REPUBLIC OF ZAMBIA

REPORT OF THE

AUDITOR GENERAL

ON THE

ACCOUNTS OF PARASTATAL BODIES

AND OTHER STATUTORY INSTITUTIONS

FOR THE

FINANCIAL YEARS ENDED

31ST December 2013, 2014, 2015 and 2016

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OFFICE OF THE AUDITOR GENERAL

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

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

CORE VALUES:

Integrity

Professionalism

Objectivity

Teamwork

Confidentiality

Excellence

Innovation

Respect

TRANSMITTAL LETTER

30th November 2017

His Excellency Mr. Edgar C. Lungu
President of the Republic of Zambia
State House
LUSAKA

Your Excellency,

RE: REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF PARASTATAL BODIES AND OTHER STATUTORY INSTITUTIONS FOR THE FINANCIAL YEARS ENDED 31st DECEMBER 2013 to 2016

In accordance with Article 250 of the Constitution of Zambia (Amendment) Act No.2 of 2016, I have the honour to submit the Report of the Auditor General on the Accounts of Parastatal Bodies and other Statutory Institutions for the financial years ended 31st December 2013 to 2016.

Sir, the Report has also been submitted to the Speaker of the National Assembly in accordance with Article 212 of the Constitution.

I remain,

Your Excellency's Obedient Servant

Ron M. Mwambwa
ACTING AUDITOR GENERAL

PREFACE

This Report is as a result of audit reviews in parastatal bodies and other statutory institutions for the financial years ended 31st December 2013, 2014, 2015 to 2016. The Report is prepared in accordance with the Provisions of Article 250 of the Constitution of Zambia (Amendment) Act No.2 of 2016.

The Auditor General has a Constitutional mandate to audit all public finances and as the Supreme Audit Institution of Zambia, our vision is to promote transparency, accountability and prudent management of public resources.

In this Report, I have highlighted matters concerning the management and financial performance of selected parastatal bodies and statutory institutions such as failure to have accounts audited, internal control weaknesses which include the failure to remit statutory contributions, unsupported payments and unaccounted for stores.

I am hopeful that, by highlighting areas of weaknesses in the organisations audited, those charged with the responsibility of running these institutions will focus on the key drivers of internal control, these being leadership, financial and performance management and governance.

Ron M. Mwambwa FCMA, FZICA, CGMA, MSc, CFE

ACTING AUDITOR GENERAL

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Executive Summary

This Report has been produced in accordance with Article 250 of the Constitution (Amendment) Act No. 2 0f 2016 of the Republic of Zambia, Public Finance Act No. 15 of 2004 and Public Audit Act No. 13 of 1994.

During the audit process, there were various levels at which the Office interacted and communicated with Chief Executive Officers whose accounts were audited. The purpose of this interaction was to provide an opportunity for the Chief Executive Officers to clarify and take corrective action on the findings of the audits.

The Report contains paragraphs on twenty two (22) institutions out of which two (2) are under the Industrial Development Corporation (IDC) and three (3) paragraphs on water utility companies.

The Report has listed fourteen (14) institutions that had not produced audited financial statements for the financial years up to 31st December 2016 contrary to their enabling Acts and the tenets of good corporate governance.

It has raised issues of non-remittance of statutory contributions (NAPSA and ZRA), unsupported payments, unaccounted for stores and unretired imprest among other issues as shown in the table below.

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

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

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 No. 13 of 1994. 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 ended 31st December 2013 to 2016 contains thirty one (31) paragraphs out of which twenty two (22) 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.

The Report also includes findings from 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

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.

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 ended 31st December 2013 to 2016.

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 institutions. These are clear indicators of internal control lapses in most parastatal and statutory bodies.

Industrial Development Corporation's Portfolio

4. The IDC serves as the holding company for the following twenty five (25) State Owned Enterprises (SOEs). See table below.

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

In addition, the Government has transferred its shareholding to the IDC in five (5) institutions as shown in the table below.

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

Dividends Declaration by State-Owned Enterprises

Out of the twenty five (25) State-Owned Enterprises (SOEs) under the IDC portfolio, in which IDC holds 60.7 to 100 percent shareholding, only two (2) SOEs (Mulungushi Village Complex

Limited - K0.2 Million and Indeni Petroleum Products Limited - K7.4 Million) declared dividends for the year 2016 in amounts totalling K7,600,000.

In addition, out of the seven (7) institutions in which IDC had shareholding between 14.27 to 50%, only two (2) institutions (Indo Zambia Bank Limited – K12.06 Million and Nanga Farms Limited K4.7 Million) declared dividends in amounts totalling K16.76 million.

Institutions that have not Submitted Audited Financial Statements

5. There were fourteen (14) statutory and parastatal bodies that had not produced audited financial statements for the financial years ended 31st December 2013 to 2016 as detailed below.

No	Institution	Years not Audited
1	Zambia Education Publishing House Limited	2016
2	Zambia Printing Company	2016
3	Mulungushi Textiles Limited	2016
4	Zambia Institute of Mass Communication	2015 to 2016
5	Zambia Environmental Management Agency	2016
6	Engineering Services Corporation Limited	2016
7	Citizenship Economic Empowerment Commission	2013 to 2016
8	Food Reserve Agency	2013 to 2016
9	Business Regulatory Review Agency	2016
10	Nitrogen Chemicals of Zambia	2008 to 2016
11	Zambia Postal Services Corporation	2014 to 2016
12	Luapula Water and Sewerage Co	2008 to 2016
13	Kwame Nkrumah University	2013 to 2016
14	Chambeshi Water and Sewerage Co	2012 to 2016

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.

Eastern Water and Sewerage Company

Background

6. The Eastern Water and Sewerage Company was incorporated as a Private Company Limited by shares under the Companies Act (CAP 388 of the Laws of Zambia) on 12th May 2008, in pursuant of Section 9 Part III of the Water Supply and Sanitation Act No. 28 of 1997.

The Company is a commercial water utility limited by shares wholly owned by eight (8) local authorities in eastern province. The Company's share capital is K5,000,000 divided into 250,000 shares of K20 each. The Company's shareholding is as shown below.

Council	Number of Shares	Percentage of Share Capital
Chipata Municipal Council	100,000	40%
Lundazi District Council	37,500	15%
Katete District Council	32,500	13%
Chadiza District Council	12,500	5%
Chama District Council	10,000	4%
Petauke District Council	32,500	13%
Nyimba District Council	12,500	5%
Mambwe District Council	12,500	5%
Sinda District Council	-	0%
Vubwi District Council	-	0%
TOTAL	**250,000**	**100%**

The principal function of the Company is to provide improved supply of clean drinking water and adequate sanitation services in all the urban and peri-urban centres of Eastern Province in Zambia.

The Board of Directors

The Company is managed by a Board of Directors which comprises ten (10) members who are appointed on three (3) year renewable terms. The composition of the Board is as follows:

- One Mayor or Council Chairperson from participating councils,
- One Town Clerk or Council Secretary from participating councils,
- One Provincial Local Government Officer or representative,
- One representative from Engineering Institute of Zambia,
- Two representatives from the Private Sector drawn from within the area of operation that is NGOs, Zambia Association of Chamber of Commerce, Bankers Association of Zambia, Law Association of Zambia etc,

- One community representative from commercial consumer category,
- One community representative from the domestic consumer category, and
- Two members appointed by the Minister, one of whom shall be the Chairperson of the Board.

Management

The Company is headed by the Managing Director and is assisted by two directors – the Director Technical and the Director of Finance and Commercial Services. The Managing Director and other directors are appointed by the Board and serve under renewable contracts of three (3) years. However, at the time of the audit, the positions of Director Technical and Director Finance and Commercial Services were vacant.

Source 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 2016, the Company generated income in amounts totalling K74,707,732. See table below.

Source of Funding	2016 K	2015 K	2014 K	2013 K	Total
Sales of services	21,504,415	17,589,200	17,135,668	16,311,999	72,541,282
Interest Received	1,280	1,225	1,136	3,993	7,634
Reconnections	389,843	305,225	259,170	234,305	1,188,543
Rent received	45,655	45,636	52,465	33,908	177,664
Other Sundry Income	242,512	275,593	266,710	60,278	845,093
Total Incomes	**22,183,705**	**18,216,879**	**17,715,149**	**16,644,483**	**74,760,216**

In addition, EWSC received capital grants in amounts totalling K54,454,606. See table below.

Year	Capital Grants K
2013	204,104
2014	9,104,993
2015	43,592,069
2016	1,553,440
Total	**54,454,606**

Review of Operations

A review of operations for the financial years ended 31st December 2013 to 2016 revealed the following:

a. Lack of Board of Directors

Contrary to the Companies Act 1994, Section 215 (1) which requires that a company should be managed by a Board of Directors, EWSC operated without a Board of Directors from March 2016. As at 31st August 2017, the Board had not been put in place.

b. Financial Performance - Statement of Comprehensive Income for the year ended 31st December 2013 to 2016

	2016 (Draft) K	2015 K	2014 K	2013 K
Turnover	21,504,415	17,589,200	17,135,668	16,311,999
Cost of sales	(4,294,794)	(2,788,078)	(2,208,240)	(1,507,091)
Gross profit	17,209,621	14,801,122	14,927,428	14,804,908
Operating Expenses	(29,847,628)	(25,933,899)	(22,610,003)	(20,527,031)
Operating Loss	**(12,638,007)**	**(11,132,777)**	**(7,682,575)**	**(5,722,123)**
Non-Operating Income				
Interest Received	1,280	1,225	1,136	3,993
Rent Received	45,655	45,636	52,465	33,908
Sundry income	196,857	275,593	266,710	60,278
Profit on Disposal	14,000	-	-	-
Amortisation of Capital Grant	6,326,062	3,277,824	4,272,032	4,496,536
Reconnection fee and others	389,843	305,225	259,170	234,305
Donations received	8,863	-	3,150	-
Discount received	-	13,754	10,175	-
	6,982,602	**3,919,257**	**4,864,838**	**4,829,020**
Loss before tax	**(5,655,404)**	**(7,213,520)**	**(2,817,737)**	**(893,103)**
Taxation	-	-	-	-
Loss after tax	**(5,655,404)**	**(7,213,520)**	**(2,817,737)**	**(893,103)**

The following were observed:

i. Recurring Losses

As can be seen from the statement of comprehensive income above, whilst the company's turnover had increased from K16,311,999 in 2013 to K21,504,415 in 2016, the company continued incurring losses. Total expenses in 2013 were K22,034,122 while the loss was K893,103 and this worsened in 2015 with expenses reaching K24,818,243 while the loss increased to K2,817,737 and in 2015 operating expenses further increased to K28,721,977 while the loss increased to K7,213,520. In 2016, there was no improvement as operating expenses reached K34,142,422 while the loss slightly decreased to K5,655,404.

ii. Staff costs to Operating Expenses

The staff costs increased from K10,230,947 to K14,351,762 between 2013 and 2016 representing a percentage increase of 40%. The staff cost to total operating expenses ratio for the years ended 31st December 2013 to 2016 was 46%, 50%, 48% and 42% respectively. See table below.

Staff cost to Operating expenses Ratio =Staff costs / Operating expenses x 100

	2016 (Draft)	2015	2014	2013
Staff costs	14,351,762	13,843,085	12,315,842	10,230,947
Operating Expenses	34,142,422	28,721,977	24,818,243	22,034,122
Percentage (%)	**42**	**48**	**50**	**46**

c. Liquidity Position - Statements of Financial Position

	2016 (Draft) K	2015 K	2014 K	2013 K
Non-Current Assets				
Property, plant and Equipment	90,566,926	98,439,379	57,724,992	52,205,234
	90,566,926	98,439,379	57,724,992	52,205,234
Current assets				
Inventories	2,524,996	2,836,842	2,661,903	1,240,887
Trade and other receivable	6,946,939	3,449,940	8,121,057	7,765,453
Cash and bank balances	324,478	240,276	131,949	2,371,071
	9,801,250	6,527,058	10,914,909	11,377,411
Total assets	**100,368,176**	**104,966,437**	**68,639,901**	**63,582,645**
EQUITY AND LIABILITIES				
Capital and Reserves				
Share Capital	250,000	250,000	250,000	5,000
Share application	-	-	791,000	-
Capital reserve	47,720,796	47,720,796	46,518,783	791,000
Revenue reserves	(36,721,208)	(31,570,714)	(16,759,960)	35,963,996
	11,249,588	16,400,082	30,799,823	36,759,996
Non-current liabilities				
Capital grants	47,743,496	52,516,119	12,201,874	7,368,913
Provision for retirement	14,961,404	12,820,264	10,587,388	8,014,640
	62,704,900	65,336,383	22,789,262	15,383,553
Current Liabilities				
Bank overdraft		320,832	16,704	-
Trade and other payables	-	22,838,187	15,374,172	12,199,515
Taxation	26,342,101	70,953	70,953	70,953
District council current accounts	70,953	-	(411,013)	(411,013)
	26,413,054	23,229,972	15,050,816	11,859,455
Total equity and liabilities	**100,368,176**	**104,966,437**	**68,639,901**	**64,003,004**

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 current ratio recommended by National Water Supply and Sanitation Council (NWASCO) for utility companies is 3:1.

The current ratio for the Company during the period under review was below the recommended ratio as shown in the table below.

	2016 K	2015 K	2014 K	2013 K
Current Assets	9,801,250	6,527,058	11,102,331	11,377,411
Current Liabilities	26,413,054	23,229,972	15,238,238	11,859,457
Current Ratio	**0.37:1**	**0.28 : 1**	**0.73 : 1**	**0.96 : 1**
Quick Ratio	**0.28:1**	**0.16 : 1**	**0.55 : 1**	**0.85 : 1**

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.

d. 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), A 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 Eastern Water and Sewerage Company for the period from 1st January 2013 to 31st December 2016 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 from the highest of 42% in 2014 to the lowest of 38% in 2016 resulting in a cumulative revenue loss of K43,556,863 as shown in the table below.

	2016	2015	2014	2013
Total Water Production (m3)	5,100,000	4,800,000	5,500,000	5,300,000
Expected Revenue	29,722,371	27,167,867	26,933,040	26,049,094
NRW%	38%	39%	42%	40%
Revenue Loss on NRW (K)	11,236,435	10,560,903	11,333,992	10,425,533
ER-NRW	18,485,936	16,606,964	15,599,048	15,623,561

In as much as the non – revenue water percentage had decreased from 40% in 2013 to 38% in 2016, it still remained above the NWASCO acceptable benchmark of 25%.

ii. 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 (%)
2013	76
2014	73
2015	72
2016	68

As can be seen from the above table, collection efficiency declined from 76% in 2013 to 68% in 2016.

iii. 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 (%)
2013	88
2014	85
2015	77
2016	70

iv. **Sanitation Coverage**

Sanitation Coverage is the ratio of urban population with access to adequate sanitation. The industrial average for this key performance indicator for 2013, 2014, 2015 and 2016 was 57%, 60%, 61% and 62% respectively. However, a review of the sector report revealed that the company was operating below the standard at 43%, 47%, 52% and 36% in 2013, 2014, 2015 and 2016 respectively.

v. **Staff Cost in Relation to Billing and Collection**

Billing per staff per month is the billing attributable to one member of staff per month. On one hand, a higher figure indicates better staff efficiency. On the other hand, average personnel cost per staff per month reflects the cost attributed to each staff. A billing per staff per month must be higher than the average personnel cost per month meaning the Commercial utility must pay each staff an amount lower than the revenue that staff is bringing into the company. The desirable target for the sector is to have a combined weighted average of 0.4 or 40%.

It was however observed that the Commercial utility's staff per collections had increased from 0.73 to 1.00 in 2016. In this regard, the company was operating above the industrial benchmark of 0.4.

e. **Fuel without Disposal Details**

Contrary to Public Stores Regulation No. 16, there were no disposal details in respect of fuel costing K206,650 procured during the period under review.

f. **Unsupported Payments**

A scrutiny of records such as payment vouchers, cashbooks and bank statements revealed that one hundred and sixteen (116) payment vouchers made between 1st January 2013 - 31st December 2016 in amounts totalling K2,409,574 were inadequately supported in that they lacked supporting documents such as receipts, reports and acquittal sheets.

g. **Missing Payment Vouchers**

Contrary to Financial Regulation No. 65, there were eleven (11) payment vouchers in amounts totalling K155,319 made during the period under review that were not availed for audit.

h. Unretired Accountable Imprest

Accountable imprest in amounts totalling K786,296 involving forty (40) transactions for the years ended 31st December 2013 to 2016, had not been retired as at 31st August 2017.

i. Unaccounted for Stores

Contrary to Public Stores Regulation No. 16, various store items procured in the period under review costing K1,000,418 were unaccounted for in that there were no disposal details.

j. Non Remittance of Taxes

It was observed that as at 31st March 2017, EWSC owed a total of K14,278,298 in form of Statutory Obligations to various institutions as shown below.

Name of Institution	Amount K
Zambia Revenue Authority (P.A.Y.E)	13,767,043
National Pension Scheme Authority (NAPSA)	93,229
Worker Compensation Fund	310,962
Local Authority Superannuation Fund (LASF)	107,064
Total	**14,278,298**

k. Failure to Disconnect Past Due Customers

According to the EWSCO Commercial Policy No. 5.6 Collection Process, all invoices overdue for payments on the 15th day following the invoice month with outstanding amounts after this date are due for disconnection.

A review of the consumption report for the month of January to February 2017 revealed that four hundred and sixty-four (464) active customers who owed the Company amounts totalling K1,243,929 in unsettled bills for periods exceeding ninety (90) days had not been disconnected by the Company as of August 2017.

l. Failure to Remove Dormant Accounts From the System

According to the Company Commercial Policy No 16.0 on Service Withdrawal and Reconnection: where the premises have had a disconnection for more than six (6) months, the Company shall have the right to physical removal of the service pipe line from the main water supply network system. Under such circumstances, any future requirement for water re-connection shall be regarded as a new connection and the customer shall be required to pay both new connection charges and the outstanding amount on the account.

As of March 2017, EWSC had a total of one hundred and ninety three (193) dormant customer-accounts which owed the Company amounts totalling K325,886 in unpaid water bills. The customers were last billed between January 2001 and November 2015, implying that the customer accounts had been dormant for a period of fourteen (14) years.

However, service lines had not been uprooted from the company water network and had continued to be charged meter charges which totalled K94,680 as at 31st August 2017.

Electoral Commission of Zambia

Background

7. The Electoral Commission of Zambia (ECZ) was established under Article 76 of the Republican Constitution. The ECZ was established to supervise and control elections in a fair and impartial manner. Other functions include the supervision of the registration of voters, updating of voters' register, the delimitation of constituencies, supervise referendums and formulating and reviewing electoral regulations.

The Commission

The ECZ has a Commission which is the policy body of the Institution. The Commission consists of the following full time members appointed by the President subject to ratification by the National Assembly:

i. The Chairperson;

ii. The Vice Chairperson; and

iii. Three other members.

Management

The Chief Elections Officer is responsible for the day-to-day operations of the Commission and is assisted by a management team comprising a Legal Counsel, Director of Finance, Director Information Technology, Commission Secretary, Director Voters Education, Director Elections and Human Resource Manager.

Sources of Funds

According to the Act, the sources of funds of the ECZ are Government grants, donations and moneys raised from nomination fees.

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2015 and 2016, provisions in amounts totalling K1,625,064,000 were made to cater for operations against which amounts totalling K1,316,445,000 were released resulting in an under funding of K308,619,000 as shown in the table below.

Year	Authorised Provision K	Actual Releases K	Over/ (Underfunding) K
2016	1,026,807,000	795,912,000	(230,895,000)
2015	598,257,000	520,533,000	(77,724,000)
Total	**1,625,064,000**	**1,316,445,000**	**(308,619,000)**

Out of the total amounts released, K1,203,438,544 was meant for the 2016 elections.

In addition, the ECZ in 2016 received K5,314,951 from various cooperating partners towards Election activities bringing the total amount available for elections to K1,208,753,495.

Review of Operations

An examination of accounting and other records at the ECZ Headquarters and selected councils for the period from 1st January 2015 to 31st December 2016 carried out in September 2017 revealed the following:

a. Delay in Paying Suppliers and Allowances to Officers

A review of records revealed that as at 31st August 2017, the ECZ owed a total amount of K51,249,990 to various suppliers of goods and services in respect of election materials (K50,950,940) and allowances (K299,050) to officers who were involved in the 2016 election process. See table below.

Station	Amount K
ECZ - Headquarters	50,950,940
Kasama District	**220,050**
Mbala District	**79,000**
Total	**51,249,990**

b. Unaccounted for Stores

Contrary to Public Stores Regulation No. 16, assorted stores items costing K5,996,935 procured during the period under review were unaccounted for in that there were no disposal details. See table below.

Station	Fuel K	General Stores K	Total K
Headquarters	-	1,502,412	1,502,412
Eastern Province	706,495	47,390	753,885
Muchinga Province	829,435	38,086	867,521
Southern Province	680,859	4,700	685,559
Copperbelt Province	38,400	-	38,400
North-Western Province	625,565	-	625,565
Luapula Province	67,600	-	67,600
Western Province	701,227	-	701,227
Lusaka Province	625,325	-	625,325
Northern Province	129,441	-	129,441
Total	**4,404,347**	**1,592,588**	**5,996,935**

c. Unretired Accountable Imprest

Contrary to Financial Regulation No. 96, imprest in amounts totalling K4,519,741 issued to various officers during the period under review remained unretired as of September 2017. See table below.

Province	Amount K
Eastern	314,701
Southern	1,633,652
Muchinga	895,430
North Western	198,014
Western	403,857
Luapula	136,720
Lusaka	937,367
Total	**4,519,741**

d. Unvouched Expenditure

Contrary to Financial Regulations Nos.45 and 65, payments in amounts totalling K9,172,678 made during the period under review were unvouched in that they were either unsupported, inadequately supported or the payment vouchers were missing. See table below.

Province	Inadequately Supported Payments K	Missing Payment Voucher K	Unsupported Payments K	Total K
Headquarters	1,409,943	-	-	**1,409,943**
Eastern	1,030,629	239,000	-	**1,269,629**
Southern	1,494,057	520,860	-	**2,014,917**
Muchinga	1,296,120	-	-	**1,296,120**
North Western	209,100	917,836	94,195	**1,221,131**
Western	163,113	84,373	-	**247,486**
Lusaka	706,282	945,200	-	**1,651,482**
Luapula	-	6,400	-	**6,400**
Northern	-	3,755	-	**3,755**
Copperbelt	-	-	51,815	**51,815**
Total	**6,309,244**	**2,717,424**	**146,010**	**9,172,678**

e. Questionable Payment of Overtime Allowance

Contrary to Financial Regulation No. 81, amounts totalling K1,425,273 involving three (3) transactions were paid to various officers at ECZ Headquarters as overtime without supporting attendance registers and overtime log sheets.

Further, the payments were made outside the payroll contrary to Cabinet Office Circular No. 11 of 2013 which requires that all such payments be made through the payroll. Consequently, no tax was deducted.

f. Weaknesses in the Management of Contracts

During the period under review, the Commission engaged various suppliers for goods and services. Consequently, various contracts were entered into. However, there were weaknesses in the management of contracts as some contracts were signed but could not be availed for audit, some were signed but without indication of contract dates. Furthermore, the duration of service delivery was not indicated in the contracts making it difficult to ascertain how long the adverts were to run. See table below.

No.	Contract	Contractor	Contract Date	Contract Price K	Amount Paid K	Audit Observation
1.	Production and placement of print and electronic media adverts	Black Dot Media Limited company	Not Specified	K35,734,165.30	K35,734,165.30	**Inadequacies in the Contract Documents** • The contract for the voter Registration Exercise was not dated to show when the contract was entered into. • The duration of the service delivery was not indicated in the contract. **Failure to Seek Approval from the Attorney General** Contrary to Part VI Subsection 2(e) of the Procurement Act No 12 of 2008, the Commission did not provide evidence that the Attorney General's prior legal advice was obtained before the contract with Black dot was signed.
2.	Supply of ballot boxes and Ballot box seals for the 2016 General Elections.	Bauer Logistics	Not Specified	K13,215,260	K13,215,260	**Failure to Avail P rocurement Records for the Supply of Ballot Boxes and Seals** • The commission failed to avail for audit the contract and procurement documents such as the bid documents, the evaluation report and tender minutes as of September 2017. • No record of receipt and distribution was availed for audit to verify whether ballot boxes and seals paid for were received.

No.	Contract	Contractor	Contract Date	Contract Price K	Amount Paid K	Audit Observation
3.	Provision of conference facilities for Nomination of Presidential Candidates and as General Elections national results centre	Mulungushi International Conference Centre	10th May 2016	-	K2,715,871.62	**Failure to Avail Contract and procurement documents** Contrary to Schedule 7 of the Zambia Public Procurement Act No 12 of 2008 which states that a formal contract be drawn for all procurements above the threshold of K500,000 there was no evidence that ECZ signed a formal contract with MICC.
4.	Consultancy services for print media placements to publicise the 2016 General Elections	Giraffe Media	Not Specified	K5,659,800	K5,659,800	**Failure to Seek Approval From the Attorney General** There was no evidence provided that the Commission sought the Attorney General's legal advise prior to the signing of the contract. **Inadequacies in the Contract** The contract was inadequate in that it did not have the contract date and duration making it difficult to ascertain the delivery time of the service.

g. Contract with Black Dot Media Limited

The Commission signed two (2) contracts with Black Dot Media (Z) Limited for the provision of consultancy for media services. The first contract, which was not dated, was for the production and placement of print and electronic media adverts for 2015/16 voter registration exercise at a contract sum of K35,734,165.

The second contract signed on 13th May 2016 was for the production of media campaign, a documentary on the 2016 general elections and election media placements to publicise the 2016 general elections at a contact sum of K30,096,963.

On 11th November 2016, three (3) months after the elections, the Procurement Committee at ECZ approved the variation of the contract sums from K35,734,165 to K42,390,555 for the first contract to cover cost of publicity for voters register inspections and from K30,096,963 to K35,921,543 for the second contract to cover additional costs for media publicity of the 2016 referendum.

