REPUBLIC OF ZAMBIA

REPORT OF THE

AUDITOR GENERAL

ON THE

ACCOUNTS OF PARASTATAL BODIES

AND OTHER STATUTORY INSTITUTIONS

FOR THE

FINANCIAL YEAR ENDED 31ST DECEMBER 2015

Price: K60.00

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Executive Summary

This Audit Report on the Accounts of selected Parastatal bodies and other institutions for the Financial Year ended 31st December 2015 has been issued in line with the provisions of the Constitution, the Public Audit and the Public Finance Acts. The Report contains paragraphs on Seventeen (17) Institutions out of which four (4) are under the Industrial Development Corporation (IDC).

The Report contains paragraphs on three (3) water utility companies and the Water Resources Management Authority (WARMA). It also includes paragraphs on two (2) Universities (Kwame Nkrumah University and Mulungushi University) among other institutions.

The Report has listed twenty seven (27) institutions that had not produced audited financial statements for the financial years up to 31st December 2015 contrary to their enabling Acts and the tenets of good corporate governance.

It has raised issues of non-remittance of statutory contributions, (contributions to NAPSA and ZRA), unsupported payments, unaccounted for stores, questionable procurement of motor vehicles, irregular procurements, questionable payments and failure to recover loans among other issues as shown in the table below.

Summary of Findings	Amount K
Non Remittance of Statutory Contributions	1,219,671,599
Unsupported Payments	5,557,547
Unaccounted for Stores	20,245,512
Unretired Imprest	1,135,994
Missing Payment Vouchers	1,614,675
Wasteful Expenditure	258,640
Questionable Board Expenses	183,075
Failure to submit expenditure returns	436,923
Unacquitted Payments	72,178
Irregular Issuance of Fuel	93,314
Questionable Procurement of motor vehicle	4,377,066
Unexplained Bank Debits	226,075
Irregular Procurements	2,292,133
Undelivered Stores	1,243,692
Questionable Payment of Leave Comutation	145,233
Questionable Payments	23,733,573
Delayed banking	2,379,597
Unaccounted for Revenue	676,506
Failure to recover loans	4,394,978

It has highlighted the issues of poor financial performance and financial positions on most of the institutions.

Other issues that are highlighted include the following:-

i. **The Industrial Development Corporation (IDC)** - There were thirteen (13) companies that should have been transferred to the IDC that had not been transferred as such as at September 2016.

ii. **Board of Directors** - Institutions such as the Chambeshi and Southern Water and Sewerage Companies and ZAWA had no boards during the time of audit. In addition, water utility companies (Chambeshi, Lukanga, and Southern Water Companies) had performed poorly on most of the indictors of their service delivery.

iii. **Lack of Title Deeds** – The properties for the water utility companies, properties for Kwame Nkrumah University (the main and east compasses), properties for ZRA in various towns valued at K15,170,900 properties for ZAFFICO (48,800 hectares of plantation and 109 other properties) properties for TAZARA valued at K343,003,964 all did not have tittle deeds.

iv. **Staffing** – Some institutions had not recruited staff in key positions, and others either had high turnover or had inadequate staffing. Chambeshi Water and Sewerage Company had not recruited a Managing Director and Finance Director, the independent Broadcasting Service (IBA) had vacancies of key positions such as Director of Human Resource and Administration, the Nitrogen Chemicals of Zambia (NCZ) had failed to fill in the position of Chief Finance Officer, the Water Resources Management Authority (WRMA) had inadequate staffing while Kwame Nkrumah University had not appointed the Vice Chancellor and the Deputy Vice Chancellor at the time of Audit.

Other issues contained in the Report are as follows:

i. **The Independent Broadcasting Services (IBA)** – The Institutions did not have a Procurement Plan, had failed to collect licence fees payable by some broadcasting stations including from Muiti-Choice Zambia Ltd, and had inadequate monitoring mechanisms to monitor broadcasting stations.

ii. **Judiciary** – The Judiciary did not have adequate infrastructure of chambers, office space and court rooms. In addition, the institution had weaknesses in managing Third Party Accounts resulting in unexplained Bank account balances.

iii. **Lukanga Water and Sewerage Company** – The Institution failed to amend its Articles of Association to take care of the variation of its nominal share capital from K5,000 to K10,000 and par value from K0.001 to K1.00 as permitted by the Companies's Act. It also had weaknesses in the maintenance of its buildings and irregularities in the accounting of its revenue.

iv. **Mulungushi University** – The institution recorded an increase in its administrative costs per student, had un-receipted deposits for more than twelve (12) months and was operating a water plant without NWASCO licence. In addition, the University had issues with the management of its civil works on the construction of phase one of alternative water source and other in- house projects.

v. **Mulungushi Village Complex** – The institution questionably declared dividends based on the profit that arose as a result of revaluation gain on investment properties and income tax recovery. It had been failing to collect rentals from Government Institutions, had questionably appointed its Operations Manager as well as failed to settle its internal frozen benefits, and also failed to rehabilitate and maintain its investment properties.

vi. **National Housing Authority (NHA)** – There were weaknesses in the recruitment and removal of the CEO and consequently the irregularly paid salaries in advance. The institution had poor financial performance, poor management of properties and a questionable going concern status.

vii. **Water Resources Management Authority (WARMA)** – There were irregularities in the Procurement of Motor Vehicles in that a "No Objection", was not obtained from the ZPPA. In addition, the Institution had poor management of receivables.

viii. **ZAFFICO** – Although the Institution had a Strategic Plan, the plan had no targets and indicators. ZAFFICO had also failed to convene annual general meetings and weaknesses in the operations of the board and did not have a Board Governance Charter. Other irregularities include questionable expenditure on the board chairperson and unknown bank deductions.

The audit findings on the Parastatal bodies and other statutory institutions include governance, operational and financial issues which require improvement.

Introduction

1. The responsibilities of the Minister of Finance, Secretary to the Treasury, Controlling Officers and the Auditor General as regards the management of public resources, reporting and accountability are as contained in the Constitution of Zambia (Amendment) Act No. 2 of 2016, the Public Finance Act No. 15 of 2004 and the Public Audit Act. In addition, each Parastatal body and Statutory Institutions is governed in accordance with appropriate enabling Legislation. The Auditor General is responsible for the Audit of all Public Funds including the review of operations of such institutions.

The Report of the Auditor General on the Accounts of Parastatal bodies and other Statutory Institutions covering financial years up to 31st December 2015 contains twenty five (25) paragraphs out of which seventeen (17) are paragraphs on Parastatal bodies and other Statutory Institutions that were audited or whose performance was reviewed but the issues remained un-resolved as at the date of reporting.

It also includes results of the audits of Information Communication technology (ICT) Systems that some organisations have implemented in order to improve on the efficiency and effectiveness of service delivery.

Scope

2. The Report is as a result of a programme of test checks and reviews of audited accounts of selected Parastatal bodies and other Statutory Institutions for the financial years up to 31st December 2015.

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 amended accordingly.

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 seven (27) statutory and parastatal bodies that had not produced audited financial statements for the financial years up to 31st December 2015 as detailed below.

	Institutions	Years not audited
1	Citizens Economic Empowerment Commission	2013 to 2015
2	Kaizen Institute of Zambia	2014 to 2015
3	Hotel & Tourism Training Institute Trust	2013 to 2015
4	Tobbacco Board of Zambia	2014 to 2015
5	Food Reserve Agency	2013 to 2015
6	Nitrogen Chemicals of Zambia	2006 to 2015
7	Times Printpak	2014 to 2015
8	Zambia Medicines Regulatory Authority	2012 to 2015
9	National Housing Authority	2011 to 2015
10	Zambia Forest and Forestry Industries Corporation	2015
11	Zambie Education Publishing House	2009 to 2015
12	Chambeshi Water and Sewerage Company	2012 to 2015
13	Lukanga Water and Sewerage Company	2015
14	Nkwame Nkrumah University	2013 to 2015
15	National Trust Fund for the Disabled Persons	2015
16	Northern Technical College	2015
17	Zambia Institute of Mass Communication	2014 to 2015
18	Public Service Pension Fund	2015
19	Luapula Water and Sewerage Company	2008 to 2015
20	Independent Broadcasting Authority	2013 to 2015
21	Western Water and Sewerage Company	2013 to 2015
22	Local Authorities Superannuation Fund	2015
23	Engineering Services Corporation	2011 to 2015
24	NIEC School of Business	2012 to 2015
25	Zambia-China Mulungushi Textiles Limted	2005 to 2015
26	Zambia Capital Enterprises	2012 to 2015
27	Mpulungu Habour	2015

The non-production of audited financial statements by the above institutions is a contravention of the various enabling legislations governing the institutions and is contrary to good corporate governance.

Overview of the Industrial Development Corporation of Zambia

5. The Industrial Development Corporation (IDC) of Zambia was incorporated in February, 2014 as a company limited by shares under the Companies Act. It commenced operations in March, 2014.

The IDC's mandate is to play a leading role in deepening and supporting Zambia's industrialisation capacity to promote job creation and domestic wealth formation across key economic sectors. The IDC serves as an investment holding company for State-Owned Enterprises (SOEs) and new investments that will ultimately generate earnings for the proposed Zambia Sovereign Wealth Fund.

It is an active shareholder and investor focused on a broad spectrum of sectors including agriculture, forestry, manufacturing, financial services, mining, energy, telecommunications, logistics, medical, education, tourism, real estate and media.

a. Objectives of IDC

The IDC has the following objectives:

- To improve, maximise and realise value of Government investments in SOE's through improved management and strategic re-orientation;
- To undertake industrialisation and diversification of the economy including rural development through the creation of new industries, especially in areas considered risky by private sector or areas that support Government's job creation agenda;
- To partner with private enterprises with high growth potential thereby creating opportunities and capacity development;
- To mitigate the financial burden of supporting State Owned Enterprises away from the Treasury through improved viability and sustainability, with a view of ultimately contributing towards the funding of the Sovereign Wealth Fund;
- To contribute towards accelerating job and wealth creation, alleviation of poverty among the people and economic growth by investment in areas and sectors where the private sector may have challenges in investing; and
- To promote the participation of women and youths in viable green projects through strategic partnership and projects.

b. Ownership and Shareholding

The IDC as an investment company is the outright owner of a net portfolio estimated at least US$2 billion, mainly in Zambia, but with assets in Tanzania (MOFED-Tanzania) and the United Kingdom (MOFED-London). It is wholly owned by the Minister of Finance, who under the Minister of Finance (Incorporation) Act Cap 349 is a body corporate. On 21st August 2015, the Minister of Finance executed the transfer of shares held by Government in thirty three (33) State Owned Enterprises to the IDC making the IDC the legal owner of the companies on behalf of the Government.

c. Board and Management

IDC's Board of Directors provides overall guidance and direction in the management of the company's assets and investments. The Board comprises His Excellency the President of the Republic of Zambia who is the Board Chairperson, three (3) Cabinet Ministers responsible for Finance, Commerce Trade and Industry, and Agriculture; the Secretary to the Treasury, the Permanent Secretary for Commerce Trade and Industry; seven (7) private sector members and three (3) Executive Directors of the IDC as ex-officio members.

IDC is headed by a Chief Executive Officer who is assisted by two Executive Directors for Investment and Operations respectively. The Chief Executive Officer and the Executive Directors are appointed by His Excellency the President.

d. Funding

IDC is expected to be self-funding. The IDC will have a consolidated balance sheet reflecting the performance of its underlying assets which are the existing State Owned Enterprises and new ventures in which it will invest. The self-funding mechanism by IDC will be augmented by:

- Internal profitability or retained earnings – this includes dividend flows from subsidiaries, fees on third party service provision, and fee income on third party managed funds;
- Utilising its balance sheet to issue Bonds and other debt instruments on the domestic and international markets;

- Divestments from mature investments in which IDC involvement may no longer be tenable or adding value.

e. Industrial Development Corporation's Portfolio

The IDC serves as the holding company for the following twenty two (22) State Owned Enterprises.

No.	Enterprise Name	Shareholding	Status
1	Zamtel Limited	100%	Operational
2	Zamcapital Enterprises Limited	100%	Operational
3	Zambia State Insurance Corporation	100%	Operational
4	Zambia Railways Limited	100%	Operational
5	Zambia Printing Company	100%	Operational
6	Zambia International Trade Fair Limited	100%	Operational
7	ZESCO Limited	100%	Operational
8	Zambia Daily Mail Limted	100%	Operational
9	Times Printpak Zambia Limited	100%	Operational
10	Nitrogen Chemicals of Zambia Limited	100%	Operational
11	NIEC School of Business Trust	100%	Operational
12	Mupepetwe Development Company	100%	Operational
13	Mulungushi International Conference Centre	100%	Operational
14	Mulungushi Vilage Complex Limited	100%	Operational
15	Mulungushi Textiles Limited	100%	Dormant
16	Mukuba Hotel Limited	100%	Operational
17	Mpulungu Harbour Corporation Limited	100%	Operational
18	Medicals Stores Limited	100%	Operational
19	Lusaka South Multi-Facility Economic Zone Limited	100%	Operational
20	Indeni Petroleum Refinery Limited	100%	Operational
21	Engineering Services Corporation	100%	Operational
22	ZCCM Investment Holdings PLC	87%	Operational

In addition, the Government has transferred its shareholding to the IDC in seven (7) institutions as shown in the table below.

No.	Enterprise Name	Shareholding	Status
1	Lusaka Trust Hospital	50%	Operational
2	Kariba Mineral Limited	50%	Operational
3	Indo-Zambia Bank Limited	40%	Operational
5	Afrox Zambia Limited	30%	Operational
6	ZANACO PLC	25%	Operational
7	Nanga Farms Limited	14.27%	Operational

As at October 2016, the following State Owned Enterprises had not been transferred to the IDC.

No.	**Institution**	Shareholding (%)
1	Contract Haulage Limited	100
2	Development Bank of Zambia	67
3	National Airports Corporation	100
4	National Savings and Credit Bank	100
5	Tazama Pipelines Ltd	60
6	Zambia National Building Society	100
7	Zambia State Lotteries	100
8	TAZARA	50
9	Zambia National Broadcasting Corporation	100
10	MOFED - Tanzania	100%
11	MOFED - London	100%
12	Zambia Education Publishing House Limited	100%
13	Zampost	100%

Institutions Appearing in this Report

6. There are seventeen (17) institutions whose review of operations or audit results are contained in this Report. Out of the seventeen (17) institutions, four (4) are under the IDC.

Chambeshi Water and Sewerage Company Limited (CHWSC)

Background

7. Chambeshi Water and Sewerage Company Limited (CHWSC) was incorporated in April 2003 under the Companies Act with an authorised share capital of K5,000 as shown in the table below.

Shareholders	Nominal Capital / Value of Shares K	Shareholding Percentage
Kasama Municipal Council	600	12%
Mpika District Council	400	8%
Nakaonde District Council	400	8%
Mungwi District Council	400	8%
Luwingu District Council	400	8%
Chilubi District Council	400	8%
Isoko District Council	400	8%
Mbala Municipal Council	400	8%
Mpulungu District Council	400	8%
Chinsali District Council	400	8%
Kaputa District Council	400	8%
Mporokoso District Council	400	8%
Total	**5,000**	**100%**

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

Board of Directors

The company is managed by a Board of Directors comprising ten (10) members appointed by shareholders during annual general meetings as follows:

- A Mayor or Chairperson from participating Councils
- A Town Clerk or council secretary from one of the participating Councils
- The Provincial Local Government Officer or his representative,
- 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 appointed by the Minister responsible for Local Government and Housing, 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. As of September 2016, there was no Board in place.

Management

The Managing Director is responsible for the day-to-day operations of the company and is assisted by Directors of Engineering and Finance, and also by three Managers in charge of Commercial Services, Human Resources and Administration and Projects. The Managing Director, Directors and Managers are appointed by the Board on a renewable term of three (3) years while the rest of the staff are appointed on a permanent and pensionable basis.

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 and provision of sewerage services
- Income generated from various penalties and administrative charges.
- Funding from the Government and Cooperating Partners.

During the period from January 2012 to December 2015, the company generated a total amount of K43,623,601 from the sale of water, provision of sewerage services and received grants from Government and Donors amounting to K1,320,284, bringing the total funding available to K44,943,885 as shown in the table below.

Sources of Income	31st Dec 2015 K	31st Dec 2014 K	31st Dec 2013 K	31st Dec 2012 K	TOTAL K
Domestic	8,534,135	6,829,886	8,228,620	6,397,743	29,990,385
Commercial	1,757,696	1,642,251	1,521,272	1,560,148	6,481,367
Institutions	1,135,758	884,736	1,044,376	1,008,564	4,073,435
Other Water Revenue	686,103	566,298	717,813	456,638	2,426,851
Sewerage	153,111	135,782	132,852	175,157	596,902
Kiosk	850	2,683	-	51,129	54,661
Other Income (Subsidies and Grants)	-	-	911,688	408,596	1,320,284
TOTAL	**12,267,654**	**10,061,635**	**12,556,621**	**10,057,975**	**44,943,885**

Review of Operations

A review of the operations of the company for the period from 1st January 2012 to 31st December 2015 revealed the following:

a. Failure to Prepare Audited Financial Statements

Contrary to Section 164 of the Companies Act Chapter 388 which provides that the directors of a Company shall prepare or cause to be prepared audited financial statements within three (3) months after the end of each financial year of the Company, the financial statements for the years ended 31st December 2012 to 2015 had not been prepared as of September 2016.

b. Operational Losses

An analysis of the draft Statements of Comprehensive Income for the financial years ended 31st December 2012 to 2015 revealed that the Company recorded operational losses of K1,682,761 in 2012, K209,652 in 2013, K3,383,205 in 2014 and K3,956,378 in 2015. The operational losses were mainly attributed to increasing staff costs which rose from K5,873,641 in 2012 to K10,553,898 in 2015.

c. 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, the National Water and Sanitation Council (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), Water Quality, Metering Ratio, Water Service Coverage, Hours of Water Supply, Staff Cost in relation to Billing and Collection, Collection efficiency and Operational and Maintenance Coverage. In this way, progress made in the sector by each CU is determined.

A review of the NWASCO reports in respect of Chambeshi Water and Sewerage Company for the period from 1st January 2012 to 31st December 2015 revealed the following:

i. Increase in Non-Revenue Water.

Non-Revenue Water (NRW) is the difference between the quantity of treated water distributed in the network and quantity of water actually billed. NRW consists of technical (leakages) and commercial losses (illegal connections, unbilled customers, wastage on un-metred customers ‘premises). According to NWASCO, the accepted level of NRW is between 20 to 25 percent of the quantity of treated water distributed in the network.

However, during the period under review, the Company’s NRW ranged between 41 and 67 percent resulting in a cumulative revenue loss of K48,912,919 as shown in the table below.

Details	2015 K	2014 K	2013 K	2012 K	Total K
Total Water Production	10,600,000	10,400,000	12,200,000	15,700,000	48,900,000
Expected Revenue	25,608,076	21,521,600	24,730,099	14,089,715	85,949,490
NRW %	55%	58%	67%	41%	
Revenue loss on NRW	14,084,442	12,482,528	16,569,166	5,776,783	48,912,919
ER - NRW	11,523,634	9,039,072	8,160,933	8,312,932	37,036,571

ii. Failure to Meet Collection Efficiency Standards

The collection efficiency is the proportion of billed amounts that are actually collected. Billed amounts in this regard refers to the revenue that a utility company expects from providing water and sanitation services and excludes other charges such as reconnection fees, penalties and meter charges.

During the period under review, the collection efficiency for ChWSC averaged 81% which was below the acceptable benchmark collection efficiency set by NWASCO at between 85 to 90 percent. In this regard, amounts totalling K6, 980,404 accumulated over the period under review remained uncollected as of August 2016. See table below.

Year	Total Billing K	Collection Rate	Amounts Collected K	Amounts not Collected K
2012	8,312,931	0.88	7,315,380	997,552
2013	8,312,019	0.78	6,483,375	1,828,644
2014	9,070,637	0.77	6,984,390	2,086,247
2015	11,488,675	0.82	9,420,714	2,067,962
Total	**37,184,262**	**0.81**	**30,203,858**	**6,980,404**

iii. 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.

However, the Company did not meet the benchmark set by the Regulator as shown in the table below.

Year	O+M Covered by Collection (%)
2012	72
2013	78
2014	74
2015	68

As can be seen from the above table, collection efficiency had declined from 72% in 2012 to 68% in 2015.

iv. Total Costs Coverage by Total Revenue

Total revenue in this regard refers to billed amounts, other income such as other fees (meters charges, connection/reconnection and security deposits), interest, subsidies and recurrent (income) grants. Total costs include depreciation and finance charges. NWASCO puts the benchmark for total costs coverage by total revenue at 100 percent. It was however observed that during the period under review, the Company could not cover its total costs with its total revenue as shown in the table below.

Year	Total Cost Covered by Total Revenue %
2012	76
2013	87
2014	60
2015	52

d. Questionable Board Expenses

During the period under review, Chambeshi Water and Sewerage Company spent a total of K107,971 as board expenses in form of accountable imprest, refreshments, travel allowances and sitting allowances. However, there was no documentary evidence availed such as attendance registers, board minutes and acquittals for the respective periods in which the payments were made, making the payment of the board expenses questionable.

In their responses dated 24th September 2016, management stated that the payments could not be verified as there were no minutes for the years ended 2012 to 2015 and that the minutes were now available. However, as of September 2016, the signed minutes had not been availed for audit. Further, it is unclear as to why minutes for meetings undertaken had remained unsigned as of September 2016.

e. Failure to Submit Expenditure Returns

During the period under review, the Company disbursed a total amount of K856,960 to eleven (11) district offices as operational funds. However, only a total amount of K436,923 had been supported by expenditure returns leaving a balance of K420,037 unsupported.

f. Unacquitted for Payments

A sample of payments in amounts totalling K72,178 involving thirteen (13) transactions made during the financial year ended 31st December 2015 had not been acquitted for as of August 2016. As such, it could not be ascertained whether the intended beneficiaries received the funds.

g. Lack of Title Deeds for Surrendered Assets

Chambeshi Water and Sewerage Company became operational in September 2003 in accordance with the provisions of the Companies Act and section 9 (c) of the Water Supply and Sanitation Act No. 28 of 1997 which was amended by Act No. 10 of 2005. As part of the requirement for the formation of the Company, all local councils in Northern Province and the present day Muchinga Province were to surrender their water systems network and other related infrastructure to CHWSC.

However, although the assets were surrendered to the Company, no title deeds had been obtained as of September 2016.

h. High Labour Turnover

A review of the Human Resource Annual reports for the period under review revealed that the commercial utility had experienced high labour turnover.

The positions of Managing Director changed personnel four (4) times, Director Technical Services five (5) times, Director Finance four (4) times, Commercial Manager two (2) times and Human Resources Manager three (3) times. It could however not be established why the entity was experiencing high labour turnover as there were no exit interviews or personal files maintained for employees that separated from the Company.

Due to high staff turnover at the highest level, the Company lacked strategic direction resulting in poor performance evidenced during the period under review.

i. Irregular Issuance of Fuel

During the period under review, seven (7) officers were issued with 1,180 litres of fuel costing K93,314. However, the issuance of the fuel to the officers was irregular as they were not entitled. See table below.

Details	No of Months	Fuel Allocation in Litres per Month	Unit Price K	Amount K
Managing Director	12	20	6.59	1,582
Commercial Manager	12	200	6.59	15,816
Director Technical Services	12	200	6.59	15,816
Director Finance	12	200	6.59	15,816
Project Manager	12	200	6.59	15,816
Transport Officer	12	180	6.59	14,234
Human Resources	12	180	6.59	14,234
Total		**1,180**		**93,314**

Further, the Managing Director who was entitled to fuel allocation of 180 litres per month was issued with 200 litres per month during the year ended 2015 resulting in an excess issuance of 240 litres costing K1,582.

j. Non-Remittance of Statutory Contributions

During the period under review, the Company deducted amounts totalling K3,597,915 from its employees as PAYE and NAPSA contributions. In addition, the Company was required to make contributions in amounts totalling K558,415 in respect of Workers Compensation Fund Control Board and NWASCO.

However, as of September 2016, the funds had not been remitted to the respective institutions. Consequently, the Company was charged interests (K57,791) and penalties (K24,924,040) as shown in the table below.

Instituions	Prncipal Amount K	Penalties K	Interest K	Amount K
ZRA	491,870	532,789	57,791	1,082,450
NAPSA	3,106,045	24,391,251	-	27,497,296
NWASCO	354,724	-	-	354,724
Workers Compensation Fund	203,691	-	-	203,691
Total Cost	**4,156,330**	**24,924,040**	**57,791**	**29,138,161**

k. Projects and Contracts.

During the period under review, ChWSC entered into five (5) contracts for the rehabilitation of water supply and sanitation infrastructure in four (4) districts namely Chinsali, Nakonde, Isoka and Kaputa as shown in the table below.

District	Contractor	Contract Start Date	Expected Completion Date	Contract Sum K	Amount Paid to Date K	Balance K	Status
Kaputa	Tomorrow Investments Limited	20th May 2013	19th November 2014	105,230,593	49,318,737	55,911,857	Work in progress
Chinsali	China Gansu Engineering Corp (Z) Ltd	20th May 2013	19th November 2014	48,000,175	28,352,639	19,647,536	Work in progress
Nakonde	China Gansu Engineering Corp (Z) Ltd	30th March 2015	1st April 2014	29,285,160	10,123,030	19,162,130	Work in progress
Isoka	China Jiangxi Corp (Z) Ltd	20th May 2013	19th November 2014	36,014,810	24,102,822	11,911,988	Work in progress
Nakonde	Shaftex Zambia Limited	16th August 2012	15th August 2013	31,177,098	19,656,858	11,520,240	Works Terminated
	TOTAL			**249,707,836**	**131,554,086**	**118,153,750**	

The following were however observed:

i. Delayed Completion of Works.

A review of all the five contracts revealed that works had exceeded their completion dates by months ranging from three (3) months to twenty (20) months as shown in the table below.

District	Contractor	Contract Start Date	Contract Duration in Months	Expected Completion Date	Period Delayed in months as at 30th July	Status
Kaputa	Tomorrow Investments Limited	20th May 2013	18 Months	19th November 2014	20 Months	Work in Progress
Chinsali	China Gansu Engineering Corp (Z) Ltd	20th May 2013	18 Months	19th November 2014	20 Months	Work in Progress
Nakonde	China Gansu Engineering Corp (Z) Ltd	30th March 2015	12 Months	1st April 2016	3 Months	Work in Progress
Nakonde	Shaftex (Z) Ltd / China Jiangxi Corp (Z) Ltd	20th May 2013	12 Months	19th May 2014	N/A	Terminated

ii. Contract with Shaftex Limited

On 16th August 2012, Chambeshi Water and Sewerage Company signed a contract with Shaftex Company limited for the construction and rehabilitation of Nakonde Water Supply System at a total contract sum of K31,177,098 for a period of one (1) year effective fourteen (14) days after the signing of the contract.

On 4th January 2014, Chambeshi Water and Sewerage Company terminated the contract for the rehabilitation of water supply and sewerage infrastructure in Nakonde with Shaftex Zambia Limited citing the following reasons:

- Delayed completion,
- Poor quality of works such as not meeting the required depth of between 1.3 to 1.5 in laying the water reticulation system,
- Failure to construct the base of the modular compact treatment plant at required dimensions,
- Failure to construct the access road to the new dam at the required standard, and
- Miss alignment of the columns (pillars) from the foundation and missing components on the elevated tanks at Katozi Storage and Distribution Plant which led to tilting of the elevated tank and eventual dismantling of the same.

The following observations were made:

- **Questionable Payment on Termination of Contract**

  Clause 6.2 (payment upon Termination) of the contract document provides that if the contract is terminated because of a fundamental breach of contract by the contactor, the Project Manager shall issue a certificate for the values of work done and for the materials on site less advance payments received up to the date of the issue of the certificate and less the percentage to apply to the value of work not completed. In addition, if the total amount due to the Employer exceeds any payment due to the Contractor, the difference shall be a debt payable to the Employer.

  On 3rd January 2014, management terminated the contract due to failure by the contractor to complete the contract according to the contract specifications among other breaches. At the time of termination, a total amount of K19,656,858 had been paid to the contractor and according to the valuation report at termination the works were 59 percent complete. However, it was observed that variations in amounts totalling K5,822,722 were done after the termination of the contract thus making the variation irregular and questionable. See table below.

Details	Contract Price K	Completion Percentage at Termination	Amount Valued K	Amount Paid K	Amts due Contractor/ (Employer) K
Original Contract Price	31,177,098		-	-	-
Variation	5,822,722		-	-	-
Varried Contract Price	36,999,820	59%	21,829,894	19,656,858	2,173,036

  As can be seen from the table above, the works at termination were 59 percent and valued at K21,829,894 and the contractor had already been paid K19,656,858 leaving a balance of K2,173,036 due to the contractor. However, on 5th March 2015, the contractor claimed and was paid an amount of K5,366,815 resulting in an overpayment of K3,193,779.

  Although in their response management stated that the variation of K5,822,722 was in respect of various materials in transit at termination, it was noted that the cost of these materials were included in the original contract price of K31,177,098. In addition, at the time of verification of the client’s responses in September 2016, no Goods Received Notes in respect of the said materials were produced for verification.

- **Failure to Provide Performance Bond**

  Section 34.1 on performance security provides that within twenty one (21) days of receipt of acceptance letter, the successful bidder shall deliver to the employer a performance security. Section 52.1 further provides that the performance security shall be valid until a date twenty eight (28) days from the date of issue of a completion certificate in case of a Bank Guarantee and until one year from the date of the issue in case of a performance bond.

  However, it was noted that the contractor did not provide the performance bond contrary to the provisions of the contract.

- **Failure to Assemble the Modular Compact Treatment Plant**

  In November 2013, components for the plant which Shaftex had subcontracted to another contractor to supply, install, test and commission at a total cost K13,588,333 were delivered to the site.

  However, as of September 2016, thirty four (34) months after delivery, the modular treatment plant had not been assembled. Further, the packing list or stores records for the plant components was not availed at the time of audit. In this regard, it could not be established whether all the components of the plant were in place. In addition, the components were not in any enclosure for security purposes. See pictures below.

Un- assembled parts of the compact Modular Plant

Parts of Modular plant laying unsecured

iii. Falling Walls on the Spillway – Lubu Earth Dam - Chinsali

On 9th December 2015, CWSC paid China Gansu Engineering Corporation Limited K2,586,207 for the construction of an earth dam on Lubu River which was part of the wider contract for the rehabilitation of water supply and sanitation infrastructure in Chinsali District.

A physical inspection of the dam in July 2016, however revealed that walls and the floor of the embankment on the spillway were being eroded due to sudden curving on the spillway resulting in loss of control and storage of water. At the time of audit the loss of water as a result of the eroded wall and floor could not be established. See pictures below.

The wall of the embankment

Floor of spillway being eroded falling on the spillway

l. Questionable Procurement of Motor Vehicles

During the period under review, the Company procured ten (10) motor vehicles at a total cost of K3,546,426 for supervision of three (3) water supply and sanitation projects in Nakonde, Kaputa and Kasama Districts. The cost of the motor vehicles were included in the bills of quantities for the respective projects.

A review of documents at the company revealed that the motor vehicles were distributed as shown in the table below.

VEHICLE MAKE & MODEL	VEHICLE REG.	ALLOCATED TO	UNDER	PROJECT/UNDER
Nissan Hardbody- Navara D/C	BAA 6006	Managing Director	China Gansu	Water Supply and Sanitation Project in Nakonde District
Nissan Hardbody D/C	BAA 5904	Director Technical Services	China Gansu	Water Supply and Sanitation Project in Nakonde District
Nissan Hardbody D/C	ALM 8143	Director Finance	China Gansu	Mulenga Hill T/Ship Water Supply and Sanitation Project in Kasama District
Nissan Hardbody D/C	ALM 8142	Human Resources Manager	ChWSC	Location T/Ship Water Supply Improvement and Sanitation Project in Kasama District
Nissan Hardbody D/C	ALM 8557	Project Manager	Tomorrow Investment	Water Supply and Sanitation Project in Kaputa District
Nissan Hardbody D/C	ALH 4190	Commercial Manager	Shaftex Limited	Water Supply and Sanitation Project in Nakonde District
Nissan Hardbody S/C	BAC 5276	Auditor	Tomorrow Investment	Water Supply and Sanitation Project in Kaputa District
Nissan Hardbody B/C	BAC 5278	Kasama District	Tomorrow Investment	Water Supply and Sanitation Project in Kaputa District
Nissan Hardbody S/C	BAC 6075	Project Manager	Tomorrow Investment	Water Supply and Sanitation Project in Kaputa District
Isuzu KB	BAC 5822	Ministry of Local Government and Housing for project supervision under CHWSC	Tomorrow Investment	Water Supply and Sanitation Project in Kaputa District

As can be seen from the table above, there were five (5) motor vehicles bought for Kaputa District and three (3) for Nakonde projects. It was not clear why five (5) vehicles were bought for the supervision of one project. A verification carried out in September 2016 revealed that the vehicles were actually allocated to staff at the Company headquarters and the Ministry of Local Government.

m. Failure to Liquidate Payment Certificates

A review of the accounting records and correspondences between the Commercial Utility and Contractors revealed that there were fourteen (14) payment certificates in amounts totalling K73,735,592 which were outstanding for periods ranging from one hundred fifty three (153) to seven hundred twenty (720) days contrary to Clause 40.1 of the General Conditions of the Contract which states that certificates of payments should be settled within twenty eight (28) days after their being issued. The contract further provides that failure to honour the Interim Certificate Payments may result into payment of interest at the prevailing commercial borrowing rate. See table below.

