulobezi line were in a dilapidated state as sleepers were not enough or were not aligned properly as shown in the pictures below.


Culverts with inadequate and misaligned sleepers – Mulobezi line

g. Uncollected Fees

i. Unremitted Freight Charges by TAZARA

On 28th December 2012, Zambia Railways entered into a contract with TAZARA for the transportation of copper from Kitwe (Konkola Copper Mines) to the port of Dar-es Salam and the transportation of various cargo from Dar-es-Salaam to Zambia.

It was however observed that as of May 2015, a sum of K2,127,013 was owed by TAZARA in respect of unremitted freight charges collected by TAZARA.

ii. Wagons Overstaying in Foreign Countries

Clauses 10.1.7 of the Business Agreement between National Railways of Zimbabwe (NRZ) and Zambia Railways, and Clause 7.2.5 of the Business Agreement between Tanzania Zambia Railways (TAZARA) and Zambia Railways, and Clause 11.1.7 of the Business Agreement between Sociente Nationale Des Chemis De Fer Du Congo (SNCC) and Zambia Railways stated that should any vehicle be retained on the lines of the non-owing railways for a period in excess of six (6) months calculated from the date of hand – over, the vehicles shall be regarded as lost and the owning railway shall give notice to the other railway and advice the amount to be compensated

As of May 2015, a total of 126 wagons were kept by the foreign railway companies such as National Railways of Zimbabwe, SNCC of Democratic Republic of Congo and Transnet Freight for over six months and no compensation had been received by Zambia Railways.

Conclusion

24. This Report has highlighted various areas of weaknesses in the management of parastatal bodies and other statutory institutions. It is important that these weaknesses are resolved in order that these institutions can meet their objectives and efficiently and effectively deliver to the expectations of the Zambian citizens.

Recommendations of the Public Accounts Committee (PAC) which have either not been Implemented or have been partly Implemented

25. In 1992, the Public Accounts Committee resolved to appoint a Committee of officials from the Ministry of Finance, National Assembly and the Office of the Auditor General to deal exclusively with the outstanding issues on a continuous basis. Since then, the Committee has been meeting to ensure that outstanding issues are cleared.

The Appendix to this Report therefore summarises the status of the outstanding issues as at 31st December 2015 for which necessary remedial action is required. These unresolved issues arise as a result of recommendations that the Public Accounts Committee has made on previous reports of the Auditor General but whose actions has not been undertaken as at the date of issuance of this Report. The outstanding issues form part of the Report on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December 2014.

AUDIT HOUSE
HAILE SALASSIE AVENUE
LUSAKA
4th February 2016

RON M MWAMBWA MSc, ACMA, CGMA,CFE
ACTING AUDITOR GENERAL
REPUBLIC OF ZAMBIA

Appendix I – Outstanding Issues as at 31st December 2015

TREASURY MINUTE ON THE REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL FOR 2009 ON THE ACCOUNTS OF PARASTATAL BODIES.

Para 6 (4) Citizens Economic Empowerment Commission – Progress made in addressing issues raised at the Secretariat concerning items d, e & g. The empowerment fund issues raised on items c, d, f, g and h (v).

Para 7 (5) Chipata Nursing School - Latest position on matters raised in c and d.

Para 8 (6) Judiciary Headquarters – As to the progress made in addressing issues raised in a, b, c, d (ii) and e.

Para 9 (7) Local Authorities Superannuation Fund – As regards the current position on the matters raised in a, c, d, e, f, g, h(i,ii) and i.

Para 10 (8) National Economic Advisory Council – The current position on the items raised in a, b, c, e, f and g.

Para 11 (9) National Heritage Conservation Commission – As regards the current position on the matters raised in a, b, d, e, f, g, h and i.

Para 12 (10) National Savings and Credit Bank – As regards the current position on the matters raised in a, e (ii, iii), f (v) and g.

Para 13 (11) Ndola Central Hospital – As to whether the issues raised in b, c, d, g, h, i, k, l and m have been addressed.

Para 14 (12) Nkana Water and Sewerage Company Ltd – Latest position on the issues raised in a, c, d (i) and e (ii).

Para 15 (13) Road Transport and Safety Agency – As to the progress made to address the issues raised in b (i, iii, iv).

Para 16 (14) State Lotteries Board – Regarding the current position on issues raised in a, e and g (ii).

Para 17 (15) Tropical Diseases Research Centre – The current position on the matters raised in d, e and f.

Para 18 (16) Zambia Institute of Mass Communication Education Trust - As regards the progress made in addressing issues raised on items a, b, c, d, e, f, g, h, i (i, ii, iv,v, vi) and j(ii) .

Para 19 (17) Zambia Public Procurement Authority - Latest position on the issues raised under items a, b, c, d, f, g and i.

Para 20 (18) ZESCO Ltd – Regarding the current position on the matter raised in a, c, d ,e (iii, iv,), f, g, i, j, k and l.

Para 21 (19) Zambia State Insurance Corporation Ltd - Latest position on the matters raised in g (i- Kabwe) and ii – Ndola.

TREASURY MINUTE ON THE REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL FOR 2010 ON THE ACCOUNTS OF PARASTATAL BODIES.