As at 30th September 2017, a total of K64,612,563 had been paid on the two contracts leaving a balance of K13,512,157.

However, the following were observed:

i. Lack of Defined Tools or Mechanism to Monitor Electronic Media Aired Adverts

Although the ECZ engaged Black Dot to design and place adverts, it lacked the defined tools or mechanisms to monitor and confirm the performance of the contract deliverables. Consequently, it was not possible to confirm that the adverts placed in the media houses were actually aired according to the number of times required making it difficult to validate the invoices submitted by the Consultant.

ii. Failure to Refer Contract Variations to Attorney General

Although the variations of the contracts were approved by the procurement committee on 11th November 2016, the varied contracts were not referred to the Attorney General for approval contrary to clause 58(3) of the Procurement Act of 2008.

Further, the variations to the contracts were made in November 2016, three (3) months after the general elections.

iii. Payments Made without Attaching Invoices From Media Companies

A test check on four (4) payment claims made by the Consultant revealed that although amounts totalling K14,813,255 had been claimed through various invoices, these lacked supporting invoices from Radio and Television stations that were actually engaged to place adverts and provide the services. It was therefore not possible to verify and justify the actual value of the services the Commission paid for due to absence of invoices and schedule of times when these adverts were aired.

h. Delaying in Paying Hired Vehicles

The ECZ hired five hundred and forty six (546) motor vehicles to cater for hauling and transportation of elections materials and staff during the 2016 General Elections. The vehicles were to be paid for based on the number of days they were out in the field using varying rates depending on the destination and certification from the District Electoral Officers (Town Clerk/Council Secretary) in the form of signing and stamping log sheets. However, a scrutiny on the creditors list revealed that although the various transporters had provided their vehicles and rendered the contracted service to the ECZ, as of September 2017, the ECZ still owed transporters a total amount of K7,465,126.

i. Disbursements to Districts

The ECZ disbursed funds amounting to K392,630,921 to local authorities in all the ten (10) provinces as detailed below.

PROVINCE	TOTAL K
Central	36,770,855
Copperbelt	51,069,870
Eastern	41,698,285
Luapula	40,722,050
Lusaka	38,570,765
Muchinga	22,069,095
Northern	35,562,283
North Western	30,882,162
Southern	49,390,711
Western	45,894,845
TOTAL	**392,630,921**

The funds were meant for conducting voter education, delimitation, presidential polls nominations, training activities and general elections.

The following observations were however made:

i. Funds not Received

Funds in amounts totalling K903,460 disbursed to five (5) Councils had not been received by the Councils as at 30th September 2017. See table below.

Districts	Amount K
Luanshya	165,940
Lufwanyama	140,280
Mufulira	188,240
Ndola	313,940
Chilabombwe	95,060
Total	**903,460**

ii. Misapplication of Funds

- Five (5) Councils spent K248,673 on various activities such as payment of salaries and procurement of fuel for administrative operations which were not related to elections without authority from the Director of Elections. See table below.

Unit	No. of Districts	Amount K
Central Province	2	60,080
Northern Province	2	69,250
Muchinga Province	1	119,343
Total	**5**	**248,673**

- On 2nd June 2016, Sesheke District Council received an amount of K24,200 for the construction of ramps at polling stations. However, the funds were applied on procurement of fuel for Council operations. Consequently, the ramps at the polling stations were not constructed.

iii. Unexplained Expenditure – Kitwe

During the year under review, the Council paid and was reimbursed funds amounting to K195,355 without expenditure returns or details of the initial payment for the reimbursements.

Food Reserve Agency

Background

8. The Food Reserve Agency (FRA) was established in 1996 after the enactment of the Food Reserve Act of 1995. The Government, through the FRA, has the responsibility to purchase agricultural crops from smallholder farmers who are located in economically disadvantaged areas around the country in accordance with the Food Reserve Act.

The functions of the Agency are to:

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

Board of Directors

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

i. A representative from:
   - the small scale farmers;
   - the Zambia National Farmers Union;
   - the Millers Association of Zambia; and
   - the Bankers Association of Zambia;

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

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

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

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

vi. A representative of the Attorney-General.

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

Management

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

Sources of Funds

The funds of the Agency consist of:

- Funds appropriated by the National Assembly for the purposes of administering the national food reserve;
- Money by way of grants or donations;
- Funds raised by way of loans from within Zambia, or subject to the approval of the Minister, from outside Zambia;
- Charges and collection from fees in respect of programmes, publications, seminars, consultancy and other services provided by the Agency; and
- Leasing of storage facilities and equipment.

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2015 and 2016, a total provision of K1,902,900,000 was made to cater for the operations and capital activities of the Agency against which amounts totalling K3,892,728,989 were released resulting in an over funding of K1,989,828,989. See table below.

Year	Provision K	Release K	Over funding K
2016	830,000,000	1,247,633,333	417,633,333
2015	1,072,900,000	2,645,095,655	1,572,195,655
Total	**1,902,900,000**	**3,892,728,989**	**1,989,828,989**

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

Details	2016 K	2015 K	Total K
Sales	1,434,837,083	1,469,147,742	2,903,984,825
Leasing	945,651	1,397,241	2,342,892
Other income	2,735,532	2,732,784	5,468,316
Total	**1,438,518,266**	**1,473,277,767**	**2,911,796,033**

Review of Operations

A review of operations of the Agency at Headquarters, regional offices and selected district offices for the period from January 2015 to 31st December 2016 carried out in July 2017 revealed the following:

a. Failure to Prepare Annual Reports

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

b. Purchase, Marketing and Distribution of the Grain

i. Failure to Meet Gazetted National Food Strategic Reserve

Pursuant to the provision of Section 7(2)(3) of the Food Reserve Act Cap 225 of the Laws of Zambia, the Agency announced that it planned to purchase a minimum of designated Agricultural Commodities during the 2015 and 2016 Marketing Season as shown in the table below.

Year	Gazetted Maize Metric Tons	Gazetted Rice Metric Tons	Procured Maize Metric Tons	Procured Rice Metric Tons	(Under) Over Maize Metric Tons	(Under) Over Rice Metric Tons	% Shortfall of Maize	% Shortfall of Rice
2015	500,000	2,100	596,193	68	96,193	(2,032)		96.8
2016	500,000	2,100	280,764	19	(219,236)	(2,081)	43.8	99.1
Total	**1,000,000**	**4,200**	**876,957**	**88**	**(123,043)**	**(4,112)**	**12.3**	**97.9**

As can be seen from the table above, although the Agency managed to meet the minimum procurement requirement for maize in 2015, it was observed that in 2016 only 280,884 metric tons of maize was procured against a target of 500,000 metric tons resulting in an under procurement of 219,116 metric tons. In addition, the Agency did not meet the minimum procurement of strategic reserves for rice for the period under review.

ii. Delays in Paying Transporters of Designated Commodities

It was observed that as at 31st August 2017, the Agency owed transporters a total amount of K246,026,110 in respect of transportation of designated commodities for 2014/15 and 2015/16 marketing seasons. The delay in paying transporters ranged from a period of ten (10) to thirty (30) months after submitting the invoices.

Consequently, a physical inspection of Mulobezi satellite depot carried out in June 2017 revealed that 11,287 x 50 kg bags of maize costing K959,395 had been damaged due to the delayed transportation to holding depots.

c. Management of Storage Facilities - Renting of Excess Storage Facilities

One of the functions of the Agency was managing of public agricultural storage facilities. During the marketing season of 2015/16, the Agency maintained storage facilities with a total capacity of 1,485,631 metric tons of which 865,500 metric tons were owned by the Agency while 620,131 metric tons were rented facilities. During the period under review, the Agency held a total of 630,465 metric tons of maize of which 349,581 metric tons was balance brought forward from 2014/15 marketing season. See table below.

Province	Owned Storage Facilities (In Tonnes)	Rented Storage Facilities (Tonnes)	Total Storage Available (Tonnes)	Opening Balances before Purchasing Season	Maize Purchased (Tonnes)	Total Maize Available (Tonnes)	Sulpus (Deficit) Storage (Tonnes)
Lusaka Province	137,700	453,306	591,006	160,213	3,231	163,444	427,562
Central Province	83,000	19,000	102,000	54,170	19,524	73,694	28,306
Southern Province	195,500	33,915	229,415	51,973	6,970	58,943	170,472
Copperbelt Province	86,000	48,210	134,210	18,806	5,251	24,057	110,153
Eastern Province	185,800	41,000	226,800	30,737	5,273	36,010	190,790
Northern Province	51,700	2,900	54,600	5,916	87,118	93,034	(38,434)
Muchinga Province	49,000	3,000	52,000	4,539	51,397	55,936	(3,936)
Luapula Province	19,500	4,500	24,000	6,027	49,556	55,583	(31,583)
North Western Province	28,200	11,300	39,500	11,252	43,836	55,088	(15,588)
Western Province	29,100	3,000	32,100	5,947	8,728	14,675	17,425
Total Tonnage	**865,500**	**620,131**	**1,485,631**	**349,581**	**280,884**	**630,465**	**855,166**

As can be seen from the table above, the maintenance of 1,485,631 metric tons storage capacity against a total crop tonnage of 630,465 resulted in an excess of 855,166 metric tons.

Although in response management stated that most of the stock was kept in high consumption areas and could not all be kept within the Agency storage facilities as they were inadequate, the maintenance of rented facilities at K8,049,969 could not be justified.

d. Poor Management of Construction Projects

During the period from August to October 2015, the Agency engaged fifteen (15) contractors for various contractual works in various districts at a total cost of K75,393,046. The duration of the contracts ranged between sixteen (16) to twenty four (24) weeks.

A physical inspection of three (3) of the projects carried out in June 2017 revealed that the projects had not been completed. See table below.

NAME OF PROJECT	NAME OF CONTRACTOR	CONTRACT SUM K	PAYMENT TO DATE	BALANCE ON CONTRACT K	PROJECT STATUS
Construction of Boundary Wall Fence in Chipata Alimi Depot	October First Enterprises	880,504	414,566	465,938	The wall had not been completed.
Construction of Office and Ablution Blocks and a Guard House in Lundazi	October First Enterprises	2,434,080	513,297	1,920,784	The works had not been completed.
Construction of Office and Ablution Blocks and a Guard House in Kaoma	Best Finish Construction Limited	1,134,966	427,224	707,743	The project had not been completed.
TOTAL BUDGET		**4,449,551**	**1,355,086**	**3,094,465**	

e. Poor Storage of Tarpaulins

A physical inspection of Ndola, Mwinilunga, Solwezi, Mansa and Kasama depots carried out in June 2017 revealed that the tarpaulins were poorly stored which resulted in wear and tear. See pictures below.

Solwezi District

Mansa District

Kasama District

Mwinilunga District

f. Poor Storage Facilities

i. Mwinilunga Sheds

During the period under review, the Agency owned storage facilities in Mwinilunga. However, a physical inspection of the sheds revealed the following:

- Poor maintenance of the shed in that the walls had structural cracks resulting in leakages during the rainy season.
- Failure to replace broken window panes resulting in water and insects easily entering the sheds and thus damaging the maize. See pictures below.

Cracked walls - Mwinilunga sheds

Broken window panes - Mwinilunga sheds

ii. New Sheds Mwinilunga

During the 2015/16 marketing season, a new shed was commissioned at the Mwinilunga main depot. A physical inspection of the newly constructed shed revealed that the slab had developed structural cracks. See picture below.

Cracked slab

g. Poor Security at Mansa District Depot

A physical inspection of Mansa Main depot revealed that there was poor security in that sheds had no security lighting and were poorly fenced.

Indeni Petroleum Refinery Company Limited

Background

9. Indeni Petroleum Refinery Company Limited is wholly owned by the Government and was established in 1970 to mitigate the impact caused by the rising prices of petroleum products in the energy sector.

The Company’s core business is to refine crude oil procured by the Government through the Ministry responsible for energy. The crude oil is delivered via the Tazama Pipelines and once refined, the products (diesel, petrol and kerosene) are pumped to Tazama Pipelines Limited who in turn sell to the oil marketing companies who sell to the country at large.

Share Capital

The authorised share capital of the Company is 92,270,000,000 ordinary shares of K2 each, which were issued out in the name of the Industrial Development Corporation (IDC) Limited holding 91,347,300 shares and Secretary to the Treasury holding 922,700 shares. All the shares are fully paid for and issued to the Government of the Republic of Zambia.

Administration

The Company is governed by a Board of Directors comprising the Permanent Secretary or a representative of the Ministry of Energy and Water Development and not more than five (5) persons from the private sector and the Managing Director.

The Managing Director is responsible for the day to day administration of the company and is assisted by the Manager Technical Refinery, ten (10) line managers and a legal counsel.

Sources of Funds

The funds are mainly derived from the sale of refined oil, light gases, other petroleum gases and crude oil processing fees which amounted to K1,026,176,000 for the period under review as shown below.

	31/12/2016 K'000	31/12/2015 K'000	31/12/2014 K'000	31/12/2013 K'000	Total K'000
Turnover	264,502	326,540	244,490	168,896	1,004,428
Other Income	2,981	8,068	3,894	6,850	21,748
Total Income	**267,483**	**334,608**	**248,384**	**175,746**	**1,026,176**

Review of Operations

A review of accounting and other records maintained at the company, for the financial years ended 31st December 2013, 2014, 2015 and 2016 carried out during the period from February to April 2017 revealed the following:

a. Lack of a Board of Directors

During the period from 20th May 2016 to July 2017, the Company operated without the Board of Directors contrary to good corporate governance practices.

b. Profitability - Financial Analysis – Statement of Comprehensive Income

The Statements of Comprehensive Income for Indeni Petroleum Refinery Company Limited for the four (4) years under review were as follows:

	31/12/2016 K' 000	31/12/2015 K' 000	31/12/2014 K' 000	31/12/2013 K' 000
Turnover	264,502	326,540	244,490	168,896
Cost of Sales	(122,135)	(107,872)	(96,974)	(95,185)
Gross Profit	**142,367**	**218,668**	**147,516**	**73,711**
Other operating income	2,981	8,068	3,894	6,850
Administrative expenses	(94,402)	(88,352)	(74,492)	(68,660)
Other operating expenses	(15,411)	(17,134)	(16,446)	(4,229)
Operating profit	**35,535**	**121,250**	**60,472**	**7,672**
Finance income	667	538	183	126
Finance costs	(319)	916	-	(319)
Profit before income tax	**35,883**	**122,704**	**60,655**	**7,479**
Income tax expense	(14,762)	(44,678)	(22,821)	(5,468)
Profit for the year	21,121	**78,026**	**37,834**	**2,011**
Other comprehensive income,net of tax:				
Acturial losses	-	-	-	-
Total comprehensive income for the year	**21,121**	**78,026**	**37,834**	**2,011**

In 2014, the company recorded a growth in profit of 1,881% from K2,011,000 in 2013 to K37,834,000 in the year 2014. The profit also increased from K37,834,000 in the year 2014 to K78,026,000 in 2015 representing a percentage increase of 206%.

The profit however decreased from K78,026,000 in 2015 to K21,121,000 in 2016 representing a reduction of 74% which was attributed to a reduction in the number of stream days (Production days) arising from delays in the arrival of crude oil cargo and rising maintenance costs.

c. Statement of Financial Position

The statement of the financial position for Indeni Refinery Company Limited for the four (4) years under review is as shown below.

	31/12/2016 K' 000	31/12/2015 K' 000	31/12/2014 K' 000	31/12/2013 K' 000
Non-current assets				
Property Plant and equipment	507,753	442,775	272,675	253,962
Current assets				
Inventories	73,572	73,539	61,651	52,542
Trade and other receivables	51,427	74,181	46,195	22,326
Cash and other equivalents	10,292	38,627	12,457	8,006
	135,291	**186,347**	**120,303**	**82,874**
Current liabilities				
Trade payables and other payables	62,606	55,810	40,333	29,979
Current income tax	734	15,702	6,638	319
	63,340	**71,512**	**46,971**	**30,298**
Non current assets	**71,951**	**114,835**	**73,332**	**52,576**
Total non current assets and net current assets	**579,704**	**557,610**	**346,007**	**306,538**
Equity	184,540	184,540	184,540	184,540
Retained earnings	153,911	132,790	80,244	42,410
Proposed Dividends	9,568	23,068	-	-
Funds awaiting allotment of shares	108,114	108,114	-	-
Total equity	**456,133**	**448,512**	**264,784**	**226,950**
Non- current liabilities				
Deferred income tax	123,571	109,098	81,223	64,963
Retirment benefits obligation			-	14,625
	123,571	**109,098**	**81,223**	**79,588**
Total equity and non current liabilities	**579,704**	**557,610**	**346,007**	**306,538**

i. Overdue Receivables

As of December 2016 the company had total trade and other receivables of K51,427,000 of which K15,047,820 was attributed to the Ministry of Energy for laboratory and other services rendered through Tazama Pipeline Limited. However, it was observed that some of the debt had been outstanding from as far back as 2011 and management had not made efforts to recover the debt.

Although in their response dated 8th August 2017, management stated that it had submitted a letter to the Permanent Secretary – Ministry of Energy for consideration of a debt swap as the Ministry owed Indeni K17,907,187 in respect of laboratory analysis and weigh bridge services while Indeni owed the Ministry K19,967,413 in respect of balances on advance payment on processing fees, there was no response from the Permanent Secretary as at 30th September 2017.

ii. Receivable Turnover Days/Debt Collection Period

The company's debt collection policy is thirty (30) days. The debt collection period was increasing in the period under review as shown in the table below.

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

	Draft 2016	31/12/2015	31/12/2014	31/12/2013
Turnover (K)	264,502,000	326,540,000	244,490,000	168,896,000
Trade Receivables (K)	36,351,000	40,810,000	32,000,000	76,000
Receivable Turnover (days)	**50**	**46**	**48**	**0**
Debt Collection day per Policy	**30**	**30**	**30**	**30**

As can be seen in the table above, in 2013 the Company was efficient in collecting trade receivables in that it took on average zero (0) days in collecting cash from its trade receivables but this period increased to 48 days in 2014, 46 days in 2015 and 50 days in 2016. This resulted in trade receivables increasing at a higher rate compared to the sales.

iii. Return on Capital Employed

The Return on Capital Employed (ROCE) indicates the return on the shareholders' investment. As can be seen in the table below, the Refinery recorded an increase on ROCE from 3% in 2013 to 17% in 2014 and 22% in 2015. However, there was huge decrease from 22% in 2015 to 6% in 2016 which was attributed to reduced operating profit.

Return on Capital Employed =(PBIT / Capital Employed) x 100

	Draft 2016	31/12/2015	31/12/2014	31/12/2013
Total equity and non current liabilities (K)	**578,901,000**	557,610,000	346,007,000	306,538,000
Operating profit (K)	**34,687,000**	121,250,000	60,472,000	7,672,000
Actual ROCE	6%	22%	17%	3%

d. Non Payment for Corrosion of Plant Equipment due to Processing of Contaminated Crude Oil

In July 2008, Indeni Petroleum Refinery Limited signed an agreement with Tazama Pipelines where Tazama was to import feedstock to be refined by Indeni into finished products for sale to the Oil Marketing Companies.

The agreement provided for the following:

- Tazama was to import feedstock specifically tailored to the configuration of the refinery and which best suited the needs of the Zambian and export markets for petroleum products.
- The composition of the feedstock batch was to be agreed upon in advance by both Tazama and Indeni, indicating a deemed yield pattern.
- Indeni was to verify the feedstock offloaded in Dar-es-salaam, upon request from Tazama, based on load port and board samples drawn by the collateral Manager and performing the necessary laboratory analysis.
- After every discharge, Tazama was obliged to take samples, certified by the Collateral Manager of the feedstock from its tanks for full analysis by an independent laboratory under the auspices of the collateral manager. The results of the analysis were to be binding on Indeni and Tazama.
- Tazama was responsible to ensure that the imported feedstock was compatible with feedstock specification.

In October 2012, the Government of the Republic of Zambia through the Ministry of Mines, Energy and Water Development signed a contract with Gunvor SA, a company incorporated in Switzerland for the supply of 1,440,000 +/- 10% metric tonnes of commingled Petroleum Feedstock to Zambia.

The following observations were made:

i. In May 2013, the refinery experienced significant corrosion problems due to the processing of poor quality crude oil stock that negatively impacted plant performance and resulted in extensive repair and maintenance costs. It was established by Management that the corrosion was caused by the presence of Organic Chlorides in the Crude that was supplied by Gunvor SA.

   A review of the report on the causes and effect of the corrosion suffered by the refinery dated 2nd December 2013, revealed that it was the duty of Tazama as agents to ensure that uncontaminated oil was delivered to the refinery. However, in their response, Tazama stated that they did not know what to look for in the tests. Further, it was established by Management that the supplier of the crude oil had not been submitting certificates of analysis to the Government of the Republic of Zambia and as such it was not possible to ascertain where in the transportation process, the crude oil became contaminated.

It was established that the total costs and lost revenue by the Company amounted to K37,985,713 and a claim was accordingly lodged with the Ministry of Mines, Energy and Water Development for the full amount as detailed below.

Description	Amount K
Income Lost	22,713,294
Materials Used	6,205,323
Chemicals Used	2,908,275
Intertek Testing & Services	49,520
Labour (Cost of overtime)	2,875,333
Shut down cost for hire of labour,equipment and others	3,233,968
Total Cost and Revenue Lost	**37,985,713**

However, as of May 2017, no feedback had been provided by the Ministry of Mines, Energy and Water Development.

ii. In October 2014, the Ministry of Mines, Energy and Water Development signed an addendum with Gunvor SA, to the contract that was signed in October 2012, in which it was agreed for Gunvor SA to supply an additional 720,000 metric tonnes plus or minus 10% comingled feedstock in accordance with the terms and conditions of the contract.

In 2015, the Refinery experienced a recurrence of corrosion due to the presence of organic chlorides in crude feedstock. A review of the report on corrosion dated 16th July 2015 revealed that the processing of the contaminated crude oil corroded the Refinery equipment pipes, which eventually developed leaks and the refinery had to be continually shutdown to facilitate repairs.

In a letter dated 28th December 2015, the Managing Director at Indeni Petroleum Refinery Company Limited informed the Permanent Secretary at the Ministry of Energy and Water Development that a technical inspection had been done by a team from Gunvor SA and it was established that the expenditure incurred with regard to corrosion and the anticipated costs were as follows:

Description	Amount US$
Actual Costs as at 22 December 2015	1,971,835.30
Forecasts up to June 2016	851,950.12
Total	**2,823,785.42**

A review of the minutes of the Directors meeting revealed that Gunvor SA indicated that they were willing to pay for the damages due to corrosion and anticipated costs totalling K24,599,542 (US$2,823,785.42). As of May 2017, a total amount of K5,444,482 (US$624,973) had been paid by Gunvor SA leaving a balance of K19,155,060 (US$2,198,785.42) not paid.

As of March, 2017, Indeni Petroleum Refinery Company Limited still had in store a net volume of 22,675 metric tonnes of crude oil which was contaminated with organic chlorides.

e. Non Recoverability of Crude Stock

A scrutiny of the financial statements and other records revealed that included in the inventory figure of K73,352,000 were raw materials valued at K15,221,621. It was established that in 2007, before the Government took up the role of procuring crude oil, Indeni through Total Outré Mer procured 60,692 metric tonnes of crude. Out of the procured oil of 60,692 metric tonnes, 6,033 metric tonnes valued at K15,221,621 was withheld in the tanks at Dar-es-salaam and could not be pumped due to a court order placed by a law firm on the crude oil in an effort to recover unpaid legal fees.

In 2016, the law firm discontinued the court case and management at Indeni made a proposal, in a letter dated 28th April 2016, to the Permanent Secretary in the Ministry of Energy and Water Development to sell the crude oil to Government at a price of K15,221,621, as this was the amount that was reflected in the financial statements.

In her response to the proposal made by Indeni dated 19th October, 2016, the Permanent Secretary in the Ministry of Energy and Water Development stated that the proposal was under review and that Indeni would be notified on the outcome in the shortest period time possible. However, as of July 2017 the matter had not been resolved.

f. Wasteful Expenditure on Consultancy Services on the Review of the Organisational Structure

In February 2014, Indeni Refinery Limited engaged Mint Advisory Services Limited to provide consultancy services for the Organisational Review of the company at a contract price of K674,898 for a duration of three (3) months from 3rd March to 23rd May, 2014 or any other period as maybe subsequently agreed by the parties in writing. The consultant presented their report to management in March 2015. However, management rejected the consultant's findings and did not implement any of their recommendations claiming they did not understand the intricacies of the refining business rendering the expenditure wasteful.

g. Non Delivery of Goods by Apple Connections

During the period under review, Apple Connections of South Africa was engaged to supply various goods in amounts totalling K395,444 (ZAR593,390.53) and was paid in full. However, as of July 2017, only goods costing K194,885 (ZAR277,653.30) had been delivered leaving a balance of goods worth K200,559 undelivered. See table below.

Order Number	Date of Order	Material Description	Order Value K	Value of Goods Delivered K	Value of Goods Not Delivered K
PRO-2013-00745	25.09.13	Molykotes	79,541	38,360	41,181
PRO-2014-00350	05.06.14	Consoles	56,363	-	56,363
PRO-2014-00556	05.09.14	Seamless Bends	44,672	4,767	39,906
PRO-2014-00707	04.09.14	Explosion Proof Plugs	63,109	-	63,109
PRO-2014-00875	29.09.14	Heater Tubes (Pipes)	151,759	151,759	-
Total			**395,444**	**194,885**	**200,559**

The Judiciary

Background

10. The Judiciary of Zambia is an independent arm of the Government established under Articles 120, 124, 127, 130, 133 of the Constitution of Zambia (Amendment) Act No. 2 of 2016. The Judiciary consists 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 roles of the Judiciary include the following:

- Administering of justice through resolving disputes between individual and individual, and between the State and individuals,
- Interpreting the Constitution and the Laws of Zambia,
- Promoting the rule of law and contributing to the maintenance of order in society,
- Safeguarding the Constitution and upholding democratic principles, and
- Protecting human rights of individuals and groups.