Contractor / Consultant	Project	No of IPCs Outstanding	Amounts Outstanding K
Allione Consulting Engineers / Tommorrow Investment	Improvement of Water & Sanitation System in Kaputa District	3	10,067,620
China / Gansu / BCHOD	Construction and Rehabilitation of Water System - Chinsali	2	9,061,428
China Jiangx / WRC	Construction and Rehabilitation of Water System - Isoka	1	10,861,785
China Gansu / Iliso	Consultancy and Construction and Rehabilitation of Water System - Mpulungu	1	25,087,808
Lamasat	Emmergency works on Water Supply - Luwingu	2	8,137,036
China Gansu / Iliso	Construction and Rehabilitation of Water System - Chinsali	3	8,920,472
China Gansu.	Improvement of Water & Sanitation System in Kasama District	1	1,200,000
LNH Consulting	Consultancy and Construction and Rehabilitation of Water System - Shiwangandu	1	399,443
TOTAL		**14**	**73,735,592**

n. Failure to Recover Costs of Damages on Infrastructure by Road Contractors and Councils

A review of records at the Company revealed that various road contractors had caused damage valued at K4,831,186 to the company’s water supply and sanitation infrastructure in eight (8) districts as shown in the table below.

DISTRICT	CONTRACTOR	PERIOD OUTSTANDING	COST K
Mpulungu	China Geo	36 Months	405,016
Isoka	China Jianx	38 Months	635,414
Mpika	Shaftex Limited	36 Months	639,129
Kasama	China Geo	36 Months	154,020
Mporokoso	Sable Transport Contractors	15 Months	2,413,602
Luwingu	China Henan	1 Month	361,728
Chinsali	Rubex / RRU	8 Months	144,318
Nakonde	Nakonde District Council		77,959
TOTAL			**4,831,186**

As of September 2016, the Company had not been compensated for the damaged infrastructure.

Further, it was noted that, the contract that was awarded to China Jiangxi for the rehabilitation of water supply and sanitation project in Isoka District was varied upwards by K3,092,293 from K32,922,517 to K36,014,810 to take into account the damages to the infrastructure caused by a road contractor.

It was not clear as to why the Company opted to vary the contract sum instead of surcharging the road contractor.

o. Management Information Systems

During the period under review, Chambeshi Water and Sewerage Company Limited (ChWSCl) operated four (4) main systems namely:

- **Perfect Billing**

  The system was used for processing billing and was running on Microsoft Office Access. It was supplied by KABSYS Systems in 2003. The company had been using the system since January 2003 in twelve (12) districts namely; Kasama, Mungwi, Mbala, Mpulungu, Luwingu, Mporokoso, Kaputa, Mpika, Chinsali, Isoka, Nakonde and Chilubi.

- **Pastel Evolution ERP**

  The system was used for processing billing and accounting transactions at head office only. The version in use was version 7.10.0.86 and was supplied by SAVANA Solutions at a total cost of K99,349 in 2013.

- **Dove Payroll System**

  The system was used for processing of staff payrolls. It was supplied by Dove computing services at a cost the company could not establish. The company has been using the system since January 2014. The current version in use was 24.0.16 and the system only operated at head office.

A review of the ChWSCL Management Information Systems and other records maintained at the company's head office in Kasama covering the financial years ended December 2012 to December 2015 revealed the following:

i. Weaknesses in Environmental Controls and ICT Governance

A review was carried out using the Information Systems Audit and Control Association's Control Objectives for the Information and related Technology (CoBIT) framework which is an internationally accepted and applicable framework. The review revealed that the Company had not adopted any IT framework to manage the operations and administration of the Information and Communication Technology (ICT) environment.

In particular, the Company did not have the following:

- An ICT Strategic Plan,
- A Back up Policy,
- An IT Steering Committee to provide policy direction and monitoring of ICT projects,
- A Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) to reduce the impact of possible disruption on key business functions and processes,
- Up to date operating systems as they were using outdated operating systems such as Windows XP on some machines,
- Support and maintenance contracts with the developer of the perfect billing system,

A physical inspection of the Server Room carried out in September 2016 revealed that there was no Operational Fire Detection System, the Portable Fire Extinguishers were not serviced and there were no Server Racks to house the Servers.

ii. Lack of Networking and Unsecure Means of Data Transportation

Perfect billing was operated as a standalone system. Therefore, the system operated on individual computer machines which did not synchronise information, across twelve (12) districts. As a result, in order to bill customers for services supplied, the information was sent to head office on data discs using public transport such as buses and taxis. The practice exposed the system to delayed detection of fraud as management only received billing information long after the cycle had been completed.

iii. Lack of Feature on the System to Prohibit Replication

A well designed system should have imbedded controls to synchronise data of the same system even in a case of multiple sessions. A review of the Perfect Billing System revealed that the database had the ability to be copied and pasted on the same computer and when this happened, the two databases could not synchronise.

Therefore, the system was susceptible to manipulation as cashiers could transact on one database and delete it after use to erase traceability.

iv. Sharing of User Accounts and Passwords

CoBIT DS5.3 Identity Management, Ensure that all users (internal, external and temporary) and their activity on IT systems (business application, IT environment, System operations, development and maintenance) are uniquely identifiable. Enable user identities via authentication mechanisms. Confirm that user access rights to systems and data are in line with defined and documented business needs and that job requirements are attached to user identities.

Ensure that user access rights are requested by user management, approved by system owners and implemented by the security-responsible person.

Maintain user identities and access rights in a central repository. Deploy cost effective technical and procedural measures, and keep them current to establish user identification, implement authentication and enforce access rights.

A review of user access to the billing system revealed that users shared the same user name and password across eleven (11) districts while another user name and password was used by sixty eight (68) users in Kasama district.

Therefore, there was no user accountability as no single transaction could be related to any user.

v. Lack of Sustainability Guarantee - Perfect Billing System

The Perfect Billing System was supplied by the KABSYS System at no cost. The system was developed and supported by one programmer who owned the source code. The programmer of the system ceased operations at a date unknown and no longer supports the system. In addition, the company has no Escrow agreement to cover its interests in the event that the programmer ceases business or dies.

In this regard, the company had no control over the continued operation of the billing system, currently in use.

vi. Lack of Segregation of Duties

CoBIT DSS08.02 Segregation of Duties, states that organisations should implement a division of roles and responsibilities that reduces the possibility for a single individual to compromise a critical process. Make sure that personnel are performing only authorised duties relevant to their respective jobs and positions.

It was observed that Perfect Billing system did not have an access control matrix to restrict users accessing the system modules based on roles and responsibilities. All users accessing the system therefore had access to all system modules and had ability to add, edit or modify billing information.

The lack of system segregation implied that the company billing data was susceptible to manipulation through fraud.

vii. Lack of Audit Trail Function – Perfect Billing System

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.

Perfect Billing and Pastel Accounting did not have operational audit trail functions. 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.

viii. Lack of a Feature on Perfect Billing to Perform Age Analysis

Well-designed billing system should have a feature to perform age analysis of accounts receivables to enable organisations manage its debtors**.**

It was observed that the Perfect billing system did not have a feature to perform age analyses on accounts receivables to determine the age of debt owed to the company.

In addition, enquiries made with officers both in the Commercial and Accounts Departments revealed that the two departments did not maintain accounts receivable in order to determine the age of debt owed to the company. In this regard, it was not clear how the company was implementing the Commercial Policy on Debt Management in the absence of the age analysis.

ix. Wasteful Expenditure - Procurement of Flex Billing System

In May 2012, ChWSCL procured a billing system called Flex Bill from KABSYS Systems of Lusaka at a total cost of K77,549.

In addition, K23,760 was spent on training of employees on the usage of the system. However, the system could not be used by the Company. Enquiries made with ICT officers revealed that the system could not be configured as it required the Company to set up a wide area network as such, the Company abandoned the system and reverted back to Perfect Billing.

In this regard, amounts totalling K101,309 spent on acquiring and training employees on the use of the system, was wasteful.

x. Irregularities in Billing Systems Administration

A review of the customer data on Perfect Billing System revealed the following weaknesses:

- **Customer Accounts with Incomplete Details on the System**

  The company's Application Forms require that prior to water account opening, a customer should, among other details, provide, 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 all the eighteen thousand three hundred and thirty two (18,332) customer accounts that the company had as at 31st December 2015, had incomplete records on the system as they lacked among other details, meter numbers, physical addresses and contact details.

  The implication of missing customer details such as customer names and physical addresses meant that sending bills to the customers would prove difficult. The missing customer details are summed up in the table below.

Missing Details	No. of customers
Physical Address	206
Contact Numbers	18,329
Meter Numbers	18,332

- **Customer Accounts without Owner Names on the System**

  A review of the customer master list revealed that there were seventy one (71) customer accounts which were not classified on the company master list in that they lacked names of customers. It was therefore not possible to establish whether the customers were domestic or non-domestic.

- **Customers with Zero Meter Readings and Water Consumption**

  A review of the consumption reports for the periods January 2012 to December 2015 revealed that there were three thousand nine hundred and twenty eight (3,928) customer accounts which had zero consumption as at 31st December 2015. The figure of zero consumption represented 21% of the total customer base of eighteen thousand three hundred and thirty two (18,332) maintained on the customer master database. The categories of customers with zero consumption are summarised in the table below.

Category	Number of Customers
Governmet	177
Domestic	3,587
Schools	4
Industries	160
Total	**3,928**

- **Customers on Wrong Tariff Plan**

  A review of tariffs categories at the utility company revealed that the company had two (2) broad Tariff categories in place administered as follows:

  i. Tariffs 1 and 3 for domestic customers and

  ii. Tariffs 4 to 12 for commercial and government customers

  A review of the customer master record revealed that six (6) customers consisting of church organisations, business institutions and government departments were placed on domestic tariff (Tariff 1 and 3) instead of the correct tariff plan of (Tariff 4 or more) for government and other commercial customers. In addition, one thousand three hundred and twenty eight (1,328) domestic customers were placed on government tariff (Tariffs 4 and above) instead of tariff (Tariff 3 and below).

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

xi. Wrong Capturing of Meter Readings Resulting in Frequent Customer Complaints and Subsequent High Adjustments to Billing Amount

Every month the company sends out its meter readers to record readings on all meters installed in their catchment areas. This process then facilitates compilation of bills which the company should send to its various customers.

A review of the adjustments done during the period under review revealed that a total of K3,338,774 was adjusted as shown in the table below.

Year	Collection Amount K	Adjustments Amount K
2012	13,313,485	570,026
2013	13,986,238	785,605
2014	13,384,062	138,213
2015	17,817,472	1,844,930
Total	**58,501,258**	**3,338,774**

A scrutiny of adjustment forms for the months of September to December 2015 revealed that the adjustment were caused by wrong meter readings.

xii. Failure to Disconnect Past Due Customer Accounts

The Chambeshi Water and Sewerage Company Limited (ChWSCL) Commercial Policy, No.1.6 Debt management stated the following:

- The district manager shall ensure that no water supply and sewerage connection shall remain on the network with more than one month unsettled bill. Further, all bills remaining unsettled for over sixty (60) days are legible for disconnection regardless of the amount
- All disconnected properties with unsettled bills going over ninety (90) days shall be handed over to the Debt Management Unit who shall then initiate recovery of unsettled bills through available legal means and

- There shall be established a three (3) member debt management unit, to be headed by the director which will endeavour to recover all unsettled bills over ninety (90) days.

Contrary to the policy statements above, the following were observed:

- There were six thousand two hundred and fifty five (6255) accounts which had been owing the company in excess of K11,750,411 for periods of more than sixty (60) days but were still active as of July 2016.

- Six (6) sampled accounts of customers with debt exceeding ninety (90) days revealed that there was no evidence that the company had taken any action to recover the debt owed to the company.

- Physical verifications carried out at ten (10) sampled households with disconnected accounts in Location B and Location F townships revealed evidence that water was still coming out at the meters at four households. It was not clear whether it was the disconnections which were poorly done or that the property owners had illegally reconnected themselves to the network. In this regard, the company was losing water either through non-revenue water or illegal tapping.

xiii. Failure to Replace Damaged Meters

Customers whose meters developed faults, were being placed on fixed charge. In this regard, the metering ratio reduced from 53% in December 2012 to 33% in July 2016.

xiv. Lack of Alternative Power Source

Physical verifications carried out in Kasama, Mbala, Nakonde, Isoka and Chinsali water take-in points and treatment plants revealed that there were no generators installed as alternative power sources. Enquiries made with managers in the districts revealed that with the current reservoir infrastructure, supply of water could only be sustained for a period of two (2) hours in the absence of power. In this regard, the power outages were negatively affecting the Company's ability to generate revenue.

Independent Broadcasting Authority (IBA)

Background

8. The Independent Broadcasting Authority (IBA) was established by the Independent Broadcasting Authority Act No. 17 of 2002 which was amended by the Independent Broadcasting Authority Act No. 26 of 2010.

Its main function is to regulate broadcasting in Zambia by ensuring the promotion of a pluralistic and diverse broadcasting industry. Among the other functions of the IBA is to grant, renew, suspend and cancel radio and television broadcasting licences.

Administration of the Authority

According to the Act, the Board shall consist of nine (9) part-time members appointed by the Minister. The Chairperson and the Vice-Chairperson shall be elected by the members from amongst themselves. A member of the Board shall hold office for a period of three (3) years from the date of appointment and may be re-appointed for a further term of three (3) years.

The day-to-day operation of the IBA is the responsibility of the Director General who is the Chief Executive Officer and is assisted by the Director - Standards, Licensing and Compliance and the Director - Human Resource and Administration.

Sources of Funds

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

a. Such moneys as may be appropriated by Parliament for the purposes of the Authority;

b. Such moneys or assets as may accrue to, or vest in the Authority by way of grants, subsidies, bequests, donations, gifts, subscriptions, rents, interests and royalties;

c. Such sums as may be realised from the sale of any property by or on behalf of the Authority;

d. Fees payable in respect of licences under the Act; and

e. Such moneys or assets as may howsoever accrue to or vest in the Authority.

Accounting and Other Irregularities

An examination of accounting and other records for the financial years ended 31st December 2013, 2014 and 2015 carried out during the period from April to July 2016 revealed the following:

a. Staff Establishment

The Authority has an authorised staff establishment of fifty five (55) positions out of which thirty two (32) were filled leaving twenty three (23) vacant. Among the vacant positions, was that of the Director **-** Human Resource and Administration which has not been filled since the Authority was operationalised in 2013.

b. Lack of Procurement Plan

Section 42 ((a), (c) and (d)) of the Public Procurement Act No. 12 of 2008 and the Public Procurement Regulations of 2011 stipulates that a procuring entity shall plan its procurement in a rational manner and in particular shall aggregate its procurements wherever possible, both within the procuring entity and between procuring entities, to obtain value for money and reduce on procurement costs, avoid splitting of procurement to defeat the use of appropriate procurement methods and integrate its expenditure program with the procurement. Procuring entities shall submit all annual procurement plans to the Zambia Public Procurement Authority (ZPPA).

Contrary to the provisions of the Act, the IBA did not have Procurement Plans for the period under review.

c. Non-Payment of Licence Fees

According to Sections 19 (1) and 19 (2) of the Independent Broadcasting Authority (IBA) Act No. 26 of 2010, a person shall not operate or provide a broadcasting service in Zambia without a broadcasting licence. A person who contravenes this subsection commits an offence and is liable, upon conviction, to a fine or to imprisonment or to both.

Furthermore, according to Section 22 (4) of the Independent Broadcasting Authority (IBA) Act No. 26 of 2010, a broadcasting licencee shall pay such annual fees for the broadcasting licence as may be determined by the Board.

i. A review of annual licence fees payable to the Authority revealed that during the period under review, broadcasting stations were not compliant with the payment of annual fees as not all stations were paid up. In this regard, the Authority collected amounts totalling K136,000 as annual licence fees from twelve (12) stations in 2014 and twenty-two (22) stations in 2015 as tabulated below:

Year	Number of Stations	Number of Paid up Stations	Number of Defaulting Stations	Amounts Collected K
2013	-	-	-	-
2014	80	12	68	53,000
2015	90	22	68	83,000
Total				**136,000**

The Authority could not provide details of annual subscription fees paid, the number of radio stations and other related information for activities covering the financial year ended 31st December 2013.

It was also observed that the Authority did not take any action against the defaulting broadcasting stations.

ii. Although Multichoice Zambia Ltd had been operating since 1994, the IBA had not billed the Company licensing fees as of November 2016 since its inception.

d. Inadequate Monitoring of Broadcasters

According to the Act, the conditions of a broadcasting licence may:

- Specify the site or sites at which any broadcasting station to be operated under the authority of the broadcasting licence are to be located;
- Regulate the type and standard broadcasting station apparatus to be used in any broadcasting station;
- Require such broadcasting licences to provide programming which reflects Zambian circumstances in accordance with the provisions of the Act.

In order to ensure compliance with the requirements of the Act, the Authority has to undertake monthly monitoring of broadcasting stations across the country.

It was observed that apart from Lusaka District, where the Authority was located, IBA did not adequately monitor broadcasting stations across the country as the monitoring was not done on a monthly basis.

It was also observed that the IBA only had four (4) inspectors to monitor over ninety (90) broadcasting stations countrywide and lacked monitoring equipment to enable remote monitoring access of broadcasting stations across the country.

The Judiciary

Background

9. The Judiciary of Zambia is an independent arm of the government. Articles 120, 124, 127, 130, 133 of the Constitution of Zambia (Amendment Act No. 2 of 2016) establish the Judiciary of the Republic which consist of:

i. the Supreme Court of Zambia;

ii. the Constitutional Court of Zambia

iii. the Court of Appeal

iv. the High Court of Zambia;

v. the Industrial Relations Court;

vi. the Subordinate Courts;

vii. Small Claims Court

viii. the Local Courts; and

ix. such lower Courts as may be prescribed by an Act of Parliament.

The Judges, Magistrates and Justices, are independent, impartial and subject only to the Constitution and the law. They also conduct themselves in accordance with the code of conduct promulgated by parliament.

The roles or core functions of the Judiciary include the following:

- Administer justice through resolving disputes between individual and individual, 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
- Protect human rights of individuals and groups

The Judicature is administered in accordance with the provisions of an Act of Parliament, Chapter 24 of the Laws of Zambia in which the President, on recommendation of the Judicial Service Commission, appoints a Chief Administrator who is responsible for the day to day running of the Judicature and the implementation of resolutions of the Judicial Service Commission.

Sources of Funds

The funds of the Judicature consist of such moneys as may:

- be appropriated by Parliament for the purposes of the Judicature;
- be paid to the Judicature by way of court fees or by way of such grants as the Chief Administrator may accept; or
- Vest in or accrue to the Judicature.

The Chief Administrator may accept money by way of grants, whether or not subject to conditions, for the benefit of any activity, function, fund or asset of the Judicature or any part thereof.

Funding

During the period under review, a total provision of K342,869,196 was made in the Estimates of Revenue and Expenditure for the year 1st January to 31st December 2015 against which amounts totalling K329,392,466 were released resulting in an underfunding of K13,476,731 as shown in the table below:

Details	Amount K
Budget	336,253,998
Supplementary	6,615,198
Total Provision	**342,869,196**
Released	329,392,466
Underfunding	**13,476,731**

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Judiciary for the financial year ended 31st December 2015 carried out during the period from April to September 2016 revealed the following:

a. Inadequacies in Judiciary Infrastructure Structure

In the report of the Auditor General on Parastatal Bodies and Other Statutory Institutions for the financial year ended 31st December 2014, mention was made on the inadequacies in the Judiciary infrastructure. However, a review of the situation in August 2016 revealed that the situation had worsened after the creation of more courts following the amendment of the constitution as shown in the table below:

i. 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	13	5	**8**
Constitutional Court	13	-	**13**
Court of Appeal	19	-	**19**
High Court	60	16	**44**
TOTAL	**105**	**21**	**84**

As can be seen in the table above, a total of one hundred and five (105) chambers were required to cater for the judges out of which twenty one (21) were available resulting in a shortfall of eight four (84) chambers.

ii. Lack of Court Rooms

The Judiciary did not have court rooms to cater for the Constitutional Court, Court of Appeal and High Court as shown in the table below:

Court Level	Number of Judges Required	Number of Court Rooms Available	Shortfall
Constitutional Court	13	0	13
Court of Appeal	19	0	19
High Court	60	14	43
TOTAL	**103**	**14**	**86**

As can be seen in the above table, there was a shortfall of eighty six (86) court rooms as at the time of audit in September 2016. With inadequate court rooms judges have had to alternate the use of the available rooms leading to delay in the disposal of cases.

Further, it was observed that there were only two court rooms for the Supreme Court in the Republic. The two rooms are in Lusaka yet every year the Court undertakes at least four (4) court sessions in Ndola and three (3) in Kabwe. One Supreme Court session would last five (5) days. During the sessions, the Ndola and Kabwe High Court would not be sitting to give room to the Supreme Court thereby slowing down the disposal of court cases in the affected High Courts. Similarly, High Court rooms are only found in Lusaka, Livingstone, Kabwe, Ndola and Kitwe. Whenever High court judges would circuit from these places for court sessions to Mongu, Solwezi, Mansa, Kasama and Chipata, they would displace the subordinate court. One High Court circuit session would last twenty one (21) days.

The detailed requirements and actual numbers of court rooms for the Subordinate Courts, Small Claims Courts and Local Courts were not availed for audit scrutiny

b. Weaknesses in Managing Third Party Accounts - Unexplained Account Balances

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

- 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.
- 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.

- 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.

According to the bank statements for December 2015, the third party accounts maintained by the Subordinate and Industrial Relations Courts in Lusaka had balances amounting to K4,078,055 as shown in the table below.

Court	Amount K
Surbodinate	3,298,982
Industrial Relations	779,074
Total	**4,078,055**

However, out of the amount of K4,078,055, amounts totalling K1,341,193 were attributed to unpaid sums of money held in trust by the courts while the balance of K2,736,862 was unexplained.

c. 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. Failure to Assign Unique Identification Marks to Assets

Contrary to Public Stores Regulation No.154, which states that all items of furniture belonging to the Government must be clearly marked with distinguishing letters "GRZ" on an inconspicuous part of the object to identify it as Government property, eighteen (18) pieces of furniture and office equipment with book values in amounts totalling K388, 795 were not marked with unique identification marks.

ii. Lack of Stores Records

Contrary to the Stores Regulation 16, it was observed that the stores office did not maintain records such as stock bin cards, goods received records and a consolidated list of all the assets held at the Sheriff's office.

d. Weaknesses in Managing Construction Project – Matero II Local Court

In December 2012, Habitech Ltd was engaged to construct a local court at Matero II at a contract price of K1,145,720 with a completion period of sixteen (16) weeks.

The scope of works included construction of the court, drilling and equipping of a borehole, electrical works and construction of magistrate bench.

As of September 2016, the contractor had been paid amounts totalling K599, 568.

However, a physical inspection of the project carried out in September 2016 revealed that the contractor was not on site and the project had not been completed with the following works outstanding:

- Tiling of the office of the clerk in charge
- Ceiling board
- Electrical wiring was partly done
- Glass panes for thirty four (34) windows had not been installed
- Doors had not been fitted
- The tank had not been installed

e. Matero I Local Court – Physical Inspection

A physical inspection of the Matero local Court I revealed the Judiciary did not have a building as the Court sessions were being held in a building belonging to the Council. Further the furniture was in a poor condition and the magistrates had to share one table. See pictures below.

Torn chairs for the magistrates

Broken furniture in the dock

Kwame Nkrumah University

Background

10. The Kwame Nkrumah University is a public university which was established under section 14 of the Higher Education Act No. 4 of 2013.

Administration - The University Council

The Act provides for the establishment of the University Council which is a body corporate with perpetual succession and a common seal capable of suing and being sued in its corporate name and to do all such acts and things as a body corporate may do by law. It is the responsibility of the Council to formulate policies of the University and to act in such manner, which is in the best interests of the University. It is also the responsibility of the Council to keep and cause to be kept books of accounts of all income and expenditure including a balance sheet and proper records in relation to its accounts. The Council is empowered to charge fees, engage such academic, administrative and other staff as appears to the Council to be necessary on such terms and conditions of service as the Council may determine and carry on any other business undertaking for the purposes of the University.

Management

The Minister on the advice of the University council appoints the Vice Chancellor. The Vice Chancellor is responsible for the day to day running of the University including matters pertaining to academic, financial and administration. In discharging his/her responsibilities, the Vice Chancellor is assisted by the Deputy Vice Chancellor, Registrar, Librarian and the Bursar.

Sources 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 for its purpose;
- Be paid to the public higher education institution by the way of fees, subscription, contributions, grants or donations; and
- Otherwise vest in accrue in or accrue to the public higher education institution

The University may also accept monies by way of grants 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 31 December 2013, 2014 and 2015, provisions in amounts totalling K1,561,892 were made to cater for various activities against which amounts totalling K1,642,616 were released. See table below.

Year	Total Authorised Provision K	Actual Releases K	Over/(Under) Funding K
2013	561,892	347,797	214,095
2014	1,000,000	160,437	839,563
2015	984,075	1,134,381	(150,306)
TOTAL	**2,545,967**	**1,642,616**	**903,351**

In addition, the University collected amounts totalling K117,626,969 from tuition and accommodation fees and other sources as shown in the table below.

Source	2015 K	2014 K	2013 K	Total K
Tuition Fees	38,081,409	33,657,885	33,684,944	105,424,238
Boarding and lodging	5,062,880	3,400,000	2,864,001	11,326,881
Other income	350,850	300,000	225,000	875,850
Total	**43,495,139**	**37,357,885**	**36,773,945**	**117,626,969**

Accounting and Other Irregularities

An examination of accounting and other records maintained at the University carried out in May 2016 revealed the following:

a. Delays in Appointing Key Management Positions

Although the University was established in 2013, as of August 2016, the University had not appointed individuals to the key management positions such as Vice Chancellor, Deputy Vice Chancellor, the Registrar and the Bursar.

b. Lack of Strategic Plan

A Strategic Plan is used to set priorities, focus energies and resources, strengthen operations, and adjust the organisation direction in response to a changing environment.

However, as of September 2016, the University had not prepared a strategic plan to guide its operations.

c. Failure to Prepare Financial Reports

According to the High Education Act No 4 of 2013, First Schedule Part II sections 10 (1, 2 and 3) the University Council is supposed to submit to the Minister a report concerning its activities during the financial year as soon as practicable but not later than six (6) months after the expiry of each financial year. It was however observed that during the period under review, the Council did not prepare Financial Reports.

d. Unsupported Payments

Contrary to Financial Regulation No. 45, twenty (20) payments in amounts totalling K220,220 made during the period under review were not supported with relevant documents such as receipts, GRNs and reports.

e. Unretired Accountable Imprest

Contrary to Financial Regulation No. 96, accountable imprest in amounts totalling K55,460 issued to eight (8) officers during the period under review had not been retired as of August 2016.

f. Unaccounted for Fuel

Contrary to Public Stores Regulation No. 16, there were no disposal details in respect of fuel costing K10,000 procured during the period under review.

g. **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 observed that the Kwame Nkrumah University main campus and East Campus land and buildings located at Plot number 1583 had no title deeds.

h. **Weaknesses in Management Information Systems**

The review was carried out using the Information Systems Audit and Control Association's Control Objectives for the Information and related Technology (CoBIT) framework which is an internationally accepted and applicable framework. It revealed that the University had not adopted any IT framework to manage the operations and administration of the Information and Communication Technology (ICT) environment.

In particular, the University did not have the following:

i. ICT policies such as information security policy meant to provide management direction and support for information security, access control policy meant to control access to the system and back-up policy meant to manage the back-up and recovery of data which would help ensure the quality, timeliness and availability of business data.

ii. an ICT Strategic Plan which should describe how IT will support IT enabled business processes, IT services and assets.

iii. a Risk Management framework

iv. a Business Continuity Plan (BCP) and Disaster Recovery Plan (DRP) meant to reduce the impact of major disruptions on key business functions and processes which means that in the event of an incident such as a fire or a significant damage to its infrastructure, it is unlikely that the University would be able to resume normal operations for its critical systems within a reasonable time period.

Lukanga Water and Sewerage Company Limited

Background

11. Lukanga Water and Sewerage Company Limited (LgWSC) was established under Section 9 (c) of the Water Supply and Sanitation Act No. 28 of 1997 as amended by the Water Supply and Sanitation Amendment Act No. 10 of 2005 and was incorporated as a private company limited by shares under the Companies Act Cap 388 of the Laws of Zambia on 21st March 2006. The Company commenced operations on 1st February 2007 with the mandate to supply water and provide sewerage and sanitation services to the urban and peri-urban population in Central Province.

LgWSC is owned by six (6) Local Authorities in Central Province namely Kabwe Municipal Council, Chibombo, Kapiri-Mposhi, Mumbwa, Mkushi and Serenje district councils.

The Company's share capital is K5,000 divided into 5,000 shares of K1.00 each.

Board of Directors

The Company is managed by the Board of Directors which comprises ten (10) members including the Chairperson and the Vice Chairperson. The composition of the Board is as shown below:

i. One Mayor or Chairman from any of the participating Councils;

ii. One Town Clerk or Council Secretary nominated by fellow Town Clerks;

iii. One Provincial Local Government Officer;

iv. One representative from the Engineering Institute of Zambia (EIZ);

v. Two representatives from the Private Sector drawn from within the area of operations;

vi. One Community representative from the Commercial Consumer Category;

vii. One Community representative from the Domestic Consumer Category;

viii. Two members to be appointed by the Minister of Local Government and Housing, one of whom shall be Chairperson.

Management

The Managing Director is responsible for the day-to-day operations of the Company and is assisted by the Director of Engineering and Managers of Finance, Technical, Commercial and

Business Development, Human Resources and Administration and Public Relations. The Managing Director is appointed by the Board of Directors on a renewable term of three (3) years.

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 water sales, sewerage charges and income generated from various penalties and administrative charges. In addition, the Company receives grants from the Government.

During the period from 2013 to 2015, the Company generated income from sales of water and other income in amounts totalling K71,723,219 and further received grants in amounts totalling K8,404,109 bringing the total funds available to K80,127,328 as shown in the table below.

Source of Funding	2015 K	2014 K	2013 K	Totals K
Government Grants	3,772,449	3,772,449	859,211	8,404,109
Sales	24,549,486	25,394,979	21,778,754	71,723,219
Total Income	**28,321,935**	**29,167,428**	**22,637,965**	**80,127,328**

Review of Operations

A review of accounting and other records maintained at the company headquarters for the period from January 2013 to December 2015 carried out in May 2016 revealed the following:

a. Failure to Prepare Audited Financial Statements

Contrary to Section 164 of the Companies Act Chapter 388 which provides that the directors of a Company shall prepare or cause to be prepared audited financial statements within three (3) months after the end of each financial year of the Company, the financial statements for the year ended 31st December 2015 had not been prepared as of September 2016.

b. Failure to Amend Articles of Association

A review of the Special Resolution passed by shareholders in a meeting held on 30th January, 2014 revealed that the nominal share capital of the Company had been varied from K5,000 to K10,000 and the par value had been changed from K0.001 to K1.00 as permitted by section 74 of the Companies Act. However, it was observed that the Company had not amended the Articles of Association following the alteration of capital and the number of shares held by each subscriber could not be ascertained at the time of audit.

c. Financial Performance – Statement of Comprehensive Income

	2015 Draft K	2014 Audited K	2013 Audited K
Turnover	24,549,486	25,394,979	21,778,754
Cost of Sales	17,297	7,301,998	6,961,420
Gross Profit	**24,532,189**	**18,092,981**	**14,817,334**
Revenue Grants	-	-	96,232
Capital Grants Utilised	3,772,449	3,772,449	762,979
Total income	**28,304,638**	**21,865,430**	**15,676,545**
Operating Expenses	34,552,105	23,670,638	16,181,199
Operating Loss	**(6,247,467)**	**(1,805,208)**	**(504,654)**
Net Financing Income	1,902,164	810	7,712
Loss before taxation	(4,345,303)	(1,804,398)	(496,942)
Taxation	-	-	-
Loss after Taxation	(4,345,303)	(1,804,398)	(496,942)
Other Comprehensive Income			
Revaluation surplus	-	-	858,268
Total Comprehensive Profit/(Loss)	**(4,345,303)**	**(1,804,398)**	**361,326**

As can be seen in the statement above, although the Company recorded a total comprehensive profit of K361,326 in 2013, the profit was attributed to a revaluation surplus of K858,268 as there was a loss after taxation of K496,942.