Para 8 (4) Administrator General and Official Receiver – progress made on issues raised in: h , I(ii,iii,vii) ,J(iv) & (vii) and K (i).

Para 9 (5) Citizens Economic Empowerment Commission – Progress made with regards to issues raised under the Secretariat concerning items a,b,c,f,g,h,and i, Empowerment fund – a to c , Lusaka (i-iii), Northern Province (i-ii),North Western Province (i-ii), Eastern Province (i-iii),Copperbelt (i-iii),central (i-ii) and Western Province (i-ii).

Para 10 (6) Electoral Commission of Zambia – Latest position on issues raised on Headquarters items b, c, f, and local authorities items c , d , f , g , h , j and o.

Para 11 (7) Examination Council of Zambia - Latest position on matters raised in b, f, and h.

Para 12 (8) Lusaka Water and Sewerage - Progress on the matters raised in c(ii), d and g.

Para 13 (9) Ministry of Finance Economic Development (MOFED) Tanzania Ltd – As to whether verification has since been done regarding matters raised in a, b, c, d, e,f,g,h,i and j.

Para 14 (10) Mulunguishi International Conference Centre – As regards the latest position on matters raised in g, h and L.

Para 15 (11) National Housing Authority – whether the matters raised in b, c, d, g, h, j, l and m have been addressed.

Para 16 (12) National Institute of Public Administration – the latest position on f (resurfacing of two car parks).

Para 17 (13) National Pension Scheme Authority – the latest position on issues raised in c (i & iii),d, e(iii & iv), f, g, h, i(i & iii) and k.

Para 18 (14) National Savings and Credit Bank – Latest position on matters raised in a, c and d.

Para 20 (16) Tanzania Zambia Railway Authority – As regards the progress made on issues raised in b, e (iii), g (ii, v, vii, ix, & x),h (i),i, j, k(ii,iv,v,vi), l(ii,iv,v,vi) and m.

Para 21 (17) Tobacco Board of Zambia – latest position on the matters raised in a, b, c, e, f(i), g(i-iii,vii), h, o and q.

Para 22 (18) University Teaching Hospital – Latest position on the issues raised in b, c, d, e, g, h, i, and j.

Para 23 (19) University of Zambia - Progress made on the issues raised under review of management information systems (a & c) and accounting and other irregularities (c-ii, d, e, f, g, h, i, j and k).

Para 24 ( ) Zambia National Building Society - Progress made on the issues in c, d, e, f, h and i.

Para 25 (20) Zambia Postal Services Corporation (Zampost) – Latest position on the matters raised at headquarters items b, c, d, e, f, g, j, k ,l ,m, n, p, q, r, s and Lusaka main post office items a-c.

Para 27 (23) ZESCO Ltd – Latest position on matters raised in b (ii) and c.

TREASURY MINUTE ON THE REPORT OF THE PUBLIC ACCOUNTS COMMITTEE ON THE REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE PARASTATAL BODIES FOR THE YEAR ENDED 31ST DECEMBER 2011.

Para 7 (4) Copperbelt University – Latest position on matters raised in a to c.

Para 8 (5) Electoral Commission of Zambia – Progress made in matters raised in a to n.

Para 9 (6) Energy Regulation Board – As to whether the issues raised in a (ii), c, d, e(ii) and f have been addressed.

Para 11 (8) Food Reserve Agency – The current position on the matters raised in a, c, d, e, f, g, h, I, j, l, m & n.

Para 12 (9) Mofed Tanzania Limited – Progress made in addressing issues raised in a to l.

Para 13 (10) Mpulungu Harbour Corporation Ltd – Progress made in addressing issues raised in a to e.

Para 14 (11) Mweru and Bangweulu Water Transport Boards – Progress made in addressing issues raised in a to h.

Para 15 (12) Nkana Water and Sewerage Company Limited – Progress made in addressing issues raised in b, d & g.

Para 16 (13) North Western Water Supply and Sewerage Company Ltd – The current position on the issues raised in b, c, d, e, f, h, o, p, s, t, u & w.

Para 17 (14) Office of the Administrator General & official Receiver – The latest position on items a to d.

Para 18 (15) Public Service Pension Fund - Progress made in addressing issues raised in b,c, d (I, iii , iv,) e (ii, iii) f, g, h, I & j.

Para 19 (16) Rural Electrification Authority - The current position on the issues raised in a (iii, iv, v , vii)and b.

Para 21 (18) Western Water Sewerage Company Ltd - Progress made in addressing issues raised in b, c, e, f, g, k, m & p.

Para 22 (19) Workers Compensation Fund Control Board - The current position on the issues raised in a , b, c, d, e, f, g, h, I, j, k, l, m, o, p, q, r, s, t, u ,w &x.

Para 23 (20) Zambia Daily Mail Ltd - Progress made in addressing issues raised in b to j.

Para 24 (21) Zambia Environmental Management Agency - The latest position on items a, b (iii, vi, vii, viii, ix), d, g & h.

Para 25 (22) Zambia National Broadcasting Corporation - Progress made in addressing issues raised in b (iii , iv, v, vi, vii, viii & ix), c (ii) & d.

Para 26 (23) Zambia Revenue Authority - The current position on the issues raised in e, g (iii) and h.