The Judicature is administered in accordance with the provisions of the Judiciary Administration Act No. 23 of 2016 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.

In the Estimates of Revenue and Expenditure for the financial year ended 31st December 2016, a provision of K483,697,737 was made to cater for various activities for the Judiciary against which amounts totalling K409,571,592 were released resulting in an underfunding of K74,126,145.

As of December 2016, the Judiciary had spent amounts totalling K407,382,129.

Review of Operations

An examination of accounting and other records maintained at the Judiciary Headquarters and selected stations carried out in July 2017 revealed the following:

a. Unfilled Vacancies in the Establishment

According to the approved staff establishment, the Judiciary of Zambia had a total staff establishment of 5,456 as at 30th April 2017. It was however observed that out of the total staff establishment of 5,456, a total of 460 positions had not been filled as at the time of audit in July 2017. Among the unfilled positions were eighty five (85) key positions as shown in the table below.

Department	Positions	Establisment	Actual	Variance
Constitutional Court	Judges	13	6	7
Court of Appeal	Judges	19	8	11
High Court	Judges	60	42	18
Subordinate Court	Magistrates	233	210	23
Local Court	Magistrates	662	636	26
Total		**987**	**902**	**85**

b. Failure to Avail Fixed Asset Register

The Judiciary's assets included land and buildings, motor vehicles, furniture and office equipment located in various parts of the Country. However, the fixed asset register was not availed for audit.

c. Lack of Stores Management System

Contrary to Public Stores Regulation No.16, stores items costing K649,709 procured during the period under review were unaccounted for in that there were no stores ledgers and stock cards. See table below.

Regional Office	General Stores K
Ndola	150,713
Kitwe	352,326
Livingstone	103,418
Choma	23,177
Mongu	20,075
Total	**649,709**

d. Construction of Ndola Main Urban Local Court

On 1st October 2013, the Judiciary engaged Baluba Building Construction Limited to construct the Ndola Urban Local Court at a contract sum of K1,584,692 with a completion period of twenty (20) weeks. The contractor was paid an amount of K316,938 as advance payment.

The scope of works included among others, the construction of a court room, painting, fixing of door frames, construction of a litigant shelter, an ablution block, a boundary wall fence, supply and installation of sanitary fittings and firefighting equipment.

However, the following were observed:

i. Contrary to the terms and conditions of the contract which required the contractor to provide a performance Bond at the rate of 10% of the contract price, the contractor did not provide the performance bond and therefore there was no security for the advance payment.

ii. As at 31st August 2017, the contractor had only partially constructed the perimeter wall fence and a foundation box for the main building and had since abandoned the project site. See picture below.

A perimeter wall fence and the foundation box for the main building

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance in amounts totalling K116,939 and instructed the contractor to go back on site.

However, during the audit verification in October 2017, the contractor had not yet mobilised on site to complete the outstanding works.

e. Construction of Baluba Urban Local Court

On 2nd January 2013, the Judiciary engaged Lefro General Dealers for the construction of the Baluba Urban Local Court in Luanshya at a contract sum of K1,330,384 with a completion period of twenty eight (28) weeks. During the period from August 2013 to February 2017, the Judiciary paid amounts totalling K1,099,497 to the contractor.

The terms and conditions of the contract agreement included the provision of the performance bond at 10% from a bank or at 30% from an insurance company on the contract sum.

The scope of works included among others, the construction of a court room, painting, fixing of door frames, construction of a litigant shelter, an ablution block, a boundary wall fence and sinking and equipping a borehole.

However, the following were observed:

i. Contrary to the terms and conditions of the contract, the contractor did not provide the performance bond.

ii. The installation of the windows, doors and fittings for the court buildings had not been done. In addition, the building had not been painted both inside and outside.

iii. Although a borehole had been sunk, the accessories had not been installed such as the tank, the pump and the tank stand.

iv. The contractor had abandoned the site in 2015 and at the time of inspection in August 2017, there was no caretaker to provide security.

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance in amounts totalling K352,429 and instructed the contractor to go back on site.

However, during the audit verification in October 2017, the contractor had not yet mobilised on site to complete the outstanding works.

f. Construction of Twapia Urban Local Court

On 4th January 2013, the Judiciary engaged KAOPAK Investments Limited to construct Twapia Local Court in Ndola at a contract sum of K1,222,429 with a completion period of twenty four (24) weeks. The Judiciary paid amounts totalling K1,127,907 during the period from 2013 to 2016.

The terms and conditions of the contract agreement included the provision of the advance payment of 20%, performance bond at 20% from a bank or at 30% from an insurance company on the contract sum.

The scope of works included the construction of a court room, painting, fixing of door frames, construction of a litigant shelter, an ablution block, a boundary wall fence and sinking and equipping of a borehole.

The following observations were made:

i. Contrary to the contract, the contractor did not provide a performance bond,

ii. All the windows had no glass panes, tiling of the floors in the court room had not been done and ceiling boards had not been painted,

iii. Although the borehole had been sunk, it was not equipped with a pump, tank stand and the tank, and

iv. The contractor abandoned the site in 2014. See pictures below.

Right side view of the Court room

Left side view of the Court room

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance from the amount certified amounting to K92,343 and instructed the contractor to go back on site.

However, during the audit verification in October 2017, the contractor had not yet mobilised on site to complete the outstanding works.

g. Construction of Kapiri Mposhi Urban Local Court

On 22nd October 2013, the Judiciary engaged AVOTECH Enterprises Limited to construct an Urban Local Court in Kapiri Mposhi Distrct at a contract sum of K1,097,034 with a completion period of sixteen (16) weeks. During the period from 2014 to 2016, a total of K407,848 was paid to the contractor.

The scope of works included among others the construction of a court room, litigant shelter, an ablution block and painting and fixing of door frames.

The following were observed:

i. Contrary to section 127 (1) of the Public Procurement regulations of 2011, the signed contract did not provide for a performance bond.

ii. The main court building, litigants' shelter and the ablution block were constructed up to roof level.

iii. The contractor abandoned the site in 2016.

See pictures below.

Ablution Blocks

Main Local Court Building

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance from the amount certified amounting to K144,375 and instructed the contractor to go back on site.

However, during the audit verification in October 2017, the contractor had not yet mobilised on site to complete the outstanding works.

h. Construction of Makululu Local Court

On 22nd October 2013, the Judiciary engaged FIGO Solution Limited to construct an Urban Local Court at Makululu in Kabwe Distrct at a contract sum of K1,092,129 with a completion period of one hundred and twenty (120) days. The Judiciary paid amounts totalling K853,142 during the period from January 2014 to July 2016.

The scope of works included the construction of a court room, painting, fixing of door frames and doors and ablution block.

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

i. Contrary to section 127 (1) of the Public Procurement regulations of 2011, the signed contract did not provide for a performance bond.

ii. Doors for the court room had not been fitted, tiling of the floors inside the court room had not been done and the sockets in the court room had not been fixed.

iii. The contractor abandoned the site in 2016.

See pictures below.

The court house

Inside of the Court room

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance from the amount certified amounting to K429,337 and instructed the contractor to go back on site.

However, during the audit verification in October 2017, the contractor had not yet mobilised on site to complete the outstanding works.

i. Contract Agreement for Siting, Drilling and Equipping of a Borehole

On 12th December 2012, the Judiciary engaged PLADOC Enterprises for siting, drilling and equipping of a borehole at Makululu Urban Local Court in Kabwe District at a contract sum of K189,230 with a completion period of four (4) weeks. The Judiciary paid amounts totalling K97,050 on 12th February 2014 against the contract sum.

The following observations were made:

i. The contractor had only drilled the borehole and installed the tank stand as of December 2016.

ii. The contractor abandoned the site in 2014.

See picture below.

Tank stand and the Borehole

In response, management stated that the Judiciary will write to the contractor on the pending works.

However, as at October 2017, during the audit verification, the contractor had not yet mobilised on site to complete the outstanding works.

j. Construction of Nkana Rural Local Court - Kitwe Regional Office

On 22nd October 2013, the Judiciary engaged AVOTECH Enterprises Limited to construct Nkana Rural Local Court in Lufwanyama District at a contract sum of K1,106,171 with a completion period of fourteen (14) weeks. The Judiciary paid amounts totalling K800,037 as of December 2014 to the contractor.

The scope of works included among others the construction of a court room, painting, fixing of door frames, construction of a litigant shelter, an ablution block, holding cells and a boundary wall fence.

The following observations were made:

i. Contrary to section 127 (1) of the Public Procurement regulations of 2011, the signed contract did not provide for a performance Bond.

ii. The contractor had not completed the construction works. As of August 2017, the holding cells were still at slab level, the windows, tiles and ceiling boards had not been fixed and the painting had not been done.

iii. The contractor abandoned the site in 2014.

Court Room and Ablution Block

Holding Cells at foundation stage

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance from the amount certified amounting to K347,475 and instructed the contractor to go back on site.

However, during the audit verification in October 2017, the contractor had not yet mobilised on site to complete the outstanding works.

k. Construction of Kitwe Local Court

On 10th October 2012, the Judiciary engaged MACH TECH Limited to construct a local court in Kitwe at a contract sum of K1,481,317 with a completion period of forty four (44) weeks. The Judiciary paid amounts totalling K1,201,782 during the period from February 2014 to July 2016.

The terms and conditions of the contract agreement included the provision of the advance payment of 30%, the performance bond at 20% from a bank or at 30% from an insurance company on the contract sum.

The scope of works included the construction of a court room, holding cell, litigant shelter and an ablution block and painting and fixing of door frames.

The following were observed:

i. Contrary to the terms and conditions of the contract, the contractor did not provide a performance bond.

ii. The contractor had not completed the construction of the court room, as at 31st August 2017, in that some of the window panes had not been fixed and the sanitary facilities had not been installed.

iii. The construction of the holding cell was incomplete in that the door and window frames had been fitted and the flooring, wall finishing and paintings had not been done.

iv. The contractor abandoned the site in 2015. See pictures below.

Part of the Main Court Building *Incomplete Holding Cell*

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance from the amount certified, amounting to K701,782 and instructed the contractor to go back on site.

However, during the audit verification in October 2017, the contractor had not yet mobilised on site to complete the outstanding works.

l. Failure to Prepare Bank Reconciliations - Choma District Office

A review of the accounting records and other relevant documentation for the period under review revealed that Choma Subordinate court did not prepare, as at 30th August 2017, bank reconciliations for the period from January to December 2016 contrary to Financial Regulation No.138.

m. Construction of Litoya Local Court in Kaoma District

On 19th October 2012, the Judiciary engaged Jasto Suppliers to construct Litoya Local Court and ancillary works in Kaoma District at a total contract sum of K1,084,079. The construction works were scheduled to commence on 8th November 2012 and end on 29th April 2013.

The scope of works included the construction of the main court building, two (2) standard double-pit latrines, holding cell and the litigants' shelter.

However, the following were observed:

i. Failure to Provide Performance Security Against the Contract

According to section 127 (1) of the Public Procurement Regulations of 2011, "a procuring entity shall request for a performance security for all contracts for goods, works, non-consulting services with a value greater than K500,000 to secure the supplier's obligation to fulfil the contract".

Contrary to the Regulation, the Judiciary through the Western Provincial Administration Office awarded a contract for the construction of Litoya Local Court and ancillary works at a total contract sum of K1,084,079 without performance security despite the contract sum being in excess of K500,000.

Therefore, payments made to the contractor in amounts totalling K655,135 towards the construction works were not secured against financial loss in the event that the contractor abandons the works.

ii. Delays in Completing the Works

Although the contractor was on site, the works had not been completed fifty two (52) months after the expected date of completion and a physical inspection conducted in August 2017 revealed that the works had not been finalised as the following were outstanding:

- Solar electrical installations
- Glazing (Fitting of 4mm clear glass pane to metal frames)
- Carpentry, joinery and irony mongery
- Magistrate wooden bench
- The holding cell
- Standard double pit latrine
- Litigants' shelter
- Drilling of the borehole.

In response management stated that the delay was attributed to intermittent funding for the years ended 2015 and 2016 budgets and that the Judiciary paid the remaining balance from the amount certified amounting to K200,000.

n. Construction of Chirundu Subordinate Court – Chirundu District

On 21st November 2013, the Judiciary engaged Conquest Limited to construct Chirundu Subordinate Court in Chirundu District at a total contract sum of K4,119,209. The construction works were scheduled to commence on 29th November 2013 and end on 29th July 2014, thirty two (32) weeks after the date of signing of the contract.

The terms and conditions of the contract agreement included the provision of the performance bond at 10% and liquidated damages at 8% of the contract sum.

However, the following were observed:

i. Failure to Provide Performance Bond

Contrary to the terms and conditions of the contract, the contractor did not provide the performance bond.

ii. Failure to Supervise Construction Works by the Contract Manager

A scrutiny of the contractor's file revealed that the construction works were not supervised by the project manager from the time the site was handed over to the contractor in February 2014 to December 2016, thirty four (34) months after the date of handover.

Consequently, the following were observed:

- Plastering of the walls was erroneously done before roofing,
- the slab was substandard as the course aggregate was clearly visible,
- The contractor had not done the PVC duct that was supposed to supply electricity to the building as electricity was not supposed to be supplied overhead, but through the slab as per the design.

As at 31st August 2017, the issues raised had not been addressed.

iii. Failure to Complete the Construction Works as per Contract Agreement.

A physical inspection of the construction works of the subordinate court revealed that as of August 2017, thirty seven (37) months after the expected date of Completion of 29th July 2014, the contractor had not yet completed the following construction works:

- Roofing, Carpentry and Joinery,
- Metal work, Plumbing Installation,

- Floor and Wall Finishings (Ceramic & Porcelain Floor Tiling, Terrazo, Wall tiling, among others),
- Glazing (Fitting of 4mm clear glass pane to metal frames),
- Electrical Installations, Painting and Decorating,
- Storm Water Drainage,
- Drilling , Sinking and equipping of a borehole, and
- Construction of the Judges Benches.

Front View

Unfitted glass panes on window frames

In response management stated that the contractor only submitted the first Interim Payment Certificate on 9th February 2017, which was fully honoured by 3rd March 2017. Further, Judiciary is working together with the Ministry responsible for Infrastructure being the project managers and have since started undertaking site meetings and inspections on a regular basis.

However, during the audit verification conducted in October 2017, it was observed that the contractor had not completed the works as noted above.

The Local Authorities Superannuation Fund (LASF)

Background

11. The Local Authorities Superannuation Fund (LASF) is established under the Local Authorities Superannuation Fund Act of 1996. It was created to provide pension to members on retirement, ill health and death.

LASF is a defined benefit scheme covering seventy two (72) local authorities, ZESCO Limited and the National Housing Authority. The Scheme also covers the twenty seven (27) water utility companies, among others.

LASF implements policies relating to Pension Scheme as well as to the control and administration of the operations of the Fund.

Board of Directors

The Statutory Instrument No. 66 of 1998 states that the Board shall consist of the following members:

- The Permanent Secretary in the Ministry responsible for Local Government administration;
- One member appointed by the Minister from two (2) representatives nominated by the Local Government Association of Zambia;
- One member appointed by the Minister from two (2) representatives nominated by Zambia Local Authorities Workers' Union;
- One member appointed by the Minister from two (2) representatives nominated by the management of Zesco Limited;
- One member appointed by the Minister from two (2) representatives nominated by the Board of National Provident Fund (NPF);
- One member appointed by the Minister from two (2) representatives nominated by the Board of National Housing Authority (NHA); and
- The Chief Executive of the Local Authorities Superannuation Fund.

Further, Statutory Instrument No. 74, the Local Authoritites Superannuation Fund (Board) (Amendment) (No. 2) Rules, 1998, provides for two (2) additional members as follows:

- One member appointed by the Minister from two (2) representatives nominated by the Management of the Lusaka Water and Sewerage Company Limited; and
- One member appointed by the Minister from amongst the members of the public.

The Minister responsible for Local Government and Housing shall designate one member as Chairman and one member as Vice Chairman from the members appointed.

Management

The day to day administration of the LASF is the responsibility of the Managing Director who is the Chief Executive Officer and is assisted by the Directors of Finance and Pension Administration and Corporate Services. All the Directors are appointed by the Board on a three (3) year renewable contract.

Sources of Funds

According to the Act, the Fund shall consist of:

- The assets vested in the Fund under the provisions of Section Six;
- Contributions and interest paid into the Fund;
- Income and capital appreciation derived from the holding of the assets of the Fund in any form;
- Any other sums or assets accruing to the Fund.

During the period from January 2014 to December 2016, the Fund generated a total amount of K275,219,200 from contributions, investments and other sources as shown in the table below.

Sources of Income	31st Dec 2016 K	31st Dec 2015 K	31st Dec 2014 K	Total Funds Generated K
Contributions	83,111,134	80,679,947	80,779,672	244,570,753
Investment Income	6,349,791	14,066,865	8,835,334	29,251,990
Other Income	325,278	450,892	620,287	1,396,457
Total Income	**89,786,203**	**95,197,704**	**90,235,293**	**275,219,200**

Review of Operations

A review of accounting and other records for the financial years ending 31st December 2014, 2015 and 2016 carried out in September 2017 revealed the following:

a. Operating without Board of Directors 2012 - 2016

The LASF Act provides that the Minister responsible for Local Government and Housing shall appoint members of the Board of Directors whose tenure of office shall be three (3) years.

The Board of Directors' tenure of office expired in June 2012. However, the Minister did not appoint a new Board immediately after expiry of tenure of office for the Funds board resulting in the Fund operating without a Board for a period of three (3) years and two (2) months. The new Board was only appointed in February 2016.

In this regard, it was observed that the contracts of employment for the Managing Director, Director Finance and Pension Administration and Director Corporate Services were renewed by the Permanent Secretary in the Ministry responsible for Local Government and Housing without conducting a performance appraisal contrary to the provisions of Section 3.9 of the Administration Manual for management and non-unionised staff which stipulates that every employees' performance will be assessed on annual basis.

b. Lack of Segregation of Duties – Director Finance and Pension Administration

A review of the Local Authorities Superannuation Fund Act revealed that the Act is divided into seven (7) parts among them, Finance and Management, Membership of the Fund, Contributions to the Fund and Retirement and Benefits. Further, the Fund is guided by Internal Controls which refer to the collection of procedures and tasks which management operates to facilitate orderly conduct of activities, ensure adherence to the Act and policies, safeguarding of assets and secure as far as possible the completeness, integrity and accuracy of records and information.

A review of the organisation structure revealed that the Director, Finance and Pension Administration was in charge of Finance, Investments, Contributions and Benefits. In this regard, there was no segregation of duties for Pension Fund management which broadly falls under Contributions and Benefits, Investment and Finance.

c. **Non Remittance of Statutory Contributions**

Contrary to the Income Tax Act, amounts totalling K25,866,199 deducted as PAYE during the period under review had not been remitted to the Zambia Revenue Authority as at 30th September 2017.

d. **Statement of Changes in Net Assets Available for Benefits for the period ended 31st December 2014, 2015 and 2016**

Statement of Changes in Net Assets Available for Benefits	2016 K	2015 K	2014 K
Contributions	83,111,134	80,679,947	80,779,672
Investment income	6,349,791	14,066,865	8,835,334
other income	325,278	450,892	620,287
Total income	**89,786,203**	**95,197,704**	**90,235,293**
Benefits paid	(115,641,337)	(148,857,741)	(138,385,122)
Administrative Expenses	(42,823,419)	(36,457,380)	(105,750,161)
Total Expenditure	(158,464,756)	(185,315,121)	(244,135,283)
Increase in net liabilities from fund operations	**(68,678,553)**	**(90,117,417)**	**(153,899,990)**
Net liability at the beginning of the year	**(276,629,796)**	**(178,584,125)**	**(27,890,418)**
Net Liability at the end of the year	**(345,308,349)**	**(268,701,542)**	**(181,790,408)**

The following were observed:

i. **Questionable Going Concern of the Fund**

LASF is a statutory pension scheme created by an Act of Parliament Cap 284 of the Laws of Zambia and is therefore guaranteed by Government. Following the enactment of the National Pension Scheme Authority (NAPSA) Act, on 1st February 2000, the LASF Scheme was closed to new entrants resulting into a reduction in contributing members and declining income on pension contributions. On the other hand, the number of pensioners has been growing and therefore putting more pressure on lump sum and pension annuity obligations.

As can be seen from the Statement of Changes in Net Assets Available for Benefits above, the Fund had continued to report net liabilities at the end of each of the financial year in the period under review of K181,790,408, K268,701,542 and K345,308,349 in 2014, 2015 and 2016 respectively. The net liability had worsened by 90% between 2014 and 2016.

This therefore implies that the Fund does not have adequate assets to generate the required revenue to meet its pension obligations as they fall due. In this regard, the going concern of the Fund remains questionable in the event of lack of Government support.

ii. Low Investment Performance of Fund

According to the Investment Policy, the Fund's investment objectives were capital preservation, investment returns and maintenance of liquidity. The investment portfolio of the Fund included investment properties, equity investments, and collective investments, held to maturity, and loans to associated authorities and other receivables. A review of the financial statements revealed investment performance as shown in the table below.

Year	2016	2015	2014
Investment Income Generated (Cash-Flow Statement) (K)	(1,136,067)	9,825,551	838,141
Total Assets (Statement of Financial Position) (K)	207,158,955	204,178,601	192,900,766
Income / Total	(0.01)	0.05	0.004
Average Inflation over three years	0.10	0.10	0.10

Although total assets had increased by 7.4% from K192,900,766 in 2014 to K207,158,955 in 2016, the net cash generated from investment activities dropped from K9,825,551 in 2015 to negative K1,136,067 in 2016 representing a percentage decrease of 112%. This was despite the increase of cash generated from investment activities by K8,987,410 from K838,141 in 2014 to K9,825,551 in 2015.

An analysis of investment activities revealed that the significant rise in net cash generated from investing activities was as a result of disposal of equity and property investment at a total sum of K10,595,941 in 2015. The disposal of investments were however used to finance operating activities with re-investment only accounting for 19.3% at K2,046,058. In addition, it was observed that the Fund was not able to generate investment income above the average inflation rate of 10%. This implies that the Fund was unable to sustain its capital preservation, investment returns and maintenance of liquidity to meet its pension obligation.

iii. Net Liability from Operations

A net liability arises when net assets available for benefits are inadequate to pay pensioners' benefits for the respective financial year end. A review of the Statement of Changes in Net Assets Available for Benefits revealed that the Fund had net liabilities from the Fund operations for the years ending 2014, 2015 and 2016 in amounts totalling K153,899,990; K90,117,417 and K68,678,553 respectively. The net liability was attributed to benefits payable not being in proportion with total income.

In this regard, the Fund was not able to meet its pension obligations as they fell due. As at 31st December 2016, the Fund was owing pensioners amounts totalling K388,093,242 which had accumulated from 2012.

iv. Poor Benefits Pay-out Ratio

The benefits pay-out ratio indicates whether the Fund is able to pay all its outstanding benefits from the total member contributions raised during the year. During the period under review, the contributions raised from members could not match the benefits payable resulting in a benefit pay-out ratio of 58% and 54% with a deficit of K57,605,730 and K68,177,794 in 2014 and 2015 respectively. The benefit pay-out ratio slightly improved to 71% in 2016 with a total deficit of K32,530,203. However, as can be seen from the table below the benefit pay-out ratio during the period under review was not adequate to cover the benefits payable.

Statement of Changes in the Net Assets Available	2016	2015	2014
Income from Contributing Members (K)	83,111,134	80,679,947	80,779,672
Benefits Payable (K)	115,641,337	148,857,741	138,385,122
Deficit (K)	**32,530,203**	**68,177,794**	**57,605,450**
Pay out ratio	**72%**	**54%**	**58%**

v. Administrative Expenses as Percentage of Total Income

The LASF Act stipulates that the cost of administering the Fund during the year shall not exceed seven per centum (7%) of the total income for the financial year then ended. However, a scrutiny of the Statement of Changes in Net Assets revealed that the required per centum was exceeded as shown in the table below.

	2016	2015	2014
Total Income (K)	89,786,204	95,197,704	90,235,293
Administrative Expenses (K)	42,823,419	36,457,380	105,750,161
Actual Percentage (%)	48	38	117

As can be seen from the table above, LASF exceeded the required per centum in 2014 (117%), 2015 (38%) and 2016 (48%). The high administrative expenses were mainly attributable to increase in bad debts, penalties and interest PAYE/

NAPSA, legal penalties and long service bonus which accounted for 92%, 79% and 74% of the total administrative costs in 2014, 2015 and 2016 respectively.

e. Statement of Financial Position for the periods ended 31st December 2014, 2015 and 2016

Non-current assets	2016 K	2015 K	2014 K
Property, plant and equipment	11,325,506	10,774,160	10,193,263
Intangible assets	318,379	480,823	643,707
Investment properties	29,543,200	29,543,200	28,264,166
Loans to associated authorities	3,111,258	3,753,366	4,733,253
Equity investments - Available for sale	29,287,961	44,272,781	56,098,726
Collective investments	2,323,664	2,067,639	1,856,043
Held to maturity investments	8,301,932	8,056,320	6,095,043
Associated authorities and other receivables	98,628,124	76,634,353	64,459,215
Total non-current assets	**182,840,023**	**175,582,642**	**172,343,412**
Current assets			
Held to maturity investments	4,328,532	5,944,191	1,082,348
Associated authorities and other receivables	17,083,242	20,823,676	16,477,386
Cash and cash equivalents	2,907,158	1,828,092	2,997,616
Total current assets	**24,318,932**	**28,595,959**	**20,557,364**
Total assets		**204,178,601**	**192,900,776**
Non-current liabilities			
Benefits payable	295,992,672	254,724,176	169,731,634
Annuity fund	51,565,048	33,364,836	25,267,538
Total non-current liabilities	**347,557,720**	**288,089,012**	**194,999,172**
Current liabilities			
Annuity fund	20,451,251	18,200,212	8,096,906
Benefits and other payables	199,187,116	174,519,173	168,388,813
Total current liabilities	**219,638,367**	**192,719,385**	**176,485,719**
Total liabilities	**567,196,087**	**480,808,397**	**371,484,891**
Net liability at end of the year	**(360,037,135)**	**(276,629,796)**	**(178,584,125)**

The following were observed:

i. Inadequate Working Capital

Working capital is the difference between current assets and current liabilities. The working capital of the Fund had deteriorated from negative K155,928,369 in 2014 to negative K195,319,435 in 2016 representing a 25% reduction. The negative working capital meant that the Fund was unable to pay its financial obligations as they fell due. See table below.