Further, the Company's gross profit increased by 36% from K18,092,981 in 2014 to K24,532,189 in 2015. However, the operating expenses increased by 46% from K23,670,638 in 2014 to K34,552,105 in 2015 resulting in operating losses of K1,805,208 in 2014 and K6,247,467 in 2015. The increase in operating expenses was as a result of, among others, significant increases in personnel costs and increases in chemical costs owing to the depreciation of the Kwacha.

d. Financial Position – Statement of Financial Position

	2015 Draft **K**	**2014** Audited **K**	**2013** Audited **K**
ASSETS			
Non Current Assets			
Property, Plant and Equipment	**340,287,826**	**338,394,877**	**340,173,617**
Current Assets			
Inventory	125,910	259,291	429,245
Advance payment	-	-	425,000
Accounts Receivable	25,651,642	19,209,304	14,578,482
Cash and Bank Balances	1,653,407	2,720,157	1,944,397
	27,430,959	**22,188,752**	**17,377,124**
Total Assets	**367,718,785**	**360,583,629**	**357,550,741**
EQUITY AND LIABILITIES			
Equity			
Share Capital	5,000	5,000	5,000
Share Premium	247,316,068	247,316,068	247,316,068
Revaluation Reserve	677,137	677,137	858,268
Accumulated Loss	(8,523,747)	(8,746,189)	(7,122,922)
Total Equity	**239,474,458**	**239,252,016**	**241,056,414**
Non-Current Liabilities			
Long Term Loans	566,055	566,055	566,055
Capital Grants	92,064,620	93,892,353	93,776,065
	92,630,675	**94,458,408**	**94,342,120**
Current Liabilities			
Accounts Payable	35,613,652	26,873,205	22,152,007
Bank Overdraft	-	-	200
	35,613,652	26,873,205	22,152,207
Total Liabilities	128,244,327	121,331,613	116,494,327
Total Equity and Liabilities	**367,718,785**	**360,583,629**	**357,550,741**

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

i. Poor 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. The acceptable current ratio is 2:1 while NWASCO recommends a current ratio of 3:1.

However, the current ratio for the Company for the financial years ended 31st December 2013, 2014 and 2015 was 0.77:1, 0.83:1 and 0.78:1 respectively, which was below the acceptable current ratio of 2:1 and the 3:1 recommended by NWASCO.

In this regard, the Company operated with a negative working capital as shown in the table below.

	2015 K	2014 K	2013 K
Current Assets	27,430,959	22,188,752	17,377,124
Current Liabilities	35,613,652	26,873,205	22,152,207
Working Capital	(8,182,693)	(4,684,453)	(4,775,083)
Current Ratio	0.77:1	0.83:1	0.78:1

Consequently, the company may not be able to meet its short term obligations as they fall due.

ii. 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 Company showed declining efficiency at collecting receivables as can be seen in the table below.

Receivable Turnover ratio = Revenue/ Trade and Other Receivables

	2015 Draft	2014	2013
Turnover (K)	24,549,486	25,394,979	21,778,754
Trade and Other Receivables(K)	25,651,642	19,209,304	14,578,482
Receivables turnover(times)	1.0	1.3	1.5

As can be seen from the table above, the receivables turnover ratio for the Company was 1.5 times in 2013. This reduced to 1.3 times in 2014 and reduced further to 1.0 in 2015 reflecting declining collection efficiency.

iii. Receivable Turnover Days

According to the Company's Commercial Policy No.10, the Company will withdraw service to a customer when the customer defaults in settlement of bills for a period of 30 days or above. However, the receivables turnover days for the period under review ranged from 244 days to 381 days as shown in the table below.

Receivable Turnover Days = (Trade and Other Receivables / Revenue) x 365 Days

	2015 Draft	2014	2013
Turnover (K)	24,549,486	25,394,979	21,778,754
Trade and Other Receivables(K)	25,651,642	19,209,304	14,578,482
Receivables Turnover(Days)	381	276	244

In addition, a scrutiny of the trade debtors' age analysis from the billing system revealed that the LgWSC was owed amounts totalling K27,816,653 in unpaid bills as of 5th October 2016, as shown in the table below.

Aging Age (Days)	Pronum Billing Amount Owed K	Total Debt Percentage (%)
0-30 Days	3,265,286	12
31-60 Days	1,267,577	5
Over 90 Days	23,283,790	83
TOTAL	**27,816,653**	

As can be seen from the table above, 84 percent of the trade receivables were over 90 days implying that the Company was having challenges in collecting cash from sales billed to customers. According to the debtors age analysis, amounts totalling K12,905,556 out of K27,816,653 represented 46 percent of government debt owed by eighty one (81) government institutions, of which K10,979,493 had been outstanding in excess of 120 days.

e. Non - Current Assets

i. Failure to Maintain Buildings

A physical Inspection of the LgWSC Chibombo office and the Ibolelo Water Works in Serenje revealed that the buildings were not properly maintained and the properties were not secured in that they were no lockable doors and some of the windows at Ibolelo Water Works plant house were broken. Further, the Chibombo office was not fenced. See pictures below.


Dilapidated Roof and Walls of Chibombo Office Building


Unsecured Pumping House and Broken Windows at Ibolelo Water Works in Serenje

ii. Properties without Title Deeds/ Lack of Statutory Instrument to Transfer Assets

In the Report of the Auditor General for 2007 on the accounts for Parastatal Bodies, it was observed that the assets relating to the water supply and operations in the districts in Central Province had not been transferred from the local authorities to Lukanga Water and Sewerage Company.

Further, in a correspondence dated 8th October 2014, from the Permanent Secretary - Ministry of Local Government and Housing to the Managing Director - Lukanga Water and Sewerage Company, it was stated that the properties, plant, equipment and water supply and sanitation infrastructure in all the eight (8) centres of central province taken over from the Local Authorities in March 2006 belong to Lukanga Water and Sewerage Company and the Ministry would facilitate the issuance of the Statutory Instrument to formally confirm ownership of the said assets by the Company.

However, it was observed that the Statutory Instrument had not been issued and ownership of the assets had not been transferred to Lukanga Water and Sewerage Company as of August 2016. See table below.

TOWNS	TOTAL VALUE K
SERENJE	9,315,325
MKUSHI	8,343,855
KAPIRI MPOSHI	13,729,286
KABWE	28,745,449
CHIBOMBO	2,250,450
CHISAMBA	1,742,591
NAMPUNDWE	4,057,725
MUMBWA	5,000,533
ITEZHI-TEZHI	-
GRAND TOTAL	**73,185,214**

f. Irregularities in Revenue Collection

i. Missing cancelled/Void Receipts

Generally accepted accounting practices require that original copies of the cancelled receipts are filed as proof of cancellation.

A review of the billing system revealed that seven hundred and twenty five (725) receipts in amounts totalling K1,276,706 raised during the period from 2013 to 2015 were cancelled on the system. However, as of May 2016, management had not provided original-hard copy cancelled receipts to support the cancellations of the receipts. In this regard, the authenticity of cancellation could not be verified. See table below.

Year	No. of Receipts	Amount K
2013	422	610,996
2014	291	664,650
2015	12	1,060
Total	**725**	**1,276,706**

ii. Gaps in Receipt Sequences

A review of the receipt sequence for receipts generated by the receipt module of the Promun billing system receipted by cashiers during the financial year ended 31st December 2015 revealed gaps in the receipts sequence.

A gap analysis test conducted to ascertain completeness of receipt ranges on the revenue receipted by six (6) cashiers at LgWSC during the period from January to December 2015 revealed that there were forty thousand and sixteen (40,016) receipts that were missing in the receipt sequence as shown in the table below.

Cashier Name	Machine No.	Missing Receipt Range		Number
		from	to	
BM	153	163,501	173,311	9,811
CM	66	7,775	8,341	567
CY	16	201,559	225,200	23,642
JM	189	175,450	178,702	3,253
KE	25	179,151	180,500	1,350
LC	9	2,741	4,133	1,393
TOTAL				**40,016**

However, as of September 2016, management had not provided an explanation on the gaps identified in the receipts sequence. As such, it was difficult to ascertain the financial loss to the Company arising from the missing receipts.

g. Non Payment of Statutory Obligations

Contrary to the provisions of the Income Tax Act, amounts totalling K6,167,829 deducted as PAYE during the period under review were not remitted to the Zambia Revenue Authority as of September 2016.

h. Capital Projects

i. Delayed Design of Parameters by Contractor - Kapiri Mposhi Sanitation Project

On 15th March 2013, Powerflex Zambia Limited was engaged to rehabilitate the sewerage system on the Sanitation Project, Lot No. 2 in Kapiri Mposhi at a contract sum of K4,639,497 with a duration of six (6) months to be completed on 30th August 2015.

The scope of works included among others, house connections, design, construction of a new sewerage system including a pump house and procurement of sewer pumps. As of May 2016, the Contractor had been paid amounts totalling K2,986,666 for all certified IPCs.

According to the design report prepared by the DH Engineering Consultant Limited, the design data for the Kapiri Mposhi Sanitation Project was twofold. The data collected showed the existing households and properties already connected to the existing sewer network. Some of the data collected showed the number of households and properties that were to be connected to the sewer network. Based on this information the system was designed, coming up with pipe sizes, invert levels and positions of all mainline and intermediate manholes. Based on the same data, the size of the pumping station chamber and the sizes of the sewerage pumps were designed.

However it was observed that the design report prepared by the Consultant was done on 22nd August 2013, five (5) months after the Contractor had been engaged as the Consultant was engaged after commencement of the project. As such, there were increases in the actual quantities from the initial BOQ as shown in the table below which resulted in an upward variation of K199,940 representing a 4.3 percent increase to the original contract sum.

Description	Quantity BOQ (Planned)	Actual	Variance
House Connections	383	348	-35
Manholes Constructed	335	677	342
Manhole covers	415	419	4
4inch pipes	550m	14369m	13,819m
6inch pipes	4020m	4986m	966m
Excavation done	4638m	19355m	14717m

ii. Failure to Engage Consultant on Time - New Serenje Township Water Supply and Sanitation Project

On 15th March 2013, Meltcast Engineering Limited was engaged to design and rehabilitate the sewerage system on the Sanitation Project, Lot No 1 at a contract sum of K20,812,244 for a duration of twelve (12) months. The completion period was varied to November 2016.

The scope of works included the designing of the sewerage system, construction of an elevated tank, siting and drilling of boreholes, and laying of new networks and sanitation system.

As of May 2016, amounts totalling K10,482,812 had been paid to the contractor.

The consulting supervisor for the works was engaged on 20th November 2013, eight (8) months after the contractor had been engaged. Consequently, the contract was varied upwards by K1,752,946 to K22,565,190 representing an increase of 8.4 percent of the initial contract sum.

However, the signing of the addendum was questionable in that the Contract was based on design and build model, which meant that the Contractor should have provided for the consultancy services from the commencement of the contract as the cost of consultancy was already included in the original contract sum due to the nature of the contract.

i. Review of Technical Operations

The effectiveness and efficiency of a commercial utility in providing water and sanitation services is assessed using operational indicators as set by National Water Supply and Sanitation Council (NWASCO).

A review of the NWASCO reports for the period under review revealed the following:

i. Unaccounted for Water (Non-Revenue Water)

According to the NWASCO Peri-Urban Water Supply and Sanitation Sector Report 2015, Non-Revenue Water is the difference between the quantity of treated water distributed in the network and the quantity of water billed. NRW consists of technical (leakages) and commercial losses (illegal connections, unbilled customers, wastage on un-metered customers' premises).

During the period under review, a benchmark of 25 percent had been set as an acceptable loss. However, the Company recorded unaccounted for water of 48 percent in 2013, 55 percent in 2014 and 50 percent in 2015.

ii. Low Water Supply Service Coverage

Water coverage is the population serviced by domestic connections through individual household connection, Kiosks, public stand posts and shared/yard taps.

It was observed that the Company's water supply coverage was 69.2 percent in 2012/2013, 70.5 percent in 2014 and 72.5 percent in 2015. However, the water supply service coverage was below the industry average and the benchmark for service coverage of 80 to 90 percent set by NWASCO during the period under review.

iii. Increase in Operational and Maintenance Costs

According to the NWASCO Sector Report, cost containment is very critical in service provision. The major operation costs (personnel, chemical, maintenance and energy) have an impact on the viability of a Commercial Utility. The 'Other Cost' component includes administrative costs and other direct costs such as operational consumables, services by sub-contractors and vehicle running. Energy costs include electricity and fuel.

It was observed that the total operational and maintenance costs for Lukanga Water and Sewerage Company increased from K18,091,000 in 2013 to K23,292,000 in 2014 and to K25,857,000 in 2015, representing an increase of 11 percent between 2014 and 2015. See table below.

Cost Category	Amount (K'000) 2015	Amount (K'000) 2014	Amount (K'000) 2013
Personnel Cost	16,788	13,075	10,049
Chemicals Cost	674	462	669
Energy Cost	4,161	3,698	3,654
Maintenance Cost	1,267	1,306	-
Other Cost	2,967	4,751	3,719
Total Operational and Maitenance Cost	**25,857**	**23,292**	**18,091**

The total operational and maintenance cost in the above table shows that Lukanga Water and Sewerage Company generally recorded a significant increase in personnel costs from K13,075,000 in 2014 to K16,788,000 in 2015 representing a 28 percent increase. Further, the personnel costs accounted for 56 percent in 2014 and 64 percent in 2015 of the total operational and maintenance cost.

Consequently, the Company did not achieve the Operation and Maintenance Cost Coverage by Collection benchmark as it scored 83 percent in 2013, 83 percent in 2014 and 79 percent in 2015 while the industry average was 113 percent in 2013, 102 percent in 2014 and 91.2 percent in 2015.

j. Weaknesses in Management Information Systems

A review was carried out using the Information Systems Audit and Control Association's Control Objectives for the Information and related Technology (CoBIT) framework which is an internationally accepted and applicable framework. The review revealed that the Company had not adopted any IT framework to manage the operations and administration of the Information and Communication Technology (ICT) environment.

In particular, the following were observed, the Company did not have:

i. An IT Risk Management Policy.

ii. An IT Steering Committee to provide policy direction and monitoring of ICT projects.

iii. A Business Continuity Plan (BCP) to reduce the impact of possible disruption on key business functions and processes.

A physical inspection of the Server Room carried out in August 2016 revealed that there was no Operational Fire Detection System and there were no Server Racks to house the Servers.

k. Irregularities in Billing Systems Administration

A review of the customer data on the Promun Billing 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 provide details such as full names, plot number, street name, location and the purpose for which water is required (i.e. Domestic, Commercial, Industrial, etc.).

A review carried out in August 2016 revealed that 19,546 out of 23,610 customer accounts representing 83 percent had incomplete records on the system in that the customer accounts lacked vital details such as physical addresses, customer name and customer mobile numbers among others.

The implication of missing customer details posed a challenge to the Company in that the Company could not collect revenues from the customers thus attributing to the increase in receivables.

ii. Failure to Disconnect Past Due Customer Accounts

The LgWSC Commercial Policy No. 10. *Withdrawal of Service to Customer Premises* states that the Company will withdraw service to a customer when the customer defaults in settlement of bills for a period of 30 days and above.

A review of the consumption report for the month of December 2015 revealed that two hundred and seventy six (276) customers who owed the Company amounts totalling K189,591 in unsettled bills for periods exceeding sixty (60) days had not been disconnected by the Company as of August 2016.

The Mulungushi University

Background

12. Mulungushi University is the forerunner to the President Citizenship College (PCC) which was established in 1972 to provide leadership training to officers of Government, parastatal organisations and the labour movement.

Act No. 34 was passed to among others things change the name of the College from President Citizenship College (PCC) to National College for Management and Development Studies (NCMDS) and also change the mandate of the College by the deletion of section 13 of the Principal Act.

In 2005, the National College for Management and Development Studies (Repeal) Act No. 18 of 2005 was passed and mandated the Council of the National College for Management and Development Studies, in consultation with the Minister responsible for Education and the Secretary to the Treasury, to carry out all actions necessary to transform the College into a Public University.

The Minister of Education formally declared the National College for Management and Development Studies as Mulungushi University with effect from 1st January 2008.

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 Higher Education:

i. The Vice Chancellor

ii. Deputy Vice Chancellor

iii. One member of staff of a local authority in whose area the higher education institution is located, who is nominated by the Local Authority

iv. Two members of the academic staff of the higher education institution who are members of Senate, are nominated by the Senate;

v. One member who is associated with higher education institution outside the Republic;

vi. One member who is associated with other higher education institution within the Republic;

vii. One member who is a student of the higher education institution, who is nominated by the students of the higher education institution in accordance with such election procedure as the students' union may determine;

viii. One person who is a member of the non-academic staff of the higher education institution, who is nominated by the non-academic staff of the higher education institution in accordance with such election procedures the non-academic staff may determine;

ix. 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;

x. One member who is a graduate of the higher education institution and who is not a member of staff of that higher education institution

xi. Three 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;

xii. One member of the National Assembly nominated by the Speaker; and

xiii. 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 Mulungushi University; 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 for its purpose;
- 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

Funding

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2013 to 2015, authorised provisions of K61,350,139 were made to cater for various operations of the University against which amounts totalling K63,297,319 were released as shown in the table below.

Year	Total Authorized Provision K	Actual Releases K	Over /(Under) Funding K
2013	19,414,601	20,512,464	1,097,863
2014	20,967,769	20,967,769	-
2015	20,967,769	21,817,085	849,316
TOTAL	**61,350,139**	**63,297,318**	**1,947,179**

In addition, the University generated funds in amounts totalling K198,909,790 from Tuition, Boarding and Lodging fees and other incomes for the period under review. *See the table below.*

Source	2015 K	2014 K	2013 K	Total K
Tuition Fees	54,226,059	45,496,957	26,997,319	126,720,335
Boarding and lodging	14,058,339	12,658,779	12,797,577	39,514,695
Other income	9,367,335	11,260,733	12,046,692	32,674,760
Total	**77,651,733**	**69,416,469**	**51,841,588**	**198,909,790**

Review of Operations

An examination of accounting and other records maintained at the University for the financial years ended 31st December 2013 to 2015 carried out during the period from August to September 2016 revealed the following:

a. **Unexplained Transactions on the Bank Reconciliation Statement**

A scrutiny of the bank reconciliation statements for the period under review revealed that the Salaries Account reconciliation for September 2016 had four (4) debit transactions which were not explained clearly amounting to K69,937.

b. **Non-Remittance of Statutory Contributions**

During the period under review, amounts totalling K21,388,918 were deducted as Pay as You Earn (PAYE) and NAPSA contributions from its employees' emoluments. However, as of September 2016, the amounts had not been remitted to the respective institutions. *See table below.*

Name of Institution	Amount K
Zambia Revenue Authority (ZRA)	16,956,161
National Pension Scheme Authority (NAPSA)	4,432,757
Total	**21,388,918**

c. **Financial Performance - Statement of Comprehensive Income**

The Statements of Comprehensive Income for the period ended 31st December 2013 – 2015 were as follows:

Details for the year ended 31st December	2015 K	2014 K	2013 K
Tuition fees	54,226,059	45,496,957	26,997,319
Boarding and lodging	14,058,339	12,658,779	12,797,577
Government grants	21,817,085	20,967,769	20,512,464
Other Income	9,367,335	11,260,733	12,046,692
Total Income	**99,468,818**	**90,384,238**	**72,354,052**
Operating expenses	(103,545,033)	(94,288,668)	(74,949,977)
Surplus (Deficit)	**(4,076,215)**	**(3,904,430)**	**(2,595,925)**
Finance Costs	-	(913,370)	(109,583)
Surplus (Deficit) for the Year	**(4,076,215)**	**(4,817,800)**	**(2,705,508)**
Other Comprehensive Income	-	-	-
Total Comprehensive Surplus/(deficit)	**(4,076,215)**	**(4,817,800)**	**(2,705,508)**

The following were observed:

i. **Operating Losses**

As can be seen from the financial statements, the University recorded operating deficits of K2,705,508 in 2013, K4,817,800 in 2014 and K4,076,215 in 2015.These deficits were mostly due to:

- Rising staff cost which represent 63 percent of the total operating expenses as shown in the table below.

Details	2015	2014	2013
Total Cost (K)	103,545,033	94,288,668	74,949,977
Staff Cost (K)	64,968,406	59,799,054	47,135,192
% to Total Cost	63	63	63

- Sharp increase in part time allowances from K61,640 in 2014 to K1,644,638 in 2015 representing a percentage increase of 2,568 percent.

ii. Increase in Administrative Costs per Student Ratio

A comparison of the average administrative cost per student computed by dividing the total administration cost by the number of students registered in each academic year revealed that although the number of registered students was increasing, the administrative cost per student was also increasing as shown in the table below.

Details	2015	2014	2013
Administrative Costs (K)	103,545,033	94,288,668	74,949,977
No of Registered Students	3,714	3,848	3,255
Average Cost per Student (K)	27,880	24,503	23,026

As can be seen from the table above the average administrative cost per student increased from K23,026 in 2013 to K27,880 in 2015 representing a percentage increase of 21 percent. In this regard, despite the increase in the number of student from 3,255 in 2013 to 3,714 in 2015 representing a percentage increase of 14 percent the University did not manage to cover administrative costs per student efficiency.

iii. Unreceipted Deposits for More than 12 Months

The University uses bill muster which is hosted by ZANACO and interfaced with University Accounting system for collection of student fees using student registration numbers. However, in cases were collections are made outside the bill master the University only recognises deposits from students after a deposit slip has been presented and receipted by accounts department. However, the following amounts where still outstanding in their respective accounts as unreceipted as of September 2016.

Description	2015 K
Tuition Fees	238,253
Boarding and Lodging	894,503
Total	**1,132,756**

d. Financial Position – Statement of Financial Position

During the period under review, the statement of financial position was as tabulated below.

	2015 K	2014 K	2013 K
ASSETS			
Non Current Assets			
Biological assets	292,443	126,082	101,491
Property, Plant and Equipment	255,376,101	209,150,400	195,433,414
	255,668,544	**209,276,482**	**195,534,905**
Current Assets			
Inventory	886,628	739,996	865,576
Trade and Other Receivables	21,133,153	27,724,870	17,884,668
Cash and Cash Equivalents	45,693,258	51,398,904	62,376,396
	67,713,039	**79,863,770**	**81,126,640**
Total Assets	**323,381,583**	**289,140,252**	**276,661,545**
EQUITY AND LIABILITIES			
Equity			
Reserves	81,646,365	82,472,774	85,967,918
Accumulated surplus/(deficit)	(12,725,930)	(9,476,124)	(8,153,467)
	68,920,435	**72,996,650**	**77,814,451**
Non-Current liabilities			
Trade and Other payables	46,283,209	35,026,410	10,125,000
Deferred income	167,555,810	142,782,228	132,220,195
Provisions	7,729,773	7,834,450	7,932,277
	221,568,792	**185,643,088**	**150,277,472**
Current liabilities			
Trade and Other payables	21,094,216	26,990,195	48,569,622
Borrowings	1,746	-	-
Provisions	11,796,393	3,603,424	-
	32,892,355	**30,593,619**	**48,569,622**
	254,461,147	**216,236,707**	**198,847,094**
Total equity and liabilities	**323,381,582**	**289,233,357**	**276,661,545**

During the period under review, the University operated within accepted liquidity parameters.

e. Statement of Cash Flows - Failure to Invest Excess Cash Balances in Financial or Money Markets

During the period under review, the Statement of Cash Flows were as tabulated below:

STATEMENT OF CASH FLOWS	2015 K	2014 K	2013 K
Operating activities			
Cash from/(used in) operations	46,928,725	18,536,212	50,149,455
Finance cost		(913,370)	(109,583)
Net cash from/(used in) operating activities	**46,928,725**	**17,622,842**	**50,039,872**
Investing activities			
Cash paid for purchase of property, plant and equipment	(52,469,756)	(18,450,743)	(13,207,447)
Cash paid for purchase of biological assets	(260,000)	(59,951)	(68,841)
Proceeds from disposal of property, plant and equipment			1,304
Decrease due to harvest	93,639	35,360	48,796
Net cash from/(used in) investing activities	**(52,636,117)**	**(18,475,334)**	**(13,226,188)**
Financing activities			
Repayment of borrowings		(10,125,000)	9,750,000
Net cash from/(used in) financing activities		**(10,125,000)**	**9,750,000**
Increase/(decrease) in cash and cash equivalents	**(5,707,393)**	**(10,977,492)**	**46,563,684**
Movement in cash and cash equivalents			
At start of year	51,398,904	62,376,396	15,812,712
Increase/(decrease)	(5,707,393)	(10,977,492)	46,563,684
At end of year	**45,691,512**	**51,398,904**	**62,376,396**

A review of the University's cash flow for operational, investing and financing activities revealed that the University had maintained positive and relatively large cash balances after deducting recurrent and capital expenditures. It was however observed that the University was not investing the excess cash in short or medium term investments on the Financial and Money Markets thereby foregoing interest that could have accrued.

f. Operating a Water Supply Plant without NWASCO Licence

The Water Supply and Sanitation Act No. 28 of 1997 in part IV section 11(1) provides that a service provider shall not operate except under a licence issued by NWASCO. The licence stipulates conditions under which the service provider will operate, as well as, the delineation of the operating area. The Act further provides that for licensing purposes, the size of the provider in terms of number of domestic connections or population served should be more than 50 households or 500 people.

It was however observed that contrary to the provision of the Water Supply and Sanitation Act, the University was operating a Water Plant and supplying water and sanitation services to more than fifty (50) families or five hundred (500) people without an operating licence from NWASCO.

g. Civil Works

i. Construction of Phase One of Alternative Water Sources – Chindwin

The water supply for the University was primarily based on the abstraction of raw water from the Mulungushi River. However, in recent years, the University faced erratic shortage of water supply due to the low levels of water in the river as it was drying up and the increased demand of water due to the increased population at the University. In this regard, the University working with other stakeholders embarked on a sustainable solution through a water supply project targeting the Chindwin underground water resource at a proposed cost of K12,579,281 as shown in the table below.

Description of Works	Costs K
Preliminary and General Items	352,000
Borehole drilling and Flushing/Cleaning	974,028
Equiping of the Borehole with pumps and Accessories	3,213,531
Electrical Works	1,938,847
Construction of the Pumping main	5,638,713
Distribution network	9,600
Consumer Connections	452,561
TOTAL	**12,579,281**

On 14th November 2014, the Government through the Disaster Mitigation Management Unit (DMMU) released K12,579,281 to Mulungushi University for the works to commence.

However, the following were observed:

- **Failure to sign a Memorandum of Understanding on Alternative Water Resource Project**

  Following the water supply challenges, Mulungushi University approached other stakeholders among them Lukanga Water and Sewerage Company, Department of Water Affairs for Central Province, Central Province Provincial Administration, ZESCO and Disaster Management and Mitigation Unit among others. Although funds were sourced on 14th November 2014 and various stakeholders moved to site at Chindwin Water Project on 15th November 2014, there was no Memorandum of Understanding on how the water project was to be implemented.

In this regard, the ownership and maintenance of assets such as the old boreholes, new boreholes, and transmission and distribution pipe network, land on which the boreholes were sunk was not stipulated. Further, the roles of various stakeholders were not defined, as a result, Lukanga Water and Sewerage Company was acting as a consultant, main contractor, supplier and buyer on the water project. Although phase one of the project was completed at the time of audit in September 2016, the parties had not agreed on how the project will be administered.

- **Inflated Project Costs**

A review of the project summary report conducted by Lukanga Water and Sewerage Company revealed that there were errors in the costing of the project. During the project implementation, the project cost was adjusted downwards from K12,579,281 to K9,630,675. This was attributed to calculation errors on the initial project cost. The resulting over statement in amounts totalling K2,948,605 was however not refunded back to DMMU as of September 2016. The report further cast doubt on the costing of the project as significant variances at the completion of the first phase of the project in December 2014 were reported as shown in the table below.

Description of Works	Adjusted BOQ Cost K	Actual Cost K	Variance K	Variance (Percentage)
Preliminary and General Items	352,000	295,021	56,979	16
Borehole drilling and Flushing/Cleaning	974,028	347,086	626,942	64
Equiping of the Borehole	1,265,474	183,823	1,081,651	85
Electrical Works	960,000	210,000	750,000	78
Construction of the Pumping main	5,617,012	2,773,850	2,843,162	51
Distribution network	9,600	-	9,600	100
Consumer Connections	452,561	-	452,561	100
Other Expenses	-	1,661,627	(1,661,627)	
TOTAL	**9,630,675**	**5,471,407**	**4,159,268**	

As can be seen above, except for preliminary and general items which recorded a variance of 16%, the rest of the works had variances ranging from 51% to 100%.

- **Misapplication of Alternative Water Resource Funds**

  The Public Finance Act section 28 (Aided Projects) subsection (8) states that in the absence of any instructions to the contrary, any unexpended balance standing to the credit of any project account shall be paid into the Treasury Account for the credit of the Consolidated fund or authority should be obtained from Secretary to the Treasury to use the funds on another project.

  A review of the accounting documents of the Alternative Water Resource Project revealed that although a total of K12,579,281 was funded, only amounts totalling K5,471,407 were spent on the project leaving a balance of K6,946,865. However, contrary to the Act, out of the balance of K6,946,865, amounts totalling K5,051,790 were spent on the Improvement and Expansion to the Existing Sewerage Reticulation System Project without obtaining authority from the Secretary to the Treasury while K1,895,075 had not been paid back to the Treasury as of September 2016.

- **Poor Storage of Excess Pipes**

  According to the purchase requisition raised by Lukanga Water and Sewerage Company dated 15th November 2015, the Alternative Water Project pipe network required a total of 2,450 six (6) metres long UPVC pipes of class 12. However, a scrutiny of payment vouchers revealed that a total of 2,870 UPVC pipes were procured resulting in 420 pipes valued at K282,576 being procured above the required quantities.

  However, during the physical inspection carried out in August 2016, the excess UPVC pipes were kept outside the buildings exposing them to unconducive storage conditions for a period of twenty two (22) months from December 2014 to September 2016. See Picture below.

Some of the excess UPVC pipes exposed to adverse conditionalities

- **Non Functioning Boreholes**

  On 21st November 2014, Mulungushi University engaged Baba Drilling and Exploration Company to drill and equip three (3) boreholes at Chindwin Water Project at a total contract sum of K280,000. As of September 2016, Baba Drilling and Exploration had been paid amounts totalling K249,017.

  A physical inspection of the project carried out in August 2016 revealed that out of the three (3) boreholes drilled, only one was operational while the other two boreholes were not operational. See pictures below.

Uncompleted Boreholes

- **Single Sourcing of Excavation Services for the Chindwin Water Project**

  On 9th December 2014, Mulungushi University single sourced the services of SRR Water Well Drilling & Exploration Zambia Ltd for the hire of 10 Tractor Loader Backhoe (TLB) excavators at a total contract sum of K87,000 without prior approval from Zambia Public Procurement Authority (ZPPA) contrary to the Public Procurement Act No. 12 of 2008.

ii. Over Expenditure on In-House Projects

During the period under review, the Department of Maintenance at the University undertook eight (8) projects in-house. The projects included among others, renovations of open blocks to classrooms and offices, construction of conference facilities, construction of gymnasium and expansion of sewerage reticulation system. It was however observed that the university had overspent on the following projects when compared to the budgets;

Project	Budget K	Actual K	Variance K	Variance as % of Budget	Status as 31st Dec 2015
Construction of Gymnasiuem	-	403,001	(403,001)	100%	Work in Progress
Construction of Conference Facilities	1,494,646	1,844,258	(349,612)	23.40%	Completed
Construction of Mini Mart	80,652	143,821	(63,169)	78.30%	Completed
TOTAL	**1,575,298**	**2,391,081**	**(815,783)**	51.80%	

As can be seen from the summary above, the University spent K2,391,081 against a budget of K1,575,298 thereby incurring unbudgeted for expenditure of K815,783 which was 51.8% above the budget without obtaining approval from the Council.

h. Failure to Update Bin Cards

A scrutiny of the bin cards and other stores records that were availed for audit revealed that the bin cards were not up to date for twelve (12) stores items costing K10,250 at the time of audit in September 2016 and the bin cards indicted that they were last updated in July 2016. See table below.