	2016 K	2015 K	2014 K
Current Assets	24,318,932	28,595,959	20,557,350
Current Liabilities	219,638,367	192,719,385	176,485,719
Working Capital	(195,319,435)	(164,123,426)	(155,928,369)

The poor working capital could be attributed to the Fund's inability to meet its investment objectives which included capital preservation, investment returns and maintenance of liquidity. The poor working capital could further be attributed to the Fund's failure to adapt to new strategies after the closure of the Scheme to new entrants in 2000.

ii. Poor Funding Ratio

Funding ratio is the ratio of a Fund's assets to its liabilities. A ratio above 1 indicates that the Fund is able to cover all payments arising from its obligations while a ratio below 1 indicates that the Fund is unable to cover its obligations or it is likely to fail to cover its obligations when they fall due in future.

During the period under review, LASF had a funding ratio below 1. See table below.

	2016	2015	2014
Total Assets (K)	207,158,955	204,178,601	192,900,776
Total Liabilities (K)	567,196,087	480,808,397	371,484,891
Funding Ratio	**0.37**	**0.42**	**0.52**

As can be seen from the table above, the Fund's funding ratio dropped from 0.52 in 2014 to 0.42 in 2015, further dropping to 0.37 in 2016. This indicates that despite the Fund having an increase in its total obligations from K371,484,891 recorded in 2014 to K567,196,087 in 2016 representing a percentage increase of 53%, the corresponding increase in total assets was only 7.4% further worsening the Fund's ability to discharge its obligations in full when they fall due.

iii. Cash Ratio

A cash ratio is an indicator of the Fund's liquidity. It measures the amount of cash and cash equivalents available to cover current liabilities. If the Fund's cash ratio is less than 1, it means that there are more current liabilities than cash and cash equivalents therefore, there are insufficient cash and cash equivalents to pay off short term debt. See table below.

	2016	2015	2014
Cash and Cash Equivalents (K)	2,907,158	1,828,092	2,997,616
Current Liabilities (K)	219,638,367	192,719,385	176,485,719
Cash Ratio	**0.01**	**0.01**	**0.02**

As can be seen from the table above, the Fund's cash ratio remained below 1 indicating that LASF had more current liabilities than cash and cash equivalents during the period under review.

f. Cash Flow Statements for the Periods ended 31st December 2014, 2015 and 2016

Cash flows from operating activities	2016 K	2015 K	2014 K
Increase in net liabilities	**(83,407,348)**	**(98,045,670)**	**(150,693,707)**
Adjustments for:			
Depreciation	724,320	783,981	806,570
Amortisation of intangible assets	162,444	162,884	4,942
Gain on disposal of equipment	(139,601)	(79,800)	-
Change in fair value of equity investments –	14,984,820	3,159,162	(5,333,890)
Change in fair value of collective investments	(256,024)	(211,596)	(175,263)
Change in fair value of investment properties	-	(3,096,000)	(311,642)
Change in fair value of land and buildings	-	(626,880)	(1,389,000)
Change in loans to associated authorities	642,108	979,887	798,950
Change in associated authorities and other	(18,253,324)	(16,521,429)	7,636,921
Change in held to maturity investments	1,370,048	(6,823,120)	148,003
Change in annuity fund	20,451,251	18,200,604	8,096,906
Change in benefits and other payables	65,936,439	91,122,902	139,410,297
Net cash used in operating activities	**2,215,133**	**(10,995,075)**	**(1,000,913)**
Cash flows from investing activities			
Acquisition of property and equipment	(1,275,668)	(742,356)	(609,131)
Acquisition of equity investments	-	-	(2,063,979)
Acquisition of investments properties	-	(28,034)	(688,749)
Proceeds on disposal of investments properties	-	1,845,000	-
Proceeds on disposal of equity investments	-	8,666,783	4,200,000
Proceeds on disposal of property and equipment	139,601	84,158	-
Net cash generated from investing activities	**(1,136,067)**	**9,825,551**	**838,141**
Net decrease in cash and cash equivalents	1,079,066	(1,169,524)	(162,772)
Cash and cash equivalents at beginning of year	1,828,092	2,997,616	3,160,388
Cash and cash equivalents at end of year	**2,907,158**	**1,828,092**	**2,997,616**

The following were observed:

i. Negative Cash-flow from Operating Activities

A review of the cash flow statements on operating activities revealed that the Fund recorded negative cash flows for the years ending 2014 to 2016, deficits of K153,899,990 were recorded in 2014, K90,117, 417 in 2015 and K68,678,553 in 2016. See table below.

Statement of Cashflows Cash flows from operating activities	2016 K'000	2015 K'000	2014 K'000
Contributions received	83,111,134	80,679,947	80,779,672
Investment Income	6,349,791	14,066,865	8,835,334
Other income	325,278	450,892	620,287
Benefits paid to retiring members	(115,641,337)	(148,857,741)	(138,385,122)
Administrative expenses	(42,823,419)	(36,457,380)	(105,750,161)
Total	**(68,678,553)**	**(90,117,417)**	**(153,899,990)**

As can be seen from the table above, the Fund was unable to generate funds from its operating activities resulting in the Fund failing to meet its pension obligations which were outstanding in amounts totalling K383,887,807 while outstanding statutory obligations (PAYE) stood at K26,666,199 as at 31st December 2016.

ii. Decrease in Cash and Cash Equivalents - 2015 and 2014

According to the cash flow statement on investment activities, the institution generated negative Net Cash flows from investment activities for the financial years ended 2015 and 2014 in amounts totalling K1,169,524 and K162,772 respectively. Although the Fund recorded a positive net cash flow in 2016 in amounts totalling K1,079,066, it generated negative cash flows from its investing activities representing poor management of the Fund's investments. See tables below.

Details	2016 K'000	2015 K'000	2014 K'000
Net Cash flows from operating activities	2,215,133	(10,995,075)	(1,000,913)
Net Cash flows from investing activities	(1,136,067)	9,825,551	838,141
(Decrease)/ increase in cash and cash equivalents	1,079,066	(1,169,524)	(162,772)

The increase in cash and cash equivalents in 2016 was as a result of disposal of equity and property investment at a total sum of K10,595,941 in 2015. The disposal of investments were however used to finance operating activities with re-investment only accounting for 19.3% at K2,046,058 in 2015 and 2016.

g. Actuarial and Pension Management Findings

i. Failure to Collect Pension Contributions

According to Section 20 of the LASF Act, the "contributions are a first charge on the salary or wages payable to a member and are required to be remitted to the Fund by the seventh (7^{th}) day of the following month in which the salary was earned". A review of records revealed that as of August 2017, LASF was owed amounts totalling K140,477,848 by associated Authorities including interest accrued amounting to K3,432,666. See table below.

Associated Authorities	Cummulative Contributions K	Interest Accrued K	Total Uncollected Contributions K
City Councils	75,822,649	1,612,555	77,435,204
Municipal Councils	32,345,157	839,261	33,184,418
District Councils	22,458,728	880,056	23,338,784
ZESCO Limited	3,075,043	-	3,075,043
Water and Sewerage Companies	633,570	17,967	651,537
National Housing Authority	2,710,036	82,825	2,792,861
Total	**137,045,182**	**3,432,666**	**140,477,848**

The contributions had accrued over the period from 1st January 2014 to 31st December 2016. As at 30th September 2017, the amounts had not been remitted by the respective employers contrary to the provisions of the LASF Act.

ii. Inadequate Dependency Ratio

The dependency ratio measures the sustainability of the Fund by comparing the number of pensioners against the number of contributing members to the Fund. According to management, the acceptable standard dependency ratio for the Fund to operate and meet its benefit obligations to pensioners is at least three (3) contributing members to one (1) pensioner (3:1). As can be seen from the table below, the number of contributing members declined by 706 from 4,550 in 2014 and 2015 to 3,844 in 2016 while that of the pensioners declined by 802 from 12,011 in 2014 and 2015 to 11,209 in 2016. This represented a dependency ratio which was below the recommended ratio of 3:1. See table below.

LASF Membership	**2016**	**2015**	**2014**
Contributing members	3,844	4,550	4,550
Pensioners	11,209	12,011	12,011
Total Membership	**17,069**	**18,576**	**18,576**
Dependancy Ratios (Contributor/Pensioner	0.34 : 1	0.38 : 1	0.38 : 1

As can be seen from the table above, the Fund was not sustainable as it had more pensioners than contributing members.

iii. Irregular Inclusion of Members to the Fund After Enactment of the NAPSA Act

According to CAP 160 of the National Pension Scheme Authority (NAPSA) of 2000, all employees except members of the armed forces, engaged after February 2000, are required to contribute to NAPSA.

Contrary to the above requirement, LASF introduced five hundred and sixty three (563) new members from Councils (538) countrywide and ZESCO Limited (35) who were not exempted by the NAPSA Act.

h. Implementation of Harmonisation and Rationalisation of Salaries

In November 2015, the Fund undertook the harmonisation and rationalisation of salaries and other conditions of service for staff. The exercise involved consolidating of allowances into basic salary in order to clean up the payslips. Remunerative allowances which were paid outside the payroll were also consolidated while some of the allowances were abolished.

The following were however observed:

i. **Failure to Carry out Job Evaluation**

The approval of the Harmonisation and Rationalisation of the salaries and conditions of service was obtained from PSMD on the understanding that management would carry out a comprehensive job evaluation and regrading in 2015.

However, as at 30th September 2017, the job evaluation had not been done.

ii. **Irregular Payment of Long Service Bonus**

According to a report dated November 2015 on the Rationalisation and Harmonisation of Salaries and Conditions of Service for LASF, the Conditions of Service with regard to Long Service Bonus would be abolished and that the Fund would only pay what was accrued before September 2009 payable on pro-rata basis.

However, despite the abolishment of Long Service Bonus, the Fund paid bonuses in amounts totalling K267,096 to seventeen (17) employees who were not eligible as they had joined the Fund after September 2009.

iii. **Overpayment of Long Service Bonus**

A review of employee Long Service bonus payment schedules revealed that as at 30th September 2017, sixteen (16) employees were over paid in that instead of paying the employees accrued bonuses as at 30th September 2009, the Fund still paid accrued bonuses in amounts totalling K1,258,728 after the payment of the bonus was abolished.

iv. **Irregular Payment of Christmas Bonus**

In November 2015, the Public Service Management Division abolished the payment of Christmas Bonus to the Fund employees.

However, it was observed that management continued to pay Christmas bonus. In this regard, during the period from December 2015 to December 2016, the Fund irregularly paid Christmas bonuses in amounts totalling K606,827 out of which

K266,378 was paid to unionised members of staff while K340,450 was paid to management.

i. Human Resource Management

i. Lack of Payment System for Benefits.

A review of accounts on the payment of benefits to current and former LASF employees revealed that the Fund had no payment plan or system for liquidating former and current employee benefits. It was observed that newer cases of benefits were being liquidated at the expense of older cases. In this regard, it was observed that the directors of the Fund whose contracts expired in 2015 and 2016 were paid amounts totalling K1,882,264 instead of clearing K935,174 outstanding terminal benefits of employees who were separated in 2011. It was not clear why payment of gratuity to Directors whose contracts were renewed and were still in employment of the Fund took precedence over payment of outstanding amounts to former employees who were separated over five (5) years ago.

ii. Questionable Discharge of Managers

A review of personal files of management staff revealed that on 12th April 2017, the Managing Director of the Local Authorities Superannuation Fund terminated employment of four (4) managers through discharge. According to the letters of termination, the reasons for their discharge were; misleading authorities and undermining management.

Further review of the personal files revealed that there were no case records leading to the discharges on individual files. It could therefore not be ascertained whether the separation of the managers from the Fund was done in accordance with the provisions of the Funds Administrative Manual for Management and Unionised Staff.

It was further observed that the four managers were paid amounts totalling K4,246,655 in terminal benefits as shown in the table below.

Position	**Terminal Benefit K**
Finance and Investment Manager	872,807
Contribution and Benefits Manager	1,080,163
Human Resource and Administration Manager	884,057
Information Technology Manager	1,409,628
Total	**4,246,655**

A review of the budget for the financial year ending 31st December 2017, revealed that the above amounts were not budgeted for and as at the time of audit in September 2017 management had not revealed the source of the funds used to finance the terminal benefits.

In this regard, the rationale to discharge senior management staff with terminal benefits in amounts totalling K4,246,655 at the expense of meeting retirement benefits and pensions which had accrued since 2013 was questionable.

j. Weaknesses in the Management Information Systems (MIS)

During the period under review, LASF operated one (1) Enterprise Resource Planning (ERP) system namely Navision ERP System**.**

The Navision ERP system had five (5) modules namely, pension management, financial management, Human Resource management and Procurement management.

The system was used for the administration of employers' assessments and revenue, employee claim and pension, pensioner's payroll and other investments.

A review of ICT systems and other documents revealed the following:

i. Lack of a Designated Server Room

The Fund had an improvised office made of wooden partitions and windows which was used as the server room.

In this regard, the room lacked requisite features which a server room should normally have such as, water sprinklers, smoke detectors, portable or automatic fire extinguishers, false floor, rubberised floor, trunked electrical and network cables and server racks.

ii. Irregular Management of LASF Member Database – Missing Details

According to the Fund's Know your customer (KYC) documentation requirements, each member is required to provide the Fund with details such as name, National Registration Card Number (NRC No.), contact details, date of first appointment, name of employer, among other information.

A comparison of the members' database details to the Authority's Know Your Customer requirement revealed that the Fund had various members who did not have pertinent details captured on the system such as NRC numbers, names, date of birth and date member joined, among others. See table below.

Missing_Details	No_of_Members
NRC	23
Employee_Name	135
Employer_Name	29
Date_of_Employment	181
Date_Joined	163
Employee_Bank_Account	18,620

Mpulungu Harbour Corporation Limited

Background

12. Mpulungu Harbour Corporation Limited was established in November 1988 to provide harbour and port facility services at the port of Mpulungu on the Southern tip of Lake Tanganyika in the Northern part of Zambia.

The harbour was built in 1930 and was formerly operating under the Ministry of Communications and Transport until November 1988, when it was incorporated into a limited liability company.

Capital Structure

The share capital of the Company is K50,000 divided into 50,000 shares of K1 each.

In October 2015, the shareholding of the company was transferred to the Industrial Development Corporation Limited (IDC) which now holds all the shares on behalf of the Government.

Board of Directors

On 29th December 2015, the IDC Board passed a Special Resolution in which it was resolved among others that;

The composition of the Board of Directors of the Company be amended to comprise the following:

i. The Permanent Secretary or a representative of the Ministry responsible for Sector Policy;

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

iii. Managing Director.

Management

The day to day operations of the company is the responsibility of the General Manager who is appointed by the Board of Directors on a renewable three (3) year term. The General Manager is assisted by an Operations Superintendent, Port Accountant and Maintenance Foreman.

Source of Funds

The major sources of funds for Mpulungu Harbour Corporation Limited include, among others; stevedoring, wharfage, anchorage and departure fees, hire of equipment and labour, port levy, and other miscellaneous incomes.

During the years 2014 to 2016, the company generated revenue in amounts totalling K32,761,655 as detailed below:

	2014 K'000	2015 K'000	2016 K'000	Totals K'000
Revenue	4,654,387	6,743,584	15,456,019	26,853,990
Other Income	123,086	3,426,151	2,358,428	5,907,665
Total	**4,777,473**	**10,169,735**	**17,814,447**	**32,761,655**

Review of Operations

A review of accounting and other records maintained at the Mpulungu Habour for the financial years ended 31st December 2014, 2015 and 2016 carried out in March 2017 revealed the following:

a. 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.” Further, Section 146 of the Act provides that the following persons shall be entitled to attend and to speak at a meeting of a company:

- each member of the company having the right to vote at the meeting;
- each person upon whom the ownership of a share devolves by reason of his being a legal personal representative, receiver or trustee in bankruptcy of such a member;
- each director of the company;
- the secretary of the company;

- each auditor of the company;
- each person entitled under the articles to do so;
- any other person permitted to do so by the chairman.

However, contrary to the Act, the MHCL did not convene an Annual General Meeting (AGM) during the period under review.

b. Failure to Deduct Taxes

Contrary to the provisions of the Income Tax Act, during the period under review, amounts totalling K710,331 were paid as board allowances, leave pay and leave commutation allowances without deducting Pay As You Earn (PAYE).

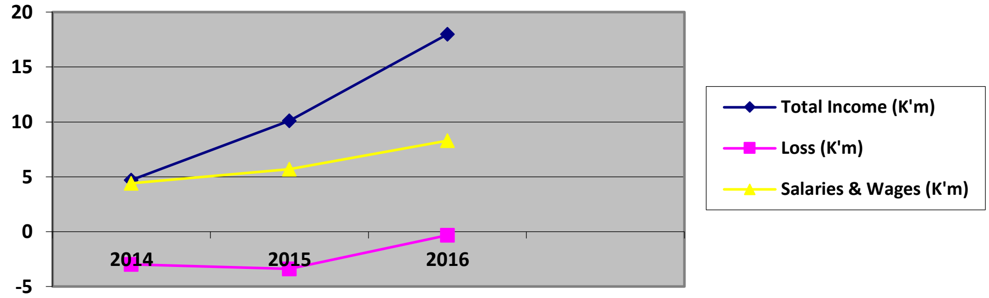
c. Statement of Profit and Loss

A review of the Company's Statements of Profit and Loss for the period under review revealed the following:

	2016 K	2015 K	2014 K
TOTAL INCOME	17,814,447	10,169,735	4,777,473
OPERATING EXPENSES			
Operating expenses	(17,950,624)	(13,632,686)	(7,764,046)
Finance cost	(206,917)	(16,642)	-
Loss before tax	**(343,094)**	**(3,479,593)**	**(2,986,573)**
Income tax expense	-	-	(28,271)
Loss for the year	**(343,094)**	**(3,479,593)**	**(3,014,844)**

i. Profitability

The company made a loss of K3,014,844 in 2014 which increased to K3,479,593 in 2015 and reduced to K343,094 in 2016. The reduction in the loss was as a result of an increase in revenue by K7,644,712 representing a 43% income. However, operating expenses increased by 75.6 % between 2014 and 2015, and by 33.1 % between 2015 and 2016. The increase in expenses was mainly attributed to increases in salaries and wages which accounted for 56.7 % (2014), 45.2 % (2015) and 48.4 % (2016) of the total operating expenses. See graph below.



ii. Net Profit Margin Ratio

The Net Profit Margin of an entity measures the amount of revenue and other incomes it retains after all its expenses are deducted. An analysis of the profit margins for the Company for the period under review revealed declining margins between 2014 and 2016. See table below.

Net Margin Ratio = (Profit/(Loss) for the year) / (Revenue) x 100

	2016	2015	2014
Revenue (K)	17,814,447	10,169,735	4,777,473
Profit / (Loss) for the year (K)	(343,094)	(3,479,593)	(3,014,844)
Net Margin (%)	(2)	(34)	(63)

As can be seen from the table above, the Company did not generate net profit margins in excess of negative 2% throughout the period under review. In 2014, the Company's net profit margin was negative 63% which moved to negative 34% in 2015 due to a loss of K3,479,593 which it incurred in that year. In 2016, the Company recorded a loss of K343,094 resulting in a profit margin of negative 2%.

The negative margins were caused by the Company's failure to keep its operating expenses below the amounts of total revenue it had generated.

The operating expenses in 2014, 2015 and 2016 were higher than the total revenue resulting in failure to generate profits and improve the Company's performance. The operating expenses in 2014 were K7,764,046 while the total revenue was K4,777,473 and this trend continued in 2015 with expenses reaching K13,632,686 while total revenue was K10,169,735. In 2016, there was no improvement as operating expenses increased to K17,950,624 while total revenue was K17,814,447 in 2016.

d. Statements of Financial Position

The financial position of Mpulungu Harbour Corporation Limited for the financial years ended 31st December 2014, 2015 and 2016 were as shown below.

	2016 K	2015 K	2014 K
ASSETS			
Non Current Assets			
Property and Equipment	**27,913,786**	**28,877,929**	**4,598,914**
Current Assets			
Inventories	87,051	78,213	90,666
Receivables and prepayments	3,053,931	2,631,093	4,307,894
Cash and cash equivalents	204,932	87,390	115,612
	3,345,914	**2,796,696**	**4,514,172**
TOTAL ASSETS	**31,259,700**	**31,674,625**	**9,113,086**
EQUITY AND LIABILITIES			
Share capital	50,000	50,000	5,000
Capital grant	22,689,209	24,426,008	-
Funds pending allotment : GRZ	17,139	17,139	17,139
Revalution reserves	3,038,678	3,106,074	3,173,470
Retained earning	(3,402,734)	(3,163,326)	212,581
Total equity	**22,392,292**	**24,435,895**	**3,408,190**
LIABILITIES			
Non-Current Liabilities			
Deffered tax liabilities	1,240,056	1,276,346	1,312,636
Current Liabilities			
Bank overdraft	1,437,652	657,816	-
Taxation payable	3,486,730	3,486,730	3,486,730
Payables, accruals and provisions	2,702,970	1,817,838	905,530
	7,627,352	5,962,384	4,392,260
Total Liabilities	8,867,408	7,238,730	5,704,896
TOTAL EQUITY AND LIABILITIES	**31,259,700**	**31,674,625**	**9,113,086**

To meet current liabilities, carry sufficient inventories and take advantage of cash discounts, a business must maintain an adequate amount of working capital. A higher current ratio generally means that a Company is more capable of meeting its current obligations. However, as shown below, MHCL had a positive working capital of K121,912 in 2014 which deteriorated to a negative working capital of K3,165,688 in 2015 and K4,281,438 in 2016.

The Current Assets as at 31st December 2014 were K4,514,172 compared with Current Liabilities of K4,392,260 and the Current Assets for the financial year ended 31st December 2015 were K2,796,696 while the Current Liabilities amounted to K5,962,384. The trend continued in 2016 with Current Assets of K3,345,914 while the Current

Liabilities had increased to K7,627,352 resulting in negative working capital as shown below:

	Dec-16	Dec-15	Dec-14
Current Assets	3,345,914	2,796,696	4,514,172
Current Liabilities	7,627,352	5,962,384	4,392,260
Working Capital	(4,281,438)	(3,165,688)	121,912
Current Ratio	0.44:1	0.47:1	1.03:1

Further, the Company's current ratios for the period under review were below the acceptable range of 2 to 1. In this regard, the company may not be able to meet its current obligations as they fall due.

e. Weakness in Collection of Receivables - Poor Management of Trade Receivables

A scrutiny of the trade debtors' age analysis revealed that MHCL was owed amounts totalling K2,621,085 in unpaid bills as at 31st December 2016 out of which K2,089,522 had been owing for more than 120 days indicating an increase in the inability by the Company to collect cash from services billed to customers. See table below.

Date	Current	30 Days	60 Days	90 Days	120+ Days	Total K
31.12.14	336,955	251,778	99,001	139,199	1,675,142	2,502,075
31.12.15	376,098	333,148	253,978	(280,439)	1,454,532	2,137,317
31.12.16	398,982	481,298	257,449	(606,165)	2,089,522	2,621,085

In addition, it was observed that the company did not have a Credit Policy.

f. Non Remittance of Statutory Contributions

Contrary to the Income Tax Act, amounts totalling K2,119,763 deducted as PAYE during the period under review had not been remitted to the Zambia Revenue Authority as at 31st August 2017.

g. Unsupported Payments

Contrary to Section 5.1 of the Accounting Policies and Procedures Manual of the company, seventeen (17) payments in amounts totalling K127,702 made in 2016 were not supported with relevant documents such as receipts, Local Purchase Orders and Goods Received Notes.

h. **Missing Payment Vouchers**

During the period from January to December 2016, ten (10) payments in amounts totalling K80,310 were made to undertake activities such as local and foreign travel and motor vehicle expenses. However, as at 31st August 2017, the payment vouchers and supporting files had not been availed for audit.

i. **Questionable Procurement of Quantum Bus**

During the period from January to February 2017, amounts totalling K453,750 (US$50,000) were drawn for the procurement of a Toyota Quantum Bus. In this regard, the General Manager and the Procurement Officer travelled to South Africa to procure the bus. On 27th February 2017, the bus was procured at a cost of K444,996 (US$45,000) whilst the balance of K49,444 (US$5,000) was used to procure various items such as CCTV cameras and computer hard drives.

However, the following were observed:

- The procurement was not subjected to procurement procedures contrary to the Public Procurement Regulations.
- The mode of payment was questionable in that the General Manager drew cash to procure the bus and incurred additional travel costs amounting to K41,709.

j. **Failure to Register Assets**

In accordance with the Road Traffic Act No.11 of 2002, there is need for Operating Cranes and Folk Lifts to be registered. However, no proof of registration of four (4) fork lifts and three (3) cranes was provided as at 31st August, 2017.

k. **Failure to Update Fixed Assets Register**

International Accounting Standards (IAS) No. 16 Property, Plant and Equipment requires entities to maintain an updated fixed asset register which among others should indicate, the date assets were procured, the cost, asset description, serial numbers and location.

Contrary to the above requirement, MHCL had not updated its assets register as at 31st August 2017. An asset verification carried out revealed that one hundred and thirty five (135) items in the form of motor vehicles, plant and machinery, office equipment, and furniture and fittings were not recorded in the fixed asset register. Therefore, the assets were vulnerable to misappropriation. See pictures below.