Item	Bin Card Record	Actual Count	Variance	Unit Cost K	Total K
Sugar	12	30	(18)	11	**(195)**
Salt	18	100	(82)	3	**(222)**
Bistol	27	77	(50)	6	**(300)**
Flour	37	75	(38)	9	**(342)**
Fresh pak	8	53	(45)	10	**(432)**
Rice	103	150	(47)	10	**(447)**
Milk	29	124	(95)	6	**(570)**
Beans	40	125	(85)	16	**(1,363)**
Kapenta		16	(16)	88	**(1,400)**
Butter	14	51	(37)	43	**(1,591)**
Mealie Meal		22	(22)	75	**(1,650)**
Cooking oil	13	120	(107)	16	**(1,739)**
Total					**(10,250)**

i. Unaccounted for Stores

A physical inspection of the main and kitchen stores of the University was undertaken where it was observed that the bin cards maintained at stores had a higher stock balances than what was actually counted, resulting in eleven (11) unaccounted for stores items costing K7,062.

j. Procurement of Goods and Services

i. Irregular use of Simplified Bidding to Procure Furniture and Equipment

On 5th September 2014, the procurement committee awarded a contract to Roverline Marketing and Logistics Ltd to supply, deliver and install Library furniture and equipment at a contract sum of K2,292,133. It was however observed that the use of simplified bidding for a tender of an estimated value of goods in excess of K500,000 threshold was contrary to the Public Procurement Act.

ii. Undelivered Library Books

During the period under review, the University paid Mallory International Limited amounts totalling K776,523 to supply and deliver 1,183 assorted library books for various schools and programmes. However, as of September 2016, only 708 books were delivered leaving a balance of 161 library books valued at K99,960 undelivered. See table below.

Date	Description	Amount K	Books Paid for	Delivered Books	Undelivered Books (Qty)	Undelivered Books K
16/01/2014	Purchase and delivery of Library Books	137,335	314	0	0	-
30/10/2014	Purchase and delivery of Library Books	163,245	324	214	110	55,423
14/10/2015	Purchase and delivery of Library Books	475,943	545	494	51	44,538
	Total	**776,523**	**1183**	**708**	**161**	**99,960**

The Mulungushi Village Complex

Background

13. The Mulungushi Village Complex Limited (MVCL) was established in 1970 to provide lodging and conference facilities for the Non-Aligned Heads of State and Government Conference. In September 1970, after the Non-Aligned Conference, the lodging and conference facilities were put to alternative use that included renting to Government Ministries, Government officials, companies and individuals.

The MVCL is situated in Kalundu's residential area in Lusaka and comprises eighty nine (89) fully furnished four (4) bedroomed luxurious villas, sixteen (16) fully furnished luxurious apartments, a central amenities building comprising seven (7) guest rooms, offices, restaurant, swimming pool, boardroom, squash and tennis courts. The MVCL sits on an area of 43.46 hectares.

The governance of the MVCL has changed hands over time. Originally, the MVCL control and management fell under the Ministry of Works and Supply but later transferred to the National Hotels Development Corporation Limited (NHDC) in 1982. The NHDC was a state enterprise responsible for the state owned hotels, lodges, tourism and conference businesses. In 1994, the MVCL was transferred to the Directorate of State Enterprise (DSE) and thereafter to the National Housing Authority (NHA), and later to the Presidential Housing Initiative (PHI). In 2002 the Complex was transferred to the Zambia National Tourism Board (ZNTB), under the then Ministry of Tourism before it was incorporated in 2006 as a limited liability company under the company's Act, CAP 386 of the laws of Zambia. On 24th August 2015, the MVCL shareholding was transferred to the Industrial Development Corporation (IDC) and on 29th December 2015, the composition of the Board of Directors was amended to comprise the Permanent Secretary or representative of the Ministry responsible for Sector Policy, not more than five (5) persons from the private sector and Managing Director.

Administration

Mulungushi Village Complex Limited has a Board of Directors. The Board of Directors are non-executive members and are responsible for the governance, control and administration of the MVCL. The Board members are appointed by the Minister of Finance and are drawn from the Economic Association of Zambia (EAZ), Zambia Institute of Chartered Accountants

(ZICA), Law Association of Zambia (LAZ), Ministry of Finance (MOF), Tourism Council of Zambia (TCZ), the Copperbelt University and the Ministry of Foreign Affairs. The Board of Directors is the supreme authority of the MVCL. The Board Chairperson is appointed from among the Board members.

Sources of Funds

The major sources of funds are rentals charged on villas, apartments and hotel rooms and fees charged on the use of sports facilities. The other sources include revenues on sale of food and refreshments, charges on facilities hire and revenues earned on laundry services.

Share Capital

The Company is wholly owned by the Government through IDC with an authorised share capital of 1,000,000 ordinary shares of K1.00 each and was issued and fully paid.

Review of Operations

A review of accounting, other records and management information systems for the financial years ended 31st December 2013 to 2015 carried out in June 2016 revealed the following:

a. Review of Management of Information Systems

The MVCL operates Pastel Accounting Package which is a core system that is used by the finance department for financial data input, processing and reporting. The system is a commercial off the shelf software, which runs on Windows 2008 Server and contains financial management, purchasing, stores and receipting models. 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 programmes in line with the Company's business strategy and priorities.
- Tracks status of IT projects and resolve resource conflict.
- Monitor service levels and service improvements.

The MVCL has implemented systems such as the Sage Pastel, PROTS among others. However, the activities were conducted without constituting an IT steering committee to oversee and monitor the ICT activities and projects.

ii. Lack of Risk Management Framework and Risk Register

COBIT PO9.4 Risk Assessment and Framework requires that an organisation establishes a risk management framework that is aligned to the organisation's (enterprise's) risk management framework.

The MVCL did not implement a risk management framework during the period under review. The framework, among others, include a risk register which would highlight the significant risks the systems were exposed to, the impact, the management and mitigation of the risks.

iii. Lack of an Access Control Policy

ISO/IEC 27001:2005 A.11.1.1 requires that an access control policy should be established, documented and reviewed based on business and security requirements for access.

Furthermore, prudent management of access control entails that access should be granted to end users based on their roles and job descriptions using an access request form which is authorised by the system owner.

The MVCL did not have an access control policy which, among others, would require access control forms to be filled in by persons requiring access to the system and access granted based on job description and profile as approved by the head of department.

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 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 June 2016, the MVCL did not have a BCP and a DRP in place for the IT system being operated. Therefore, in the event of an incident such as a fire or significant damage to its infrastructure, it is unlikely that the company would be able to resume normal operations for its critical systems within a reasonable time period to ensure business continuity.

b. Lack of Risk Management System

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, it was observed that the MVCL did not have documented and approved risk management policies and systems in place. Further, the Company had not instituted measures and procedures for identifying risks, estimating their significance, their likelihood and impacts. In this regard, without a Risk Management System in place, the Company remained exposed to business failure in the event that any of its significant risks materialised.

c. Financial Performance – Statements of Profit and Loss and Other Comprehensive Income

Year Ended	**31 December**	**31 December**	**31 December**
	2015	**2014**	**2013**
	K	**K**	**K**
Revenue	18,220,693	18,530,785	15,394,710
Operating Expenses	(5,738,584)	(6,392,628)	(4,847,175)
Operating Profit	12,482,109	12,138,157	10,547,535
Non Operating Income			
Fair value adjustment	6,467,400	18,822,100	-
Other income	144,754	178,510	293,974
	19,094,263	**31,138,767**	**10,841,509**
Administration expenses	(11,094,075)	(11,817,777)	(9,689,707)
Restructuring costs	(5,643,368)	-	-
Finance costs	(657,541)	(587,173)	(434,375)
Profit before tax	**1,699,279**	**18,733,817**	**717,427**
Taxation	**(144,421)**	**7,067,279**	**(449,177)**
Profit/(Loss) for the year	**1,554,858**	**25,801,096**	**268,250**

An analysis of the income statement showed that expenditure increased by K2,280,868 from K10,124,082 in 2013 to K12,404,950 in 2014 representing a 23 percent increase. Further, the expenditure increased by K4,990,034 from K12,404,950 in 2014 to K17,394,984 in 2015.

Further, the following was observed:

i. Total Expenses as a Percentage of Turnover

Actual Total Expenses as a percentage of Actual Revenue = (Total Expenses)/(Turnover) x 100

	2015	2014	2013
Total Expenses (K)	17,394,984	12,404,950	10,124,082
Turnover (K)	18,220,693	18,530,785	15,394,710
Total Expenses to Turnover (%)	95	67	66

As can be seen in the table above, 66% of revenue generated in the year 2013 went to meet expenses. However, this went up to 67% in 2014 and increased to 95% in 2015.

ii. Operating Income

The company’s operating income increased by K3,136,075 from K15,394,710 in 2013 to K18,530,785 in 2014 representing a 20 percent increase. There was however a decline of revenue of K310,092 from K18,530,785 in 2014 to K18,220,693 in 2015, representing a decline of 2 percent.

iii. 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 net profit margins for the MVCL 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

	2015	2014	2013
Revenue (K)	18,220,693	18,530,785	15,394,710
Profit / (Loss) for the year (K)	1,554,858	25,801,096	268,250
Net Profit Margin	9%	139%	2%

As can be seen from the table above, the company’s net profit margin increased from 2 percent in 2013 to 139 percent in the 2014, and reduced to 9 percent in 2015. A further analysis of the Statements of profit and loss and other comprehensive income revealed that the improvement in profit margins in 2014 was due to revaluation gains on Investment Properties in amounts totalling K18,822,100 and income tax recovery of K7,067,279.

iv. Operating Expenses as a Percentage of Revenue

The operating expenses as a percentage of revenue is a measure of what it costs to operate a company compared to the income that the company generates. It is calculated by dividing the company's operating expenses by its gross operating income and is used to compare the expenses of similar companies.

A lower operating expenses as a percentage of revenue means that the company is being managed efficiently, more profitable and that less of its income is used to cover operational and maintenance costs.

Operating Expenses as a Percentage of Revenue = ((Operating Expenses) / (Revenue)) x 100

	2015	**2014**	**2013**
Operating and Administrative Expenses	16,832,659	18,210,405	14,536,882
Revenue (K)	18,220,693	18,530,785	15,394,710
Operating Expenses to Revenue (%)	92.4	98.3	94.4

As can be seen in the table above, 94.4 percent of the revenue generated in the year 2013 was used to cover operating expenses and worsened to 98.3 percent in 2014 while in 2015, it reduced to 92.4 percent.

d. Financial Position - Statements of Financial Position

The statements of financial position for MVCL for the three (3) years under review is as shown below.

	31 December 2015 K	31 December 2014 K	31 December 2013 K
ASSETS			
Non-current assets			
Property, plant and equipment	11,064,139	10,696,819	9,338,803
Investment properties	170,249,500	163,782,100	144,960,000
TOTAL NON-CURRENT ASSETS	**181,313,639**	**174,478,919**	**154,298,803**
Current assets			
Receivable from Kepa Housing Comple	237,175	432,764	538,560
Inventory	172,853	182,425	703,762
Trade and other receivables	1,086,114	748,361	2,274,527
Withholding tax recoverable	-	1,718,309	4,406,156
Cash and cash equivalents	1,630,058	1,394,951	783,964
TOTAL CURRENT ASSETS	**3,126,200**	**4,476,810**	**8,706,969**
TOTAL ASSETS	**184,439,839**	**178,955,729**	**163,005,772**
EQUITY AND LIABILITIES			
Equity			
Share capital	1,000,000	1,000,000	1,000,000
Revaluation reserves	7,407,853	7,407,853	4,703,528
Accumulated Revenue Reserves	149,273,873	147,919,015	122,267,919
	157,681,726	**156,326,868**	**127,971,447**
Non-current liabilities			
Deferred retirement obligation	9,303,846	5,287,899	6,407,115
Deferred tax	4,426,119	5,961,898	18,940,805
Finance lease	327,846	-	-
Bank loan	875,000	1,750,000	2,625,000
	14,932,811	**12,999,797**	**27,972,920**
Current liabilities			
Trade and other payables	8,431,589	8,655,039	6,163,029
Bank loan	875,000	875,000	875,000
Finance lease	104,980	-	-
Revolving loan	600,000	-	-
Bank overdraft	1,638,001	-	-
Taxation	175,732	99,025	23,376
Total Liabilities	**11,825,302**	**9,629,064**	**7,061,405**
Total Equity and Liabilities	**184,439,839**	**178,955,729**	**163,005,772**

i. The Current Ratio / Working Capital

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. The acceptable current ratio is 2:1.

However, the current ratios for the MVCL for the financial years ended 31st December 2013, 2014 and 2015 were 1.23:1, 0.46:1 and 0.26:1 respectively, which were below the acceptable current ratio of 2:1.

Further, MVCL's working capital was positive K1,645,564 in 2013 while it operated with negative working capitals of K5,152,254 in 2014 and K8,699,102 in 2015 as shown in the table below.

	2015 K	2014 K	2013 K
Current Assets	3,126,200	4,476,810	8,706,969
Current Liabilities	11,825,302	9,629,064	7,061,405
Working Capital	**(8,699,102)**	**(5,152,254)**	**1,645,564**
Current Ratios	0.26:1	0.46:1	1.23:1

Consequently, MVCL may not be able to meet its short term obligations as they fall due.

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)	18,220,693	18,530,785	15,394,710
Total Assets (K)	184,439,839	178,955,729	163,005,772
Total Asset Turnover (times)	0.0988	0.1035	0.094

As can be seen from the table above, the MVCL's Total Asset Turnover ratio was 0.1 times for all three years under review. This was an indication that the company was failing to improve its performance.

iii. Negative Cash flow Position

A review of the Statements of Cash flows revealed that the company was not generating enough cash to meet its operational expenses. The Cash flows from operations worsened from K2,810,603 in 2014 to negative K138,512 in 2015 representing a percentage decrease of negative 4.9 percent. Details are in the statement below.

	31 Dec 2015 K	31 Dec 2014 K	31 Dec 2013 K
Cashflow From Operating Activities			
Profit before taxation	1,699,279	18,733,817	717,427
Interest received	(4,637)	(6,240)	(10,690)
Depreciation	925,195	908,362	1,126,315
Profit on disposal of property, plant and equipment	(20,940)	(55,408)	(1,276)
Fair value adjustment on investment income	(6,467,400)	(18,822,100)	-
(Increase)/Decrease in inventories	9,572	521,337	(445,630)
(Increase)/Decrease in trade and other receivables	(337,753)	1,526,166	(720,607)
Decrease in long term receivables	195,589	105,796	184,104
Decrease in withholding tax recoverable	1,718,309	165,097	480,938
(Decrease)/Increase in trade and other payables	(273,450)	2,442,011	150,313
(Decrease)/Increase in deferred liabilities	4,015,947	(1,119,216)	(1,392,335)
Assets impaired	633	8,405	3,936
	1,460,344	**4,408,027**	**92,495**
Taxation paid	(1,603,493)	(1,603,664)	-
Interest received	4,637	6,240	10,690
Net cash outflow/ inflow on operating activities	**(138,512)**	**2,810,603**	**103,185**
Investment Activities			
Purchase of property, plant and equipment	(1,295,229)	(1,280,767)	(938,391)
Proceeds from sale of disposal of property, plant and equipment	23,021	56,142	1,276
Net cash outflow on investing activities	**(1,272,208)**	**(1,224,625)**	**(937,115)**
Cashflows from Financing Financing Activities			
Dividend paid	(150,000)	(150,000)	(100,000)
Loan received	1,032,826	-	3,500,000
Loan repayment	(875,000)	(875,000)	(2,579,115)
Net cash inflow/(outflow) from financing activities	**7,826**	**(1,025,000)**	**820,885**
(Decrease)/increase in cash and cash equivalents	**(1,402,894)**	**610,987**	**(13,045)**
Cash and bank balances at 1 January	**1,394,951**	**783,964**	**797,009**
Cash and bank balances at 31 December	**(7,943)**	**1,394,951**	**783,964**

iv. Questionable Declaration/Payment of Dividend

A scrutiny of the financial statement for the period under review, revealed that the MVCL paid dividend in 2013 of K100,000 from the profit of K268,250, in 2014 of K150,000 from the profit for the year of K25,801,096 and in 2015 of K200,000 from a profit for the year of K1,554,858.

A further scrutiny of the financial statements revealed that the MVCL's purported profit for 2014 and 2015 were as a result of revaluation gain on investment properties and income tax recovery. In this regard, in the financial year ended 31st

December 2014, the MVCL made a loss of K88,283 (after removing the revaluation gain of K18,822,100 and income tax recovery of K7,067,279) but the MVCL went ahead to declare and pay a dividend of K150,000 to its shareholders.

It was also observed that in the year ended 31st December 2015, the MVCL made a loss of K4,912,542 (after removing the fair value adjustment for revaluation reserves K6,467,400) but went ahead to declare and pay a dividend of K200,000. The basis used to determine the dividend was not availed for audit.

e. Failure to Collect Rentals from Government

A review of customer detailed ledgers revealed that MVCL was owed a total sum of K1,017,090 in rentals by the Government as of September 2016.

f. Inadequate Staffing Levels

An analysis of the MVCL's strategic plan revealed that as at 31st December 2015, out of the total establishment of seventy five (75) staff positions, only fifty five (55) positions were filled leaving twenty (20) vacant positions. These vacant positions included key positions such as Human Resource and Operations managers.

Currently, the functions of the Human Resource Manager are being handled by the Finance Manager. There was no explanation as to why the entity had failed to recruit a Human Resources Manager.

g. Appointment of Operations Manager - Questionable Appointment

A review of the personal file revealed that the Operations Manager was substantively employed as a Receptionist with effect from 3rd December 2012. A further scrutiny revealed that the Chief Executive Officer, in a letter dated 21st February 2014 appointed the officer to Act as Operations Manager with effect from 24th February 2014.

In December 2014, MVCL advertised the position of Operations Manager internally and externally. The following were the qualifications, competencies and experience required for the advertised position:

- Full grade 12 school Certificate,
- Bachelor's degree in Business Administration, Marketing, Hotel Management or Hospitality Management,

- Demonstrated experience in hotel housekeeping, hotel laundry operation, food and beverage operations and including marketing and front office operations, and
- Minimum of 5 years' experience of working in the hospitality or real estate industry and aged 35 years and above.

Over forty (40) applications were received out of which seven (7) applicants were shortlisted and interviewed. Among the seven (7) who were shortlisted and interviewed was the Receptionist who did not meet the requisite qualifications for the job as outlined in the Job Advertisement. The Receptionist was awarded the appointment based on the following qualification:

- Grade 12 School Certificate,
- Certificate in Front Office Operations, and
- Diploma in Public Relations level two.

An enquiry made with management revealed that despite having inadequate qualifications the officer was awarded the job.

However, in a meeting held on 29th May 2015, the Board terminated the appointed of the Operations Manager and reverted her to the substantive post of the Receptionist. Consequently, she took legal action and MVCL was ordered to pay a total of K450,000 as redundancy package for the decision through an out of court settlement. As of September 2016, amounts totalling K450,000 had been paid. The decision by the board to employ a person that did not have necessary qualifications was questionable and renders the expenditure wasteful.

h. Non Payment of Statutory Contributions

During the period under review, MVCL owed amounts totalling K4,293,017 in respect of statutory contributions as shown in the table below

Details	Amount K
PAYE	2,399,261
NAPSA-Penalties	1,580,755
VAT	313,002
Total	**4,293,017**

i. Failure to Settle Internal Frozen Terminal Benefits

A review of records relating to terminal benefits revealed that as of December 2015, MVCL owed K3,326,183 to eighteen **(**18**)** staff whose benefits were frozen in 2012, at the time of audit verification, this amount was neither paid to the affected officers nor transferred to the pension fund. Management did not avail documentation pertaining to the freezing of the terminal benefits of the staff. As of September 2016, these funds continue to accrue interest.

j. Failure to Rehabilitate and Maintain Investment Property

The MVCL has eighty nine (89) villas and sixteen (16) Apartments which are a major source of revenue for the entity. However, there has been no major re-investments made to the properties in terms of rehabilitations and upgrades to suit with modern trends from the time the villas were constructed in 1970 such as installation of air conditioning, modern kitchen units and floor tiles.

A physical inspection of the MVCL assets conducted on 13th July 2016 revealed that the villas were generally in a bad state with leaking roofs, leaking faucets and old carpets.

The National Housing Authority

Background

14. The National Housing Authority (NHA) was established by an Act of Parliament in 1971 under Cap 195 of the Laws of Zambia with the objective of providing, securing and promoting the provision of housing throughout the Republic of Zambia. Subject to any direction given by the Minister responsible for housing, the Authority has the sole management and control of the properties, income, and funds of the Authority and affairs and business thereof.

The Authority also provides accommodation by:

i. The erection of houses on any land acquired,

ii. The conversion of any building into houses,

iii. Acquiring, enlarging and repairing any house or building,

iv. Management and control of houses owned by any person, and

v. Clearing squatter areas and thereafter making necessary improvements and redevelopment of such areas.

The Authority took over the operations of the Presidential Housing Initiative (PHI) in 2002, ZIMCO properties Limited and INDECO Estates Development Company Limited in 2005 following presidential directives.

Administration

According to the provisions of the National Housing Authority Act, the NHA is presided over by an Authority (Board of Directors) whose members are appointed by the Minister responsible for housing. The Authority is composed of eleven (11) members appointed from both private and public institutions. Members of the Authority shall include:

- The Commissioner for Town and Country Planning;
- Two (02) members from the Local Government Association of Zambia;
- One (01) member representing the Ministry responsible for Local Government;
- Two (02) District Secretaries;
- One (01) member representing the Zambia National Building Society;
- One (01) member representing the University of Zambia;
- One (01) member representing the National Council for Scientific Research;
- One (01) member from the Zambia Federation of Building Co-operatives; and
- One (01) other member who is not a public officer.

The Minister shall designate one member as chairman, and one member as vice-chairman, of the Authority.

The Chief Executive Officer (CEO) is responsible for the day to day operations of the Authority and is appointed by the Authority after being nominated by the Minister responsible for housing. The CEO is assisted by the Authority Secretary and Directors in charge of Finance, Construction, Real Estates and Sales and Consultancy.

Capital Structure

The Authority is a statutory body created under CAP 195 and that is wholly owned by the Government of the Republic of Zambia.

Source of Funds

According to the provisions of the Act, the funds of the Authority shall consist of such moneys as may be:

- payable to the Authority from moneys appropriated by Parliament for the Authority;
- vest in or accrue to the Authority, whether in the course of its operations or otherwise.

Review of Operations

A review of operations of the Authority for the financial years ended 31st March 2012 to 31st December 2015 revealed the following:

a. Failure to Produce Audited Financial Statements

According to Section 56 of the National Housing Authority Act, "the Authority shall as soon as practicable and in any case not later than six (6) months after the termination of each financial year submit an annual report to the minister on the activities of the Authority". The annual report shall include the balance sheet, the profit and loss account and the report of the auditor.

In June 2012, the NHA appointed Newton Lungu and Associates for the provision of audit services for the financial year ended 31st December 2011 at a cost of K63,800. An amount of K49,400 had been paid as of March 2016 leaving a balance of K14,400. However as of October 2016, the audit report including the management letter had not been issued.

b. Weaknesses in Recruitment and Removal of the Chief Executive Officer

On 10th March 2012, the Authority recruited a new Chief Executive Officer (CEO) on a two (2) year contract period. This contract was renewed by the Minister responsible for housing for a period of three (3) years from 12th February 2014 to 11th February 2017. On 11th February 2016, the Chief Executive Officer wrote to the Chairperson of the Authority requesting for an early release from his contract of services which was to end in February 2017.Without stating the reasons, he indicated that his separation was mutually agreed by all stakeholders. On the same day the Board Chairperson replied to the letter and accepted the separation and issued notice of the separation.

The following were observed:

i. Irregular Payment of Salaries in Advance

It was observed that although the officer had asked for immediate separation, the Authority paid him salaries in advance for three (3) months. Management could not explain how the Authority was to benefit from the expenditure as the officer was not in position to provide employment services anymore.

ii. Failure to Review Performance

On 10th March 2012, a performance agreement was entered into between the Authority and the then CEO whose purpose, among other things, was to specify targets that could be used to measure the performance of the officer. Clause 3 of the agreement stated that the commencement date be on 13th March 2012 and would remain in force until 31st December 2012.

Clause 6 of the agreement provided that performance reviews would be performed twice a year and the records of the review would be maintained. It was however noted that there were no such reviews conducted on the performance of the officer for the period 1st January 2013 to 31st December 2015.

c. Financial Performance – Statement of Comprehensive Incomes

	DRAFT 2014 K	DRAFT 2013 K	DRAFT 2012 K
Income	35,602,963	42,693,521	49,148,592
Expenditure	(50,949,165)	(44,395,069)	(56,086,768)
Operating Profit/ (Loss) for the year	**(15,346,202)**	**(1,701,548)**	**(6,938,176)**
Profit on Disposal of fixed assets	15,803,274	30,364	(280,940)
Profit/ (loss) before interest and tax	**457,072**	**(1,671,184)**	**(7,219,116)**
Interest receivable	113,345	68,535	111,508
Profit/(Loss) for the Year	**570,417**	**(1,602,649)**	**(7,107,608)**

An analysis of the draft Statements of Comprehensive Incomes for the period under review revealed the following:

i. Operating Profit Margins

The Authority suffered negative operating margins throughout the period under review. See table below:

Operating Profit Margin = $\frac{\text{Operating Profit}}{\text{Income}} \times 100$

	DRAFT 2014 K	DRAFT 2013 K	DRAFT 2012 K
Income	35,602,963	42,693,521	49,148,592
Expenditure	(50,949,165)	(44,395,069)	(56,086,768)
Operating Loss for the year	**(15,346,202)**	**(1,701,548)**	**(6,938,176)**
Operating Profit Margins	-43%	-4%	-14%

As can be seen in the table above, the Authority recorded operating profit margin of negative 14% in 2012, negative 4% in 2013 which worsened to negative 43% in 2014. The deterioration in operating profit margins arose mainly from the reduction in income without proportional reduction in expenditure. Income reduced over the three (3) years under review by K13,545,629 representing 28% from K49, 138,592 in 2012 to K35,602,963 in 2014. In the same period expenditure only reduced by K5,137,603 representing 9% from K56,148,592 in 2012 to K50,949,165 in 2014.

ii. Net Profit Margins

The Authority recorded negative net profit margins in 2012 and 2013 which slightly improved in 2014. See table below:

Net Profit Margin = $\frac{\text{Net Profit for the Year}}{\text{Sales Income}} \times 100$

	2014	2013	2012
Profit (Kwacha)	570,417	- 1,602,650	- 7,107,609
Income	35,602,963	42,693,521	49,148,592
Net Profit Margins	2%	-4%	-14%

As can be seen in the table above, net profit margins in 2012 were negative 14% and negative 4% in 2013 before improving to 2% in 2014. The improvement in the net profit margin recorded in 2014 was as a result of profits generated from the disposal of fixed assets. Among the assets that were disposed off in 2014 was the building that had housed its headquarters which was sold for K30,950,000 resulting in a profit on disposal of K15,454,356.

iii. **Impact of Presale Scheme on the Income of the Authority**

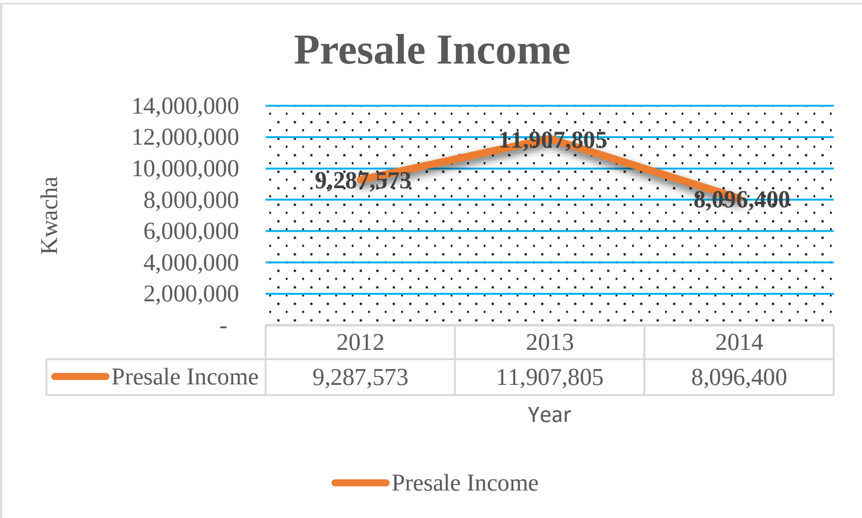
During the period under review, the Authority had a Scheme called the Presale Scheme where it offered to build houses on its land for customers at agreed prices. The house would be built upon the customer making 60% advance payment of the total sale price of the house, 30% when the house would reach roof level and 10% upon completion of the house. The duration for the construction of each house was ten (10) months. The Scheme provided that the Authority would refund the customer equivalent to what the Authority would charge on houses similar to its own in the events that the house was not completed within the agreed time. During the period under review, the Authority generated its income as follows:

	2014 Kwacha	2013 Kwacha	2012 Kwacha
Income from Sale of Pre-construction properties	8,096,400	11,907,805	9,287,573
Income from other sources	27,506,563	30,785,716	39,861,019
TOTAL INCOME	**35,602,963**	**42,693,521**	**49,148,592**

The following were observed:

- **Reduction in Income from Presale Schemes**

The income on presale scheme reduced during the period under review. See graph below:



As can be seen in the graph above, income from the presale scheme shows that there was an increase from K9,287,573 in 2012 to K11,907,805 in

2013 and decreased to K8,095,400 in 2014. The reduction in presale income was mainly due to failure to attract new customers to the scheme resulting from the failure by the Authority to complete houses to its existing customers.

- **Failure to Avail Presale Scheme Information**

  The Authority did not avail for audit documentation relating to presale as shown below.

  - Number of houses under construction in each year under review
  - Houses completed and handed over to the clients
  - The amounts received on each house
  - The amounts outstanding
  - The costs incurred in constructing the houses

- **Breach of Conditions of the Scheme**

  As of December 2014, the Authority had accumulated liabilities of K65,034,052 in form of advances made by customers to the Authority whose houses had not been completed.

  A review of a report dated January 2016 on litigations revealed that fourteen (14) of its customers under the Presale Scheme had commenced legal action against the Authority for failure to deliver completed houses.

  In this regard, the Authority was ordered by the Court to complete the houses or to pay the customers. As of October 2016, the Authority had not complied with the Court orders.

  Further, the Authority did not avail details such as the amounts required to finish the houses under litigation, actual litigation related costs such as damages and interests and amounts of rental refunds incurred and paid.

d. Financial Performance – Statement of Financial Position

The table below shows the statement of financial position for the period 2012 to 2014.

	DRAFT 2014 K	DRAFT 2013 K	DRAFT 2012 K
Property, plant & Equipment	99,944,468	116,301,641	118,074,765
Investments	3,500	3,500	3,500
	99,947,968	**116,305,141**	**118,078,265**
Inventories	163,654,398	114,280,560	116,109,601
Trade and Other Receivables	50,156,027	47,424,928	42,268,876
Cash & Bank	16,269,826	6,281,983	5,543,976
	230,080,251	**167,987,471**	**163,922,453**
Total Assets	**330,028,219**	**284,292,612**	**282,000,718**
EQUITY AND LIABILITIES			
Capital and Reserves			
Share Capital	450	450	450
Amounts Received Pending Allotment	17,758,924	17,758,924	17,758,924
Reserves	138,868,216	138,297,798	141,586,515
Total Equity	**156,627,590**	**156,057,172**	**159,345,889**
Non - Current Liabilities			
Long term Indebtedness	41,729,548	1,206,891	1,815,840
Total Non Current Liabilities	41,729,548	1,206,891	1,815,840
Current Liabilities			
Trade & Other payables	129,100,376	121,104,130	113,588,300
Bank Overdraft	2,570,705	5,924,419	7,250,689
Total Current Liabilities	**131,671,081**	**127,028,549**	**120,838,989**
Total Liabilities	**173,400,629**	**128,235,440**	**122,654,829**
Total Equity and Liabilities	**330,028,219**	**284,292,612**	**282,000,718**

An analysis of the draft Statements of Financial Position for the period under review revealed the following:

i. Weaknesses in Managing Receivables

Receivable Days measures how long, on average, credit customers take to pay once they are invoiced. It helps reveal how efficiently an entity is managing its receivables. The receivables of the Authority are mostly made of the tenants using its commercial and residential properties. The Authority issues invoices to them at the beginning of every quarter and must be paid within thirty days.

It was observed that Receivables Days ratio for the Authority was deteriorating as shown in the table below.

Receivables days = (trade receivables/Income) x 365

	2014	2013	2012
Trade Receivables (K)	22,510,295	20,287,613	21,963,641
Income (K)	35,602,963	42,693,521	49,148,592
Receivables days	**231**	**173**	**163**

As can be seen in the table above, the Authority took on average 163 days to collect payments from its credit customers in 2012 and 173 days in 2013 and increased to 231 days in 2014 thereby tying working capital in receivables for longer periods. This could be attributed to reduced efficiency in managing credit customers.

ii. Deteriorating Gearing Ratios

Gearing ratio measures the proportion of debt an entity has contracted in relation to the amount of equity invested. The ratio helps to measure the level of financial risk an entity has undertaken.