Tractor

Toyota Folk Lift 3 Tonnes

Toyota Hilux

NCK Crane

American Crane

Toyota Folk Lifter 2.5 Tonnes

Mulonga Water and Sewerage Company Limited

Background

13. The Mulonga Water and Sewerage Company Limited (MWSC) 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. The Company was incorporated as a private company limited by shares under the Companies Act Cap 388 of the Laws of Zambia in 1998, following water reforms instituted by the Government and commenced its operations in 2000. MWSC operates in three (3) towns of Chingola, Chililabombwe and Mufulira on the Copperbelt Province and is owned equally by the municipalities of the said towns.

The mission of the Company is to provide water and sanitation services that ensure customer delight and maximise shareholder value through a motivated workforce.

The capital of the Company is 6,000 shares of K1.00 each with the power to divide or subdivide the shares in the capital, whether original or increased, into several classes and to attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions as regards dividends, capital voting or otherwise.

Board of Directors

The Board of Mulonga Water and Sewerage Company consists of the following members appointed by the Minister, Water Development, Sanitation and Environmental Protection:

i. One Mayor or Council Chairperson from any of the participating Councils nominated by fellow Councillors;

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

iii. One Provincial Local Government Officer or representative;

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

v. Two representatives from the Private Sector drawn from within the area of operation i.e NGOs Zambia Association Chamber of Commerce, Bankers Association of Zambia, Law Association of Zambia etc;

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, one of whom shall be the Chairperson of the Board.

According to Chapter 12 Section 57 of the Articles of Association, each director shall serve for a term of three (3) years from their date of appointment and will be liable to retire at the end of their three (3) year term. Subject to a review of their performance at every annual general meeting, they may seek re-appointment at the expiration of their three (3) year term.

Management

The Managing Director is responsible for the day-to-day operations of the Company and is assisted by the Directors of Finance, Human Resource, Infrastructure Development and Technical. The Managing Director is appointed by the Board of Directors on a renewable term of three (3) years and is responsible for the recruitment of the Finance Manager, Commercial Manager, Information Technology Manager, Human Resources Manager, Internal Audit Manager, Public Relations Manager, Divisional Managers, Monitoring and Evaluation Manager, Purchasing and Supplies Manager, Peri-Urban Manager, Quality Assurance Manager and Technical Manager, on three (3) year renewable contracts, while the rest of the staff are appointed on a permanent and pensionable basis.

Source of Funds

The funds of the company shall consist of such sums of money as may be raised from the billed value of water supplies and sewerage services rendered during the normal course of business. In addition, the Company receives grants from the Government through the Ministry responsible for Water and Sanitation for the purpose of capital undertakings.

During the period 2014 to 2016, the Company generated income from sales of water and other sources in amounts totalling K347,653,425 and further received grants in amounts totalling K1,669,662 from various sources bringing the total income for the period under review to K349,323,087 as detailed below:

	2016 K	2015 K	2014 K	Total K
GRZ Capital Grants	-	485,625	1,184,037	1,669,662
Other income	937,000	958,556	867,206	2,762,762
Sales	123,986,549	113,987,559	106,916,555	344,890,663
Total Income	**124,923,549**	**115,431,740**	**108,967,798**	**349,323,087**

Review of Operations

A review of operations for the financial years ended 31st March 2014, 2015 and 2016 carried out in April 2017 revealed the following:

a. Irregular Adjustments

According to the billing cycle and adjustments procedures, all adjustments must be duly signed and approved by the Director Finance and Managing Director before they are made. All adjustments should have reference numbers and supporting documentation.

During the period under review, 195 adjustments were passed on customer accounts resulting in reductions of debtors in amounts totalling to K2,934,539. However, no supporting documentation authorising the adjustments was provided for audit.

b. Failure to Collect Debts

According to MWSC commercial policy, a customer is expected to pay the water bills within a period of 14 days after the receipt of the bills.

However, a review of the system revealed that the organisation had 54,500 debtors from whom they had not collected amounts totalling K150,694,234. Included in the outstanding amount was K31,108,911 representing 21% owed by Government institutions. The debts have been outstanding for periods of over 24 months contrary to the company policy.

c. Failure to Produce 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, management did not produce audited financial statements for the financial years ended 31st March 2015 and 2016, as at 30th September 2017.

d. Operating without a Board of Directors

According to the Articles of Association, Section (64), there should be continuity in the operations of the Board. As such, in the event of a vacancy or vacancies in the office of a director or offices of directors, the remaining directors may act for the purpose of increasing the number of directors to a number sufficient to constitute a quorum.

However, the Company had been operating without a Board of Directors since 18th December 2015 when the last Board was dissolved. As at 30th September 2017, the Board had not been appointed.

e. Statement of Comprehensive Income - Profitability

	2016 Draft K	**2015 Draft K**	**2014 Audited K**
Turnover	123,986,000	113,987,559	106,916,555
Cost of Sales	62,816,000	(52,039,609)	(54,528,400)
Gross Profit	**61,170,000**	**61,947,950**	**52,388,155**
Other income	937,000	958,556	867,206
Administrative Expenses	(26,783,000)	(40,512,879)	(28,016,384)
Provision for bad debts	(13,443,000)	(11,561,335)	(14,982,848)
Depreciation	(13,859,000)	(12,308,638)	(11,917,645)
Profit/(Loss) before taxation	**8,022,000**	**(1,476,346)**	**(1,661,516)**
Inome tax expense	-	(7,176,160)	(19,229,249)
Profit/(Loss) for the year	8,022,000	(8,652,506)	(20,890,765)
Other items of comprehensive income	-	-	-
Total Comprehensive Profit/(Loss)	**8,022,000**	**(8,652,506)**	**(20,890,765)**

As can be seen from the table above, the Company recorded a loss before tax of K1,661,516 in 2014 which reduced to K1,476,346 in 2015. The loss incurred in 2015 was as a result of the accrual of NAPSA and PAYE penalties in amounts totalling K882,329 and K9,152,222 respectively.

In 2016, the Company recorded a profit before tax of K8,022,000. The profit in 2016 was mainly attributed to the increase in revenue from K106,915,555 in 2014 to K123,986,000 in 2016 and the reduction in administrative expenses from K40,512,879 in 2015 to K26,783,000 in 2016.

f. Statement of Financial Position

The financial position of Mulonga Water and Sewerage Company for the period under review was as shown below.

	2016 Draft K	2015 Draft K	2014 Audited K
ASSETS			
Non Current Assets			
Property, Plant and Equipment	**191,940,000**	**188,046,881**	**185,554,832**
Current Assets			
Inventory	5,895,000	5,679,380	4,681,479
Trade Receivables	76,116,000	58,998,325	45,430,856
Other Receivables	1,673,000	-	-
Bank Balances and Cash	34,058,000	12,180,341	16,640,527
	117,742,000	**76,858,046**	**66,752,862**
Total Assets	**309,682,000**	**264,904,927**	**252,307,694**
EQUITY AND LIABILITIES			
Equity			
Share Capital	6,000	6,000	6,000
Capital reserve	2,842,000	2,841,963	2,841,963
Revaluation reserve	71,744,000	71,743,708	71,743,708
Retained earnings	26,772,000	16,080,360	24,732,866
Total Equity	**101,364,000**	**90,672,031**	**99,324,537**
Non-Current Liabilities			
Deferred tax	23,672,000	23,672,182	25,550,259
Interest bearing loans and borrowings	36,103,000	11,405,434	13,025,000
Capital grants	71,515,000	71,522,504	71,036,879
	131,290,000	**106,600,120**	**109,612,138**
Current Liabilities			
Interest bearing loans and borrowings	14,914,000	14,914,213	13,294,647
Trade and other payables	53,060,000	43,664,540	29,782,817
Taxation payable	9,054,000	9,054,023	293,555
	77,028,000	**67,632,776**	**43,371,019**
Total Liabilities	**208,318,000**	**174,232,896**	**152,983,157**
Total Equity and Liabilities	**309,682,000**	**264,904,927**	**252,307,694**

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

i. Current Ratio Below Industry Average

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 recommended by NWASCO for the period under review was 3:1.

	2016 K	2015 K	2014 K
Current Assets	117,742,000	76,858,046	66,752,862
Current Liabilities	77,028,000	67,632,776	43,371,019
Current Ratio	1.53:1	1.14:1	1.54:1

As can be seen in the table above, the current ratio for the Company for the financial years ended 31st March 2014, 2015 and 2016 was 1.54:1, 1.14:1 and 1.53:1 respectively, which was below the recommended current ratio.

ii. Receivable Turnover Days

Section 8.1.1 of the MWSC Commercial Services Policy states that bills are due for payment fourteen (14) days following delivery and customer receipt of the bill. However, the receivable turnover days for the period under review ranged from 161 to 224 days. See table below.

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

	2016 K	2015 K	2014 K
Revenue	123,986,000	113,987,559	106,916,555
Trade Receivables	76,115,552	58,636,634	47,075,299
Receivables Turnover Days	224	188	161

As can be seen from above, the receivable days increased from 161 days in 2014 to 188 days in 2015 and further increased to 224 days in 2016.

g. Properties without Title Deeds

The Company did not have title deeds for eighty one (81) properties with a net book value totalling K65,707,654. The properties were in Chingola (25), Chililabombwe (27) and Mufulira (29).

h. Failure to Value MWSC Properties

International Accounting Standard (IAS 16.31) states that revaluations need to be made often enough to ensure that the carrying amount of assets is not materially different from the fair value at the end of the reporting period. Depending on the volatility of the assets value, this may mean revaluing at least annually, or only every three to five years.

However, it was observed that MWSC had not revalued its assets in the form of land, buildings and plant since 1 April 2009 when the revaluation exercise was last conducted.

i. **Review of Technical Operations**

The effectiveness and efficiency of a commercial utility in providing water and sanitation services is assessed using operational indicators set by the National Water Supply and Sanitation Council (NWASCO). A scrutiny of the NWASCO Urban and Peri-Urban Water Supply and Sanitation Sector Reports for 2014, 2015 and 2016 revealed that there were nine (9) Key Performance Indicators (KPIs).

The performance of KPIs for MWSC for the period 2014 to 2016 is as shown in the table below.

Performance Indicator	Actual Result % 2014	Benchmark % 2014	Comment 2014	Actual Result % 2015	Benchmark % 2015	Comment 2016	Actual Result % 2016	Benchmark % 2016	Comment 2016
Water Quality	95	95	Benchmark Achieved	93	95	Benchmark Not achieved	92	95	Benchmark Not Achieved
Collection Efficiency	82	85	Benchmark Not Achieved	82	85	Benchmark Not achieved	86	85	Benchmark Achieved
Metering Ratio	65	100	Benchmark Not achieved	71	100	Benchmark Not achieved	78	100	Benchmark Not achieved
Hours of Supply	18	18	Benchmark Achieved	17	18	Benchmark Not achieved	17	18	Benchmark Not Achieved
O+M Cost Coverage by Collection	117	100	Benchmark achieved	110	100	Benchmark achieved	124	100	Benchmark Achieved
Non Revenue Water	39	25	Benchmark Not achieved	40	25	Benchmark Not achieved	39	25	Benchmark Not achieved
Staff Efficiency	8	8	Benchmark achieved	8	8	Benchmark Not achieved	8	8	Benchmark achieved
Water Supply Coverage	94.9	80	Benchmark achieved	97.1	80	Benchmark achieved	96.7	80	Benchmark achieved
Sanitation Coverage	85	80	Benchmark achieved	82.1	80	Benchmark achieved	80.4	80	Benchmark achieved

As can be seen above, out of the nine (9) KPIs, the Company only achieved six (6) benchmarks in 2014, four (4) benchmarks in 2015 and five (5) benchmarks in 2016.

In particular, the following were observed:

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. NRW consists of technical (leakages) and commercial losses (illegal connections, unbilled customers, wastage on un-metered customers' premises).

A benchmark of 25% has been set by NWASCO as an acceptable loss. However, the estimated revenue lost due to NWR was 39% in 2014, 40 % in 2015 and 39% in 2016 representing amounts totalling K72,929,771, K78,107,943 and K91,673,792 in 2014, 2015 and 2016 respectively.

ii. Failure to Meet Metering Ratio Benchmark

The metering ratio is the proportion of metered connections 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. It is one of the important tools for controlling NRW.

The acceptable benchmark for metering ratio was 100% during the period under review. However, it was observed that although the total connections increased from 49,535 in 2014 to 51,429 in 2015 and to 52,951 in 2016, the Company's metering ratio increased from 65% in 2014 to 70.8% in 2015 and to 78.1% in 2016 which was below the acceptable benchmark.

iii. Failure to Achieve Water Quality Standards

Water quality is very important due to the health impact it has on the consumers. The two types of parameters considered are bacteriological (total faecal coliforms) and physiochemical (chlorine residue, pH, turbility and colour). Chlorine residue test is given prominence under physiochemical because of its relation to the bacteriological aspect of water.

The benchmark for water quality was 95% compliance to national drinking water standards. However, it was observed that MWSC only achieved the benchmark in 2014 and did not comply in 2015 and 2016 as it was rated at 93% and 92% respectively. Further, in 2016, MWSC was non-compliant to free chlorine, turbility and colour parameters.

j. Procurement of Goods and Services

i. Delayed Implementation of Kasumbalesa Project

On 10th April 2012, Shaftex (Z) Ltd was engaged to execute the Kasumbalesa Water and Sanitation Augmentation Project at a contract sum of K11,474,069 (K3,286,125 - Lot 2 and K8,187,944 - Lot 3) with a completion period of thirty six (36) weeks.

The scope of works included, construction of a water reticulation system, borehole drilling and related works, construction of elevated tank under Lot 2, and construction and installation of sewerage system under Lot 3.

According to the report prepared by the Technical Directorate in April 2017, Lot 3 was varied by removing the construction of sewage stabilisation ponds, pre-treatment screens, attendants' room, toilet and shower room due to non-availability of suitable land to construct the sewage ponds. The removed components were replaced by the design and construction of the sewage pumping facility and pumping pipeline for the purpose of pumping the waste water generated in Kasumbalesa to Konkola Sewage Ponds for Treatment.

As at 30th September 2017, the contractor had been paid amounts totalling K7,585,396.

The following were however observed:

- **Lot 2 - Delayed Completion of Works**

  A physical inspection of the works carried out in May 2017 and a review of progress reports revealed that the works were 98% complete. See pictures of outstanding works below.

Incomplete Dosing Room

Incomplete Plinth

Incomplete Toilet

Incomplete Operators Room

  Clause 49.1 of the General Conditions of the contract states that the contractor shall pay liquidated damages to the Employer at the rate of 0.1 percent for each day that the Completion Date is later than the Intended Completion Date.

However, as at 30th September 2017, MWSC had not claimed liquidated damages from the contractor.

- **Lot 3**

    - **Failure to Avail Variation Order**

      Although the scope of Lot 3 had been varied, the variation order was not availed and as such it could not be ascertained whether the original contract sum for Lot 3 had been adjusted in order to include only the sewer network cost of K5,941,896 and exclude the cost of the activities which had been removed from the original scope of works amounting to K2,246,048.

    - **Stalled Works**

      A physical inspection of the project revealed that the contractor had not completed the excavations despite the project having been extended nine (9) times. In addition, the contractor was not on site.

ii. Delayed Implementation of Repair Works - Collapsed Embankment

On 16th February, 2014, a portion of the embankment of the lagoon at Mufulira Stream Raw Water Intake (MSRWI) in Mufulira collapsed as a result of heavy torrential rains in the area.

However, a physical inspection carried out in May 2017 revealed that no works had been done on the collapsed embankment and the river water pump station was still at risk of being flooded. See pictures below.


Unrepaired Collapsed Embankment at River Water Pump Station in Mufulira

iii. Failure to Replace Water Meter Testers

On 22th April 2014, MWSC procured two (2) portable water meter test benches from MS Carbon (Z) Limited at a cost of K99,180. However, the water meter testers were faulty and they were returned to the supplier. In this regard, on 6th June 2017, the supplier replaced one water meter tester.

As at 30th September 2017, the other water meter tester had not been replaced.

The National HIV/AIDS/STI/TB Council

Background

14. The National HIV/AIDS/STI/TB Council (NAC) was established under the National HIV/AIDS/STI/TB Council Act No. 10 of 2002 to coordinate and support the development, monitoring and evaluation of the multi-sectoral national response for the prevention and combating the spread of HIV, AIDS, STI and TB.

The functions of the Council are to:

i. Coordinate, support the development, monitoring and evaluation of the multi-sectoral national response for the prevention and combating the spread of HIV, AIDS, STIs and TB in order to reduce the personal, social and economic impacts of HIV/AIDS, STI and TB.

ii. Support the development and coordination of policies, plans and strategies for the prevention and combating of HIV, AIDS, STI and TB for health and other institutions concerned with the prevention and combating of HIV, AIDS, STI and TB;

iii. Advise the Government, health institutions and other organisations on the policies, strategies and plans to prevent and combat HIV, AIDS, STI and TB;

iv. Ensure the provision and dissemination of information and education on HIV, AIDS, STI and TB;

v. Develop a national HIV, AIDS, STI and TB research agenda and strategic plan which shall include the quest for a cure for HIV, AIDS as one of the research priorities;

vi. Support programmes relating to prevention, care and treatment of HIV, AIDS, STI and TB;

vii. Mobilise resources to promote and support identified priority interventions including research in areas related to HIV, AIDS, STI and TB;

viii. Provide technical support and guidelines to health and other institutions involved in the prevention and treatment of HIV, AIDS, STI and TB; and care and support of persons infected with or affected by HIV, AIDS, STI and TB;

ix. Collaborate with other research institutions in relation to HIV, AIDS, STI and TB; and

x. Undertake such other activities as are conducive or incidental to its functions under the Act.

Administration of National HIV/AIDS/STI/TB Council (NAC)

The following organs manage the National HIV/AIDS/STI/TB Council (NAC):

i. The Council

According to the Act, the Minister of Health appoints members of the Council for a renewable three (3) year term. The Chairman is appointed from amongst the members. The Council is made up of fifteen (15) members appointed from among others, government and non-governmental organisations as listed below.

No	Institution
1	Permanent Secretary – Ministry of Community Development and Social Welfare
2	Permanent Secretary – Ministry of General Education
3	Permanent Secretary – Ministry of Health
4	Permanent Secretary – Ministry Youth and Sport
5	Network of Zambian People Living with HIV and AIDS
6	Non-Governmental Organisations Coordination Council
7	National Youth Development Council
8	Catholic Secretariat
9	General Nursing Council
10	Health Professions Council of Zambia
11	Representative of the Media Sector
12	Attorney General's Chambers
13	Traditional Healers Practitioners Association of Zambia
14	Member of the Public
15	Member of the Public

However, as of April 2017, the Council had fourteen (14) members as the representative from the media sector had not been appointed. The current Council members were appointed on 20th April 2015 and their term will expire on 19th April 2018.

ii. Secretariat

The day-to-day administration of the Council is vested in the Secretariat which implements the Council decisions including the development of technical guidelines for the coordination of the multi-sectoral national response for the prevention and combating of HIV, AIDS, STI and TB. In this regard, the Council appoints a Director General who is the Chief Executive Officer and Secretary to the Council. The Director General is assisted by the Director of Programmes, Director of Policy and Planning, Communications Manager, Finance Manager, Administration Manager, CCM Coordinator and Internal Auditor. The officers are appointed on two (2) year renewable contracts.

Sources of Funds

According to the Act, the sources of funds of the Council shall consist among others moneys appropriated by Parliament, moneys paid to the Council by way of fees, levy, grants or donations from any source outside Zambia.

Funding

In the Estimate of Revenue and Expenditure for the financial years ended 31st December 2014, 2015 and 2016, provisions totalling K177,102,505 were made to cater for activities at the Council against which amounts totalling K67,951,095 were released resulting in an underfunding of K109,151,410. See table below.

Details	Joint Financing Arrangements (JFA) Members	Non JFA Members	Totals
Budget	**K**	**K**	**K**
2016	8,167,564	50,353,200	58,520,764
2015	9,525,942	49,189,600	58,715,542
2014	9,902,239	49,963,960	59,866,199
Total			**177,102,505**
Releases	**K**	**K**	**K**
2016	6,605,218	13,897,811	20,503,029
2015	12,756,177	11,570,873	24,327,050
2014	11,882,180	11,238,836	23,121,016
Total			**67,951,095**
	Under funding		**109,151,410**

In addition, the Council received amounts totalling K81,592 in 2016, K16,628 in 2015 and K47,281 in 2014 as other income.

Review of Operations

A review of accounting and other records maintained at NAC for the period from January 2014 to December 2016 carried out in May 2017 revealed the following

a. Failure to Prepare and Submit the Annual Reports to Minister

Contrary to the National HIV/AIDS/STI/TB Council Act No. 10 of 2002, part IV section 18, stipulates that as soon as it is practicable, but not later than six (6) months after the expiry of each financial year, the council shall submit to the Minister a report concerning its activities during such financial year, the Council did not submit annual reports to the Minister for the financial years ended 31st December 2014, 2015 and 2016.

b. Failure to Implement Planned Activities.

A review of the work plans for the period under review revealed that out of eighty eight (88) planned activities, only seventy six (76) had been implemented leaving twelve (12) activities not achieved as of May 2017 due to inadequate funding. In this regard, some key activities meant to mitigate the spread of HIV/AIDS/STI/TB could not be undertaken. See table below.

NAC Strategy	Budget 2014 - 2016 K	No of Planned Activities	Achieved	Activities Not Achieved as of December 2016 and Status as of May 2017
Policy and Legal Environment	3,168,496	18	-	(i) Workplace policy and implementation plan still in draft. (ii) Development of a statutory instrument to the NAC Act of 2002 not done
Coordination and Management	75,280,824	22	20	(i) DACA position transfer to district councils not complete. (ii) NAC Corporate communication strategy not done
HIV & AIDS, Gender and Human Rights Mainstreaming	8,711,997	5	2	(i) finalization of the Gender Score Card not yet disseminated. (ii) National AIDS Spending Assessment not done
Capacity Development and System Strengthening	19,330,929	9	8	(i) integration of information systems used for HIV/AIDS program monitoring and evaluation partially achieved
Resource Mobilisation and mgt	822,803	5	4	(i) National AIDS Spending Assessment not done
Monitoring Evaluation and Research	6,600,730	11	10	(i) out of 6 projects only three audits were on going. (ii) out of ten provinces trageted for condomize champions only 7 were done leaving three not done
NAC Operations	63,973,742	18	16	(i) Purchase of remote server admin software not procured. (ii) implement back up and disaster recovery solutions not procured
Total	**177,889,521**			

c. Income and Expenditure Statement for the Year ended 31st December 2014 to 2016

	2016 Draft K	2015 K	2014 K
Income			
Grants	22,739,417	24,327,050	23,121,016
Interest received	73,093	111,729	5,813
Other income	81,592	16,628	47,281
Direct payments	-	1,901,488	2,713,689
Amortisation of capital grants	(3,388)	12,052	12,052
Exchange gains	(4,593)	196,518	-
Total	**22,886,121**	**26,565,465**	**25,899,851**
Expenditure			
Decentralised response coordination	2,407,496	2,839,665	1,547,712
Prevention coordination	1,747,921	1,057,375	809,137
Treatment, care and support coordination	23,172	189,243	43,441
Impact mitigation coordination	-	-	10,000
Monitoring and evaluation	1,882,998	1,143,554	528,984
Policy and regulatory framework	2,895,125	1,555,529	2,396,369
Administrative costs	13,039,103	26,542,733	20,130,931
Direct payments	-	1,901,488	2,713,689
Depreciation	392,049	237,955	273,093
Amortisation of software	-	4,007	8,901
Exchange loss	-	-	57,727
Total	**22,387,864**	**35,471,549**	**28,519,984**
Surplus/(Deficit) for the year	**498,257**	**(8,906,084)**	**(2,620,133)**

It was observed that the Council operated with a deficit of K2,620,133 and K8,906,084 in 2014 and 2015 respectively. However, a surplus of K498,257 was recorded in 2016. This was mainly attributed to the reduction in administrative costs from K26,542,733 in 2015 to K13,039,103 in 2016.

d. Statements of Financial Position as at 31st December 2014 to 2016

	2016 Draft K	2015 K	2014 K
Non- current assets			
Property and equipment	8,142,055	1,785,283	1,892,796
Intangible asset	1,900	5,288	9,296
Total non- current assets	**8,143,955**	**1,790,571**	**1,902,092**
Current assets			
Other receivables	3,061,919	979,541	6,446,017
Cash and bank balances	3,790,212	4,622,760	2,137,276
Total current assets	**6,852,131**	**5,602,301**	**8,583,293**
Total assets	**14,996,086**	**7,392,872**	**10,485,385**
Reserves			
Accumulated funds	(14,901,870)	**(15,386,941)**	**(6,445,831)**
Revaluation Reserve	5,198,119	-	-
Total reserves	**(9,703,751)**	**(15,386,941)**	**(6,445,831)**
Non- current liabilities			
Deferred capital grants	7,235	7,235	19,287
Total non-current liabilities	**7,235**	**7,235**	**19,287**
Current liabilities			
Other payables	20,302,166	18,990,802	15,270,294
Provisions	4,390,436	3,781,776	1,641,635
Total current liabilities	**24,692,602**	**22,772,578**	**16,911,929**
Total reserves and liabilities	**14,996,086**	**7,392,872**	**10,485,385**

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

i. The accumulated Fund worsened from negative K6,445,831 in 2014 to negative K14,901,870 in 2016 representing a decrease of 131%.

ii. The property, plant and equipment increased from K1,892,796 in 2014 to K8,142,055 in 2016 representing an increase of 330%. Much of the increase was due to a revaluation which resulted in a revaluation reserve of K5,198,119

iii. The current ratio is a liquidity ratio that measures a Council's ability to pay off its short term liabilities as and when they fall due using its current assets. However, the current ratio deteriorated from 0.51:1 in 2014 to 0.28:1 in 2016 as shown in the table below.

	2016 K	2015 K	2014 K
Current Assets	6,852,131	5,602,301	8,583,293
Current Liabilities	24,692,602	22,772,578	16,911,929
Working Capital	(17,840,471)	(17,170,277)	(8,328,636)
Current Ratio	**0.28**	**0.25**	**0.51**

As can be seen from the table above, the Council had recorded a decrease in working capital from negative K8,328,636 in 2014 to K17,840,471 in 2016.

e. Irregular Contract for Piloting the HIV and Social Protection Assessment Tool

On 2nd February 2016, NAC engaged a Consultant to pilot the draft HIV and Social Protection Assessment Tool at a contract sum of K22,920 (US$2,000) with a view of coming up with an updated country relevant tool. The duration of the work was for five (5) days. On 10th March 2016, the Director General revised the contract to extend the duration to ten (10) days at a rate of US$400 a day bringing the total consultancy fee to US$4,000.

However, it was observed that there were no tender minutes to indicate that the consultant was competitively engaged. As at 31st August 2017, the consultancy report had not been approved.

f. Failure to Remit Statutory Contributions

During the period under review, the Council was owing a total amount of K23,647,797 in statutory obligations and penalties to ZRA and NAPSA. See table below.

Details	Amount K
PAYE	17,789,919
NAPSA	2,335,558
Penalties	3,522,321
Total	**23,647,797**

The statutory obligations had been outstanding for period ranging from one (1) to three (3) years

g. Failure to Recover Global Fund Project Funding

A review of correspondence revealed that the Global Fund disbursed K8,221,851 to NAC through the Ministry of Finance (MoF) for payment of salaries to District Aids Coordinating Advisors and payment of statutory debts in 2014. Despite NAC management having engaged the MoF, the funds had not been received as at 31st August 2017.

h. Unsupported Payments

Contrary to Financial Regulations Nos 45 and 52 of 2006, seven (7) payments in amounts totalling K197,591 made during the period under review were not supported with documents such as receipts, goods received notes, contracts, service level agreements and distribution lists.

i. Failure to Produce Activity Reports

During the period under review, amounts totalling K118,440 were paid to four (4) officers for them to undertake various activities. However, as at 31st August 2017, no activity reports were availed for audit.

The National Pension Scheme Authority

Background

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

The functions of the Authority are to:

- Implement policies relating to the National Pension Scheme,

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

Administration of NAPSA

The Authority is governed by a Board of Trustees comprising the following:

- Two representatives from associations of employees,
- Two representatives from associations of employers,
- A representative from the Ministry responsible for Finance,
- A representative from the Ministry responsible for social security,
- A representative from the Bankers association of Zambia,
- A representative from the Bank of Zambia, and
- A representative from the Pension Managers Association.

Management

The Director-General is responsible for the day to day operations of the Authority and is assisted by eight (8) directors including the Authority Secretary and other support staff.

The Minister responsible for social security appoints the Director General while the Board of Trustees appoints the Directors and Authority Secretary. The Director General, Directors and Authority Secretary are appointed on a renewable three-year term of office.

Source of Funds

The funds of the Authority consist of the following:

i. The fund of the existing Fund;

ii. Assets of the existing Fund;

iii. The combined contributions of contributing employers and members determined;

iv. By statutory instrument, in accordance with actuarial valuation and paid into the Scheme;

v. Income and capital appreciation derived from the holding of the assets of the Scheme in any form; and

vi. Such other moneys or assets as may accrue to the Scheme.

Income

During the period under review, NAPSA raised a total of K12,594,813,756 from contributions of members and investments sources as detailed below;

INCOME SOURCE	2016 K	2015 K	2014 K	TOTAL K
Contributions from members	2,934,587,755	2,538,654,794	2,290,190,767	7,763,433,316
Investment income	2,355,184,830	1,483,641,190	992,554,420	4,831,380,440
TOTAL	**5,289,772,585**	**4,022,295,984**	**3,282,745,187**	**12,594,813,756**

Review of Operations

A review of accounting and other records for the financial years ended 31st December 2014, 2015 and 2016 revealed the following:

a. Board Related Matters

The following were observed regarding operations of the Board of Trustees:

i. Frequency of Board Dissolutions and Re-appointments

A scrutiny of Annual Reports for NAPSA for the period under review revealed that there was no Board that operated for the stipulated tenure of office as provided in the Act. See table below.

Board	Date Appointed	Date Dissolved	Period Served
Main board	1/4/2014	26/12/2015	1 year eight months
Caretaker board	26/02/2016	10/5/2016	3 months
Main board	10/5/2016	18/01/2017	8 months
Interim board	27/02/2017	1/6/2017	3 months
Main board	1/6/2017	Still in office	

As can be seen in the table above, the Board that was in office in 2014 was appointed on 1st April 2014 and was dissolved one year eight months later on 26th December 2015. A caretaker Board was appointed on 26th February 2016 and served for three (3) months until it was dissolved on 10th May 2016. The next Board was appointed on 10th May 2016 and served for eight (8) months until it was dissolved on 18th January 2017. Thereafter, an interim Board was appointed on 27th February 2017 and that lasted for three (3) months. At the time of audit in July 2017, a new Board was in place which was appointed on 1st June 2017.

The frequent change of boards can lead to inconsistency in the long term planning and implementation of organisation strategies.

ii. Failure to Retrieve Tablets from Former Board Members

On 16th September 2015, the Board of Trustees resolved that tablets issued to Board members and management would remain assets of the NAPSA. However, as at 16th November 2017, NAPSA had not retrieved two (2) tablets valued at K9,575 from two (2) Board members that served on dissolved boards.

b. Weaknesses in Managing Pensions and Contributions

i. Failure to Enforce Provisions of the National Pensions Scheme Act 1996

According to CAP 160 of the National Pension Scheme (NAPSA) Act of 2000, all employees except members of the Armed Forces, engaged after February 2000 are required to contribute to NAPSA.

Contrary to the Act, twenty thousand two hundred and thirty (20,230) employees who were recruited after the enactment of the Act were contributing to Public Service Pension Fund (19,560) and Local Authority Superannuation Fund (670).

In response management stated that they had taken various measures, including requesting PMEC to deploy a system control that would prevent input errors that led to new employees in Government being assigned a PSPF pension deduction code.

Further, meetings have been held with Public Service Management Division to rectify historical issues for members whose contributions were sent to PSPF instead of NAPSA.

ii. Irregularities in the Management of Contributions

According to the PART IV, Section 14(1) of the NAPSA Act of 1996, a contributing employer shall pay to the scheme a contribution in respect of an employee in his employment consisting of the employer's contribution and the employee's contribution at the prescribed percentage.

A review of the contributions records maintained at the Authority revealed the following:

- **Defaulting Employers**

  As of 31st March 2017, the Authority was owed amounts totalling K3,157,012,588 in principal and penalty by 2,733 non-compliant employers as shown in the table below.

SECTOR	NUMBER	PRINCIPAL K	PENALTY K	TOTAL K
CENTRAL GOVERNMENT	-	-	248,736,337	248,736,337
PRIVATE	2,514	317,859,149	887,531,699	1,205,390,848
GOVT. AIDED	95	94,773,891	443,034,853	537,808,743
LOCAL AUTH.	86	40,274,622	266,223,377	306,497,999
PARASTATALS	38	138,839,363	719,739,297	858,578,661
TOTALS	**2,733**	**591,747,025**	**2,565,265,563**	**3,157,012,588**

  Included in the 2,733 defaulting employers were 114 employers owing K675,962,513 who had been in default for periods in excess of ten (10) years.

  Further, K21,052,965 was owed by firms which had since closed and were no longer operating.

  In response, management stated that the Authority was actively pursuing employers through court actions. Further, the Authority was processing debt swap agreements with the local authorities to acquire strategic land using outstanding contribution debt.

- **Failure to Secure Repayment of Amounts Borrowed by the Ministry of Labour**

  During the period from October 2015 to March 2016, the Authority lent out amounts totalling K503,552 to the Ministry of Labour and Social Security to pay expenses such as foreign and local travels of Ministry officials. As at 30th September 2017, the Ministry had not reimbursed the Authority.

c. Weaknesses in Managing Re-development of Society House and Central Arcades Project

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

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

i. Demolition of structures which were existing at Central Arcade.

ii. Construction of a shopping mall, parking lots and offices on the Central Arcade.

iii. Renovation, upgrading, addition, erection, construction, supervision, management, commissioning, marketing, maintenance, and operation of the Society House.

iv. Collection of rental and or fees from tenants and users of the project assets

v. Payment of 3.5% of gross revenue as concession fees to ZNBS throughout the concession duration of twenty years from date of signature.

vi. Ownership and control of a company called Society House Development Company Ltd which NAPSA was managing the project.

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

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

The contract price was set at K407,776,661 (Rebased currency) without Value Added Tax (VAT) and at VAT inclusive price of K473,044,127 and the duration of the works was thirty six (36) months starting on 8th June 2011 and ending on 9th June 2014.

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

By 31st December 2016, the contract price had been revised to K952,966,441 of which the Authority had paid amounts totalling K789,001,000.

The following were observed:

i. Lack of Detailed Engineering Design

Contrary to standard engineering practice, the tendering and commencement of the project was done without detailed designs resulting in understatement of bills of quantities which consequently resulted in an increase in contract sum as shown in the table below.

DATE	ADDENDUM NO	DESCRIPTION	EXTRA COST K	% OF CONTRACT VALUE
3/3/2015	1	Building, specialist and works	226,554,724	**48%**
9/21/2015	2	Concrete and block works	11,802,451	**2%**
4/8/2016	3	Engaging contractor and sub contractor to compelete works	-	**0%**
4/29/2016	4	Meeting cost overruns on building, specialist and other	253,367,591	**54%**
	TOTAL		**491,724,766**	**104%**

As can be seen in the table above, the contract price was revised three (3) times resulting in an extra cost of K491,724,766 representing an increase of 104% of the initial planned contract cost.

In response, management stated that the tendering process was carried out by Zambia National Building Society. The preliminary designs and cost estimates were used at that stage rather than detailed designs resulting in under estimation of the actual project cost.

ii. Wasteful Expenditure Arising from Changes in Hotel Operators

The project included construction of a hotel whose ownership and profits would remain with NAPSA. The hotel was to be managed by a professional hotel operator that would charge management fee and licence fee for the use of its brand. The initial hotel operator identified at design stage was Holiday Inn but pulled out before the project was completed resulting in design changes costing K775,000 arising from differing brand specification.

iii. Delay of Commencement of Commercial Benefits of the Project

A scrutiny of Concession Agreement between NAPSA and ZNBS revealed the following:

- There were no clauses providing for separate time of construction and time of commercial operations. The agreement, under clauses 4.0 and 5.4, included construction works and commercial operations as part of the project for the twenty (20) year concession period. However, despite the agreement providing for commercial operations in the twenty (20) years, only seventeen (17) years could be available for such operations as three (3) years was required for construction works. The contract for construction works with Zambezi Consortium works was to last three (3) years starting from 8th June 2011 ending on 9th June 2014. This took away three (3) years from the concession period leaving seventeen (17) years in which NAPSA was to commercially operate the concession.

- As of the time of the audit in August 2017, the hotel works were still ongoing six (6) years from the date of commencement leaving fourteen (14) years before the lapse of the Agreement. There had been no revision or extension of the Concession Agreement contrary to board direction as contained in the minutes dated 21st November 2014 to restructure the agreement.

In response, management stated that ZNBS had given approval of the outright sale of the asset to NAPSA.

iv. Poor Quality of Concession Agreements

A scrutiny of both concession agreements signed between NAPSA and ZNBS and between SHDCL and ZNBS revealed that both agreements were questionable due to the following:

- Clause 5.3.1 of the agreement between NAPSA and ZNBS conferred exclusive concession rights to NAPSA while such rights, under clause 2.1 of the agreement between ZNBS and SHDCL , were directly conferred to SCDCL, a separate legal entity with own contracting powers.

- The concession agreement between NAPSA and ZNBS had two different pages numbered 7 and two pages numbered 15, all duly signed.

Although the Board had on 21st November 2014 directed that the agreements be revised, no such revisions had been done.

In response, management stated that the Authority was exploring various options including renegotiating the outright purchase of the asset from ZNBS.

d. Weaknesses in Managing Kalulushi Housing Project

In 2011, NAPSA engaged Yangtes Jiang to construct 438 housing units in Kalulushi at an initial contract sum of K185,831,267. As of August 2017, all the housing units had been offered for sale.

A review of the project and site visitation carried out in August 2017, revealed the following:

i. Failure to Claim Funds from the Council Paid for Encroachment

NAPSA had acquired the land from Kalulushi Council in 2008 with all the land diagrams showing the land perimeters clearly marked by beacons.

A physical inspection however revealed that NAPSA had encroached on a private property when constructing the housing units. In this regard, nine (9) houses out of the total four hundred and thirty eight (438) housing units were constructed on a private property.

Consequently, during the period under review, NAPSA was taken to court for encroachment and the private owner was paid a total of K500,000 in legal settlement.

In response, management indicated that the Council had allocated the boundary in error as title deeds to the land was not yet issued.

However, as of September 2017, NAPSA had not made a claim for reimbursement from the Council for an encroachment settlement.

ii. Failure to Secure Refund for Construction of the Twenty Seven (27) Manholes

On 6th July 2014, NAPSA wrote to Nkana Water and Sewerage Company (NWSC) claiming for a refund of K108,242 spent on construction of twenty seven (27) manholes. The manholes were built by Yangts Jiang, the main contractor at Kalulushi Housing Scheme contract, along the sewer pipe line, up to the pump station of Nkana Water and Sewerage Company at Kalulushi Housing Scheme. A scrutiny of the letter to NWSC revealed that NAPSA and NWSC had agreed at site meetings that Nkana Water would take up the cost of the manholes yet no agreement was signed to that effect. Further, the minutes for such site meetings were not availed for audit.

In response, management stated that Nkana Water and Sewerage Company Limited had not settled the amount citing budgetary constraits. However, the two parties had been engaged in management discussions to resolve the matter.

e. Absentee Tenants – Mongu District

NAPSA owns one investment building called Provident House in Mongu District which houses offices for the area office and is also leased to other tenants. The property was managed by NAPSA Area Office. A physical inspection of the property carried out in August 2017, revealed that the NAPSA had tenants that had gone away and locked the rooms. See table below.

Years	Jul-17	Dec-16	Dec-15	Dec-14
No. of absentee tenants	21	19	19	Not provided
Amount owed by past tenants	65,977	59,141	58,011	Not provided

As can be seen in the table above, there were nineteen (19) absentee tenants in 2015 and 2016 respectively that had locked offices which increased to twenty one in July 2017. In this regard, NAPSA did not collect rentals from such tenants totalling to K58,011 in 2015, K59,141 in 2016 and K65,977 in 2017.

In response, management stated that the authority was consolidating a schedule of the vacated and locked offices countrywide for publication in public media to enable opening up of the offices and the reallocations. Further, the authority was engaging bailiffs to speed up collection of rentals.

f. Duplicated Payments

A scrutiny of bank reconciliation statements for the period under review for ZANACO ZNPF Benefits and ZANACO NAPSA Benefits accounts revealed that during the period from October 2013 to January 2014, the Authority had duplicated payments from these accounts in amounts totalling K362,865. It was, however, observed that as at 31st March 2017, in the latest bank reconciliation availed for audit, the matter had not been resolved.

The National Savings and Credit Bank (NATSAVE)

Background

16. The National Savings and Credit Bank (NATSAVE) which is wholly owned by Government was established in 1972 by the National Savings and Credit Act No. 24 of 1972, to replace the Post Office Savings Bank of Zambia with a view to promoting national savings and to provide for matters incidental to or connected with the foregoing.

In October 2005, the Act was amended to conform to the Banking and Financial Services Act No. 21 of 1996.

Management

NATSAVE is governed by a Board of Directors comprising of the Chairman, the Managing Director and nine (9) other members. The Board of directors is appointed by the Minister responsible for finance. The Board is responsible for the policy and administration of the affairs and business of the bank.

The day to day administration of NATSAVE is the responsibility of the Managing Director and the Deputy Managing Director who are assisted by nine (9) heads of department.

Sources of Finance

The sources of the funds as stipulated in the National Savings and Credit Bank Act, include;

- Moneys as shall be appropriated by Parliament;
- Moneys as the Bank may acquire by virtue of grants or raised by means of loans and;
- Other sums of moneys as may accrue to it in the course or on account of its business.

During the period under review, the NATSAVE received and generated income in amounts totalling K334,949,690 as shown in the table below.

Source	2013 K	2014 K	2015 K	Total K
Interest Income	52,613,196	89,940,863	104,237,659	246,791,718
Interest Expense	(11,961,324)	(16,642,387)	(23,097,767)	(51,701,478)
Net Interest Income	**40,651,872**	**73,298,476**	**81,139,892**	**195,090,240**
Net Fee and Commission Income	49,064,367	43,179,570	44,532,274	136,776,211
Other operating Income	1,019,422	988,422	1,075,395	3,083,239
Total Operating Income	**90,735,661**	**117,466,468**	**126,747,561**	**334,949,690**

Management Information Systems

During the period under review, National Savings and Credit Bank (NATSAVE) operated three (3) management information systems namely:

i. Rubikon Banking System

Rubikon Banking System whose primary functions included among others banking operations, credit, finance, Automated Tailor Machine (ATM) administration and Treasury management.

ii. Micropay Payroll System

This system was used for the processing of staff payroll.

iii. Fincard

This system was used to produce ATM Cards.

Review of Operations

A review of accounting and other records maintained at NATSAVE headquarters and a visit to selected branches namely Ndola, Kitwe, Mpongwe, Mwense, Mansa, Mpika, Kasama, Choma, Livingstone, Kazungula, Mumbwa, Solwezi and Lumwana carried out during the period from September 2016 to February 2017 and a physical inspection of selected infrastructure projects revealed the following:

a. Financial Statements – Qualified Financial Statements

The financial statements for the years ended 31st December 2013, 2014 and 2015 were qualified due to the following reasons:

- The banks underlying data for customer's balances from the Bank's accounting system could not be relied upon and this resulted in a number of suspense accounts.
- The auditors were unable to take part in the cash count and could therefore not verify the closing balances.

- Expenditure that lacked supporting documentation.
- Significant breakdown of internal controls due to the failed installation of the core banking system-Rubikon.
- Some of the bank records were gutted by fire at Headquarters on 13th November 2015 resulting in loss of documentation which caused some of the account balances relating to suppliers, staff expenses and receivables not to be validated.

b. Irregularities in Staff Related Costs

i. Irregular Payment of Hardship Allowances

According to the conditions of service, employees working in rural areas were entitled to 10% of the basic salary as hardship allowance.

The areas designated as rural areas were Lukulu, Kaputa, Nchelenge, Mporokoso, Luwingu, Chama, Petauke, Zambezi, Kasempa, Chongwe and Mumbwa.

It was however observed that, during the period under review, eleven (11) employees who were based in areas not designated as rural areas were irregularly paid hardship allowances in amounts totalling K68,677. See table below.

Station	No of Employees	Amounts Paid K
Chinsali	2	22,200
Headquarters	1	7,480
Kabwe	1	14,820
Livingstone	2	7,400
Luanshya	1	7,000
Mansa	1	3,222
Mongu	1	3,067
North End	1	2,409
Solwezi	1	1,080
Totals	**11**	**68,677**

ii. Failure to Remit Pay As You Earn (PAYE)

According to Income Tax Act Section 71, tax deducted from employees' remuneration must be remitted to the Zambia Revenue Authority by the 14th of the month following the month in which the deduction was made.

Contrary to the Act, NATSAVE did not remit to ZRA, PAYE deducted from its employees' remuneration. In this regard, as of July 2017, ZRA was owed K8,087,161 in outstanding PAYE.

c. High Portfolio at Risk (PAR)

The portfolio at risk (PAR) is an assessment of the total loan portfolio with regards to the portion that is non-recoverable. It is computed by expressing the sum of the sub-standard, doubtful and loss classifications as a percentage of the total loan portfolio. The generally acceptable portfolio at risk for the industry should not be more than 5%.

A review of the loans disbursed during the period under review revealed that the Portfolio at Risk for the Bank was 13.9% which was above the acceptable industry threshold of 5%.

In this regard, out of a total loan portfolio of K271,439,859, K3,275,858 had been outstanding for periods ranging from 90 to 119 days (substandard), K5,462,104 had been outstanding for periods ranging from 120 to 179 days (doubtful) and K29,048,745 had been outstanding for more than 180 days (loss).

d. Unrecovered Loans

A review of the Loan Listing portfolio revealed that 402 customer loan accounts were initially classified as fully paid but still had debit balances on them.

Subsequently, the Bank carried out a data cleaning exercise in January 2017 which revealed that the 402 customers owing amounts totalling K560,598 which were initially classified as having been fully paid, were not actually settled. See table below.

Branch	No. of Loans	Balance on Loan K
Ndola	1	1,521
Mpongwe	17	44,741
Livingstone	316	462,000
Mongu	31	2,178
Kalabo	22	12,017
Mumbwa	15	38,141
Total	**402**	**560,598**

In this regard, the customers were to be informed of the outstanding loan amounts. However, as of July 2017, the customers had not been communicated to.

As of June 2017, management had not informed its customers of the fact that they would be required to make additional payments for the loans which previously were thought to be fully serviced.

e. Non Recovery of Loans – Head Office

During the period under review, recoveries in respect of loans in amounts totalling K2,911,676 issued to various customers had not been effected as of July 2017.

f. Failure to Adhere to Loan Agreement – Bunjimi Asset Plus Loans

On 9th August 2013, the Zambia National Farmers Union (ZNFU) and NATSAVE signed a Memorandum of Understanding (MoU) for Bunjimi Asset Plus. The purpose of the MoU was to establish a framework of cooperation between the Parties under which NATSAVE would provide credit, especially but not limited to asset finance services to small / medium scale farmers who are fully paid up members of ZNFU and the development of joint innovative and affordable asset finance products and activities between the Parties.

During the period under review, two (2) customers were paid loans in amounts totalling K476,264 under the Bunjimi Asset Plus loan facility as shown in the table below.

Date	Loan Amount K	Branch	Purpose	Loan Maturity Date
30.05.2015	300,000	Lusaka, Northend	Purchase of twenty (20) dairy cattle	30.06.2018
06.11.2014	176,264	Kasama	Purchase of a tractor	05.11.2016
Total	**476,264**			

However, the following were observed:

i. The terms of the agreement for the facility issued at Lusaka Northend branch stated that the loan would be secured in form of the purchased livestock and a 20% security deposit. The funds were to be paid to the supplier of the livestock.

   A review of the customer loan account revealed that the 20% security deposit amounting to K60,000 was not paid. In addition, contrary to the agreement, the loan was paid to the customer instead of the supplier of the livestock.

ii. According to the terms of the agreement for the facility issued at Kasama branch, the loan was to be secured against the asset procured (tractor). It was however observed that the loan was not secured against the tractor.

g. Failure to Deliver Service

On 13th January 2012, NATSAVE engaged Universal Communication of France to facilitate the publishing and marketing of NATSAVE in the 2012 publication of Le' point

Magazine of France at a contract sum of K301,314 (€46,366). On 23rd January 2012, Universal Communication was paid in full.

It was however observed that the publication was not done and as at 31st July 2017, the funds had not been refunded.

Ndola Lime Company Ltd (NLC)

Background

17. Ndola Lime Company which is a subsidiary of ZCCM Investment Holdings (ZCCM-IH), is wholly owned by the Government of the Republic of Zambia and its mandate is to deliver a wide range of limestone products to the mining industry.

The company produces flux stone, kiln stone, quicklime, agricultural lime and hydrated lime. These products are mainly sold to copper mining companies and other customers who include the local construction industry for aggregate stone and foreign varied industries for the hydrated lime products.

Administration

NLC is governed by a Board of Directors consisting eight (8) directors who are appointed by the ZCCM-IH Board of Directors. The Chief Executive Officer of the company reports to the Board for the execution of the policy and reports administratively to the Chief Executive Officer of ZCCM-IH.

The CEO is responsible for day to day running of the company and is assisted by nine (9) Heads of Department and other support staff.

Sources of Funds

The sources of funds for NLC include sales of limestone products such as quicklime, hydrated lime, kilnstone, agriculture lime, aggregate and concrete blocks.

During the financial years ended 31st March 2013, 2014, 2015 and 2016, the NLC generated income in amounts totalling K815,463,307 as shown in the table below.

Source	2015/2016 K	2014/2015 K	2013/2014 K	2012/2013 K	Total K
Quicklime	133,350,907	130,734,574	135,142,135	148,859,336	548,086,952
Hydratedlime	40,398,042	31,210,988	26,403,863	35,573,240	133,586,133
Kiln stone	7,548,374	10,391,244	14,860,502	11,847,554	44,647,674
Agriculture Lime	96,304	180,060	12,126,265	8,156,070	20,558,699
Aggregate	2,362,674	6,695,805	7,336,402	9,093,114	25,487,995
Concrete blocks	324,409	2,315,652	1,649,227	1,093,400	5,382,688
Crusher run	12,501,561	14,182,731	-	-	26,684,292
Total	**196,582,271**	**195,711,054**	**197,518,394**	**214,622,714**	**804,434,433**
Other Income					
Reversal of Provision	-	-	6,311,193	-	6,311,193
Gain on disposals	-	27,474	1,094,447	391,133	1,513,054
Sale of tender documents	-	-	21,350	96,162	117,512
Insurance claim & reimbursements	227,350	21,265	73,483	2,047,066	2,369,164
Sales of scrap	124,632	3,570	25,540	-	153,742
Transport hire	53,608	461,228	10,948	-	525,784
Miscellaneous	19,813	18,612	-	-	38,425
Total of other Income	**425,403**	**532,149**	**7,536,961**	**2,534,361**	**11,028,874**
Total Revenue	**197,007,674**	**196,243,203**	**205,055,355**	**217,157,075**	**815,463,307**

Review of Operations

An examination of accounting and other records and physical inspection of assets and projects carried out in April and July 2017 revealed the following:

a. Financial Performance – Statement of Profit and Loss and Other Comprehensive Income for the Financial Years Ended 31st March 2013, 2014, 2015 and 2016

	2015/2016 K	2014/2015 K	2013/2014 K	2012/2013 K
Revenue	196,582,271	195,711,054	197,518,394	214,622,714
Cost of Sales	(178,045,663)	(99,920,284)	(142,748,548)	(148,924,539)
Gross profit	**18,536,608**	**95,790,770**	**54,769,846**	**65,698,175**
Other income	425,403	532,149	7,536,961	2,534,361
Operating expenses	(92,218,152)	(97,887,357)	(60,834,640)	(84,811,240)
Results from operating activities	**(73,256,141)**	**(1,564,438)**	**1,472,167**	**(16,578,704)**
Net Finance Cost	(9,018,756)	(3,034,458)	(5,869,357)	(13,909,303)
Loss before income tax	**(82,274,897)**	**(4,598,896)**	**(4,397,190)**	**(30,488,007)**
Income tax credit (expense)	(3,998,385)	(13,146,438)	(8,147,304)	8,944,133
Profit/ (loss) for the year	(86,273,282)	(17,745,334)	(12,544,494)	(21,543,874)
Loss for the year	**(86,273,282)**	**(17,745,334)**	**(12,544,494)**	**(21,543,874)**
Other Comprehensive Incme				
Deferred tax on revaluation	16,748,459	(466,380)	618,408	
Amortisation of revaluation reserve	(4,732,491)	-	(197,141)	
Total Comprehensive Income for the year	**(74,257,314)**	**(18,211,714)**	**(12,123,227)**	

As can be seen in the statement above, the company recorded losses in all the four financial years under review. The losses were attributed to increases in the cost of sales which increased from K148,924,539 in 2013 to K178,045,663 in 2016 representing an increase of 20% while revenue declined from K214,622,714 in 2013 to K196,582,271 in 2016 representing a decline of 8%.