It was observed that the gearing ratio for the Authority increased in the period under review due to increase in liabilities. See table below.

$$\text{Gearing ratio} = \frac{\text{Total Liabilities}}{\text{Equity}} \times 100$$

	2014	2013	2012
Total Libailities	173,400,629	128,235,440	122,654,829
Total Equity	156,627,590	156,057,172	159,345,889
Gearing	111%	82%	77%

As can be seen in the table above, the gearing ratio increased from 77% in 2012 to 111% in 2014 implying that the Authority's operations were mainly financed through debt. This raised financial related risks such as insolvency and reduced capacity to raise fresh capital. Most of the liabilities of the Authority were of a short term nature such as liabilities relating to the presale scheme and unpaid statutory obligations.

e. Statement of Cash flow - Negative Cash flows from Operating Activities

Statement of Cash Flows for the year ended 31st December 2015	DRAFT 2014 K	DRAFT 2013 K	DRAFT 2012 K
Cash flows from operating activities			
Operating profit before taxation	**457,072**	**(1,671,150)**	**(12,137,681)**
Adjustments for			
Depreciation	2,830,706	3,299,344	3,379,103
Interest expense	472,205	1,136,128	807,239
Net adjustment Kafue into Head Office		(1,705,809)	-
(Profit)/Loss on disposal of fixed assets	(15,803,274)	(30,364)	280,940
Decrease/(Increase) in Inventories	(49,373,838)	1,829,042	9,927,128
Decrease/Increase in Trade & other Receivables	(2,731,099)	(5,156,053)	11,468
Increase/Decrease in Trade & other Payables	7,996,246	7,515,830	6,637,127
Net cash flows from operating activities	**(56,151,982)**	**5,216,968**	**8,905,324**
Cash flows Investing activities			
Proceeds from disposal of fixed assets	31,307,212	42,792	212,013
Purchase of Property ,Plant & Equipment	(1,977,471)	(1,518,940)	(912,249)
			(11,031,806)
Net Cashflows from Investing activities	**29,329,741**	**(1,476,148)**	**(11,732,042)**
Cash flows Financing activities			
Interest Received	113,345	68,535	111,508
Interest paid	(472,205)	(1,136,128)	(807,239)
Increase/(repayment) in Longterm loan	40,522,657	(608,948)	(394,000)
Net Cash flows from investing activities	**40,163,797**	**(1,676,541)**	**(1,089,731)**
Net Increase/(decrease in cash & cash equivalent)	**13,341,556**	**2,064,279**	**(3,916,449)**
Cash & Cash equivalent at start of year	357,567	(1,706,712)	2,209,737
Cash & cash equivalents at end of year	**13,699,123**	**357,567**	**(1,706,712)**

i. Negative Cash flows from Operating Activities

It was observed that although the Authority recorded net cash inflows of K13,699,123 in 2014, the positive cash inflows were mainly attributable to the cash received from disposal of the building that housed its headquarters. The Authority was failing to generate positive cash flows from its operating activities.

A scrutiny of the Statement of Cash flows revealed that the cash flow from operating activities reduced from K8,905,324 in 2012 to K5,216,968 in 2013 and reached negative K56,151,982 in 2014. This translated into a reduction of cash flow from operating activities of 731 percent. This reduction was caused by increased tying of working capital in inventories in 2014. The Authority held inventories in amounts totalling K114,280,560 as at 31st December 2013 which increased to K163,654,398 in 2014 resulting in a cash out flow of K49,373,838 in 2014.

In light of negative cash flows, the Authority would not be in a position to meet its cash obligations as they fall due.

ii. Questionable Going Concern Status

The status of the Authority as a going concern was questionable in that it was failing to generate profits and positive cash flows from its operations. Further, the gearing ratio was increasing reflecting a lack of recapitalisation from the shareholder. See table below.

	2014 K	2013 K	2012 K
Operating losses	(15,346,202)	(1,701,548)	(6,938,176)
Gearing ratio	111%	82%	77%
Cash flows from operating activit	(56,263,439)	4,943,706	8,905,324

As can be seen in the table above, the Authority incurred operating losses in each of the three (3) years under review and suffered negative cash flows from operating activities in 2014 thereby casting doubt on both its short term liquidity and long term solvency. In addition, the Authority got into deeper debt financing as revealed by the increasing gearing ratios. The increasing debt financing raises the risk of foreclosure by the creditors on vital assets of the Authority. Furthermore, the Authority was having difficulties to service its long term loans acquired from Shelter Afrique resulting in an outstanding amount of K9,364,790 (US$93,647.90) in unpaid interest as of October 2016. These factors have made the going concern status of the Authority questionable.

f. Weaknesses in Managing the North Gate Gardens, Ben Mwiinga and Ibex Hill Projects

The Authority had 137 hectares of land called the Northgate Gardens in the City of Lusaka. During the period under review, the following projects were carried out on that land:

- The Shelter Afrique project - involved construction of 150 houses.
- The NHA-MKP joint venture – involved construction of 316 houses for NAPSA and forty (40) houses for the Workers Compensation Fund Control Board.
- The NHA-CJI joint venture under which the Authority sold land to CJI to build houses for resale to members of the public.

The following were observed:

i. Weaknesses in Managing Shelter Afrique Loan Relationship

On 25th October 2010, the Authority obtained a loan of US$6.5 million from a Pan African lending institution called Shelter Afrique which is based in Nairobi, Kenya (at 2 percent variable interest rate over Shelter Afrique base rate which at the time was 7 percent per annum). The loan was to finance a project for the construction of 200 medium cost housing units out of the total planned project of 345 at Northgate Gardens on Great North Road in the City of Lusaka. Upon completion, the housing units were to be available for sale and rental to the public. The project included also the development of related infrastructure such as roads and drainage. Initially, the Authority was to undertake construction and consultancy services and there after sell the constructed houses to raise funds to repay the loan.

In the year 2013, the terms of the loan were revised as follows:

- The project size was scaled down from the initial 200 housing units to 150 units which were to be partly financed by the loan and partly by the Authority.
- A sub-contractor acceptable to the financier was to be engaged to carry out the construction works while the Authority was to provide consultancy services to the project.

The loan was repayable over a period of six (6) years including a grace period of two (2) years. The grace period end date was moved from the initial 2012 to March 2015 due to the delay in the commencement of the project. The Authority started loan repayments in March 2015 after the grace period. As of April 2016, a total of US$1,400,147.82 had been repaid leaving a balance of US$1,119,233.32. See table below.

Installments	Due Date	Due US$	Actual Paid US$	Balance US$
1st	31-Mar-15	518,585.82	518,585.82	-
2nd	30-Jun-15	511,996.78	511,996.78	-
3rd	30-Sep-15	505,229.65	369,565.22	135,664.43
4th	31-Dec-15	497,037.87	-	497,037.87
5th	30-Sep-15	486,531.02		486,531.02
	31-Dec-15			-
	31-Mar-16			-
Totals		**2,519,381.14**	**1,400,147.82**	**1,119,233.32**

Following the Authority's failure to pay the outstanding balance, an addendum was signed by the parties on 29th June 2016 that restructured the loans to the following terms among others:

- The grace period was extended by twelve months from June 2016 to June 2017 during which time the payment of the principal amounts would be suspended, and
- Interest and fees would be invoiced and be payable from September 2016 to March 2017.

However, despite the restructuring of the loan, the Authority failed to settle in full interest amounting to US$138,647.90 invoiced for the quarter ended 30th September 2016 having paid US$45,000 leaving a balance of US$93,647.59.

ii. Shelter Afrique Project - Failure to Reactivate Performance Guarantee and Advance Payment Bonds

The construction of 150 housing units under the Shelter Afrique project was jointly carried out by the Authority and Kaddoura Construction Limited. The Authority financed the construction of sixteen (16) housing units as equity contribution to the project while the Shelter Afrique financed the rest of the works. The works were carried out in two (2) lots, Lot 1 and Lot 2. Lot 1 involved the construction of eighty five (85) housing units whose works had been completed as of October 2016 while Lot 2 involved construction of forty nine (49) medium cost houses. In this regard, Kaddoura Construction was engaged to carry out the works. The contract for the construction of the forty (49) medium cost houses was signed on 18th December 2013 at contract price of K22,384,698 for a period of forty (40) weeks after site mobilisation while the performance guarantee and advance payment bond were effected on 16th January 2014. However, a scrutiny of correspondence from the Authority dated 18th March 2014 to Kaddoura Construction revealed that there was a delay in payment to the subcontractor on the contract for the construction of eighty five (85) housing units. This in turn affected the commencement of the second contract involving the construction of the forty nine (49) units.

Consequently, on 2nd July 2014, the insurance company had rendered the bonds ineffective owing to the delay in commencing the project. As of October 2016, the bonds had not been reactivated and the works for the forty nine (49) houses were still ongoing.

iii. NHA-MKP Joint Venture - Failure to Adhere to the NHA-MKP Joint Venture Agreement

On 9th March 2005, the Authority entered into a joint venture contract with MKP holdings SND.BHD, a company registered in Malaysia, for the business of construction and selling of houses and other facilities to the general public in Zambia. The joint venture was incorporated into a Limited Liability Company known as NHA-MKP Estates Development Limited incorporated in Zambia as a private company limited by shares on 29th April 2005.

The terms of the agreement among others were as follows:

- The Authority was to initially contribute land, and provide consultancy services to the Joint Venture Project.
- The Authority was to contribute part of its land at Bennie Mwiinga Housing, and Ibex Hill sites in Lusaka
- The land that the Authority was to provide was approximately 2.3 hectares with an estimated value of K700,000
- The Authority was to provide consultancy services namely architectural, engineering, quantity surveying, land surveying and marketing.
- MKP was to contribute a sum of US$2,000,000 in cash towards the joint venture with the initial contribution of K500,000 to kick start the joint venture. The balance of the US$2,000,000 capital contribution from MKP

was to come from the outstanding balance which the Government of the Republic of Zambia owed MKP.

- The Authority was to be allocated an agreed percentage of construction work by the Joint Venture on the terms of the winning bid.
- The parties would share the profits of the project in proportion to their contribution at the end of the financial year after considering all costs and deduction of taxes.

Contrary to the agreement that the Authority was to be allocated an agreed percentage of construction work by the Joint Venture on the terms of the winning bid, the Authority was not allocated any percentage of construction work by the Joint Venture thus denying the Authority opportunity to generate revenue.

iv. NHA-CJI Joint Venture

In 2010, the National Housing Authority (NHA) signed a Memorandum of Understanding with China Jiangsu International Economic Technical Corporation Zambia Limited (CJI) for the two (2) entities to undertake jointly a project for the construction of houses and other facilities for sale to the general public. The project was to be managed by a limited liability company known as NHA-CJI Estates Development Limited incorporated as a private company limited by shares on 2nd December 2010.

A review of the project documents availed for audit revealed that the MOU agreement provided for the parties to share the profits in accordance with the share structure at the end of the financial year after considering all costs and deduction of taxes. A review of the NHA-CJI Articles of the Association further revealed that NHA owned 1,000 shares. However, it was not possible to ascertain the share of profits NHA had benefited from the Company as the Authority did not have any financial statements pertaining from NHA-CJI Estates Development Limited.

Further, the Authority did not avail for audit reports pertaining to the joint venture, NHA-CJI Estates Development Limited, for the period under review. It was therefore not possible to ascertain the number of houses constructed under the venture, the costs involved and the number of houses sold.

g. Lack of Assets Management Policy

An Assets Management Policy is a document that provides guidance on the acquisition, use and disposal of noncurrent assets, method of valuing assets, depreciation methods and rates and the treatment of fully depreciated assets, among others. The Authority financial policy availed for audit scrutiny gave guidance regarding recognition, recording and depreciation of assets but did not address the other aspects such as acquisition, disposal and methods of valuation making it difficult to ascertain the effectiveness of its asset management.

h. Non-Remittance of Statutory Contributions

A review of records revealed that amounts totalling K31,164,367 were deducted as Pay As You Earn (PAYE) tax and National Pension Scheme Authority (NAPSA) statutory pension contributions from the employees' emoluments during the period under review. However, the amounts had not been remitted as at the time of audit in June 2016. Further, the Authority did not provide ledgers pertaining to the outstanding PAYE and NAPSA amounts.

i. Site Visits – Weaknesses in the Management of Investment Properties

The Authority has investment properties in eight (8) provinces of Zambia as tabulated below.

Province	District	Property	Book Value (Old Currency) K
Western	Mongu	Findeco House	60,000,000
Eastern	Chipata	Findeco House	260,000,000
Northern	Kasama	Findeco House	200,000,000
Luapula	Mansa	Findeco House	120,000,000
North Western	Solwezi	Findeco House	50,000,000
Copperbelt Province	Ndola	Sondashi Flats	264,780,801
Lusaka	Lusaka	Findeco House	1,400,000
Lusaka	Lusaka	Kulima Tower	4,400,000
Lusaka	Lusaka	Indeco House(value unknown)	-
Lusaka	Lusaka	Zimco House(value unknown)	-
Total			**960,580,801**

Except for caretakers, one per property, the NHA had no other staff to manage the properties on site. Tenants enter into tenancy agreements with the NHA Head Office from

Lusaka and are required to be depositing rental payments into the NHA accounts whenever due.

A physical inspection of the NHA investment properties conducted in July 2016 revealed the following:

i. Findeco House – Mongu District

The building was occupied by two (2) tenants namely the Zambia National Building Society (ZNBS) and the Peoples Participation Services.

The following were observed:

- Damaged roof in the banking hall
- Unpainted building
- Leaking toilets
- Pot holes in the drive way
- Broken Windows
- Failure to maintain the property surroundings

See pictures below.

Damaged Roof in the ZNBS banking hall

Broken windows

It was further observed that one of the tenants, the Peoples Participation Services, occupying part of the office space at Findeco House in Mongu District had not paid rentals for the whole year in 2012 despite paying subsequent amounts. In this regard, an amount of the K19,554 had not been collected and there was no payment plan agreed by the tenant and the Authority on how the amount would be settled.

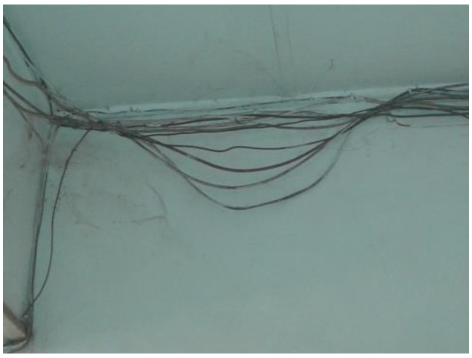
ii. Kasama Findeco House

The building was occupied by four (4) tenants namely the Zambia State Insurance Corporation (ZSIC), the National Credit and Savings Bank (NATSAVE), the Zambia National Building Society (ZNBS) and the University of Zambia.

The following were observed:

- Non maintenance of the building and the surrounding
- Poor lighting in the building as the stair case and corridors had no lights
- Painting was faded or peeled off
- Power cables were found dangling in one office posing risk of fire and electrocution
- The building only had two (2) toilets on the top floor which were shared by two (2) tenants and their customers.
- The place was not fenced making it vulnerable to trespassing and encroachments. One part of the land had actually been encroached upon.

See pictures below.



Dangling power cables

Encroachment by welders

iii. Mansa Findeco House

The building was occupied by three (3) tenants namely ZSIC, ZNBS and the Luapula Insurance Agency on the ground floor. In addition, the building has four (4) flats on the top floor, three (3) of which were occupied and one (1) was vacant as of August 2016.

The following were observed:

- The sewer cover at the front entrance of the building was broken
- One of the kitchens in the flats was dilapidated in that its floor tiles had come out and kitchen sink broken
- Pipes were leaking as the pipes were embedded in the walls which made it difficult for plumbers to work on
- The building had not been varnished and painted
- The pantry of one of the kitchens was broken
- There was no fencing around the building exposing it to trespassing and encroachment.

See pictures below.

Unpainted building

Damaged Kitchen in vacant flat

Broken sewer cover

Damaged bathroom toilet and bathroom

iv. Solwezi Findeco House

The Building was occupied by three (3) tenants namely ZSIC, National Savings and Credit Bank (NATSAVE) and Dove Match.

The following were observed:

- There was only one toilet shared by all the tenants
- Toilet cistern was held and tied with wires
- Septic tank cover were not covered
- The building had been encroached by a car wash as there was no agreement with the Authority to use part of the premises.

v. Ndola – Sondashi Flats

The Sondashi flats are situated at plot number CR22/23 Kopa road in Ndola. The block has six (06) flats which are rented out to members of the public.

The following were observed:

- The walls had old and worn out paint
- The building had cracks
- The gutters of the building were falling off

See pictures below.

Cracks in the staircase

Cracks outside the building

Unpainted building

Gutters falling off

vi. Chipata Findeco House

The building was maintained by a cleaner and a maintenance officer employed by the Authority and had fourteen (14) tenants.

The following were observed:

- The roof was broken
- Cracks had developed on the walls
- The building was not manned by any security officers

See pictures below.

Leaking roof during rainy season

Cracked walls

Leaking roof

Cracks in the wall

Nitrogen Chemicals of Zambia (NCZ)

Background

15. The Nitrogen Chemicals of Zambia (NCZ) was established in 1967 by the Government of the Republic of Zambia (GRZ) through its investment arm of INDECO. The main aim of NCZ was to produce explosive grade ammonium nitrate for further processing into explosives for mining copper, coal and quarrying operations.

In 1973, a decision was made to expand the plant to produce fertilisers and the construction of this phase was commissioned in 1981. The expansion included production of additional ammonia, nitric acid, ammonium nitrate, ammonium sulphate and compound (NPK) fertilisers. In 1983, the plant was expanded to produce sulphuric acid as Phase 3 to be used as raw materials in the production of ammonium sulphate. As at the time of audit in April 2016, NCZ's main line of business was the production of fertiliser. NCZ currently has the capacity to produce 400,000 metric tonnes of compound D fertilisers per annum.

Administration

Nitrogen Chemicals of Zambia has a Board of Directors comprising ten (10) members drawn from government ministries and private companies in accordance with the Articles of Association and the Companies Act. The Board chairman and members are appointed by the Minister responsible for Agriculture who represents the Government. The Board delegates responsibility for implementing the strategic direction and managing the day to day operations of NCZ to the Chief Executive Officer. The Chief Executive Officer is assisted by the Chief Operations Officer, Chief Finance Officer, Purchasing Manager, Technical and Maintenance Manager, Production Manager and Human Resource Manager.

Sources of Funds

The Company earns its income from the sale of products, grants from the Government and other activities such as hire of equipment and workshop services.

Share Capital

The Company is wholly owned by the Government with an authorised share capital of K1,200,000 ordinary shares of K2.00 each out of which K1,089,022 was issued and fully paid.

Review of Operations

A review of accounting and other records for the financial years ended 31st March 2012, 2013, 2014 and 2015 carried out in April 2016 revealed the following:

a. Failure to Fill the Position of Chief Finance Officer

A review of the personal files for management revealed that the Chief Finance Officer resigned in December 2008. In this regard, the Board appointed the Financial Accountant to act as Chief Finance Officer from December 2008 for a period of six (6) months. Although in their response dated 12th July 2016 management stated that the position of Chief Finance Officer would be advertised in August 2016 in order to recruit a person with skills and competencies required for this position, as of October 2016, the position had not been advertised and the Financial Accountant has continued acting.

b. Lack of Audit Committee

Contrary to principles of good corporate governance, the Company operated without the Audit Committee from April 2012 to March 2015. Consequently, as of September 2016, the Company had not developed an Audit Charter which provides for the purpose, authority, and responsibility of the internal audit function.

c. Questionable Leave Commutation Payment

A review of the personal files and pay slips revealed that as of November 2015, the Marketing Manager had accumulated 173.5 days. However, it was observed that as of November 2015, the officer commuted 620.92 days of which he was paid K201,551. In this regard, the officer was irregularly overpaid by 447.42 days equivalent to K145,233. The overpaid amount had not been recovered as of September 2016.

d. Failure to Maintain a Register of Accountable Documents

NCZ did not maintain a register of accountable documents. In this regard, the total number of receipt books that were in use during the period under review could not be ascertained.

e. Non Payment of Statutory Contributions

During the period under review, NCZ owed amounts totalling K49,600,365 in respect of statutory contributions deducted from employees' emoluments but not remitted to the respective institutions as shown in the table below.

Details	Amount K
PAYE	45,905,427
NAPSA-Contribution	3,694,939
Total	**49,600,365**

f. Weakness in the Collection of Receivables

Contrary to the credit sale policy which requires that debt is collected within thirty (30) days from the date of issue of goods, the NCZ had accounts receivables in amounts totalling K101,276,994 which had been outstanding for periods ranging from 30 days to 180 days as of May 2016.

Included in this amount was K89,530,801 which was owed by the Ministry of Agriculture and had been outstanding for a period of more than one (1) year.

Consequently, the NCZ is failing to meet its obligations such as the payment of terminal benefits in amounts totalling K40,378,811 for retired staff who were separated between 2013 and 2015 through retirement, restructuring or expiry of contract as of September 2016.

g. Questionable Fertiliser Sales

According to Clause 3 of the Credit Sales Policy, cheque payment shall only be accepted on the following conditions:

- The cheque is cleared by the bank before goods or the products can be collected.
- The cheque is a bank certified cheque

In November and December 2015, NCZ received eighteen (18) cheques in amounts totalling K2,025,400 from five (5) companies for the procurement of 6,410 x 50 kg bags of compound "D" fertiliser as shown in the table below.

Customer	Amount K	50 kg Bags of Fertilizer
RIA AGRO	1,529,600	4,780
AGAVA	144,000	450
Better Changes	64,000	200
Small and Medium Engineering Company	96,000	300
Marianesh Enterprises	191,800	680
Total	**2,025,400**	**6,410**

However, despite the fertiliser having been collected, the cheques were not honored and as of September 2016, the cheques had not been replaced.

Further, on 18th November 2015, 2,000 x 50 kg bags of compound "D" fertiliser costing K630,000 were issued to Maluba M. Trading. However as of September 2016, Maluba M. Trading had not paid for the fertiliser.

h. Supply of Fertiliser – Mumbwa District Farmers Association

In a letter dated 19th November 2015, Mumbwa District Farmers Association sourced for top and basal dressing fertiliser from NCZ for 5,000 hectares. The Association proposed the following payment terms:

- 60% advance of the total input to be remitted within a period of two weeks
- Balance of 40% within ten months
- And that a contract be signed

In this regard, NCZ raised an invoice for D Compound fertiliser (18,125 x 50 kg) and Ammonium Nitrate fertiliser (20,000 x 50 kg) worth K12,700,000 and the fertiliser was collected in November and December 2015.

The following were observed:

- The transaction was irregular as it was not approved by the Chief Executive Officer
- There was no evidence that the Association had paid the advance of sixty percent (60%). As of September, 2016, only K6,589,000 had been paid leaving a balance of K6,111,000.

i. **Failure to Supply – Braithweit Investments Zambia**

During the period under review, NCZ paid Braithweit Investments Zambia amounts totalling K250,000 for the supply of 50,000 polypropylene empty fertiliser bags. However, as of August 2016, Braithweit Investments Zambia had not supplied the bags and no refund had been obtained from the company.

j. **Questionable Payments**

There were twenty one (21) payments in amounts totalling K23,733,573 made in 2015 to various individuals and companies that had no supporting documents rendering the transactions questionable.

k. **Irregular Transaction - Maluba M. Trading**

On 10th October 2015, Maluba M.Trading was engaged to supply 350,000 x 50 kg Polypropylene Bags at a cost of K1,925,000. As of August 2016, Maluba M.Trading had been paid amounts totalling K587,000. However, a scrutiny of stores records and enquiries made revealed that the company had not supplied the Polypropylene Bags.

Although management availed for audit, a Material Receipt Report dated 28th October 2015 for 107,000 x 50kg of Polypropylene Bags worth K587,000, an examination of the Purchase book (which records entry of goods) maintained at the expansion gate revealed that there was no record of entry. A further examination and inquiry at stores revealed that there was no record of receipt in the receiving book maintained by stores and the officer whose name was indicated on the Material Receipt Report as having received the goods disputed the Material Receipt Report availed by Management as the signature was not his and he did not recall receiving the goods.

Further, the company was single sourced without obtaining authority from the Zambia Public Procurement Authority (ZPPA).

l. **Unsupported Payments**

Contrary to Financial Regulation No. 45 and 52, there were forty five (45) payments in amounts totalling K1,584,716 made during the period under review which were not supported with relevant documents such as quotations and cash sale receipts among others.

m. Missing Payment Vouchers

Contrary to Financial Regulation No. 65, seventy (70) payment vouchers in amounts totalling K1,614,675 made during the period under review were not availed for audit.

n. Wasteful Expenditure

During the period from March to December 2015, four (4) payments in amounts totalling K258,640 were made to Kapesika Enterprises Ltd for supply of IBR acid proof sheets (70 cm x 0.5 mm 10 m) with ridges to fit and (2 m acid proof 0.5 mm) IBR ridges as shown in the table below.

Date	Payee	Amount K
30.04.15	Kapesika Enterprises Ltd	24,381
24.03.15	Kapesika Enterprises Ltd	49,259
10.03.15	Kapesika Enterprises Ltd	180,000
02.12.15	Kapesika Enterprises Ltd	5,000
	Total	**258,640**

However , it was observed that at the time of audit in May 2016, these materials that were bought for the rehabilitation of bagging shed and tower cladding and roofing were damaged and corroded barely three (3) months after being fitted rendering the expenditure wasteful as they will need to be replaced.

o. Lack of Approved NCZ Procurement Manual

It was observed that the NCZ procurement guideline manual of November 2007 was still in draft form as of April 2016. In this regard, the entity operated without policies and guidelines on internal procurement processes.

p. Non Delivery of Conveyor Belt

On 3rd February 2015, Walex Pro and Construction was engaged for the procurement of a conveyor belt through a purchase order and was subsequently paid an advance payment of K50,460 on 5th March 2015. However, as of September 2016, the conveyor belt had not been delivered.

q. Fertiliser Production and Management

i. Delayed Banking at Head Office - Kafue

Contrary to Financial Regulation No 121 (1) which provides that all moneys collected by any accounting officer shall be deposited not later than the next business day following the day of receipt, there were delays in banking of revenue in amounts totalling K2,379,597 for periods ranging from three (3) to sixty five (65) days during the period under review at Head Office and Petauke Depot as shown in the table below.

Station	Amount K	Delay in days
Head Office	2,273,029	3 to 65
Petauke Depot	106,568	3 to 15
Total	**2,379,597**	

ii. Unaccounted for Revenue

Contrary to Financial Regulation No 129 (3) which provides that the daily cash collections should be brought to account, amounts totalling K676,506 collected at Head Office during the period from 2013 to 2014 were not accounted for in that the funds were neither banked nor was cash found on hand.

iii. Contract for Manufacture, Supply and Delivery of 106,409.75 Metric Tonnes of Compound D Fertiliser for the 2015/2016 Farming Season under the Farmer Input Support Program (FISP)

On 2nd June 2015, Nitrogen Chemicals of Zambia and the Government entered into a contract for the manufacture, supply and delivery of 106,409.75 metric tonnes of Compound “D” Fertiliser a contract sum of K645,438,980 with a delivery period of eight (8) to twelve (12) weeks. The fertiliser was meant for the 2015/2016 Farming Season under the Farmer Input Support Program.

However, the following observations were made:

- **Physical Inspection of Fertiliser Distributions**

  A physical verification of the various warehouses in the provinces revealed various irregularities among others; unaccounted for fertilisers, poor storage facilities, theft of fertiliser, undelivered fertilisers as specifically observed in the table below.

Government Fertiliser supplied under Fertiliser Support Programme

Province	District	Quantity of Fertiliser Received	Quantity of Fertiliser Issued	In Stock	Unaccounted for Fertiliser	Value of Unaccounted for Fertiliser K	Audit Observations
Central	Kabwe	44,018	43,940	0	78	23,713	▪ The stock was never physically verified when NCZ staff took over from Kabwe District Cooperative ▪ There were no Goods received vouchers from the cooperative ▪ NCZ is still paying for warehouse rental and security despite the shed having no stock ▪ 40,420 by 50 kg of D compound were returned to NCZ Warehouse in Kafue
	Ngabwe	13,845	12,037	1,808	0		▪ 54 bags valued at K16,416 were damaged
	Mkushi	42,505	38,388	4,048	69	20,976	▪ 69 bags of D compound fertiliser valued at K20,976 were unaccounted for

							▪ 8 bags valued at K2,432 had been partially burned ▪ There were 5 bags of urea fertilisers from the previous season
	Luano	22,380	21,918	462	0		▪ 23 bags of fertiliser valued at K6,992 were underweight
	Chitambo	12,328	11,528	800	0		▪ 6 by 50 kg bags of D compound were carry overs from 2014/2015 season
	Serenje	44,304	42,155	2,100	49	14,896	▪ 49 by 50 kg D compound fertilisers valued at K14,896 were unaccounted for ▪ 3 bags were wet and underweight
Luapula	Mansa	26,460	26,460	0	0		▪ NCZ is still paying for warehouse rental and security despite the shed having no stock
	Mwansab-ombwe	4,810	4,810	0	0		▪ 20 bags of D compound valued at K6,080 were underweight ▪ There were carry-over stocks from 2013/2014 season of 108 urea bags and 2 D compound

Northern	Luwingu			467			▪ The records pertaining to how much was received and issued were not availed for audit scrutiny ▪ 9 bags of D compound fertiliser valued at K2,736 were damaged and underweight
	Mungwi	33,114	33,114	0	0		▪ There were carry over stock of 5 by 50 kg D compound fertiliser from 2014/2015 season and 154 by 50 kg urea from 2013/2014 season ▪ The transporter had a shortfall of 17 by 50 kg of D compound fertiliser valued at K5,168
	Kasama	47,432	46,968	272	192	58,368	▪ 192 by 50 kg of D compound fertiliser bags valued at K58,368 were not accounted for
Muchinga	Nakonde	29,937	25,473	889	781	237,424	▪ A total of 1025 by 50 kg of D compound fertiliser were recorded as damages and re-baged to make 355 by 50 kg bags ▪ 110 by 50 kg of D compound fertiliser valued at K33,440 were reported as stolen while 14 by 50 kg were wet

							▪ 781 by 50 kg of D compound valued at K237,424 were not accounted for ▪ Poor security at the warehouse as super guard security personnel were not present and no explanation was given by Nakonde District Agriculture Cooperative
	Chinsali	22,243	18,496	730	3,017	917,168	▪ 3,017 by 50 kg of D compound bags valued at K917,168 were not accounted for
	Mpika	42,009	41,457	540	12	3,648	▪ 12 by 50 kg of D compound bags valued at K3,648 were not accounted for ▪ A total of 620 by 50 kg of urea fertilisers were still in stock
Eastern	Chipata	98,600	96,234	365	2,001	608,304	▪ 2,001 by 50 kg of D compound bags valued at K3,648 were not accounted for
Southern	Sinazongwe	32720	18,123	11,31 7	3,280	997,120	▪ 3,280 X 50 kg D Compound were returned to NCZ Kafue, but the records at NCZ Kafue show that 3,156 X 50 kg were received resulting in 124 X 50 kg valued at K37,696 unaccounted for.