The gross profit declined from K65,698,175 in 2013 to K18,536,608 in 2016. This represented a decline of 71%.

Operating expenses increased from K84,811,240 in 2013 to K92,218,152 to 2016 representing an increase of 8%. The increase was attributed to increases in materials costs during the implementation of the Lime Plant Recapitalisation Project.

Although finance costs declined from K13,909,303 in 2013 to K9,018,756 in 2014 representing a decline of 35%, the cost increased from K5,869,357 in 2014 to K9,018,756 in 2016 representing an increase of 53%. The increase in the finance costs was attributed to loans contracted for the Lime Plant Recapitalisation Project.

b. Statements of Financial Position as at 31st March 2013, 2014, 2015 and 2016

	2016/2015 K	2015/2014 K	2014/2013 K	2013/2012 K
Non-current assets				
property,plant and equipment	1,117,470,959	834,333,971	657,505,416	469,610,616
Deferred income tax	-	-	2,105,599	9,479,817
Total non-current assets	**1,117,470,959**	**834,333,971**	**659,611,015**	**479,090,433**
Current assets				
Inventories	35,349,192	53,097,054	24,220,499	18,751,195
Receivables and prepayments	44,270,590	51,063,718	39,933,921	93,458,299
Current income tax	3,161,717	3,467,084	3,928,774	1,490,588
Cash and cash equivalents	692,984	10,542,300	6,238,646	25,791,486
Total Current Assets	83,474,483	118,170,156	74,321,840	139,491,568
Total Assets	**1,200,945,442**	**952,504,127**	**733,932,855**	**618,582,001**
Equity				
Share capital	5,000	5,000	5,000	5,000
Funds awaiting allotment of shares	659,180,675	-	-	-
Revaluation surplus	13,805,726	2,004,821	2,686,264	2,264,997
Retained Earnings	(101,012,224)	(14,954,005)	2,576,266	14,923,619
Shareholder's funds	**571,979,177**	**(12,944,184)**	**5,267,530**	**17,193,616**
Non-current liabilities				
Borrowings	221,599,389	491,734,043	337,242,483	374,663,007
Deferred Tax Liabilities	19,471,038	11,045,529	-	-
Trade and other Payables	29,437,309	-	-	-
Provision for other liabilities and charges	44,736,875	11,551,652	10,360,805	16,671,998
Total Non Current Liabilities	**315,244,611**	**514,331,224**	**347,603,288**	**391,335,005**
Current Liabilities				
Bank Overdraft	319,142	-	-	-
Trade and other payables	168,646,292	139,805,525	129,716,957	73,343,639
Current Income tax	-	-	-	-
Retirement Benefits obligation	45,371,650	47,995,891	52,856,166	59,030,499
Borrowings and derivaties	99,384,570	263,315,671	198,488,914	77,679,242
Total Current Liabilities	**313,721,654**	**451,117,087**	**381,062,037**	**210,053,380**
Total Liabilities	**628,966,265**	**965,448,311**	**728,665,325**	**601,388,385**
Total equity and Liabilities	**1,200,945,442**	**952,504,127**	**733,932,855**	**618,582,001**

Liquidity Ratios

LIQUIDITY RATIOS		2015/2016	2014/2015	2013/2014	2012/2013
Current Ratio =	Current Assets	83,474,483	118,170,156	74,321,840	139,491,568
	Current Liabilities	313,721,654	451,117,087	381,062,037	210,053,380
		0.3	0.3	0.2	0.7
Quick Ratio =	Current Assets-Inventory	48,125,291	65,073,102	50,101,341	120,740,373
	Current Liabilities	313,721,654	451,117,087	381,062,037	210,053,380
		0.15	0.14	0.13	0.57
Working Capital =	Current Assets- Current L	83,474,483	118,170,156	74,321,840	139,491,568
		313,721,654	451,117,087	381,062,037	210,053,380
		(230,247,171)	(332,946,931)	(306,740,197)	(70,561,812)
Receivable Days =	Receivables x 365	44,270,590	51,063,718	39,933,921	93,458,299
	Turnover	196,582,271	195,711,054	197,518,394	214,622,714
		82	95	74	159
Payable Days =	Payables x 365	168,646,292	139,805,525	129,716,957	73,343,639
	Turnover	196,582,271	195,711,054	197,518,394	214,622,714
		313	261	240	125
DEBT UTILISATION RATIOS					
Debt to Total Assets	Debt	315,244,611	514,331,224	347,603,288	391,335,005
	Assets	1,200,945,442	952,504,127	733,932,855	618,582,001
		0.26	0.54	0.47	0.63

i. Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To gauge this ability, the current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities. The industry average for the current ratio for companies in the manufacturing sector is 1.54

During the period under review, the current ratio declined from 0.7 in the financial year 2012/2013 to 0.3 in the financial year 2015/2016.

ii. Quick Ratio

The quick ratio is a measure of how well a company can meet its short-term financial liabilities. The industry average for the quick ratio for companies in the manufacturing sector is 0.75.

During the period under review, the quick ratio declined from 0.57 in the financial year 2012/2013 to 0.15 in the financial year 2015/2016.

iii. Working Capital

Working capital is a measure of both a company's efficiency and its short-term financial health.

During the period under review, the working capital declined from negative K70,561,812 in the financial year 2012/2013 to negative K230,247,171 in the financial year 2015/2016.

iv. Receivable Days

It is a financial ratio that illustrates how well a company's accounts receivables are being managed. The company provides clients credit terms of 30 days according to its credit policy.

During the period under review, the receivable days were longer than the allowed credit period as it fluctuated from 159 days in the financial year 2012/2013 to 82 days in the financial year 2015/2016.

v. Payable Days

Payable days measures the number of days that a company takes to pay its suppliers. The company's policy regarding payment of payables is 30 days.

During the period under review, the payable days were longer than the allowed credit period as it fluctuated from 125 days in the financial year 2012/2013 to 313 days in the financial year 2015/2016.

vi. Debt-to-Assets Ratio

The debt-to-assets ratio is the most basic solvency ratio, measuring the percentage of a company's total assets that is financed by debt. The ratio is calculated by dividing total liabilities by total assets. A high number means the firm is using a larger amount of financial leverage, which increases its financial risk in the form of fixed interest payments. The industry average for the debt to assets ratio for companies in the manufacturing sector is 0.50.

During the period under review, the debt to assets ratio was 0.83, meaning that total liabilities accounted for 83% of total assets.

vii. Solvency Ratios

- **Debt-to-Equity Ratio**

  The debt-to-equity ratio measures the amount of debt capital a firm uses compared to the amount of equity capital it uses. A ratio above 50% means that a company is financing its operations using debt rather than equity.

  The ratio is computed by dividing the short- and long-term interest-bearing debt by equity.

  During the period under review, the debt/equity ratio increased from 22% in 2013 to 55% in 2016. The ratio was within the acceptable levels apart from 2016 when it exceeded 50% by five (5) percentage points.

- **Interest Coverage Ratio**

  The interest coverage ratio is used to determine how easily a company can pay their interest expenses on outstanding debt. An interest coverage ratio of at least 2 is considered the minimum acceptable amount for a company that has solid, consistent revenue. A lower interest coverage ratio means that the company will have difficulties to meet its interest obligations.

  During the period under review, the interest cover deteriorated from adverse (negative) ratio of 10 to an adverse (negative) ratio of 18. This means that Ndola Lime Company will have difficulties in meeting its interest obligations.

c. Irregularities in the Management of Projects - The Recapitalisation Project

In June 2007 Ndola Lime Company embarked on a recapitalisation project whose budget estimate was US$74 million. The estimated completion date was 27th March 2009. The total number of contractors engaged during the project implementation period was thirty eight (38) although the lead contractor on the purchase and installation of the Kiln was Terruzzi Fercalx S.P.A while the lead contractor in the installation of the hydrator was Cimprogetti. The equipment to be installed under the recapitalisation of Lime Plant Project was as follows:

i. A 500tpd dual (HFO/Coal) fired Vertical Kiln

ii. A 15tph Hydrating Plant

iii. A 25tph Hydrated Lime Packing Plant

iv. Electrical Power Supply Upgrade (10MVA)

v. A 170tph Secondary Limestone Crusher, conveyors, and ancillary equipment

vi. A 10tph Coal Grinding and Handling Plant

vii. Two 100 tonne Weigh bridges

viii. Support infrastructure/utilities (roads, storm drains, compressed air plant, etc.)

ix. Storage capacity of quicklime silo of 300T;

x. Storage shed of the hydrated lime packing and bagging plant;

xi. Construction of horizontal limestone stockpile; and

xii. Installation of one (1) air receiver.

All the above works in the scope had been completed and were working except for the vertical kiln.

The recapitalisation was financed by ZCCM IH, Stanbic Bank Zambia and Standard Bank of South Africa (SBSA) as per the table below.

Financier	Amount US$	Kwacha (K) Equivalent (Million)	Date	Tenure	Interest	Purpose of loan
Stanbic Bank Zambia	4,750,000	19	7/1/2008	7 Years	14%	Financing completion of the project
ZCCM-IH	26,000,000	132	3/31/2011	7 Years	14%	Financing completion of the project
ZCCM-IH	26,000,000	132	10/18/2012	7 Years	14%	Completion of recapitalisation project
ZCCM-IH	16,500,000	106	2/1/2013	7 Years	14%	Financing completion of the project
ZCCM-IH	3,500,000	19	5/1/2013	7 Years	4%	Financing the recapitalisation project
SBSA	27,579,713	138	12/23/2011	5 Years	14%	Financing the recapitalisation project
ZCCM-IH	3,619,000	32	12/22/2015	7 Years	14%	Financing completion of the project
Total	**107,948,713**	**578**				

The five (5) loans financed by ZCCM-IH had been converted to equity in Ndola Lime while the loan from Standard Bank of South Africa is being repaid on a quarterly basis by ZCCM-IH who also guaranteed the loan. Repayments are to be completed on 31st October 2018.

Terruzi Fercalx S.P.A was paid a sum of K70,992,198 (US$15,783,326) for the purchase of the vertical kiln, spares, vendor assistance and installation of the kiln between 28th July 2008 and 15th June 2016 as summarised in the table below.

Description	Amount US$	Kwacha (K) Equivalent	Comment
Vertical Kiln No. 2	7,976,140	26,361,143	Purchase cost
VK2 & Coal Pulverising	6,294,918	32,104,082	Installation cost
Spares (Commissioning & Start-up)	469,980	3,054,872	Spares bought from Terruzzi
Vendor Assistance/Training	1,042,288	9,472,101	Training
Total	**15,783,326**	**70,992,198**	

According to the contract, Terruzzi Fercalx S.P.A should have trained staff in the operation and maintenance of the Kiln before handing over to Ndola Lime operators and maintenance personnel.

The following were observed:

i. As of April 2017, the project had not been commissioned, eight years after the estimated completion date of 27th June 2009 due to the fact that some units of the Kiln required repairs and modifications which were caused during design and implementation stages by the contractor, Terruzzi Fercalx S.P.A. The following were the defects:

- Design defects by Terruzzi Fercalx S.P.A in the charging system, firing system and limestone, coal and quicklime transportation system.
- Incompetence of technicians from the lead contractor, Terruzzi Fercalx S.P.A of Italy.
- Terruzzi Fercalx S.P.A provided an inappropriate choice of technology, particularly the coal dosing system which had poor quality valves. Further the warranties for the relating to malfunctioning components had expired as the equipment was supplied long before installation.
- Terruzzi Fercalx S.P.A did not undertake the training of Ndola Lime personnel to operate and maintain the Kiln contrary to the contract.

ii. As at 30th June 2014, Terruzzi Fercalx S.P.A had been paid the full amount for works on the Kiln and there was no evidence that Ndola Lime Limited had taken any action against Terruzzi Fercalx S.P.A for the stated deficiencies.

iii. The entire Ndola Lime Company plant was provided as collateral for the loan of obtained from SBSA. This implies that if Ndola Lime Company and ZCCM-IH who have guaranteed the loan defaulted, the Ndola Lime Company would be taken over by the financiers.

In response the controlling officer stated that all the plants installed under the project have been fully commissioned and put to beneficial use except for the vertical kiln (VK2).

Regarding frequent equipment failures the Controlling officer stated that the company had put in place a Maintenance Management Systems (MMS) adding that modifications had been done to the plant.

On the issue of blockages in the Limestone, Coal and Quicklime transportation sections, the controlling officer stated that the causes for the blockages had been identified and measures were taken such as modification of chutes to eliminate or minimize the blockages.

The controlling officer further stated that the company was working on the design shortcomings.

However, as at the time of verification, the vertical kiln (VK2) was not operational.

d. Irregularities in the Management of Assets

i. Defective Mining Equipment

- **Defects on Mining Haul Trucks – Terex TR 45**

  Ndola Lime Company has a fleet of five (5) Terex TR 45 Haul Trucks. Two of these trucks have been on long breakdown Terex45-21 for more than one year and Terex45-22 for more than three years. TR45-21 requires engine spares, injector, injector pump and tyres, while TR45- 22 requires replacement of engine, transmission and tyres. Both machines had been parked at the workshop awaiting availability of funds to buy spares. None availability of the machinery had affected the mining activities.

Terex45 - 22

Terex45 - 21

- **Primary Crusher Operating below Capacity**

  Ndola Lime Company operates a 300tph crushing plant comprising three crushers namely, primary, secondary and the mobile crushers, screens, conveyors and storage silos. The plant was built in 1931 and has been in operation since then.

  In this regard, it was observed that due to aging, the crusher with a production capacity of 250 to 300 tonnes per hour, was only managing to produce 193 tonnes per hour representing a reduction of 36 percent, which was negatively affecting limestone production. It was also observed that the crusher had frequent break downs.

  It was further observed that due to aging of the lamina plates on the primary crusher, the plates were no longer properly aligned leading to spillage of dust and small stones thereby filling up the base of the plant. The dust had to be later removed manually whilst the crusher is switched off increasing the down time of crushing.

ii. Lack of Refractory Bricks for Vertical Kiln (1)

A refractory brick is a block of refractory ceramic material used in lining furnaces, kilns, fireboxes, and fireplaces. A refractory brick is designed mainly to withstand high heat, but should also usually have a low thermal conductivity to save energy. Usually dense refractory bricks are used in applications with extreme mechanical, chemical, or thermal stresses, such as the inside of a wood-fired kiln or a furnace, which is subject to abrasion from wood, fluxing from ash or slag, and high temperatures.

It was observed that the vertical kiln No.1 was frequently shut down due to stock out of Heavy Fuel Oil (HFO), occasional failure of the kiln charging system and lack of refractory bricks.

The refractory bricks were last installed in November 2013 and have since been worn out.

Although management stated in their response that the procurement of refractory bricks was a priority item for the company, no refractories bricks had been procured for the vertical Kiln (1) as of the date of verification in July 2017.

e. Failure to Collect Debt

A 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 NLC did not have a debt policy in place.

Consequently, various debtors owed amounts totalling K1,596,402 some of which had been outstanding for periods of over one (1) year.

f. Irregularities in the Procurement of Goods and Services

i. Contract for the Supply of 2000 Replica Jerseys - Yesu Sports

In March 2014, NLC issued a loan of K220,000 to Lime Hotspurs Football Club (Ndola Lime Company Football Team) in order for the football club to procure replica jerseys.

In this regard, on 25th March 2014, Lime Hotspurs Football Club engaged Yesu Sports Suppliers of Kabwe for the supply of 2,000 Errea replica jerseys at the contract sum of K340,000.

As of February 2015, the supplier had been paid amounts totalling K220,000.

However, as of July 2017, only jerseys costing K97,900 had been delivered leaving a balance of K122,100 worth of jerseys undelivered.

ii. Undelivered Goods and Services

During the period from 2011 to 2016, amounts totalling K1,239,965 (K633,011 - local suppliers and K600,952 - foreign suppliers) were paid to various suppliers for the supply of various goods and services.

However, as at 30th September 2017, the good and services had not been supplied.

g. Staff Related Matters

i. Failure to Remit Statutory Contributions

During the period under review, amounts totalling K59,354,616 were deducted as Pay As You Earn (K45,000,000) and NAPSA contributions (K14,354,616). However, the deducted funds had not been remitted to the respective institutions as of July 2017.

ii. Non Payment of Terminal Benefits

Former employees who were separated from employment between October 2011 and March 2017 were owed a sum of K24,466,823 and K11,395,748 in respect of unionised and non-unionised respectively.

As at 30th November 2017, a payment of K8,095,367 had been made leaving a balance of K27,767,205.

Nkana Water and Sewerage Company

Background

18. Nkana Water and Sewerage Company Limited was incorporated as a private company limited by shares on 9th September 1998 with a mandate to provide water and sewerage services to customers in Kitwe, Kalulushi and Chambishi. The company commenced its operations in July 2000.

The Company's shareholding is as shown in the table below.

Shareholders	Nominal Capital / Value of Shares	Shareholding Percentage %
Kitwe City Council	7,000	70
Kalulushi Municipal Council	3,000	30
Total	**10,000**	**100**

Board of Directors

The Company has a Board of Directors which consists of ten (10) Directors as detailed below.

- A Mayor or Council Chairperson from one of the participating Councils
- A Town Clerk or council secretary from one of the participating Councils
- The Provincial Local Government Officer or representative,
- A representative from the Engineering Institute of Zambia,
- Two (2) representatives from the private sector drawn from within the area of operation,
- A commercial consumer category representative,
- A domestic consumer category representative, and
- Two (2) members to be appointed by the Minister, one of whom shall be the Chairperson of the Board.

The Board is responsible for the formulation of policy and general administration of the company. The board members hold office for a term of not more than three (3) years and are eligible for reappointment upon expiry of their term of office subject to a review of their performance at every annual general meeting, but cannot serve for more than two (2) terms.

Management

The Managing Director is responsible for the day-to-day operations of the company and is assisted by five (5) Directors in charge of Finance, Infrastructure Development, Human Resource Management, Operations and Commercial.

The Managing Director is appointed by the Board for a renewable term of three (3) years, while other Directors and Managers are appointed by the Managing Director on a renewable term of three (3) years. 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, provision of sewerage services and income generated from various penalties and administrative charges. The sources may include funding from the Government of the Republic of Zambia and Cooperating Partners.

Income

During the period from 2014 to 2016, the Company generated income and received funding in amounts totalling K376,721,000 from various sources as shown in the table below.

Income Category	2016 (Draft) K'000	2015 K'000	2014 K'000	TOTAL K'000
Water Provision	107,053	87,789	69,382	264,224
Sewerage Services	25,640	22,667	18,829	67,136
Exchange Gains	5,104	272	1,492	6,868
Amortisation of Grant	403	2,963	13,166	16,532
Other Income	9,819	7,103	5,039	21,961
TOTAL	**148,019**	**120,794**	**107,908**	**376,721**

Review of Operations

A review of the operations of the company for the financial years ended 31st December 2014, 2015 and 2016 carried out in August 2017 revealed the following:

a. Expiry of the Tenure of the Board

Contrary to Clause 12 of the Articles of Association which required that the term of the Board shall be three (3) years and will be liable to retire at the end of the three (3) year term from the date of appointment and subject to review of the individual performance at every annual general meeting, it was observed that the current Board of Directors were appointed in May 2013 and as of 31st August 2017, were still serving, fifteen (15) months after expiry of their tenure.

Included in the Board of Directors were three (3) members who were not eligible to be Board members due to the fact that they no longer held the positions in the institutions that they were representing.

Consequently, as at 31st August 2017, a total of K99,752 had been spent on air tickets, fuel allowances, subsistence allowances and accommodation costs on Board Members who had relocated to the other towns where the Company had no operations.

b. Operating Losses - Statement of Comprehensive Income

The Statements of Comprehensive Income for the financial years ended 31st December 2014, 2015 and 2016 were as shown below.

	2016 K'000 (Draft)	2015 K'000	2014 K'000
Turnover	131,875	110,456	88,211
Cost of Sales	(45,438)	(43,086)	(28,806)
Gross Profit	**86,437**	**67,370**	**59,405**
Other Income	15,695	10,338	19,697
	102,132	77,708	79,102
Interest Payable	(5,145)	(5,120)	(8,664)
Admin Expenses	**(122,128)**	**(77,838)**	**(80,935)**
Loss before taxation	(25,141)	(5,250)	(10,498)
Income tax(expense)/credit	-	(266)	3,713
Loss for the year	(25,141)	(5,516)	(6,785)
Other items of Comprehensive Income			
Total Comprehensive loss for the Year	**(25,141)**	**(5,516)**	**(6,785)**

As can be seen from the table above, although the company's turnover increased from K88,211,000 in 2014 to K131,875,000 in 2016, the company continued incurring losses. The losses were caused by the company's failure to keep its administration expenses below the amounts of the Gross Profits it generated. Total Administration expenses were K80,935,000 in 2014 while Gross Profit was K59,405,000. In 2015 the Administration expenses were K77,838,000 with the Gross Profit of K67,370,000 and this worsened in 2016 with expenses reaching K122,128,000 when the Gross Profit was K56,437,000. Further scrutiny revealed that Staff Costs accounted for between 34% and 42% of the total Administration Cost as shown in the table below.

Accounting Period	2016	2015	2014
Total Admin Expenses (K'000)	122,128	77,838	80,935
Total Staff Costs (K'000)	50,713	47,200	39,083
Total Staff Costs as % of Total Admin Cost	**42%**	**61%**	**48%**

The operational losses were further worsened by the increase in the provisions for bad and doubtful debts from K17,640,000 in 2015 to K34,272,000 in 2016 representing a percentage increase of 94%. The increase in the provision for bad and doubt debts were attributed to poor debt collection efficiency which stood at 61% as at 31st December 2016.

c. Financial Performance – Statement of Financial Position

Statements of Financial Position for financial years ended 31st December 2014, 2015 and 2016 were as shown below.

	2016 (Draft) K'000	2015 K'000	2014 K'000
ASSETS			
Non - current assets			
Property, Plant and Equipment	573,659	572,120	586,456
Investments	-	-	-
	573,659	**572,120**	**586,456**
Current assets			
Inventory	6,953	4,941	3,117
Trade and Other Receivables	91,678	78,750	66,409
Amounts due from related parties	1,525	1,525	1,242
Cash and Cash Equivalents	4,671	10,605	14,554
	104,827	**95,821**	**85,322**
Total Assets	**678,486**	**667,941**	**671,778**
EQUITY AND LIABILITIES			
Equity			
Share Capital	5	5	5
Share Premium	12	12	12
Capital Reserves	44,667	44,667	44,667
Revaluation Reserves	188,772	188,770	205,128
Accumulated losses	(191,552)	(167,395)	(178,237)
	41,904	**66,059**	**71,575**
Non-Current Liabilities			
Deferred Tax	32	32	78
Interest bearing loans and borrowings	386,257	387,088	331,556
Capital Grants	33,441	33,695	35,816
	419,730	**420,815**	**367,450**
Current liabilities			
Trade and Other Payables	99,538	72,102	96,946
Interest bearing loans and borrowings	56,018	56,399	44,109
Provisions and accruals	58,985	52,003	90,780
Taxation payable	563	563	251
Bank overdraft	1,748	-	667
	216,852	**181,067**	232,753
Total equity and liabilities	**678,486**	**667,941**	**671,778**

The following were however observed:

i. Poor Management of Receivables

According to the Debt Management Policy, the Company was supposed to collect its receivables within fourteen (14) days from the date of billing. A review of the receivables records during the period under review revealed that although the debt collection period had decreased from 275 days recorded in 2014 to 254 days in 2016, the debt collection period of over 250 days was significantly higher than the fourteen (14) days stipulated in the policy. See table below.

Receivable Turnover Days = (Trade and other receivables) / (Revenue) x 365 days

	2016	2015	2014
Revenue (K)	131,875	110,456	88,211
Trade and Other Receivables (K)	91,635	78,750	66,409
Receivable Turnover (days)	254	260	275
Debt Collection day per Policy	14	14	14

ii. Current Ratio / Liquidity

Current ratio shows the ability of the company to meet is current financial obligation. This is measured by comparing current assets against current liabilities. During the period under review the company's current liabilities exceeded the current assets as shown in the table below.

Current Ratio	2016 K'000	2015 K'000	2014 K'000
Current Assets	104,746	95,821	85,322
Current Liability	216,804	181,067	232,753
Working Capital	(112,058)	(85,246)	(147,431)
Ratio	**0.48 : 1**	**0.53 : 1**	**0.37 : 1**

The Company had been operating with a negative working capital of K147,341,000 in 2014, K85,246,000 in 2015 and K112,106,000 in 2016.