	Choma	50,623	19,177	8,489	18	5,760	▪ 30,740 X 50 kg D Compound were returned to NCZ Kafue, but the records at NCZ Kafue show that 30,722 X 50 kg were received resulting in 18 X 50 kg bags valued at K5,472 unaccounted for. ▪ The people in marketing agreed that 18 bags valued at K5,472 went missing due to negligence by the transporter, and was charged but the evidence of the payment was not availed. ▪ 102 X 50 kg D compound bags were carry over from previous season ▪ Poor storage and the shed had leakages - Zambia Railways shed ▪ The officer failed to explain the source of excess bags totalling 7,783 X 50 kg D compound.
	Livingstone	4,187	4,171	5	11	3,520	▪ 11 X 50kg D Compound bags valued at K3,344 were not accounted for by the transporter

	Kazungula	36,972	36,704	529	201	64,320	▪ 188 X 50 kg D Compound bags valued at K57,152 were unaccounted for by the transporter ▪ A total of 13 by 50 kg of D compound fertiliser were recorded as damages and re-baged to make 462 X 50 kg bags
Western	Sesheke	1,000	349	nil	651	208,320	▪ 651 by 50 kg of D compound fertiliser valued at K197,904 were reported as stolen by the depot manager and the case is currently in court ▪ Poor security at the warehouse as super guard security personnel were not present and no explanation were given by Nakonde District Agriculture Cooperative
	Kaoma	20,122	18,965	1,096	55	17,600	▪ 6 X 50 kg D Compound bags valued at K1,824 were not accounted for by the transporter ▪ 154 X50 kg D compound were kept for Mitete

							▪ 55 bags were sent back to NCZ because they were wet but at the time of audit verification in April 2016, these bags were not replaced.
	Nkeyema	17,810	17,779	24	7	2,240	▪ 7 by 50 kg of D compound fertiliser valued at K2,240 were reported as stolen by the transporter and the case is currently with the police ▪ The officer failed to account for K12,328 from the cash sales, the total sales made for the period 2013 to 2015 were in the sum of K186,620 but the amount deposited with Finance Bank amounted to K174,292 resulting in K12,328 unbanked. ▪ Poor record keeping
Copperbelt	Chingola	20,587	19,333	1,254	60	19,200	▪ The shed had leakages ▪ The security guard from Guardall found at the depot had not been paid due to failure by NCZ to pay the security company

							▪ 60 X 50 kg bags of D Compound valued at K19,200 were damaged
	Ndola			2,673	15	4,800	▪ 15 X 50 kg D Compound bags valued at K 4,800 were not accounted for ▪ The physically counted bags were 2,673, while the ledger showed a balance of 2,688.
	Mufurila	15,539	15,447	12	80	25,600	▪ 80 X 50 kg D Compound bags valued at K25,600 were not accounted for ▪ Depot manager had not been paid for 11 months- Total salaries accrued by NCZ is K33,000 ▪ The depot manager used his money to pay transporters K1,060 and K210 for sowing the bags, NCZ had not paid the officer at the time of audit verification in April 2016
	Lufwanyama				501	160,320	▪ 501 X 50 kg D Compound bags were transferred to Mimu depot. Although the DACO stated that instructions came from NCZ Headquarters, the

							transfer information was not availed for audit scrutiny.
North Western	Zambezi	8,822	8,687	135			▪ 135 X 50 kg bags of D Compound valued at K41,040 were damaged ▪ Loaders had not been paid ▪ Landlords had not been paid from the time they signed the contracts ▪ The contracts were not availed for audit scrutiny

- **Unreconciled Returned Fertiliser Bags - Kabwe**

  During the site visit to the NCZ Kabwe depot, it was revealed from the records that were scrutinised that 40,420 x 50 kg bags of D compound fertiliser were returned to NCZ Plant in Kafue. However, a further inspection of the documents at the warehouse in Kafue indicated that 38,614 x 50 kg bags of "D" compound fertiliser were received leaving a variance of 1,806 x 50 kg bags of "D" compound fertiliser worth K549,024 which could not be explained.

r. Management of Plant, Equipment, Machinery and Assets

i. Failure to Revalue Assets

It was observed that Nitrogen Chemicals of Zambia had not revalued its assets such as plant and equipment and buildings from the time the company was incorporated in 1967. According to International Accounting Standards (IAS 16.31), revaluations need to be done often enough to ensure that the carrying amount is not materially different from fair value at the end of the reporting period. Depending on the volatility of the asset's value, this may mean revaluing at least annually, or every three to five years. As of the time of review of the NCZ operations in May 2016, the total net book value of assets was K15,802,844.31.

ii. Use of Old Plant Machinery and Equipment

An inspection of Works In Progress (W.I.P) in the plant revealed that some of the machinery and equipment were not operating as intended as they are old and past their useful life hence need for replacement of spare parts or replacement of machines as a whole. In particular, the following were noted:

- **Dose Meters Motors**

  The Dose meters are used to transport the raw materials from the Hopper store to the granulator through conveyer belts. The motors and control switches are not functioning efficiently hence the need for replacement as can be seen in the picture below.

- **Dryer**

The dryer is used to dry the raw materials to remove moisture and come up with strong granules. The gear box for the dryer is constantly faulty as it is old and needs replacement. See picture of dryer below.

- **Screens**

The screens are used to grade the materials, ensuring that only materials of the right granule size are accepted to go through to the coating drum. The screens breakdown frequently because the bearings ceased due to old age and the corrosive nature of materials being processed. See picture of Screen bearings below.

iii. Inadequate Machinery and Plant Equipment

An observation of the production process revealed that some machinery and equipment were inadequate given the increase in quantities of Fertiliser produced. Some of the Machinery and equipment which were identified as inadequate are:

- **Loaders**

  It was observed that the two loaders that are currently in use are old and over used. The loaders are used to carry coal and other raw materials and they are also used to carry finished products. There is need to purchase additional loaders.

- **Sewing Machines**

  The sewing machines are used to sew the bags of fertiliser during the packaging process. The sewing machines constantly break down and spares are normally difficult to find. There is need to purchase additional sewing machines.

iv. Lack of Plant, Machinery and Equipment Replacement Policy

Best practice demands that an institution should be able to have an asset management policy which will clearly have a defined plan on how the institution will be able to replace its old and obsolete assets. A review of the asset files and enquiries made revealed that NCZ had no policy on asset management. Consequently, the following were observed:

- **Failure to replace the Sulphuric Acid Plant**

  In the year 1976, the Government procured and installed a sulphuric acid plant at NCZ with a life span of 30 years. The plant had capacity to produce adequate acid which it could supply to the mines and other industries within Zambia and outside the region. However, a physical inspection carried out in April 2016 revealed that the plant was obsolete and had not been replaced since 1976.

- **Failure to Repair Ammonium Nitrate, Plants and Nitric Acid Plant**

  Gasification plant, Nitric Acid plant, Ammonium Nitrate plant and Ammonia plant remained unserviced and had a major breakdown as at the time of audit in March 2016. If serviced, NCZ would be able to satisfy the demand for both basal and top dressing fertiliser that the country needs.

v. Non Implementation of off take Agreement

On 1st October 2014, NCZ signed a supply contract with AEL Zambia (Public) Limited Company for the supply of Ammonium Nitrate Solution and Ammonium Nitrate Porous Prill for a fixed period of ten (10) years. However, as of May 2016, the agreement had not been implemented. This is despite NCZ having produced 533.2 metric tonnes of Ammonium Nitrate Solution and Ammonium Nitrate Porous Prill tailor made to the specifications of AEL Zambia.

However, AEL Zambia has continued importing the hazardous products via road from the sister company in South Africa.

vi. Poor Management of Non-Current Assets

An examination of records and a physical inspection of some of the Nitrogen Chemicals of Zambia's non-current assets revealed that fixed assets management was generally very poor and the Institution lacked specific guidelines on the management and maintenance of its fixed assets. A system of prudent and adequate management of fixed assets including maintenance of inventory cards and comprehensive fixed assets register was lacking. In particular, the following observations which render the assets susceptible to misuse or theft were made.

- **Failure to Acquire a New Fire Tender**

  The Fire Tender AAK 6452 at NCZ uses form and powder, but at the time of physical inspection, the vehicle had no form and powder. Thus, the company was at risk in case of fire. See pictures below.

Obsolete Fire Fighter

- **Dilapidated Structure**

  Some of the buildings at NCZ were dilapidated as some of the windows were broken and the asbestos walls had fallen down. See pictures below.

Damaged Asbestos

Broken windows

- **Failure to Insure Property, Plant and Equipment**

  A review of the assets register and other documentation at Nitrogen Chemicals of Zambia revealed that non-current assets in amounts totalling of K14,935,991.47 were not insured. The only assets which were insured by the entity were ten (10) motor vehicles.

Southern Water and Sewerage Company Limited

Background

16. The Southern Water and Sewerage Company (SWSC) was incorporated as a Private Company limited by shares under the Companies Act (CAP 388 of the Laws of Zambia) and Section 9 (c) of the Water Supply and Sanitation Act No. 28 of 1997 in September 1999. The Water and Sanitation Act of 1997 was amended by Act No. 10 of 2005.

The Company's shareholders are the eleven (11) Local Authorities in Southern Province namely Livingstone, Kazungula, Kalomo, Choma, Monze, Mazabuka, Sinazongwe, Gwembe/Munyumbwe, Namwala, Siavonga and Itezhi-tezhi councils. It commenced operations in April 2000. The SWSC is mandated to supply water and sanitation services to twenty (20) urban and peri-urban centres in the Southern Province of Zambia. These centres are spread over an area of 85,000 square kilometres.

Board of Directors

The Board of Directors comprises:

- The Mayor or Council Chairperson from participating councils
- The Town Clerk or Council Secretary from participating councils
- The Provincial Local Government Officer or representative
- A representative from Engineering Institute 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 etc.
- A community representative from commercial consumer category,
- A community representative from the domestic consumer category,
- Two members appointed by the Minister, one of whom shall be the Chairperson of the Board.

The Board is appointed by the shareholders of the company and is ratified by the Minister of Local Government and Housing.

Management

The company is headed by the Managing Director who is assisted by the Director of Operations and the Director of Finance and Commercial. The Directors are assisted by the managers of Human Resource and Administration, Commercial, Finance, Information Technology, Public Relations, Internal Audit Managers and the Company Secretary. The Company is further divided into three regions namely Northern, Central and Southern each headed by a Regional Manager.

Sources of Funds

The Company derives its income from water sales and provision of sewerage services. In addition, the Company receives grants from Government and cooperating partners from time to time. During the period under review, the Company received amounts totalling K133,628,623 as income broken down as follows.

	2015 K	2014 K	2013 K	Total K
Turnover	46,721,016	39,590,370	33,117,040	119,428,426
Other Income	3,459,815	3,381,442	-	6,841,257
Grants - GRZ	2,773,419	2,067,990	2,517,531	7,358,940
Total	**52,954,250**	**45,039,802**	**35,634,571**	**133,628,623**

Accounting and Other Irregularities

A review of accounting and other records maintained at the company headquarters for the period from January 2013 to December 2015 carried out in June 2016 revealed the following:

a. Absence of a Board of Directors

Contrary to good corporate governance practice and its requirements and the Articles of Association, SWSC Limited had been operating without a Board of Directors since December 2015 when the last board was dissolved before the end of its tenure. This led to management making critical decisions without the guidance and approval from the Board. As of October, 2016 the Board had not been appointed.

b. Lack of Insurance Cover for the IT Equipment

Best practice requires that an organisation obtains insurance cover for its valuable assets. In addition, the strategic focus of the institute hinges on IT systems, an indication that IT and its component were critical to the continued competitive advantage of the institution.

It was however observed that, SWSC had not insured it's IT equipment valued at K736,821 as of September 2016.

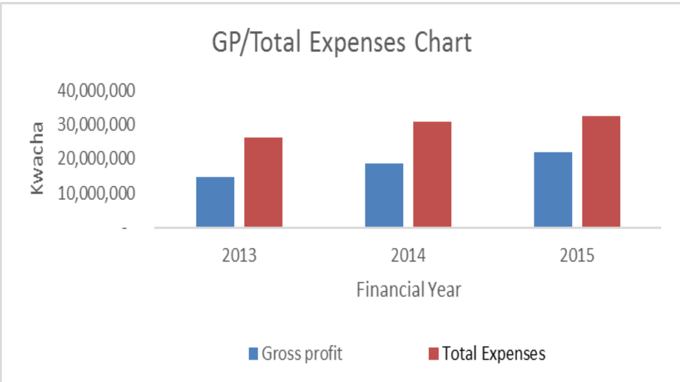
c. Financial Performance – Statement of Comprehensive Income

Extract of Statement of Comprehensive Income

	2015 (Draft) K	2014 K	2013 K
Turnover	46,721,016	39,590,370	35,285,364
Cost of Sales	(24,764,783)	(21,068,927)	(20,755,383)
Gross Profit	**21,956,233**	**18,521,443**	**14,529,981**
Amortisation of capital grants	5,997,698	5,933,989	5,777,334
Other Income	3,459,815	3,381,442	(2,168,324)
Revenue Grant		0	556,500
Net Income	**31,413,746**	**27,836,874**	**18,695,491**
Administrative Expenses	(15,963,187)	(14,620,684)	(10,266,555)
Other operating expenses	(16,240,040)	(16,188,157)	(15,777,234)
Total Expenses	**(32,203,227)**	**(30,808,841)**	**(26,043,789)**
Loss before taxation	(789,481)	(2,971,967)	(7,348,298)
Income tax expense			
Comprehensive loss for the year	**(789,481)**	**(2,971,967)**	**(7,348,298)**

i. Recurring Losses

As can be seen from the statement of comprehensive income above, whilst the company's turnover had increased from K35,285,364 in 2013 to K46,721,016 in 2015, the company continued incurring losses. The losses were caused by the Company's failure to keep its total expenses below the amounts of gross profits (GP) it had generated as can be seen in the chart below.



As can be seen from the chart above, total expenses in the period under review were higher than the gross profits resulting in the failure to generate profits and improve the company's performance. Total expenses in 2013 were K26,043,789 while the gross profit was K14,529,981 and this worsened in 2014 with expenses reaching K30,808,841 while gross profit was K18,521,442. In 2015, there was no improvement as operating expenses reached K32,203,227 while gross profit was K21,959,233.

ii. Gross Profit Margin Ratio

The Gross Profit Margin of an entity measures the amount of turnover it retains after all its cost of sales are deducted. An analysis of the profit margins for the period under review revealed declining margins as shown in the table below:

Gross Profit Margin = (Gross Profit/ (Loss))/Turnover) x 100

	2015	2014	2013
Turnover (K)	46,721,016	39,590,370	35,285,364
Profit/(Loss) for the year (K)	(789,481)	(2,971,967)	(7,348,298)
Gross Profit Margin (%)	-1.69	-7.51	-20.83

As can be seen from the table above, the company did not generate gross profit that exceeded 50% throughout the period under review, thereby failing to adequately cover operating expenses.

d. Company Financial Position

Extract of Statement of Financial Position			
	2015 (Draft) K	2014 K	2013 K
ASSETS			
Non - Current Assets			
Property, plant and equipment	186,777,857	187,591,947	184,248,538
Investment in subsidiary	750,000	750,000	750,000
	187,527,857	188,341,947	184,998,538
Current assets			
Inventories	1,082,973	1,221,253	935,585
Trade and other receivables	8,964,629	8,418,252	6,372,027
Cash and bank	1,237,847	1,018,881	3,275,107
	11,285,449	10,658,386	10,582,719
Total assets	**198,813,306**	**199,000,333**	**195,581,257**
EQUITY AND LIABILITIES			
Capital and Reserves			
Share capital	10,000	5,000	5,000
Surplus in reserves	-	-	-
Revaluation Reserve	20,680,808	22,733,260	24,785,712
Accumulated Fund	13,079,673	14,252,310	16,644,823
	33,770,481	36,990,570	41,435,535
Non - Current liabilities			
Long-term terminal benefits	10,765,225	9,704,421	9,714,402
Obligations under finance lease	841,649	-	-
Capital grants and capital contributions	124,889,094	125,576,923	121,534,843
	136,495,968	135,281,344	131,249,245
Current liabilities			
Obligations under finance lease	973,416	-	-
Trade and other payables	27,226,952	26,728,420	22,676,487
Bank overdraft	346,488	-	219,991
	28,546,856	26,728,420	22,896,478
Total equity and liabilities	**198,813,306**	**199,000,333**	**195,581,257**

i. Capital and Reserves

A scrutiny of the company's statement of financial position for the period under review revealed that capital and reserves had declined from K41,435,535 in 2013 to K33,770,481 in 2015 representing a decline of 18.8%. This erosion in capital deprives the company of necessary funds to improve its infrastructure.

ii. Liquidity Position

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. The acceptable current ratio is 2:1 while NWASCO recommends a current ratio of 3:1.

However, the current ratio for the Company for the financial years ended 31st December 2013, 2014 and 2015 was 0.46:1, 0.40:1 and 0.40:1 respectively, which was well below the acceptable current ratio of 2:1 and the 3:1 recommended by NWASCO.

In this regard, the Company operated with a negative working capital as shown in the table below.

	Draft 2015 K	2014 K	2013 K
Current Assets	11,285,449	10,658,386	10,582,719
Current Liabilities	28,546,856	26,728,420	22,896,478
Working Capital	(17,261,407)	(16,070,034)	(12,313,759)
Current Ratio	**0.40:1**	**0.40:1**	**0.46:1**
Quick Ratio	**0.36:1**	**0.35:1**	**0.42:1**

Consequently, the company may not be able to meet its short term obligations as they fall due.

Further, the quick ratio which reflects the ability of a firm to discharge its short-term financial obligations or the number of times current liabilities can be paid with current assets which do not include inventory remained below the generally accepted ratio of 1 to 0.5.

iii. Return on Capital Employed (ROCE)

This is a profitability ratio that measures how efficiently a company can generate profits from its capital employed by comparing net operating profit to capital employed.

The ratio indicates the return on the shareholders' investment, during the period under review, the ROCE was as shown in the table below;

ROCE = Net Operating Profit/Capital Employment			
Year	**2015**	**2014**	**2013**
Actual ROCE	-2.34	-8.03	-17.73

The above scenario indicates that SWSCO is not generating enough return to satisfy the shareholders.

e. 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 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 January 2013 to 31st December 2015 revealed the following:

i. Unaccounted for Water (Non - Revenue water)

Non – revenue water is the difference between the quantity of treated water distributed in the network and the quantity of water billed. It consists of technical (leakages) and commercial losses (illegal connections, unbilled customers, wastage on unmetered customers' premises). SWSC's percentage of non- revenue water for the years under review was as shown in the table below.

YEAR	ACTUAL	BENCHMARK
2013	43%	< 20% - Good
		20 – 25% - Acceptable
		> 25% - Unacceptable
2014	39%	< 20% - Good
		20 – 25% - Acceptable
		> 25% - Unacceptable
2015	35%	< 20% - Good
		20 – 25% acceptable
		>25% Unacceptable

In as much as the non – revenue percentage had decreased from 43% in 2013 to 35% in 2015, it still remained above the NWASCO acceptable benchmark of 25%.

ii. Metering Ratio

Metering ratio is the proportion of the metered connection compared to the total connections. Metering is required in order to measure the amount of water consumed as well as charge consumers according to their consumption. SWSC 's metering ratio was below the benchmark for utility companies that is 63% for the years 2013 – 2015 compared to the 100% set by NWASCO.

f. Questionable Acquisition of a House

On 17th July 2015, the Company entered into an agreement to purchase a house in Mazabuka at a total cost of K550,000. The terms of payment were that the whole purchase price would be paid in full by 31st December 2015.

As of June 2016, the company had paid a total amount of K400,000 towards the purchase of the house. It was however observed that the property did not have title deeds.

g. Failure to Remit Withholding Tax

SWSC made rental payments to various landlords between 4th January 2013 to December 2015 in amounts totalling K247,269. However, withholding tax in amounts totalling K82,423 deducted from rental payments had not been remitted to the Zambia Revenue Authority (ZRA) as of September 2016.

h. Failure to Pass Title of Assets to SWSC

SWSC utilised properties such as treatment plants, pump stations and elevated water tanks which were handed over to the Company at its inception in 1999 by various councils. However, title deeds for these properties acquired from twelve (12) district councils had not passed to the Company as of September 2016.

The Tanzania Zambia Railway Authority (TAZARA)

17. The Tanzania Zambia Railway Authority was established under the Tanzania Zambia Railway Act, Cap 768 of the laws of Zambia, which was later repealed and replaced by the Tanzania Zambia Railway Act, Cap 454 to provide for sound commercial principles of operation, a secure, efficient and safe system of public transport of passengers and goods by rail between and within Zambia and Tanzania. The railway line covering 1,860 km from Kapiri Mposhi to Dar-es Salaam was constructed with funding from the Government of the People's Republic of China in form of an interest free loan of RMB988,000,000 (US$121,826,744,800 or K554,420,744,800). The railway line is jointly owned by the Governments of Zambia and Tanzania with equal shareholdings.

TAZARA started its operations in 1976 and operates a freight and passenger train service. Its Headquarters is in Dar-es-Salaam, Tanzania with two regional headquarters in Mpika (Zambia) and Dar-es-Salaam (Tanzania).

Management

The Management of TAZARA is vested in the Council of Ministers and Board of Directors. The day to day operations of the Authority is the responsibility of the Managing Director.

The Council of Ministers consist of three (3) ministers responsible for finance, transport and trade respectively, in Tanzania and the three (3) ministers responsible for finance, transport and Commerce in Zambia. The Chairmanship of TAZARA rotates between Zambia and Tanzania at the beginning of each financial year.

The functions of the Council are to:

- Consider and approve long-term development plans of the Authority,
- Authorise the raising of additional share capital,
- Consider and approve the construction of new railway lines or branch lines,
- Approve and submit to the National Assembly the Authority's annual reports,
- Determine any matter of an international character involving agreements with or the interest of government of any country other than the Contracting States; and
- Give directions to the board of directors on matter of public interest.

The Council sits once a year to discuss the Board of Directors resolutions and recommendations referred to it.

Board of Directors

The Board of Directors consists of six members as follows:

- The Permanent Secretary in the Ministry responsible for Transport in Zambia;
- The Principal Secretary in the Ministry responsible for Transport in Tanzania;
- Two members with experience in either transport, commerce, industry or finance appointed by the Minister responsible for Transport in Zambia;
- Two members with experience in transport, commerce, industry or finance appointed by the Minister responsible for Transport in Tanzania.

Administration

The day to day operations of the authority are overseen by the Managing Director and the Deputy Managing Director with the assistance of five Directors and two (2) Regional General Managers, one based in Mpika (Zambia) and the other in Dar-es-Salaam (Tanzania). In addition, there is an Area Manager based in Lusaka whose role is that of coordinator and to undertake public relations duties.

Sources of Funds

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

- Appropriated by the two member country Parliaments for the purposes of the Authority;
- Paid to the Authority by way of services rendered;
- Paid to the Authority by way of grants or donations; and
- Vest in or accrue to the Authority.

Review of Operations

An audit review of operations for the Authority including the physical site inspections carried out in November 2015 revealed the following:

a. Failure to Provide Audited Financial Statements

Section 23 of the Tanzania Zambia Railway Act No. 10 of 1995 stipulates that as soon as practicable, but not later than six months after the expiry of each financial year, the Board shall submit to the Council a report concerning the activities of the Authority during such financial year; Subsection (2) states that the report referred to in subsection (1) shall include information on the operations and financial affairs of the Authority and there shall be appended thereto an audited balance sheet and an audited statement of income and expenditure.

Contrary to the provisions of the Act, TAZARA did not have audited financial statements for the 2013/2014 financial year.

b. Operating Losses - Financial Performance

A review of the audited financial statements for the period 2011 to 2013 and the 2014 unaudited statements revealed the following:

Income Statement for the Financial Years Ended 31st December 2011, 2012, 2013 and 2014

	2014 K'million	2013 K'million	2012 K'million	2011 K'million
Revenue	114	98	153	186
Direct costs	(141)	(202)	(219)	(184)
Gross margin	(27)	(104)	(66)	2
Other income	90	106	14	13
Administrative expenses	(76)	(168)	(88)	(103)
Operating loss	(13)	(166)	(140)	(88)
Finance cost/(income) –				
exchange difference on borrowings	(4)	(34)	(43)	(50)
Loss before income tax	(17)	(200)	(183)	(137)
Income tax	-	-	-	
Loss for the year	(17)	(200)	(183)	(137)

The Authority recorded declining revenue from K186 million for the financial year ended June 2011 to K114 million for the financial year ended June 2014 representing a decline of 39%. Although the Authority had continued to report losses for each of the financial years under review, there was a slight improvement in that the losses had reduced from K137 million in 2011 to K17 million in 2014.

c. Statement of Financial Position

Asset	2014 K'million	2013 K'million	2012 K'million	2011 K'million
Non current assets				
Property, plant and equipment	4,133	1,239	1,546	2,048
Current assets				
Inventories	55	41	45	33
Trade and other receivable	77	37	115	104
Cash at bank and in hand	1	12	3	10
Total Current Assets	133	90	162	146
Total assets	**4,266**	**1,329**	**1,709**	**2,194**
EQUITY				
Capital and reserves				
Share capital	572	473	521	478
Revaluation reserve	4,269	1,328	1,435	1,912
Accumulated losses	(1,791)	(1,478)	(1,314)	(1,045)
Total equity	3,050	323	642	1,345
LIABILITIES				
Non-current liabilities				
Borrowings	581	477	489	373
Retirement benefit obligations	45	40	20	19
	626	517	509	393
Current liabilities				
Trade and other payable	590	488	557	456
	590	488	557	456
Total Liabilities	1,216	1,005	1,067	849
Total equity and liabilities	**4,266**	**1,328**	**1,709**	**2,194**

i. Negative Working Capital and Low Liquidity Ratios

The liquidity of the entity is the ability to pay its debts as they fall due. The objective of working capital management is to minimise the risk of failure to pay debts as they fall due.

During the period under review, the Authority operated with a negative working capital which deteriorated from K309,739 million in 2011 to K457 million in 2014. The current ratio and quick ratios for the Authority were below the recommended ratios of 2:1 and 1:1 respectively during the period under review and risked failure to pay debts as they fall due. See table below.

	2014 K'Million	2013 K'Million	2012 K'Million	2011 K'Million
Current assets				
Inventories	55	41	45	33
Accounts receivable	77	37	115	104
Cash at bank and in hand	1	12	3	10
Total Current Assets	**133**	**90**	**162**	**146**
Current liabilities				
Total Current liabiliites	**590**	**488**	**557**	**456**
Working Capital	(457)	(398)	(395)	(310)
Current Ratio	**1:5**	**1:5**	**1:3**	**1:3**
Quick Ratio	**1:8**	**1:10**	**1:5**	**1:4**

It was observed that the Authority has not declared dividends to the two contracting States since inception in 1976.

ii. Uncollected Debt

Debt policy is required to ensure debt is managed efficiently. The policy may contain guidelines on periods for which debt may be owed and steps to recover such debt.

During the period under review, the Authority did not have a debt policy in place. Therefore, it was not possible to ascertain how long debt was owing as the period debt was contracted was not indicated.

A review of records revealed that three (3) debtors owed amounts totalling K2,114,596 (Tshs380,627,273.49) for periods over two (2) years. See table below.

Details	Balance (Tshs)	Balance K
BP (Z) Plc	24,405,720.00	135,587
Malawi Cargo Centre Ltd	153,643,144.67	853,573
Puma Energy	202,578,408.82	1,125,436
	380,627,273.49	**2,114,596**

iii. Decline in Freight Traffic

An analysis of total tonnage transported in the period under review revealed that the total tonnage had declined from 533,964 MT in 2011 to 208,538 MT in 2014 against the budgeted tonnages for the same period of 700,000 MT and 480,000 MT respectively as shown in the table below.

Year	Budget (MTs)	Actual (MTs)	Variance	Shortfall %
2010/11	700,000	533,964	(166,036)	23.72
2011/12	715,000	339,094	(375,906)	52.57
2012/13	616,000	218,285	(397,715)	64.56
2013/14	480,000	208,538	(271,462)	56.55

iv. Decline in Passenger Traffic

An analysis of passenger ridership revealed that there was decline in the number of passengers over the past four (4) years as shown in the table below.

YEAR	BUDGET Passengers	ACTUAL Passengers	Variance	VARIANCE %
2010/11	900,000	786,759	(113,241)	12.58
2011/12	900,000	795,319	(104,681)	11.63
2012/13	900,000	703,349	(196,651)	21.85
2013/14	900,000	536,725	(363,275)	40.36

d. Inadequate Locomotives

As of December 2015, TAZARA had twenty eight (28) serviceable locomotives. From the operating fleet, an average of 10 locomotives were available for operations per day against a daily demand of 14 locomotives. This affected the capacity of the Authority to operate at budgeted capacity.

e. Management of Construction Contracts

i. Contract to Supply and Install Workshop Equipment TZR/TC and PC/MPK W-S2012/2013/01 – Mpika Workshop

On 7th February 2013, Tanzania Zambia Railway Authority and Kenites Investments Limited signed a contract for the supply and installation of workshop equipment at Mpika Workshop (Single axle drop table and potable hoist system electric jacks) at a contract sum of K3,114,200.

The contract had a duration of twenty four (24) weeks commencing on 2nd May 2014.

The contractor was paid an advance payment of K1,245,680 being 40 percent of the contract sum upon commencement of the contract.

The following were however observed:

- **Abandoned Works**

  As of August 2016, the contractor had not supplied the equipment and only dug a pit in the locomotive workshop for a drop table. The contractor had since abandoned the site.

- **Excessive Advance Payment**

  Article 13 of the contract between TAZARA and Kinetes investments stipulates that the maximum advance payment shall be limited to 25% subject to advance payment security (Guarantee). Contrary to the contract, the Authority paid K1,245,680 representing forty (40) percent of the total contract price as advance payment.

- **Lack of Performance Security**

  Article 93 of the contract requires Performance Security to be provided at minimum amounts equivalent to 25 percent of the contract price in the form of Bank Guarantee of 10 percent and Performance bond of 15 percent. The standard form of performance security acceptable shall be Performance Bond.

  Contrary to the above provisions, the contractor did not provide any form of performance security.

ii. Contract to Supply and Install Workshop Equipment – Mpika Workshop

On 7th February 2013, the Authority engaged Embrace Zambia Limited to supply and install one (1) set of Locomotive Load Box at a contract sum of K950,000.

On 2nd May 2014, the contractor was paid an advance payment of K380,000 being 40 percent of the contract sum.

The following were however observed:

- **Non Commencement of Works**

  As of August 2016, the equipment had not been supplied and the works had not commenced despite the contractor being paid an advance payment.

- **Excessive Advance Payment**

  Article 13 of the contract between TAZARA and Embrance Zambia Ltd stipulates that the maximum advance payment shall be limited to 25% subject to advance payment security (Guarantee). Contrary to the contract, the Authority paid K380,000 representing forty 40 percent of the total contract price as advance payment.

- **Lack of Performance Security**

  Article 93 of the contract requires Performance Security to be provided at minimum amounts equivalent to 25 percent of the contract price in the form of Bank Guarantee of 10 percent and Performance bond of 15 percent. The standard form of performance security acceptable shall be Performance Bond.

  Contrary to the above provisions, the contractor did not provide any form of performance security.

iii. Failure to Supply and Install Lighting System - Mpika Workshop

On 8th October 2013, the Authority engaged Bi Tech Limited for the supply and installation of lighting system at a contract sum of K234,000 with a duration of thirty (30) days commencing on 2nd May 2014. As of May 2014, the contractor had been paid an advance payment of K93,600 being 40 percent of the contract sum.

As of August 2016, no works had been done.

f. Management of Property and Infrastructure

i. Abandoned Property

Minet house is a two storey office block located in the central business district in Ndola’s buteko avenue. The property has TAZARA ID No. TZR/303/NDL/ADB/001 and a net book value of K1,684,796 (Tsh 303,263,339) during the financial year ended 30th June 2014. Although the house has seventeen (17) rentable office spaces, the property had been vacant for over five years.

ii. Lack of Title Deeds

A review of financial statements for the financial year ended 30th June 2014 indicated that the Authority had land and buildings valued at K343,003,964 (Tsh61,740,713,574) on the Tanzanian side and K171,217,785.87 (Tsh30,819,201,456) on the Zambian side for which TAZARA had no title deeds.

iii. Land Encroachment on Railway Strip

A railway strip is land on both sides of the railway track measuring fifty (50) metres in width from the centre line of the track.

Clause 62 of the Tanzania Zambia Railway Act 1995 stipulates that except with written permission of the Authority, a person shall not erect any building or structure or execute any works on the railway strip.

Contrary to the above regulation, residents have encroached the permanent way in Serenje, Mpika and Kasama as can be seen in the picture below.

Railway encroachment at Mpika Station

iv. Deteriorating Safety and Security Standards

According to Section 5 of the TAZARA Act No. 10 of 1995, it shall be the duty of the Authority to provide sound commercial principles of operation, a secure, efficient and safe system of public transport of passengers and goods by rail between and within Zambia and Tanzania.

Contrary to the above regulation, it was observed that the Authority recorded a total number of sixty (60) accidents in 2013/2014 financial year compared to 32 recorded in the 2012/2013 financial year resulting in an increase of 87% due to deteriorated rolling stock and railway line.

g. Weakness in the Operations at Mununga Quarry Plant

i. Failure to Dispose of Expired Explosives

According to Clause 546 (18) of the explosives regulations of Cap 115 of the Laws of Zambia, explosives issued for use shall be used within six months from the date of manufacture and that the holder shall ensure that any explosives not issued for use or issued for use but not used within six months of the date of manufacturing thereof, or any other time specified for their use but not used within such time, shall be reported to the chief inspector, who may, after inspection thereof, permit the issue or use of such explosives under such conditions as he may impose.

Contrary to the regulation, twenty three (23) cartons of explosives stored at Mununga magazine which expired on 16th August 2005 had not been reported to the Chief Inspector as of August 2016.

ii. Failure to Collect Debt

A review of the debtors schedule revealed that as of August 2016, the unit had failed to collect debts in the sum of K743,904 from seventy five (75) customers. Some of the debt had been outstanding from as far back as 2011.

h. Lack of Collective Agreement

It was observed that the Authority did not have a collective agreement with the workers union of TAZARA (Zambia). The previous collective agreement expired in June 2013.

i. Failure to Remit Statutory Contributions

During the period from 2011 to 2015, amounts totalling K237,222,863 (Tsh42,700,115,273) were deducted as PAYE from employees' salaries. However, as of August 2016, the tax had not been remitted to the Zambia Revenue Authority and Tanzania Revenue Authority. See table below.

	Amount K	Amount Tsh
Zambia Revenue Authority	88,228,136	15,881,064,536
Tanzania Revenue Authority	148,994,726	26,819,050,736
Total	**237,222,862**	**42,700,115,272**

Further, amounts totalling K9,918,456 deducted from the workers' as compensation contributions were not remitted to Workmen's Compensation Board.

Tobacco Board of Zambia

Background

18. The Tobacco Board of Zambia (TBZ) was established by the Tobacco Act CAP 237 on 1st April 1968 with a mandate to promote, protect and maintain the production, sale, preparation for subsequent use and export of tobacco grown in Zambia.

Board of Directors

Tobacco Board of Zambia is governed by a Board of Directors appointed by the Minister responsible for Agriculture for a period of two (2) years. The Board has authority to adopt, make and alter bye-laws for the regulation and furtherance of the purposes for which TBZ 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 TBZ.

The Board shall consist of the following:

- One member who shall be designated as chairperson,
- One member representing the growers of Virginia flue-cured tobacco,
- One member representing the growers of Oriental tobacco,
- One member representing the growers of Burley tobacco,
- Not more than three members representing the buyers of tobacco,
- The Minister may appoint to the Board such additional members as he deems essential to the Board in the exercise of its powers and functions.

Management

The day to day operations of the Tobacco Board of Zambia (TBZ) are managed by the Board Secretary/Chief Executive Officer who is appointed by the Board of Directors on a three (3) year renewable contract. The Board Secretary is assisted by Finance and Administration Manager, Operations Manager and Human Resources and Administration Manager. The managers are on three (3) year contracts and the rest of the staff are appointed on a permanent and pensionable basis.

Sources of Funds

The funds of the Board consist of:

- Such sums as may be payable to the Board from moneys appropriated by Parliament for the purpose;
- Such sums as may be payable to the Board pursuant to the Tobacco Act or any other Act; and
- Such other moneys or assets as may accrue to or vest in the Board, whether in the course of the exercise of its powers or functions or the performance of its duties or otherwise.

Funding

During the period under review, the Board generated funds in amounts totalling K39,991,862 from fees and levies, rentals, sale floor commissions and other income as shown in the table below.

	2015 K	2014 K	2013 K	Total K
Fees and Levies	5,864,440	5,209,983	6,683,205	17,757,628
Rentals	5,599,314	3,588,778	3,995,187	13,183,279
Sales floor Commissions	1,518,782	1,143,712	4,004,422	6,666,916
Other income	1,047,715	1,245,662	90,662	2,384,039
Total	**14,030,251**	**11,188,135**	**14,773,476**	**39,991,862**

In addition, amounts totalling K112,553 were received as Government grants.

Review of Operations

A review of accounting and other records for the period 1st January 2013 to 31st December 2015 carried out in August 2016 revealed the following:

a. Failure to Submit Annual Reports

Contrary to Section 17 of the TBZ Act which requires the Board to furnish Annual Reports which include audited Financial Statements to the Minister within six (6) months after the expiry of each financial year for tabling in Parliament, the Board did not submit the Audited Financial Statements for the financial years ended 31st December 2014 and 2015 to the Minister.

b. Financial Performance – Income Statement - Operating Expenses as a Percentage of Revenue

	Draft 2015	Draft 2014	2013
Revenue			
Grant income	52,360	50,194	9,999
Fees and Levies	5,864,440	5,209,983	6,683,205
Rentals	5,599,314	3,588,778	3,995,187
Sales floor Commissions	1,518,782	1,143,712	4,004,422
Other income	1,047,715	1,245,662	90,662
Total Amount	**14,082,611**	**11,238,329**	**14,783,475**
Expenditure			
Employee benefit expenses	(8,942,334)	(8,384,781)	(6,421,485)
Depreciation expense	(571,051)	(422,975)	(484,190)
Other operating and administration costs	(3,251,517)	(4,027,409)	(3,736,548)
Total Amount	**(12,764,902)**	**(12,835,165)**	**(10,642,223)**
Surplus/ (Deficit)	**1,317,709**	**(1,596,836)**	**4,141,252**
Net exchange gains/Adjustments	5,568,949	976,594	417,860
(Deficit)/Surplus of the year	**6,886,658**	**(620,242)**	**4,559,112**

Operating Expenses as a Percentage of Revenue = ((Operating Expenses) / (Revenue)) x 100

	2015	2014	2013
Operating Expenses (K)	12,764,903	12,835,165	10,642,223
Revenue (K)	14,082,611	11,238,329	14,784,475
Operating Expenses to Revenue (%	91	114	72

As can be seen in the table above, 72 percent of revenue generated in 2013 went towards meeting operating expenses. This worsened in 2014 as the operating expenses as a percentage of revenue increased to 114 percent while there was a reduction to 91 percent in 2015, indicating challenges in managing costs. The operating expenses were mainly staff costs comprising salaries, wages and allowances.

c. Statement of Financial Positions as at 31st December 2013, 2014 and 2015

	Draft 2015	Draft 2014	2013
ASSETS			
Non- Current Assets			
Plant and Equipment	4,310,272	2,028,408	1,575,053
Current Assets			
Trade and other receivables	16,339,176	14,094,014	17,393,833
Stancom sales	3,781,510	3,781,510	3,781,510
Bank and cash balances	17,418,759	14,304,563	13,267,591
Inventory Tobacco purchases	3,562,661	-	-
Total Assets	**45,412,379**	**34,208,496**	**36,017,988**
EQUITY AND LIABILITIES			
Capital and Reserves			
Permanent Dividend Capital	11,966	11,966	11,966
Non- Distributable reserves	11,257	11,257	11,257
Revaluation Reserves	51,422	51,422	51,422
Revenue Reserves	26,816,096	16,441,568	17,309,252
Non- current Liabilities			
Burley Tobacco Grant/Loan	10,000,000	10,000,000	10,000,000
Long term loans	11,706	11,706	11,706
Current Liabilities			
Trade and other payables	2,445,261	2,301,946	2,262,049
Other payables	1,870,226	1,192,980	2,099,635
Deffered Income	82,650	73,854	148,906
Stancom sales	4,111,767	4,111,767	4,111,767
TOTAL EQUITY AND LIABILITIES	**45,412,380**	**34,208,496**	**36,017,990**

An analysis of the Statement of Financial Position revealed that the receivable turnover days in 2013 was 429 days and this increased to 458 days in 2014. In 2015, the receivable turnover days was 423 days. See table below.

Receivable Turnover Days = (Trade and Other Receivables) / (Revenue) x 365 Days

	2015	2014	2013
Revenue (K)	14,082,611	11,238,329	14,783,475
Trade and Other Receivables (K)	16,339,176	14,094,014	17,393,833
Receivable Turnover (days	423	458	429

The high receivable turnover days is an indication that TBZ had a poor debt collection process as it did not efficiently convert its receivables into cash.

d. 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 Board had no Assets Management Policy during the period under review.

e. Failure to Recover GRZ and TBZ Outgrower Loans

During the period from 2002 to 2009, TBZ and the Government issued amounts totalling K4,810,972.53 (TBZ Out grower – K2,024,866.53 and GRZ Out grower – K2,786,106) as outgrower loans to Tobacco Associations. The loans were meant for Tobacco production by small scale farmers supported by associations. The loan scheme was to be managed by TBZ and the recoveries were to be effected in every tobacco farming season.

However, as of September 2016, amounts totalling K415,995 had been recovered while the balance of K4,394,978 (TBZ - K2,296,259 and GRZ - K2,098,719) remained outstanding.

Water Resources Management Authority (WARMA)

Background

19. The Water Resources Management Authority (WARMA) is a statutory body which was incorporated in 2011 under the Water Resources Management (WRM) Act No.21.

WARMA operates under supervision of the Ministry of Mines, Energy and Water Development and its core functions are:

i. Provide for the management, development, conservation, protection and preservation of water resource and its ecosystems;

ii. 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;

iii. 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.

Board of Directors

The Authority is managed by the Board of Directors comprising of fourteen (14) members as follows:

i. Four persons with expertise in any of the following:
   - Environmental management
   - Hydropower
   - Engineering; and
   - Commerce and industry

ii. One person each from 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.

Management

The Authority is headed by the Director General who is assisted by the Legal Counsel, Director Water Resources, Finance Manager, Human Resource Manager and Operations Manager.

Source of Funds

The Sources of funds for the authority includes among others:

- Funds as maybe appropriated by Parliament for the purpose of the Authority;
- Be paid to the Authority by way of fees, charges, grants or donations and;
- Otherwise vest in or accrue to the Authority.

Funding

During the period under review the Authority received amounts totalling K29,237,662 in form of funding from Government, grants from World Bank and GIZ and internally generated income from water user fees and charges as shown below.

	2015 K
Balance as at 1st January 2015	4,162,328
Grant	15,033,845
GIZ and World Bank	2,850,000
Other Income (Water Users)	7,191,489
Total	**29,237,662**

Accounting and Other Irregularities

An examination of accounting and other records maintained at the Authority carried out during the period 1st January to 31st December 2015 revealed the following:

a. Inadequate Staffing

A review of the WARMA staff establishment and the human resources employee listing revealed that out of an establishment of seventy four (74) positions, fifty eight (58) positions were filled while sixteen (16) were vacant thereby affecting the operations of the Authority. See table below.

Location	Establishment	Actual	Variance
Head office	36	34	2
Mazabuka	13	8	5
Kabwe	13	10	3
Kasama	12	6	6
Total	**74**	**58**	**16**

b. Irregular Procurement of a Motor Vehicle

According to the provisions of the ZPPA Act No 12 of 2008, a "No Objection" from ZPPA must be sought for any procurement by direct bidding above K10,000. However, on 20th August 2015, the Authority procured a motor vehicle at a cost of K830,640 without obtaining a "No Objection" from ZPPA.

c. Non Transmission of Data by River Gauge Stations

On 15th May 2015, the Authority contracted Likusasa (Zambia) Limited to rehabilitate and establish a total number of 65 river gauging stations spread over the whole country at a total contract sum of K11,145,293. At the time of audit in July 2016, all the sixty five (65) river gauge stations had been handed over to the Authority. The river gauge stations were to among other things transmit river water level data, water temperature data and rainfall.

This data is important for:

- Continuous record of water level data to feed into water allocation measurements.
- Continuous input into catchment water balance which will input into the catchment management plan.
- Data transmitted daily is important for flood forecasting.

As at 31st December 2015 a total of K10,035,955 had been paid to the contractor.

However, a physical inspection of sampled gauge stations and review of the correspondences revealed that eighteen (18) out of the sixty five (65) gauge stations were not able to transmit data to the central station in Lusaka, making the hydrometric (electronic) data collection incomplete at any given time thereby reverting to manual data collection.

d. Receivables Management

According to provisions of Article 153 (2-3) of WARMA Act of 2011, it was stipulated that the authority shall recover any fee or charge due and payable to the authority where any charge or fee prescribed is not paid as follows:

i. Interest shall be payable at a rate to be prescribed by the Minister during the period of the default, not exceeding the Bank of Zambia base rate.

ii. The permit, licence or certificate to which the charge or fees relates may be suspended or restricted under this section shall not claim the water or easement of which that person would otherwise have been entitled during the period of the restriction or suspension.

However, the following observations were made:

- **Uncollected Water Charges**

  During the period under review, a total of K11,545,626 was collectable from 408 clients. However, a review of records revealed that only K7,191,488 was collected from 292 clients leaving a balance of K4,354,138 uncollected as at 31st December 2015. It was further observed that K1,305,099 or 30% of the outstanding amounts had been outstanding since December 2014 and management had not enforced provisions of Article 153 (2-3) of WARMA Act of 2011 regarding the debt.

- **Increasing ZESCO Debts**

  On 6th August 2015, Zesco Ltd and WARMA management entered into debt servicing agreement to clear water charges for utilisation of public water for hydropower generation in Kafue Gorge, Lusiwasi, Chishimba, Musonda and Lunzua. The proposed payment plan to settle outstanding invoices for June 2014 to May 2015 was as follows:

Date	Installments K
31/08/15	609,814
30/09/15	609,814
31/10/15	609,814
30/11/15	609,814
31/12/15	609,814
31/01/16	609,814
Total	**3,658,884**

However, a review of Zesco Ltd's account statement revealed that Zesco Ltd did not adhere to the agreement in that only amounts totalling K850,035 had been paid on the old debt leaving a balance of K2,808,849 outstanding as at 31st January 2016. As at the time of audit in July 2016, the Zesco Ltd debt had grown to K3,986,112.

e. Failure to Utilise Water Vessels

On 1st October 2015, the Authority received fourteen (14) water vessels and ten (10) inflatable boats valued at K6,630,912 from the Ministry of Energy and Water Development for use on water inspection activities.

A physical inspection carried out in August 2016, of the distributed water vessels revealed that nine (9) water vessels valued at K2,704,644 were found stationed at the Department of Water Affairs and interviews with DWA officers from the sampled districts revealed that the vessels have never been used or deployed for water inspection activities from the time they were received in December 2015 by the respective districts.

Zambia Forestry and Forest Industries Corporation Limited (ZAFFICO)

Background

20. The Zambia Forestry and Forest Industries Corporation Limited (ZAFFICO) was incorporated in 1982 under the Companies Act, Chapter 388 of the Laws of Zambia, following the commercialisation of the Industrial Plantations Division (IPD) of the Forestry Department.

ZAFFICO Limited is mandated to manage 50,000 hectares of forest plantations and to operate wood processing units consisting of Dola Hill, Kafubu and Kalibu saw mills, and the Kafubu pole treatment plant. In 1991, the Government embarked on the economic liberalisation policy in order to promote the private sector driven economy and adopted, among other measures, the privatisation of State Owned Enterprises. In line with these liberalisation policies, the Corporation’s wood processing units were privatised in 2002 and concurrently, about 2,000 hectares of forest plantations were leased out to the private Sector. ZAFFICO is wholly owned by the Government under the Industrial Development Corporation (IDC).

Currently, the Corporation’s main functions include maintenance and protection of about 48,800 hectares (78% pine, 21% eucalyptus and 1% gmelina) of exotic forest plantations, expansion of plantation in newly acquired 53,569 hectares of land, replanting of clear felled and fire damaged areas, and the regulation of wood harvesting.

ZAFFICO had a total of six (6) plantations namely Ndola (17,554 hectares), Ichimpe (11,869 hectares), Chati (12,166 hectares) and Lamba (6,110 hectares) in Copperbelt, Kawambwa (25,182.89 hectares) in Luapula and Shiwang'andu (28,386.49 hectares) in Muchinga provinces.

Board of Directors

During the period under review the Board of Directors for the Corporation had eleven (11) members comprising of the following:

i. The Permanent Secretary in the Ministry of Mines and Natural Resources,

ii. An official from Ministry of Finance,

iii. A representative from the Copperbelt Energy Company,

iv. A representative from the Development Bank of Zambia,

v. An official from the Bank of Zambia,

vi. A representative from the Copperbelt University,

vii. Four (4) representatives from the private sector, and

viii. The Managing Director of ZAFFICO Limited.

The Board is appointed by the Minister of Mines and Natural Resources on a renewable term of three (3) years.

On 29th December 2015, the IDC board, chaired by the President of the Republic of Zambia passed a Special Resolution in which it resolved that the Board of Directors of IDC subsidiaries shall comprise of the following:

- The Permanent Secretary or a representative of the Ministry responsible for the Sector Policy;
- Not more than five (5) persons from the private sector; and
- The Managing Director

The Board was dissolved on 29th December 2015 when IDC Board revised the composition of the SOEs Board structures.

Management

The day to day operations of the Corporation are managed by the Managing Director (MD) who is appointed by the Board of Directors on a three year renewable contract. The Managing Director is assisted by Director of Plantations, Director of Finance, the Corporation Secretary, Plant Manager, Head Human Resources and the Chief internal Auditor. 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

The sources of funds for the Corporation include, among others, revenue generated through timber sales and any other levies imposed; and accrue to or vest in the Corporation from time to time, whether in the course of the exercise of its function or otherwise.

Review of Operations

A review of accounting and other related records for the period 1st April 2012 to 31st December 2015 revealed the following:

a. Income

The Corporation generated income from sales of timber and timber products, levies imposed and interest on investments made during the period under review in amounts totalling K415,474,121 against a budget of K421,540,891 out of which amounts totalling K400,600,934 were expensed. See table below.

Period Ending	Budget K	Income K	Variance K
31.03.2013	70,526,124	73,154,592	2,628,468
31.12.2013	79,743,468	74,719,955	(5,023,513)
31.12.2014	107,442,999	108,244,295	801,296
31.12.2015	163,828,300	159,355,279	(4,473,021)
TOTAL	**421,540,891**	**415,474,121**	

As can be seen from the table above, the Corporation failed to raise income as budgeted during the years ended December 2013 and December 2015 resulting into negative variances of K5,023,513 and K4,473,021 respectively.

b. Strategic Planning – Lack of Performance Indicators and Targets

A review of the Corporation Strategic plan for the period 2014 to 2018 availed for audit revealed that, although the objectives and strategies to meet objectives were clearly defined, no performance indicators and targets were set. It was therefore not clear how the Corporation would assess the effectiveness of its overall performance in meeting the indicated strategies during that period in question.

c. Failure to Convene Annual General Meetings

Part IV, Section 138. (1) of the Companies Act of 1994 states that "Subject to this section, a company shall hold, within three (3) months after the end of each financial year of the company, a meeting to be called the Annual General Meeting of the company."

However, contrary to the Act, the Corporation last convened an Annual General Meeting (AGM) in the year 2003.

d. Weaknesses in the Operations of the Board

During the period under review, the Corporation had two Board of Directors in succession comprising of ten (10) and eleven (11) members appointed by the Minister of Tourism Environment and Natural Resources and Minister of Lands, Natural Resources and Environmental Protection respectively on three (3) year renewable contracts. The following rates were paid as sitting allowances and quarterly fees to board members during the period under review.

RECIPIENT	4/07/2013 to 22/06/2014		23/06/2014 to 29/12/2015	
	Sitting Allowance K	**Quarterly Fees K**	**Sitting Allowance K**	**Quarterly Fees K**
Board Chair	2,000	1,500	3,000	2,500
Board Member	1,600	1,500	2,500	2,500
Committee Member	1,500		2,500	

The Board had four (4) sub committees during the period under review namely Staff and Administration Committee; Operations and Finance Committee; Audit and Risk Management Committee and Business Development Committee.

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

i. **Lack of a Board/Governance Charter**

Best practices require that the Board has documented governance arrangements in the form of a Board Charter. 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 organisation. It also ensures that the Board undertakes an evaluation of its own performance periodically.

However, it was observed that the ZAFFICO did not have a Board Charter to describe its governance arrangements during the period under review. As at 31st May, 2016 the Board Charter was still in draft form.

ii. **Questionable Expenditure – The Board Chairperson**

During the period from April 2014 to December 2015, amounts totalling K75,304 were paid to the Board Chairperson as sitting allowances, subsistence and travelling expenses. However, the expenditure was questionable as the minutes pertaining to the meetings for which the sitting allowances were paid were not availed for audit and Ministerial guidance and authority was not sought before the payments were made in respect of subsistence and travelling expenses.

e. **Questionable Objectivity of the Finance and Operations and Audit and Risk Management Committees**

It was observed that the Corporation combined the meetings of the Finance and Operations and Audit and Risk Management Committees in which the Managing Director (MD) was a member of both sub-committees. By being part of these committees, he was placed in a position of self-review which threatened or appeared to threaten his objectivity. In addition, his membership in these committees effectively made the Internal Auditor to report both functionally and administratively to the MD.

f. **Failure to adhere to the Annual Allowable Cut (AAC) - PINE**

The Corporation did not adhere to the Annual Allowable Cut (AAC) of 177,809 m^3 in the harvesting of pine wood during the period under review as shown in the table below.

Year End	Wood Harvested (M^3)	Annual Allowable Cut (M^3)	Variance (M^3)
31.03.2013	460,262	177,809	282,453
31.12.2013	364,491	177,809	186,682
31.12.2014	443,616	177,809	265,807
31.12.2015	436,322	177,809	258,513
TOTAL	**1,704,691**	**711,236**	**993,455**

As can be seen from the table above, the Corporation did not adhere to the recommended Annual Allowable Cut of 177,809 m³ by overharvesting 282,453 m³ in March 2013, 186,682 m³ in December 2013, 265,807 m³ in December 2014 and 258,513 m³ in December 2015 resulting into a total of 1,704,691 m³ of pine wood harvested during the period under review. This is more than twice the rate at which the Corporation is supposed to harvest its plantation.

g. Financial Performance - Statement of Comprehensive Income for the Financial Periods 1st April 2012 to 31st December 2015.

	DRAFT 31.12.2015 (12 months) K	DRAFT 31.12.2014 (12 months) K	31.12.2013 (9 months) K	31.03.2013 (12 months) K
Revenue	154,022,394	104,629,213	72,652,596	70,540,582
Cost of sales	(17,219,192)	(11,571,252)	(8,681,431)	(8,513,576)
Gross Profit	**136,803,202**	**93,057,961**	**63,971,165**	**62,027,006**
Other income	6,898,535	3,615,082	2,067,359	2,614,010
Operating expenses	(121,851,557)	(96,494,485)	(62,361,413)	(104,922,647)
Profit before capitalisation of expenses	**21,850,180**	**178,558**	**3,677,111**	**(40,281,631)**
Capitalisation of expenses	68,346,109	57,764,054	40,837,616	43,985,380
Profit before income taxes	**90,196,289**	**57,942,612**	**44,514,727**	**3,703,749**
Income Tax Expense	(4,743,860)	(3,027,500)	(881,696)	(401,425)
Profit for the year	**85,452,429**	**54,915,112**	**43,633,031**	**3,302,324**
Other Comprehensive income:				
Prior year adjustment	-	-	(272,486)	2,473,782
Total comprehensive income for the year	**85,452,429**	**54,915,112**	**43,360,545**	**5,776,106**

i. Profitability

The company recorded an improvement in the net profit from K5,776,106 in 2012 to K85,452,429 in 2015. The increase was mostly attributed to the increase in pine sales, which accounted for above 93% on average as shown in the table below;

Roundwood Sales	31.12.2015 K	31.12.2014 K	31.12.2013 K	31.03.2013 K
Total Revenue	154,022,394	104,629,213	72,652,596	70,540,582
Pine sales	144,191,000	97,779,000	64,879,820	65,419,635
Eucalyptus sales	5,924,000	5,977,000	6,110,021	4,194,720
Gmelina sales	189,000	-	-	3,369
% of Pine Sales	**94%**	**93%**	**89%**	**93%**

ii. Operating Expenses as a Percentage of Revenue

A scrutiny of the Statement of Comprehensive Income for ZAFFICO revealed that the operating expenses for the corporation represented more than 75 percent of the revenue during the period under review as shown in the table below.

Operating Expenses as a Percentage of Revenue = (Operating Expenses) / (Revenue) x 100

	2015 (12 Months)	2014 (12 Months)	2013 (9 Months)	2013 (12 Months)
Operating Expenses	121,851,557	96,494,485	62,361,413	104,922,647
Revenue	154,022,394	104,629,213	72,652,596	70,540,582
Operating Expenses to Revenue (%)	79.1	92.2	85.8	148.7

As can be seen in the table above, 148.7% of revenue generated in the year 2013 went to meet operating expenses, although there was an improvement in 2014 and 2015 as the operating expenses reduced to 92.2% and 79.1% respectively.

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 cost as a Percentage of Operating Cost = (Staff Costs) / (Operating Expenses) x 100

	2015 (12 Months)	2014 (12 Months)	2013 (9 Months)	2013 (12 Months)
Salaries, wages and allowances (K)	73,782,017	60,100,286	38,505,570	43,551,883
Other Operating Expenses (K)	121,851,557	96,494,485	62,361,413	104,922,647
Total Operating Expenses (K)	195,633,574	156,594,771	100,866,983	148,474,530
Staff Costs to Operating Expenses (%)	61	62	62	42
Revenue (K)	154,022,394	104,629,213	72,652,596	70,540,582
Staff Costs to Revenue (%)	48	57	53	62

As can be seen in the table above, staff costs as a percentage of revenue were 62% in 2013 57% in 2014 and 48% in 2015. The staff costs in relation to revenue reflected reduced staff efficiency as increases in staff costs did not improve the revenue generated.

h. The Statement of Financial Position for the Corporation for the years under review is as shown

	DRAFT 31.12.2015 (12 months) K	DRAFT 31.12.2014 (12 months) K	31.12.2013 (9 months) K	31.03.2013 (12 months) K
ASSETS				
Non-current assets				
Plantations in formation	258,976,784	207,903,630	161,724,610	127,907,268
Property and equipment	42,411,221	37,708,108	21,462,367	17,275,870
Intangible assets	265,211	222,411	72,383	94,316
	301,653,216	245,834,149	183,259,360	145,277,454
Current Assets				
Inventories	3,037,320	3,520,041	2,149,323	2,128,217
Trade and other receivables	31,824,764	14,243,247	15,378,668	10,218,367
Cash and cash equivalents	59,902,423	33,615,865	27,743,953	25,998,196
	94,764,507	51,379,153	45,271,944	38,344,780
TOTAL ASSETS	**396,417,723**	**297,213,302**	**228,531,304**	**183,622,234**
EQUITY AND LIABILITIES				
Equity attributable to owners				
Share capital	82,500,963	82,500,963	718,391	718,391
Revaluation Reserves	4,721,274	5,162,559	5,470,494	5,775,595
Retained earnings	262,180,468	180,969,115	121,095,298	77,734,753
Amounts awaiting allotment	-	-	81,782,572	81,782,572
Total Equity	**349,402,705**	**268,632,637**	**209,066,755**	**166,011,311**
LIABILITIES				
Non-current liabilities				
Loans	4,200	4,200	4,200	4,200
Deferred Liabilities	19,419,160	15,196,077	317,755	8,066,328
Deferred tax liabilities	3,591,214	3,829,422	3,267,988	3,291,910
Deferred capital grant	9,434,350	-	-	-
	32,448,924	19,029,699	3,589,943	11,362,438
Current liabilities				
Trade and other payables	8,164,301	6,399,333	5,920,962	5,690,150
Proposed dividend	1,000,000	-	-	-
Income tax	5,401,794	3,151,633	953,644	558,335
	14,566,095	9,550,966	6,874,606	6,248,485
Total liabilities	**47,015,019**	**28,580,665**	**10,464,549**	**17,610,923**
TOTAL EQUITY AND LIABILITIES	**396,417,724**	**297,213,302**	**219,531,304**	**183,622,234**

i. **Unknown Bank Deductions**

During the period from February to November 2015, amounts totalling K156,138 were deducted from the Corporation's bank accounts held with Zanaco and Indo-Zambia Banks. However, a review of the ledgers revealed that the corporation could not identify what the deductions were for and as of September 2016, clarifications had not been obtained from the banks.

j. **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 and the Forests Act, Chapter 199 permits the grant of title deeds in forest reserves subject to certain conditions. However, the Corporation did not have title deeds for:

- 48,800 hectares of plantations under its charge.
- One hundred and nine (109) properties valued at K15,170,900 as shown in the table below.

Town	Market Value K	No. of Assets
Ichimpe	2,498,000	10
Chati	5,583,800	43
Lusaka	935,000	8
Lamba	809,000	7
Ndola	5,345,100	41
Total	**15,170,900**	**109**

k. **Failure to Register Assets with RTSA**

During the period under review, the Corporation used suppliers' documents to insure thirty six (36) non-current assets in form of tractors, trailers and others at a total sum of K3,285,336. However, it was observed that the assets were not registered with the Road Transport and Safety Agency (RTSA) contrary to the Road Transport and Safety Act.

l. Lack of Assets Management Policy

The Asset Management Policy gives guidance on the acquisition, use and disposal of an entity's non-current assets and 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**.** However, it was observed that the Corporation's Assets Management Policy was still in draft form as of May 2016.

m. Lack of a Documented Risk Management Policy

It was observed that the Corporation did not have a documented risk management policy in place. As a result, no formal risk assessments had been carried out by the Corporation during the years under review.

n. Lack of a Debt Management Policy

During the period under review, the Corporation operated without a debt management policy. As a result, the Corporation had outstanding debtors in amounts totalling K13,185,087 out of which K3,439,970 had been outstanding for more than one hundred and twenty days (120) days.

o. Inadequately Supported Payments

Contrary to Financial Regulations Nos. 45 and 52, six (6) payments in amounts totalling K29,907 made during the period under review were inadequately supported in that they lacked relevant documents such as receipts and GRNs.

p. Unretired Accountable Imprest

Contrary to Financial Regulations No. 96, accountable imprest issued to various officers in amounts totalling K220, 871 during the period under review had not been retired as of September 2016.

q. Unaccounted for Stores

Contrary to Public Stores Regulations No. 16, fuel costing K422,309 procured during the period under review was unaccounted for in that there were no disposal details.

Zambia Revenue Authority (ZRA)

Background

21. The Zambia Revenue Authority is a corporate body under the Zambia Revenue Authority Act, No. 28 of 1993. Pursuant to this Act, the ZRA is charged with the responsibility of collecting revenue on behalf of the Government.

The functions of the Authority include, among others:

i. To properly assess and collect taxes, duties, levies and fees at the right time.

ii. To ensure that all monies collected are properly accounted for and banked.

iii. To properly enforce all relevant legislation and administrative provisions;

iv. To provide statistical information on revenue to the Government;

v. To give advice on tax policy to Government; and

vi. To facilitate international trade.

Administration of the Authority - Governing Board

The Governing Board oversees the operations of ZRA and comprises nine (9) members. According to Part III (11) subsection (1) of the Zambia Revenue Authority Act, the Board shall consist of the following members; The Secretary to the Treasury, the Permanent Secretary at the Ministry of Justice, the Governor of the Bank of Zambia, a representative from the Law Association of Zambia, three persons, each representing the Zambia Association of Chambers of Commerce and Industry, the Bankers' Association of Zambia and the Zambia Institute of Chartered Accountants and two members appointed by the Minister responsible for Finance.

According to the Act, the members shall 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 governing board meets every quarter.

During the period under review, it was observed that all the positions in the Governing Board were filled.

Management and Staff

The Commissioner General is responsible for the day-to-day operations and is assisted by four (4) Commissioners in charge of Finance, Domestic Taxes, Corporate Services and Customs Services departments.

Sources of Funds

According to Part V of the Zambia Revenue Authority Act, the funds of the Authority shall consist of:

i. Such funds as the Ministry responsible for Finance and the Authority may agree upon at the beginning of each year as being necessary for the Authority to efficiently carry out its functions for the whole year.

ii. Such funds as may be appropriated by Parliament for the purpose of the Authority.

iii. Such moneys as may be paid to the Authority by way of grants or donations; provided that the consent of the Minister shall be obtained before any donation or grant is accepted by the Authority.

iv. Vest or accrue to the Authority.

Accounting and Other Irregularities

A review of operations of the Zambia Revenue Authority for the period from 1st January 2013 to 31st December 2015 carried out in April 2016 revealed the following:

a. Financial Performance – Statement of Comprehensive Income

	2015 K	2014 K	2013 K
Revenue			
Government grants	438,998,671	467,616,337	455,833,818
Asyscuda processing fees	71,849,019	38,434,053	54,130,834
Other income	5,270,857	5,565,314	8,739,951
Investment Climate Facility & NTA income	12,237,625	12,068,738	4,296,631
Deferred income	1,864,849	2,049,119	2,002,850
Commission on Kariba dam toll fees	4,017	4,405	8,794
	530,225,038	**525,737,966**	**525,012,878**
Expenditure			
Personnel expenses	429,621,364	404,195,434	404,297,054
Adminstrative expenses	39,000,075	61,306,198	41,673,827
Other operating expenses	62,639,784	59,913,593	53,547,109
Depreciation and amortisation	56,785,225	52,260,512	25,532,929
Total Expenditure	**588,046,448**	**577,675,737**	**525,050,919**
Results from operating activities	**(57,821,410)**	**(51,937,771)**	**(38,041)**
Finance income	14,254,602	3,323,256	4,831,636
Finance costs	(247,065,271)	(307,854)	(457,761)
Net finance income	(232,810,669)	3,015,402	4,373,875
(Deficit)/surplus for the year	**(290,632,079)**	**(48,922,369)**	**4,335,834**

As can be seen from the statement of comprehensive income above, the Authority‘s revenue increased from K525,012,878 in 2013 to K530,225,038 in 2015. However, the performance of the Authority deteriorated from a surplus of K4,335,834 in 2013 to a deficit of K290,632,079 in 2015 representing a negative 6,803% change. The increase in deficit is mainly attributed to increase finance costs which increased from K457,761 in 2013 to K247,065,271 in 2015.

b. Authority Financial Position

Extract of Statement of Financial Position			
	2015 **K**	**2014** **K**	**2013** **K**
ASSETS			
Non-current assets			
Property, plant and equipment	563,230,470	587,594,670	619,528,093
Intangible assets	59,436,976	56,814,811	55,437,225
Employee loans and advances	4,378,557	3,015,487	2,912,791
	627,046,003	647,424,968	677,878,109
Current assets			
Inventories	1,555,376	1,155,058	1,291,622
Employee loans and advances	13,135,670	9,046,459	6,451,580
Other assets	27,836,597	12,839,305	30,891,956
Cash and cash equivalents	115,785,738	161,867,019	125,900,339
Customs deposits bank accounts	7,605,860	7,708,380	6,388,361
Tax refunds bank accounts	35,528,311	38,852,607	33,278,158
	201,447,552	231,468,828	204,202,016
TOTAL ASSETS	**828,493,555**	**878,893,796**	**882,080,125**
CAPITAL FUND, RESERVES AND LIABILITIES			
Capital fund and reserves			
Capital fund	(360,032,208)	(71,853,610)	(8,221)
Revaluation reserve	132,248,572	134,702,052	139,058,032
Total capital fund and reserves	(227,783,636)	62,848,442	139,049,811
Liabilities			
Non-current liabilities			
Deferred income	3,236,203	4,872,678	6,665,154
Post - employment benefits	346,208,469	293,662,228	226,088,493
Borrowings	491,854,733	329,168,102	350,187,833
	841,299,405	627,703,008	582,941,480
Current liabilities			
Investment Climate Facility and NTA grant	10,176,441	3,879,790	3,872,984
Deferred income	1,864,849	2,093,223	2,002,850
Post - employment benefits	61,095,612	51,822,746	26,486,481
Trade and other payables	34,343,386	62,985,600	84,560,000
Borrowings	63,913,327	21,000,000	3,500,000
Customs deposit bank accounts	7,605,860	7,708,380	6,388,361
Tax refunds bank accounts	35,528,311	38,852,607	33,278,158
	214,527,786	188,342,346	160,088,834
Total liabilities	**1,055,827,191**	**816,045,354**	**743,030,314**
TOTAL CAPITAL FUND, RESERVES	**828,043,555**	**878,893,796**	**882,080,125**

i. Capital Fund

A scrutiny of the Authority's statement of financial position for the period under review revealed that capital funds had continued to decline from a negative K8,221 in 2013 to a negative K360,032,208 in 2015. This decline is attributed to the deficits that the Authority had recorded during the period under review.

ii. Liquidity position

The table below shows the liquidity position of the Authority during the period under review.

	2015 K	2014 K	2013 K
Current Assets	201,447,552	231,468,828	204,202,016
Current Liabilities	214,527,786	188,342,346	160,088,834
Working Capital	(13,080,234)	43,126,482	44,113,182
Current Ratio	0.94	1.23	1.28
Quick Ratio	0.36	0.35	0.42

The liquidity position of the Authority over the three years from 2013 to 2015 shows a declining position in working capital from a positive K44,113,182 in 2013 to a negative K13,080,23 in 2015.

The current ratio reflects the ability of an organisation to discharge its short-term financial obligations or number of times current liabilities can be paid with current assets. The generally accepted ratio is 2 to 1. However, during the period under review, the Authority's current ratio remained below the generally accepted levels.

c. Lack of Title Deeds - Non-Current Assets

The Lands Act No. 29 of 1995 requires that the institutions or individuals owning land should have or possess title deeds as proof of ownership. It was, however, observed that during the period under review, the Authority had five hundred twelve (512) properties whose value could not be ascertained which had no title deeds.

d. Non-Supply of Laboratory Information Management System

On 24th November 2015, ZRA and Linber Enterprises signed a contract at a sum of US$795,405.94 for supply and delivery, installation and commissioning of a laboratory information management system for the Mineral Value Chain Project with a delivery period of six (6) to eight (8) weeks.

Although a sum of US$198,851.48 (25% of the contract sum) was paid to the supplier in January 2016, no goods had been delivered as of August 2016.

e. Unsupported Payments – Livingstone Station

Sixty eight (68) payments in amounts totalling K271,262 made during the period under review in Livingstone Station were not supported with relevant documents such as cash sale receipts, goods received notes and delivery notes.

f. Uncompetitive Procurement - Chirundu

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

Contrary to the Regulation, in 2014 and 2015, Chirundu Station procured stationery costing K423,767 uncompetitively as they single sourced from one supplier.

The Zambia Wildlife Authority (ZAWA)

Background

22. The Zambia Wildlife Authority (ZAWA) was established under the Zambia Wild Life ACT No 12 of 1998. Prior to the establishment of the Authority, management of wildlife was under the Department of National Parks and Wildlife Services (NPWS) in the Ministry of Tourism. On 31st December 2015, Zambia Wildlife Authority was transformed into the department of National Parks and Wildlife (NPW), in the Ministry of Tourism and Arts. The functions of ZAWA included the following:

- To control, manage, conserve, protect and administer wildlife sanctuaries and Game Management Areas and coordinate activities in such areas;
- In partnership with local communities, to share the responsibilities of management in Game Management Areas;
- To adopt methods to ensure the sustainability, conservation and preservation in the natural state of eco-systems and bio-diversity in the National Parks, bird sanctuaries and wildlife sanctuaries;
- To encourage the development of National Parks, bird sanctuaries, wildlife sanctuaries and Game Management Areas including the development of facilities and amenities within these areas in accordance with management plans of a National Park, bird sanctuary, wildlife sanctuary or Game Management Area;

To sensitise and educate the general public on the necessity of wildlife conservation, and the importance of wildlife to foster appreciation of the economic and aesthetic value of wildlife as natural assets.

The Board

The Act provided for the appointment of eighteen (18) Board members appointed by the Minister of Tourism for a renewable period of three (3) years. The Chairperson of the Board was to be appointed by the Minister of Tourism.

Management

The day to day operations of the Authority was overseen by a management team headed by the Director General who was assisted by Director finance and Corporate services, Director research, planning and information, Director conservation and management and Board secretary/Legal counsel.

Sources of Funds

According to the Act the sources of funds for the Authority included Government grants, Donations and money raised from fees and levies.

Review of Operations

A review of accounting and other records for Zambia Wildlife authority (ZAWA) carried out in June 2016 revealed the following:

a. Operating without a Board

Since April 2014, the Zambia Wildlife Authority had been operating without a board until December 2015 when it was transformed into the Department of National Parks and Wildlife Services.

b. Funding

In the Estimate of Revenue and Expenditure for the financial years ended 31st December 2013, 2014 and 2015, a total provision of K141,150,000 was made to cater for the operations and capital activities of the Authority and K289,084,290 was released resulting into an over funding of K147,934,290 as shown in the table below.

Year	Provision K	Release K	Over funding K
2015	126,750,000	132,233,333	5,483,333
2014	9,700,000	62,101,349	52,401,349
2013	4,700,000	94,749,608	90,049,608
Total	**141,150,000**	**289,084,290**	**147,934,290**

Management did not provide supplementary provisions supporting excess funding for audit scrutiny.

It was further observed that the Authority raised K168,300,000 from various fees during the period under review as shown in the table below.

Details	2015 K'000	2014 K'000	2013 K'000	Total K'000
Animal fees	10,367	3,136	3,120	16,623
Concession fees	4,279	293	1,098	5,670
Park income	23,528	17,651	12,944	54,123
Fixed lease fees	6,516	8,007	5,564	20,087
Bed night fees	13,568	15,762	13,601	42,931
Game Management Area land user fees	167	185	122	474
Sale of Trophies	15	30	11	56
Miscellaneus income	14,914	8,194	5,227	28,335
Total	**73,355**	**53,258**	**41,687**	**168,300**

However, management did not provide the budget indicating expected income during the period under review.

c. Failure to Prepare Annual Reports

Section 25(1) of the Zambia Wildlife Act No. 12 of 1998 provides for submission of the annual report to the Minister not later than six (6) months after the expiry of the financial year.

It was however observed that the Authority did not prepare annual reports for the period under review. It was further observed that although the Authority had audited financial statements for financial years ended 31st December 2013 and 2014, the financial statements for the year ended 31st December 2015 had not been prepared as of October 2016. Therefore, it was impossible to validate the assets and liabilities of the Authority at the time of transfer back to the Government in December 2015.

d. Financial performance – Statement of Comprehensive Income

The Statement of Comprehensive Income for the Authority for the years ended 31st December 2013 and 2014 were as follows:

	2014 K'000	2013 K'000
Net income	113,518	113,093
Operating expenses	(192,248)	(184,842)
Deficit of income over expenditure	**(78,730)**	**(71,749)**
Finance income/(cost)	1757	(240)
Decifit for the year	(76,973)	(71,989)
Transfer of excess depreciation	70	70
Total comprehensive income for the perioc	**(76,903)**	**(71,919)**

The financial statements for the year ended 31st December 2015 were not analysed as they were not yet prepared at the time of the audit.

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 of the Authority for the period under review revealed declining margins as shown in the table below.

Net profit margin= net profit(loss)/Revenue X 100

	2014	2013
Revenue (K)	113,518	113,093
Loss (K)	(76,903)	(71,919)
Net profit margin	-68%	-64%

As can be seen from the table above, the Authority did not generate positive net profit margins during the period under review. The net profit margin deteriorated from - 64% in 2013 to -68% in 2014.

ii. Operating expenses as a percentage of revenue

Operating expenses as a percentage of revenue

= operating expenses/Revenue X 100

	2014	2013
Operating Expenses (K)	192,248	184,842
Revenue (K)	113,518	113,093
Operating Expenses as Percentage (%) of Revenue	169%	163%

As can be seen from the table above, all the revenue generated by the Authority went towards meeting operating expenses. The operating expenses as a percentage of revenue deteriorated from 163% in 2013 to 169% in 2014.

e. Financial position – Statement of financial position as at 31st December

	2014 K'000	2013 K'000
Assets		
Non-current assets		
Property plant and equipment	25,650	28,558
Current assets		
Inventories	**2,446**	**3,944**
Trade and other receivables	16321	15,831
Cash and Cash equivalents	27,334	25,350
	46,101	45,125
Total assets	**71,751**	**73,683**
Equity and Liabilities		
Capital and reserves		
Capital grant	11,161	12,544
Revaluation reserve	1,147	1,217
Capital reserve	-	3,506
Accumulated funds	(632,948)	(559,551)
Total equity	(620,640)	(542,284)
Current liabilities		
Trade and other payables	692,186	613,407
Other assets	205	155
Deferred income	-	2,405
	692,391	615,967
Total equity and liabilities	**71,751**	**73,683**

i. **Receivables Turnover Ratio**

The receivables ratio indicates the average time an institution should wait before receiving cash from its credit customers. Analysis of financial statements revealed that the receivables period deteriorated to seventy two (72) days in 2014 from sixty four (64) days in 2013 as shown in the table below.

Receivables turnover ratio =Trade receivables/Revenue X365

	2014	2013
Trade receivables (K)	22,517	19,948
Revenue (K)	113,518	113,093
Ratio (Days)	72	64

A review of concession agreements however revealed that concessionaires were supposed to make advance payments in two instalments in each given year. Deterioration in the receivables ratio may be as a result of concessional fees not being received in advance.

ii. **Current ratio**

A current ratio measures the ability of the entity to settle its obligation as and when they fall due. It measures the liquidity of the entity. During the period under review, the Authority's current ratio remained constant as shown in the table below:

Current ratio= current assets/current liabilities

	2014	2013
Current assets	46,101	45,125
Current liabilities	692,391	615,967
Current ratio	0.07	0.07

Although the current ratio remained constant at 0.07, this was too far below the recommended ratio of 1.5. A low current ratio meant that the Authority had no capacity to meet its obligations as they fall due.

f. **Questionable Liability**

A review of records revealed that the Authority owed Muchinga Game Captures Limited amounts totalling K657,621 as of 31st December 2015. It was however observed that there was inadequate information to substantiate the reported amount in that there were no invoices and evidence of the authority receiving services from Muchinga Game Captures Limited.

g. Failure to Remit Statutory Obligations

It was observed that as of December 2015, the Authority owed ZRA and NAPSA amounts totalling K573,385,918 in unsettled Pay As You Earn Tax and pension contributions as shown in the table below.

Institution	Amount K
ZRA	294,862,868
NAPSA	278,523,050
Total	**573,385,918**

h. Failure to Remit Loan Recoveries

Review of employees' pay slips revealed that the Authority was recovering loans on behalf of Blue Financial Services from employees who accessed loans. It was however observed that the Authority had not remitted loan recoveries in amounts totalling K98,487. A copy of the Memorandum of Understanding between the Authority and Blue Financial Services was not presented for audit.

i. Failure to Pay Community Resource Boards

Community Resource Boards were established under the Zambia Wildlife Act No. 12 of 1998. The source of funds for the Boards is largely a share of animal fees arising from the areas where the Boards were. To this effect, there was a standing arrangement where ZAWA was to remit to respective Boards 50 percent of the animal fees. A review of financial records revealed that the Authority had not remitted to Community Resource Boards amounts totalling K470,158. The amounts had been outstanding for more that twelve (12) months as of September 2016.

j. Delay in Putting Employees on the Government Payroll

In July 2015, the Zambia Wildlife Bill 2015, was tabled in Parliament and passed. The new Act transformed Zambia Wildlife Authority into the Department of National Parks and Wildlife, aimed at carrying out ZAWA's mandate.

During the transformation period, ZAWA had an average of 2,069 permanent and pensionable, and contractual employees who were below the retirement age. The transformation involved employing all the staff who had not reached the retirement age. It was however observed that four hundred and sixteen (416) officers were not given appointment letters by the Government and were therefore not on the Government payroll as of July 2016. It was further observed that the affected former ZAWA employees were not on the ZAWA payroll as it was abolished in December 2015. Although the employees were reporting for work, their status was unknown.

k. Questionable Presence of a South African Company in Lusaka National Park

On 13th August 2015, ZAWA entered into a lease agreement with Orange River Consolidated Properties, a South African Company, for a period of six (6) months. According to the lease agreement, Orange River Consolidated Properties was to pay rent of US$5,000 net per month. The tenant was also to renovate the pens at the estimated cost of US$20,000 to US$30,000. The costs of renovations were to be deemed as paid towards the rentals for the pens.

Although the lease agreement expired in February 2016, as of November 2016, Orange River Consolidated Properties were still occupying the premises in the National Park. In this regard, the presence of the Company in the National Park is questionable in the absence of a lease agreement. Further, the details of the cost of renovating the pens were not presented for audit.

In addition, a review of records at ZAWA revealed that Orange River Consolidated Properties Limited, had purchased one hundred (100) sables from the Authority which it was keeping in the Lusaka National Park. A physical inspection and a review of the occurrence book at Lusaka National Park revealed that the Company brought in one hundred and thirty six (136) sables resulting in an excess of thirty six (36).

l. Translocation of Animals - Mosi-Oa-Tunya National Park

On 14th August 2013, ZAWA engaged Matobo Vet Centre to supply and trans-locate fifty five (55) animals of different species at a total contract price of K499,916. In September 2013, amounts totalling K485,800 were paid for fifty three (53) animals. The following were observed:

- There was no evidence that the procurement was subjected to tender as no bid documents were provided for audit scrutiny.

- The contract had no delivery time clause, making it difficult to ascertain whether the trans-location of animals was timely executed.
- There was no goods received note raised by ZAWA to confirm receipt of the fifty three (53) animals paid for.

Review of occurrence books at the gate where the animals were said to have entered the Park did not show any records of the animals that were received.

m. Hippo Culling

On 18th October 2015, ZAWA contracted Mabwe Adventures Zambia Ltd for five (5) years to be culling hippopotamus in Zambia's Lupande Game Management Area of South Luangwa area management unit so as to keep the hippo population within safe ecological levels to prevent disease and improve on animal health in the Luangwa River.

According to the contract, Mabwe Adventures Zambia Ltd was to pay US$250 for each Hippo shot. It was however observed that the contractor was not competitively procured in that there was no evidence to show that the hippo culling exercise was advertised and there were no evaluation minutes availed for audit. In addition, there was no evidence of authority to single-source the contractor.

Contrary to the contract provisions, no reports for the hippo culling exercise indicating the number of hippopotamus culled and amounts raised were prepared.

n. Undelivered Materials

On 19th August 2013, Digital Ltd was paid a total amount of K87,260 for the supply and delivery of various fencing materials for the Mosi-O-Tunya National Park. A review of records at the Livingstone Office revealed that only materials in amounts totalling K42,400 were received leaving a balance of materials worth K44,860 undelivered. As of August 2016, the undelivered materials had been outstanding for thirty six (36) months. It was not certain why management paid the supplier in full before delivery of the materials.

o. Missing Firerms

A review of internal audit report dated August 2015 revealed that two AK 47 guns with serial numbers 7807 and TJS 2026 were missing at the Mongu office. However, as of

August 2016, management had not taken any action with regard to the missing firearms including reporting the matter to the Police.

p. Failure to Secure Solar Panels

The Authority procured and installed solar panels in the Mosi-O-Tunya National Park. The solar Panels were meant to provide power to run pumps at boreholes which provided water to the wildlife in the Park. Physical inspection revealed that one solar panel was stolen by unknown people and the other one vandalised by animals due to management's failure to adequately secure the panels. It was further observed that management did not present a Police report for audit in respect of the solar panel that was stolen.

q. Failure to Collect Debt from Tour Operators

During the period from 2012 to 2015, ZAWA granted tourism concession agreements to various tour operators for the purpose of carrying out tourism business activities. The tour operators were expected to pay the fixed charge in two installments for each year. The first installment was due on 1 January while the last installment was expected to be paid by 1 July of each year of the concession agreement. In addition to the fixed charge, the tour operators were expected to pay variable charge per person per bed night. The variable charges for foreign tourists were US$25 per person per bed night during the peak season (June to October) and US$20 during the low season (November to May). The variable charge for local tourists was US$10 per person.

It was however observed that during the period from 2012 to 2015, ZAWA Mumbwa Regional Office failed to collect revenue from fifteen (15) tour operators that were operating in the Kafue National Park as provided for in the Tourism Concession Agreements. In this regard, amounts totalling K2,983,682 had not been collected as of September 2016. See the table below.

Operator	Amount K
Kafwala Camp	5,721
Busanga B/ Camp - African Expe	65,208
Hippo camp	131,042
Mukombo Lodge- Mushitu Safaris	58,260
Chunga Safari Camp- Tunya Lodg	51,508
Hornbill Camp	28,016
Makumbi Lodge- intl Africa Tr	238,066
Kafue Luasanza Lodge-Mulambe	151,909
Nanzila Camp- Sicaba	19,482
Moshi Lodge- Mulambe	56,412
Lubungu Safari Camp	127,549
Site No.13 KNP - Cooke's A/Saf	566,197
Ntemwa Lodge- Wilderness Tours	1,225,104
Ntemwa B/Camp - Wilderness Tou	9,811
Kafue Camps Saf-Mayukuyuku Sit	249,399
Total	**2,983,682**

The amounts had been outstanding for periods ranging from one (1) year to five (5) years.

r. Encroachment into Game Management Areas (GMAs)

The GMAs were established principally to serve as buffer zone around the National Parks and it is in the GMAs where the Community Based Natural Resource Management Programmes are established with a view to co-manage the wildlife resources. GMAs are not only an important reservoir of the wildlife resources but also cornerstone in the implementation of the various strategies in wildlife management. It was however revealed that Mufunta Game Management Area, Mumbwa Game Management Area, Namwala Game Management Area and Sichifulo Game Management Area were encroached by settlers/villagers. In addition, the Blue Lagoon National Park was encroached and the affected areas were Chitanta, Mpande, Moye and Machita where people had been illegally carrying out farming activities thereby displacing the wildlife.

s. Inadequately Supported Payments

Contrary to Financial Regulation No. 52, seventy six (76) payment vouchers in amounts totalling K986,999 were inadequately supported in that they lacked goods received notes and other relevant documents. See table below.

Office	No. of Payments	Amount K
Head Office	67	911,807
Mongu	5	58,743
Livingstone	1	5,850
South Luangwa Area Management Unit	3	10,599
Total	**76**	**986,999**

t. Unretired Accountable Imprest

Contrary to Financial Regulation No. 96, imprest in amounts totalling K139,454 issued to various officers during the period under review had not been retired as of August 2016.

ZSIC Group of Companies

Background

23. The ZSIC Group of companies was established in 2008 following the restructuring of the Zambia State Insurance Corporation Limited which was a company established under the Companies Act Cap 388 of the Laws of Zambia. The operations of the ZSIC are governed by the Insurance Companies (Cessation and Transfer of Business) Act No. 66 of 1970, the Companies Act, the Insurance Act No. 27 of 1997 and the Insurance (Amendment) Act of 2005.

The Group is made up of the following companies:

i. ZSIC Limited which is the holding company responsible for diversifying of group activities, corporate image, corporate governance, group risk management and control, capital and money market development and Small and Medium Enterprises (SME) support:

ii. ZSIC General Insurance Limited which is a subsidiary responsible for short term insurances and provides, among other products, cover for properties belonging to clients for various perils and personal accident insurance security through customer care and efficient underwriting: and

iii. ZSIC Life Limited which is a subsidiary responsible for providing individual life assurance products, group life schemes, pension funds administration and asset management.

Capital Structure

The authorised, issued and fully paid share capital of the company comprises 1,000,000,000 ordinary shares of K1.00 each. The ZISC Limited is wholly owned by the Government through the Industrial Development Corporation (IDC).

Board of Directors

The Board of Directors of ZSIC Limited was established to direct the management of the affairs of the Company in accordance with Act No. 66 of 1970 and the Companies Act. The role of the Board is to effectively govern the affairs of ZSIC Ltd for the benefit of its shareholders. The Board chairman and members are appointed by the Minister of Finance who represents the shareholders, in this case, the Government of the Republic of Zambia. The powers of appointment for the Board of Directors of the two (2) subsidiaries are reserved for the holding company.

Management

The Group Managing Director is responsible for the day-to-day operations of the Company and is assisted by the Group Director Finance and Investments, Group Company Secretary, Group Director Human Resource and Group Chief Internal Auditor.

The Board is responsible for the recruitment of Directors on three (3) year renewable contracts.

The two (2) subsidiary companies, ZSIC General Insurance and ZSIC Life are each headed by a Managing Director who is responsible for the day to day operations.

Source of Funds

The Company earns its income from pension fund management, life insurance and general insurance. The pension fund management sources include group pension, individual life, group life and pension property while the general insurance sources include fire, motor, marine, aviation, accident, engineering, agriculture, tourism and money insurances among others. Life insurance deals with the insurance products of lives of individuals.

During the period from 2013 to 2015, the Company generated revenue in amounts totalling K843,223,000 as shown in the table below.

	2015 (Draft) K'000	2014 K'000	2013 K'000	Totals K'000
Revenue				
Gross premiums	305,354	308,671	266,872	614,025
Consideration for annuities	41,695	20,596	24,990	62,291
Gross premiums written	347,049	329,267	291,862	676,316
Premiums ceded to reinsures	(56,434)	(68,665)	(59,139)	(125,099)
Movement in unearned premium reserve	10,590	(10,460)	29,632	130
Reinsurance commissions received	13,771	9,769	10,122	23,540
Other direct expenses	(1,578)	(1,143)	(1,420)	(2,721)
Net premium income	**313,398**	**258,768**	**271,057**	**843,223**

Review of Operations

A review of accounting and other records for the period from January 2013 to December 2015 carried out in August 2016 revealed the following:

a. Financial Performance - Statement of Comprehensive Income

	2015 Draft K'000	2014 K'000	2013 K'000
Net premium income	313,398	258,768	271,057
Benefits and claims paid	(123,442)	(105,151)	(112,104)
Gross profit	**189,956**	**153,617**	**158,953**
Management fee income	8,016	7,665	6,074
Investment revenue	27,447	22,138	18,348
Other income	4,542	5,374	5,420
Other gains and losses	11,318	5,963	16,178
Bad debts provision	(15,728)	(57,692)	(71,779)
Commission paid	(28,551)	(24,694)	(23,521)
Employee benefits expenses	(105,667)	(101,565)	(105,709)
Administrative and general expenses	(50,200)	(25,548)	(36,520)
Other operating expenses	(29,126)	(27,766)	(22,278)
Finance costs	(10,720)	(933)	(1,360)
Loss on property revaluation	-	(600)	-
Depreciation expense	(3,887)	(3,294)	(3,032)
Loss before tax	**(2,600)**	**(47,335)**	**(59,226)**
Income tax expense	**(21)**	(488)	(2,571)
Loss for the year	**(2,621)**	**(47,823)**	**(61,797)**

As can be seen from the table above, the Company's gross profit increased by 19.5 percent from K158,953,000 in 2013 to K189,956,000 in 2015. In addition, the loss before tax decreased from K59,226,000 in 2013 to K2,600,000 in 2015.

The losses were mainly attributed to the bad debt provisions (K71,779,000 in 2013, K57,692,000 in 2014 and K15,728,000 in 2015).

b. Financial Position

The financial position of ZSIC Limited for the period 31st December 2013 to 31st December 2015 was as shown below.

	2015 Draft K'000	2014 Audited K'000	2013 Audited K'000
ASSETS			
Non Current Assets			
Property, Plant and Equipment	67,899	65,223	60,749
Investment Properties	137,074	132,975	126,301
Investment in subsidiaries	50	50	-
Held to maturity Investments	76,176	65,347	55,219
Available for sale Investments	72,685	55,959	48,997
Other Investments	10	10	10
Insurance receivables	85,613	94,033	86,977
Other receivables	9889	8,754	-
Total non -current assets	449,396	422,351	378,253
Current Assets			
Insurance receivables	83,578	103,684	98,015
Reinsurance receivables	42,968	31,773	26,778
Amounts from related parties	36,003	35,338	36,457
Other receivables	43,621	22,145	24,698
Bank and cash balances	33,678	30,893	33,573
Total Current assets	**239,848**	**223,833**	**219,521**
Total Assets	**689,244**	**646,184**	**597,774**
EQUITY AND LIABILITIES			
Equity			
Share Capital	1,000	1,000	1,000
Revaluation reserves	72,617	64,033	58,444
Deficit on revenue reserves	(241,574)	(226,994)	(175,821)
Total Equity	**(167,957)**	**(161,961)**	**(116,377)**
Non-Current Liabilities			
Retirement benefit obligation	44,119	26,219	41,002
Unearned premiums	64,024	75,180	64,316
Life assurance fund	299,367	287,093	263,154
Outstanding claims	54,890	48,184	47,899
Obligations under finance leases	1,350	1,600	334
Borrowings	-	-	-
Total non-current liabilities	**463,750**	**438,276**	**416,705**
Current Liabilities			
Obligations under finance leases	675	854	850
Borrowings	-	-	1,031
Other payables and accruals	347,263	287,423	234,605
Reinsurance payables	20,464	50,686	40,810
Bank overdrafts-secured	4,218	12,097	3,639
Deferred acquisition costs	97	97	194
Ammounts due to related parties	-	-	868
Current tax liabilities	18,733	18,712	15,449
Total current liabilities	391,450	369,869	297,446
Total Equity and Liabilities	**687,243**	**646,184**	**597,774**

The following were observed:

i. Poor Liquidity

Liquidity is the ability of an entity to pay its liabilities in a timely manner as they fall due for payment under the original payment terms. Amongst the ratios used to measure liquidity are solvency and current ratios.

- **The Solvency Ratio**

  The solvency ratio of an insurance company is the size of its capital relative to all risks it has taken. The solvency ratio is most often defined as:

  Solvency Ratio = long-term liabilities: total assets

  According to Section 37 of the Insurance Act of 1997, insurance companies in Zambia are supposed to meet the solvency ratio of 110 percent. It was however observed that during the period under review, ZISC Limited did not meet the required solvency ratio as it recorded solvency ratios of 70 percent, 68 percent and 67 percent in 2013, 2014 and 2015 respectively.

- **The Current Ratio / Working Capital**

  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. The acceptable current ratio is 2:1.

  However, the current ratios for the Company for the financial years ended 31st December 2013, 2014 and 2015 were 0.61:1, 0.61:1 and 0.74:1 respectively, which was well below the acceptable current ratio of 2:1.

  In this regard, the Company operated with a negative working capital as shown in the table below.

	2015 K'000	2014 K'000	2013 K'000
Current Assets	239,848	223,833	219,521
Current Liabilities	391,450	369,869	297,446
Working Capital	(151,602)	(146,036)	(77,925)
Current Ratio	0.61:1	0.61:1	0.74:1

  Consequently, the company may not be able to meet its short term obligations as they fall due.

ii. Receivable Turnover Days

According to the Company's Credit Policy, the average credit period on insurance receivables is 60 days. In determining the recoverability of insurance receivables the Group considers any change in the credit quality of the premium receivable from the date credit was initially granted up to the reporting.

However, the receivables turnover days for the period under review ranged from 147.4 days to 191 days which was above the approved limit of 60 days. See table below.

Receivable Turnover Days = (Net Premium Income/ Insurance and Reinsurance Receivables) x 365 days

	2015 Draft	2014	2013
Turnover -Net Premium Income (K'000)	313,398	258,768	271,057
Insurance and Reinsurance Receivables (K'000)	126,546	135,457	124,793
Receivables Turnover Days	147	191	168

Further, it was observed that insurance receivables amounting to K85,613,000 were outstanding for periods ranging from one (1) to five (5) years as of December 2015.

iii. Failure to Remit Statutory Contributions

During the period under review, amounts totalling K292,209,569 were deducted as tax and NAPSA contributions. However, the deducted funds had not been remitted to the respective institutions as of September 2016. See table below.

Tax Type	Totals K
PAYE	109,266,808
VAT	154,145,978
Withholding Tax	4,672,050
Corporation Tax	13,989,692
NAPSA	10,135,042
TOTAL	292,209,569

c. Wasteful Expenditure

i. Investment in Microfinance Business using a PPP model

On 7th November 2011, ZSIC Limited engaged Imara Botswana Ltd/Stockbrokers Zambia (jointly) for the provision of consultancy services to analyse the existing micro-credit product offering in the Zambian market and to make recommendations on viable options that are compatible with the overall growth strategy of the ZSIC Group of Companies at a sum of K232,000 with a duration of two (2) months and one (1) week (duties and taxes exclusive).

Among the key deliverables were:

- Micro-credit product feasibility study with recommendations and a sample business plan,
- Budget, financial model and implementation plan for ZISC Limited micro-credit product,
- Micro-credit implementation work plan, budget and partner list, and
- Monthly progress reports, supervision reports and other ad-hoc programme reports as may be required.

As of September 2016, the Consultant had been paid in full.

However, despite the consultant being paid in full, none of the key deliverables had been delivered.

ii. Supply of Asset Management Software

In October 2012, ZSIC Ltd engaged Technet Limited for the supply, delivery, installation and commissioning of the asset management software solution at a contract sum of K339,533 (US$66,575) with a delivery period of three (3) months. The terms of payments were as follows:

- 30 percent of the contract price upon signing the contract,
- 30 percent of the contract price upon software delivery and installation,
- 30 percent of the contract price upon completion of training and going live, and
- Final payment of 10 percent after handing over completion certifications.

The scope of works was to install, train, implement, integrate and commission the software. As of September 2016, the contractor had been paid in full.

However, as of September 2016, the system had not been installed and no training had been done. In this regard, it is not clear why management paid the supplier in full.

iii. Procurement of Human Resource Sun flow Software

On 28th May 2014, ZISC Limited engaged AdvanceNet Africa of South Africa for the supply, installation, configuration and commissioning of Sunflow Human Resource Module to the ZSIC Group of Companies at a contract sum of K719,237 (US$101,875) with a duration of four (4) months. As of September 2016, the supplier had been paid in full.

However, although the supplier was paid in full, the system was non-functional as of September 2016.

d. Unsupported Subsistence Claims

On 23rd October 2013, twenty two (22) officers were paid differences in out of pocket, subsistence and transport allowances in amounts totalling K39,490 arising from the revised conditions of service for management effective 1st January 2013 for trips undertaken. However, there was no evidence of claim forms and reports for trips undertaken to justify the payments made.

e. Legal Matters

i. Loss of Funds on Court Cases

During the period under review, ZISC Ltd was sued by three (3) of their clients for failure to settle claims. However, due to failure by ZISC Ltd to appear in court despite being served several court summons, the cases were ruled in favour of the plaintiffs. As of September 2016, ZISC Ltd had paid the plaintiffs amounts totalling K3,843,339 which were inclusive of interest.

ii. Failure to Repossess Property

A review of the Internal Audit Report dated 30th July 2015 revealed that ZSIC Limited acted as guarantor for a client who obtained a loan from a local bank. In this regard, the client placed a property as collateral on the guarantee bond in the sum of K120,000. The bond was recalled by the bank following default by the client. It was however observed that although ZSIC Ltd had liquidated the bond, as of September 2016, the property placed as collateral had not been repossessed.

f. Procurement of Goods, Works and Services

A scrutiny of accounting records for the Collection and Payments Accounts at ZSIC Holding Company revealed the following:

i. Unsupported Payments

Contrary to ZSIC Limited Financial Regulation No 6.1.8 of 2015, payments made during the period from January 2013 to December 2015 in amounts totalling K177,527 were inadequately supported with relevant documents such as receipts, quotations, goods received notes, trip reports, acquittals, contracts and certificates of work done.

ii. Unaccounted for Stores

Contrary to the ZSIC Group Stores Regulation No. 6.1.7 of 2015, various stores items costing K19,806,141 procured during the period under review were unaccounted for in that there were no receipt and disposal details.

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 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 2015.

AUDIT HOUSE	**RON M. MWAMBWA** *FCMA, FZICA, CGMA, MSc, CFE*
HAILE SALASSIE AVENUE	**ACTING AUDITOR GENERAL**
LUSAKA	**REPUBLIC OF ZAMBIA**
10 January 2017	

Appendix I

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.