Working capital is one of the most important measurements of the financial position of the company as it signifies ability to meet its financial obligations as they fail due. A negative Working Capital in this regard means that the company has liquidity problems and may not be able to finance its day to day operational costs. It further casts doubt on the Company's ability to meet is financial obligations.

iii. Return On Capital Employed (ROCE)

Return on capital employed (ROCE) is a measure of the returns that a business is achieving from the capital employed, usually expressed in percentage terms. Capital employed equals a company's Equity plus Non-current liabilities (or Total Assets − Current Liabilities). ROCE indicates the efficiency and profitability of a company's capital investments.

During the period under review, the Company's ROCE was as shown in the table below:

Return On Capital Employed	2016 K'000	2015 K'000	2014 K'000
Capital and Reserves	41,904	66,059	71,575
Non-current liabilities	419,730	420,815	367,450
Total Capital Employed	461,634	486,874	439,025
Earnings before Interest and Tax	(19,979)	(130)	(1,834)
ROCE	-4%	0%	0%

As can be seen from the table above, the Company had negative 0% in 2014 and 2015 while the ratio worsen to negative 4% in 2016. A negative ROCE means that the company was not efficiently applying its resources to generate any profits.

iv. Deteriorating Gearing Ratio (Debt-to-Equity Ratio)

The debt-to-equity ratio (debt/equity ratio) is a financial ratio indicating the relative proportion of the entity's equity and debt used to finance an entity's assets. It is also a measure of a company's ability to repay its obligations. If the ratio is increasing, the company is being financed by creditors rather than from its own financial sources. Thus, companies with high debt-to-equity ratios may not be able to attract additional lending capital. The acceptable debt-to-equity ratio ranges from 1:1 to 1:2.

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 the entity has taken.

During the period under review, the Debt to Equity Ratio of the Company was as shown in the table below.

Debt-to-Equity Ratio	2016	2015	2014
Debt (Non and Current Liabilities) (K)	636,582	601,882	600,203
Equity (Capital and Reserves) (K)	41,904	66,059	71,575
Debt/Equity Ratios	15	9	8
Gearing Ratio (%)	94	90	89

As can be seen from the table above, the Company's debt to equity had deteriorated from 8:1 in 2014 to 15:1 in 2016 while the gearing ratio increased from 89 % in 2014 to 94 % in 2016 implying that the Company's operation were mainly financed through debt. This company is highly geared and faces the risk of insolvency unless practical steps are taken to restructure its balance sheet.

d. Statement of Cash-Flows - Decrease in Cash-flow from Operating Activities

During the period under review, the Statements of Cash Flows were as shown below.

Details	2016 K'000	2015 K'000	2014 K'000
Cash inflows from operating activities			
Net Cash flow / (Out flow) from operating Activities	18,485	(46,573)	25,588
Return on Investments and Servicing of Finance			
Net Cash flow / (Out flow) from investing Activities	(28,533)	(11,553)	(96,405)
Financing Activities			
Net Cash flow / (Out flow) Financing Activities	55,787	55,787	68,401
Decrease in cash and cash equivalent	(7,682)	(3,282)	(3,285)
Cash and cash equivalent at the beginning of the Year	10,604	13,887	17,172
Cash and cash equivalent at the end of the Year	2,922	10,605	13,887

The cash flows from operating activities reduced by 28 percent from K25,588,000 in 2014 to K18,485,000 in 2016. The reduction was attributed to increased administration expenses and Non-Revenue Water. The administration expenses represented 92% and 93% of turnover in 2014 and 2016 respectively. The Non-Revenue Water also increased by 36 percent from K143,855,265 in 2014 to K196,092,932 in 2016.

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), 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. 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 2014 to 31st December 2016 revealed the following:

f. Unaccounted for Water (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).

During the period under review, NRW amounted to K467,220,394 growing from K143,855,265 in 2014 to K196,092,932 in 2016. It was further observed that NRW which averaged 57.5% of metred revenue during the period under review was above the NWASCO acceptable benchmark of between 20 – 25 %. See table below.

Details	2014 K	2015 K	2016 K	TOTAL K
Total Production - Volume	53,300,000	50,000,000	52,600,000	155,900,000
Expected Total Billing@100%	239,758,775	244,754,225	338,091,262	822,604,262
Actual Total Billing@40%,48%,42%	95,903,510	117,482,028	141,998,330	355,383,868
NRW %	60%	52%	58%	
Revenue loss on NRW	**143,855,265**	**127,272,197**	**196,092,932**	**467,220,394**

g. 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 like reconnection fees, penalties and meter charges.

During the period under review, the average collection efficiency for the Company was 69 % which was below the acceptable benchmark collection efficiency set by NWASCO at between 85 – 90 %. In this regard, amounts totalling K113,209,229 accumulated over the period under review and remained uncollected as at 31st August 2017. See table below.

Year	Total Billing (Water and Sewerage) K	Collection Rate	Amounts Collected K	Amts not Collected K
2014	95,903,510	0.74	70,968,597	24,934,913
2015	117,482,028	0.72	84,587,060	32,894,968
2016	141,998,330	0.61	86,618,981	55,379,349
Total	**355,383,868**		**242,174,639**	**113,209,229**

h. Total Costs Coverage by Total Revenue

Total revenue refers to billed amounts and does not include 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.

During the period under review, the Company could not cover its total cost by its total revenue as shown in the table below.

Year	Total Cost Covered by Total Revenue	Benchmark Total Cost Covered by Total Revenue	Status
2014	91	100	Below Benchmark
2015	90	100	Below Benchmark
2016	77	100	Below Benchmark

As can be seen from the table above, the Company did not cover its total cost covered by the total revenue collected. The total cost coverage reduced from 91% in 2014 to 77% in 2016.

i. Low Metering Ratio

Metering ratio measures the metered connections against the total connections. It is the proportion of metered connections to total connections. Metering enables a CU to measure the total amount provided and consumed and it aids charging of consumers for the water consumed. The acceptable sector benchmark is 100%.

During the period under review, the Company reported a low metering ratio as shown in the table below.

Year	Metering Ratio	Sector Benchmark
2014	63%	100%
2015	71%	100%
2016	73%	100%

The Company's failure to improve the metering ratio will impact negatively on its ability to collect revenue.

j. Casualisation of Labour

The Employment Act No. 15 of 2015, states that no employer must engage an employee on a casual basis for any job that is of permanent nature. The amended act further defines a casual employee as a person whose employment is not permanent in nature, does not require skill in the performance of their work, whose employment terms require that they are paid at an hourly rate and whose period of employment does not exceed six (6) months. The Act prohibits employers from engaging an employee for a permanent job on casual terms of employment.

However, contrary to the Act, it was observed that two hundred and twenty seven (227) casual workers had served the Company for periods ranging from one (1) to six (6) years on a temporary basis as casual workers.

k. Failure to Replace Pump - Nkana East Sewerage Treatment Works

On 2nd February 2016, Water Engineering Company Limited was engaged to supply three (3) slag return pumps at a contract sum of K354,240 for installation at Nkana East Sewerage Treatment Plant. On 25th April 2016, the supplier delivered the pumps and was paid in full on 21st June 2016.

It was however observed that one (1) of the pumps delivered costing K118,080 was of wrong specification and therefore not compatible for installation at the Treatment Plant.

As at 31st August 2017, the pump had not been replaced and the Company had not taken any action to recover the funds.

Pensions and Insurance Authority

Background

19. The Pensions and Insurance Authority was established under Section 4 of the Pensions Scheme Regulations Act No.28 of 1996 (as amended by Act No.27 of 2005) and given the mandate to administer the Pensions Scheme Regulation Act and the Insurance Act No.27 of 1997 (as amended by Act No. 26 of 2005).

Board of Directors

According to Section 6 of the Pension Scheme Regulation Act, the Board is appointed by the Minister responsible for Finance and consists of the following part-time members;

i. a representative of the Ministry responsible for finance;

ii. a representative of the Ministry responsible for labour and social security;

iii. a representative of Bank of Zambia;

iv. a representative of Zambia Association of Chambers of Commerce and Industry;

v. a representative of the Attorney General;

vi. a representative of Zambia Institute of Certified Accountants;

vii. a representative of Zambia Federation of Employers;

viii. a representative of a trade union representing workers in the insurance and pensions industries; and

ix. one other person who shall have expertise in the administration of pension funds, insurance or actuarial matters.

The Chairperson and Vice Chairperson are appointed by the Minister from among the members of the Board. According to (Section 32) First Schedule (Section 4) Part 1 of the Pension Scheme Regulation Act, a member of the Board shall hold office for a period of three (3) years from the date of appointment and shall be eligible for re-appointment for one further term of three (3) years.

Management

The Board shall, with the approval of the Minister, in consultation with the Minister responsible for Labour and Social Security appoints a Registrar who is the Chief Executive Officer of the Authority and who is subject to the control and direction of the Board, is responsible for the implementation of the decisions of the Board and the day to day administration of the Authority. The Registrar is assisted by the Deputy Registrar-Pensions, the Deputy Registrar-Insurance, the Director Corporate Services/Board Secretary, and the Finance Manager.

Source of Funds

The funds of the Authority shall consist of such money as may-

a. be appropriated by Parliament for the purposes of the Authority;

b. be paid to the Authority by way of loans, grants or donations;

c. be paid to the Authority from a levy which may be imposed on the net assets of pension funds or insurance premiums paid to insurers and re-insurers; and

d. vest in or accrue to the Authority

During the period from 2013 to 2016, the Company generated revenue in amounts totalling K123,769,520 as shown in the table below.

	2016 K'000 Draft	2015 K'000	2014 K'000	2013 K'000	Totals K'000
INCOME					
General Insurance	13,081,387	11,804,666	9,627,742	8,846,504	43,360,299
Long term Insurance	3,127,488	3,575,154	2,829,231	2,330,356	11,862,229
Pensions levies	16,396,484	17,474,465	15,352,225	12,804,682	62,027,856
Interest on staff loans	41,391	45,979	63,512	54,734	205,616
Interest on investments	2,376,092	1,031,238	637,345	1,543,029	5,587,704
Interest on bank deposits	86,571	107,545	49,685	63,633	307,434
Other income	21,209	19,465	17,303	68,438	126,415
Profit on disposal of non-current assets	10,400	202,794	57,072	21,701	291,967
Total	**35,141,022**	**34,261,306**	**28,634,115**	**25,733,077**	**123,769,520**

Review of Operations

A review of operations for the financial years ended 31st December 2013, 2014, 2015 and 2016 carried out during the period from November 2016 to February 2017 revealed the following:

a. Failure to Operationalise the Fidelity Fund Account

The Fidelity Fund was established through the Insurance Act No. 27 of 1997 (as amended by Act No.26 of 2005) by PIA to indemnify policy holders and other persons interested in insurance policies that have been prejudiced by an insurer's inability to meet its liabilities. The fund is an accumulation of license fees and investment income. As at 31st August 2017, the value of the fund stood at K8,277,921. However, contrary to Section 109 of the Insurance Act which mandates the Minister of Finance to issue a Statutory Instrument for the purpose of operationalising the Fidelity Fund, the Statutory Instrument had not yet been issued as at 31st August 2017.

b. Financial Performance - Statement of Comprehensive Income

	2016 K (Draft)	2015 K	2014 K	2013 K
INCOME	35,141,022	34,261,306	28,634,115	25,733,077
EXPENDITURE				
Administrative expenses	8,655,847	9,592,309	5,493,824	4,853,720
Staff costs	19,279,771	16,129,904	15,076,058	12,397,334
Total	**27,935,618**	**25,722,213**	**20,569,882**	**17,251,054**
Surplus	**7,205,404**	**8,539,093**	**8,064,233**	**8,482,023**

i. Profitability

The Authority's surplus decreased by 4.9% from K8,482,023 in 2013 to K8,064,233 in 2014. The surplus increased by 5.9% from K8,064,233 in 2014 to K8,539,093 in 2015. However, the surplus decreased by 15.6% from 2015 to 2016. The decrease in the surplus from 2013 to 2016 was as a result of an increase in expenses between 2013 and 2016. The increase in expenses was mainly attributed to increases in staff costs which accounted for 48%, 52%, 47% and 55% of expenses in 2013, 2014, 2015 and 2016 respectively. Further, there was an increase in income of 36.6% from K25,733,077 to K35,141,022 between 2013 and 2016 which was not proportionate to the increase in expenses of 38.3% from K17,251,054 to K27,935,618 between 2013 and 2016.

ii. Net Profit Margin Ratio

The Net Profit Margin of an entity measures the amount of revenue and other incomes it retains after all its expenses are deducted. An analysis of the profit margins for the Authority for the period under review revealed declining margins between 2013 and 2016. See table below.

Net Margin Ratio = (Profit/(Loss) for the year) / (Revenue) x 100

	2016 Draft	2015	2014	2013
Revenue (K)	35,141,022	34,261,306	28,634,115	27,733,077
Profit / (Loss) for the year (K)	7,205,404	8,539,093	8,064,233	8,482,023
Net Margin (%)	21	25	28	31

As can be seen from the table above, the Authority did not generate net profit margins in excess of 31% throughout the period under review. In 2013, the Authority's net profit margin was 31% which declined to 28% in 2014. The Authority's net profit margin further declined to 25% in 2015 and to 21% in 2016.

The decline in the net profit margins was caused by the increase in expenses which was not proportionate to the increase in revenue.

iii. Operating Expenses as a Percentage of Revenue

The Authority failed to bring operating expenses as a percentage of revenue below 79% during the period under review. See table below.

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

	2016 Draft	2015	2014	2013
Operating Expenses (K)	27,935,618	25,722,213	20,569,882	17,251,054
Revenue (K)	35,141,022	34,261,306	28,634,115	27,733,077
Operating Expenses to Revenue (%)	79	75	72	62

As can be seen in the table above, 62% of revenue generated in the year 2013 went to meet operating expenses. However, the situation did not improve in 2014 as the operating expenses increased to 72% indicating challenges in managing costs. In 2015 and 2016, the situation continued deteriorating with operating expenses increasing to 75% and 79% of revenue respectively.

c. Financial Position - Statement of Financial Position

	2016 K (Draft)	2015 K	2014 K	2013 K
ASSETS				
Non Current Assets				
Property, Plant and Equipment	**19,758,319**	**19,735,104**	**19,253,011**	**16,987,500**
Current Assets				
Customer control account	19,030,833	19,037,149	14,736,174	13,364,708
Other receivables	2,424,968	2,276,486	2,808,448	2,208,275
Cash and cash equivalents	27,489,687	15,654,979	9,812,001	4,948,381
	48,945,488	**36,968,614**	**27,356,623**	**20,521,364**
TOTAL ASSETS	**68,703,807**	**56,703,718**	**46,609,634**	**37,508,864**
CAPITAL RESERVES AND LIABILITIES				
Capital and Reserves				
Accumulated Surplus	57,225,945	50,020,541	41,481,448	33,446,988
Pension registration fees	3,285,843	2,631,923	1,223,286	1,091,814
	60,511,788	**52,652,464**	**42,704,734**	**34,538,802**
Non-Current Liabilities				
Employee benefit obligations	3,900,406	1,217,983	1,085,781	322,966
Total non-current liabilities	**3,900,406**	**1,217,983**	**1,085,781**	**322,966**
Current Liabilities				
Trade and other payables	4,158,613	2,700,271	2,686,119	2,514,096
Provisions for damages	133,000	133,000	133,000	133,000
Total current liabilities	4,291,613	2,833,271	2,819,119	2,647,096
Total Equity and Liabilities	**68,703,807**	**56,703,718**	**46,609,634**	**37,508,864**

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

i. Failure to Collect Pension and Insurance Levies

According to SI 100 of 2007, a pension scheme, insurance company or a person whose premium or source for the premium is obtained from a business carried out in Zambia is required to pay a levy on the net assets of pension funds.

A scrutiny of the Authority's receivables revealed that there was an increase of 42% of trade receivables from K13,364,708 in 2013 to K19,030,833 in 2016. The increase in trade receivables implied that Pension Schemes and Insurance Companies delayed in paying the Pension and Insurance Levy. Included in the receivables figure were debts in amounts totalling K6,856,490 which had been outstanding for periods exceeding one (1) year as at 31st December 2016.

ii. Receivable Turnover Days

Statutory Instrument (SI) 100 of 2007 states that the pension and insurance levy shall be computed on quarterly accounts and paid to the Authority within sixty (60) days after the end of each quarter.

However, the receivables turnover days for the period under review ranged from 190 days to 203 days which was above the approved limit of sixty (60) days. See table below.

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

	2016 K	2015 K	2014 K	2013 K
Revenue	35,141,022	34,261,306	28,634,115	25,733,077
Trade Receivables	19,030,833	19,037,149	14,736,174	13,364,708
Receivables Turnover Days	198	203	188	190

d. Irregular Payment of Procurement Committee Allowances

Contrary to Cabinet Office Circular No. 11 of 2013 which abolished the payment of allowances to officers in the public service, amounts totalling K123,362 were paid to PIA Staff who sat on the Procurement Committee during the period under review.

e. Management of Loans – House Loans

The Pensions and Insurance Authority disburses multi-purpose, car and house loans to applicant employees at an interest rate of 5 percent on the outstanding balance. According to the loan policy approved in 2010 and the loan agreement forms, an employee shall maintain 25 percent of gross pay as take home in order to qualify for the loans.

The maximum house loan payable is 300% of one's annual gross pay at 5% interest for a maximum repayment period of 10 years for grade 4 and a maximum of 400% of one's annual gross pay for grades 5 to 10, and for those on contract the period shall be within their contract.

The following conditions on house loans among others, shall be followed;

- Insurance to be taken on the loan and to be incurred by the applicant
- Up to 10 years recovery period but within the retirement age of 55 years
- Property to be secured by the Authority-Custody of original title documents-all original title documents for property shall be surrendered to the Authority immediately after acquisition of property until final balance is settled.

The following were however, observed:

i. **Lack of Insurance Cover on House Loans**

Section 8 of the House Loan Agreement stipulates that the employee shall ensure that the purchased house is comprehensively covered with respect to insurance. In addition, insurance should be taken on the loan and to be incurred by the applicant. However, it was observed that no insurance was taken on the house loans issued to officers amounting to K1,280,000 and the properties pledged as security were not comprehensively insured.

ii. **Failure to Surrender Original Title Documents**

Titles deeds for properties for two (2) officers who obtained loans totalling K390,000 had not been secured by PIA management contrary to Section 5 of the House Loan agreement. It was observed that the officers only submitted photocopies of the title deeds to the Authority and the original title deeds had not been submitted as at 31st August 2017.

iii. **Failure to Provide Collateral Equivalent to House Loans Obtained**

It was observed that amounts totalling K470,000 paid to two (2) PIA staff as transactions were not adequately covered by the collateral surrendered to the Authority. The value of the properties used as collateral was only K295,000.

f. **Lack of Adequate Monitoring and Enforcement of Law**

Visits undertaken to fourteen (14) Pension Scheme Sponsors and five (5) Insurance Brokers, in February 2017, revealed that there was inadequate Monitoring and Supervision of the Insurance entities and the Pension Scheme Sponsors. In particular the following were observed:

i. **Failure to Prepare Financial Statements**

Section 45 (2) and (3) of the Insurance Act of 1997 states that an insurer shall, within ninety days after the end of each financial year, cause to be prepared in accordance with the regulations audited accounts which have been properly prepared in accordance with the regulations; and give a true and fair view of the state of the insurer's insurance business in that financial year. It was however observed that two (2) Insurance Brokers had not prepared and submitted financial statements for the year ended December 2016 to the Pensions and Insurance Authority as at 31st August 2017.

ii. Failure to Prepare Fourth Quarter and Annual Returns

Section 21 (7) of the Insurance Act states that a broker shall prepare, a statement, duly signed, to the registrar as at 31st March, 30th June, 30th September and 31st December of each year, within two (2) months after the end of the period to which it relates. However, it was observed that one insurance broker had not prepared both 2016 fourth quarter and annual returns as at 31st August 2017.

In addition, one insurance broker had not prepared 2016 fourth quarter returns while another broker had not prepared 2016 annual returns as at 31st August 2017.

iii. Failure to Adequately Protect Members Interest

According to Sections 5 (1) 'c' and 'd' of the Pensions Scheme Regulation Act No. 28 of 1996, the Pensions and Insurance Authority is responsible for regulating and supervising the establishment and management of occupational pension schemes and insurance businesses, and protecting the interests of members and sponsors of occupational pension schemes and shareholders and policy holders.

However, visits to three (3) pension scheme sponsors revealed the following:

- **Luapula Water and Sewerage Company Ltd Pension Trust Scheme**
  - The scheme had outstanding remittances of pension contributions to ZSIC Life Limited amounting to K 842,452 as of March 2017.
  - Despite the recoveries of pension contributions from the members' salaries, remittances of funds were in arrears of more than one (1) year.
- **Tazara Pension Trust Scheme**
  - The scheme had not remitted any funds to ZSIC Life Limited during the period under review despite deducting pension contributions from staff amounting to K675,737 during the period from January 2013 to March 2015.
  - The scheme was owing amounts totalling K57,072,216 to retirees for the period from 2013 to 2016.

- **National Heritage Conservation Pension Trust Scheme**

  It was observed that although amounts totalling K608,597 had been deducted from staff as pension contributions during the period from 2007 to 2010, the funds had not been remitted to ZSIC Life Limited.

As at 30th September 2017, the Authority had not taken action against the various institutions mentioned above to ensure that the outstanding amounts are liquidated.

Public Service Pensions Fund

Background

20. The Public Service Pensions Fund was established by the Public Service Pension Act No.35 of 1996, Cap 260. This is an Act to consolidate the law relating to pensions and other benefits for persons employed in the Public Service and to provide for matters connected therewith or incidental to such consolidation.

The Public Service Pension Fund (PSPF) is a funded defined benefit pension scheme, which provides retirement pensions to permanently employed civil servants and dependent survivors' benefits. Other functions include the provision of Mortgages under the home ownership scheme to its members.

As of February 2000, the Pension Scheme was closed to new entrants except for employees of the Defence and Security Forces.

Board of Directors

According to part II subsection 3 and 4 of the Public Service Pensions Act No. 35 of 1996, the fund is governed by a Board of Directors consisting of not less than thirteen (13) members of which two (2) are appointed by the Republican President. The Republican President also appoints the Chairperson of the Board from among the Directors.

The board members of the Fund are drawn from the following institutions; Ministry of Labour and Social Security, Public Service Management Division, Ministry of Finance, Attorney General's Office, Association representing retired pensionable public employees, Defence Forces, Security Services, Chambers of Commerce, National Union of Teachers, Civil Servants Union of Zambia and the Lusaka Stock Exchange.

Management

The day to day administration of the Fund is the responsibility of the PSPF Executive Management comprising of the Chief Executive who is appointed by the Board of Directors and is also the Secretary of the Board. The Chief Executive is assisted by the Finance Manager, Operations Manager, Investment Manager and other support staff.

Sources of Funds

According to the provisions of the Act, the sources of funds for the Fund include, among others, such sums of money as may:

- Be payable to the Fund from time to time from moneys appropriated by Parliament.
- Be received from contributions made by permanently employed civil servants and corresponding contributions from the employer (Government).
- Accrue from investment activities carried out by the Fund i.e. Long term and short term investments.
- Accrue to or vest in the Fund from time to time, whether in the course of the exercise of its function or otherwise.

During the period under review, the Fund received amounts totalling K7,196,013,892 as shown in the table below.

FUNDING	2016 K	2015 K	2014 K	2013 K	2012 K	Total K
Contribrutions Receivable Employer	395,829,660	370,056,868	372,511,134	292,353,391	241,300,774	1,672,051,827
Contributions Receivable Employee	397,932,412	366,600,918	368,760,059	291,233,423	243,727,750	1,668,254,562
Interest on Outstanding Contributions		41,321,301	21,182,606	9,658,379	9,868,055	82,030,341
Government Grants	254,750,000	234,082,005	254,074,234	235,705,391	230,361,853	1,208,973,483
Financing Gap	209,591,257	434,287,878	366,716,250	398,426,064	487,878,778	1,896,900,227
Net Income from Investing Activities	46,012,150	181,930,415	177,184,995	158,910,030	71,963,470	636,001,060
Other Income	4,261,944	3,283,119	5,063,715	11,207,701	7,985,913	31,802,392
TOTAL	**1,308,377,423**	**1,631,562,504**	**1,565,492,993**	**1,397,494,379**	**1,293,086,593**	**7,196,013,892**

Review of Operations

A review of operations for the financial years ended 31st December 2012,2013,2014,2015 and 2016 carried out during the period from December 2016 to August 2017 revealed the following:

a. Governance and Management of the Fund

i. Unlimited Tenure of Office – Board Members

According to the Public Service Pension Act no.35, the Board of Directors had unlimited tenure. Further, the PSPF Board Charter states that the Directors may serve for a three year term and may retire upon serving two terms unless they continue serving by virtue of their employment / position in employment.

It was observed that two (2) Board members that were eligible to serve for two (2) terms had served for more than three (3) terms. See table below.

Representative Institution	Date of Appointment	Served as at 31st August 2017	Status as at 31st August 2017
Presidential Appointment	25/04/2007	10 Years	Still Serving
Presidential Appointment	Apr-05	12 Years	Still Serving

Further, three (3) Board members by virtue of their employment had served on the Board for periods ranging from seven (7) to thirteen (13) years as shown in the table below.

Representative Institution	Date of Appointment	Period Served as at 31st August 2017	Status as at 31st August 2017
General Secretary ZNUT	23/03/2009	8 Years	Still Serving
National Secretary ZANAPA	20/07/2011	13 Years	Still Serving
General Secretary CSAWUZ	14/01/2011	7 Years	Still Serving

ii. Excessive Number of Board Meetings

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

Details	Total	2016	2015	2014	2013
Ordinary Board Meeting	17	6	4	3	4
EOB Meetings	74	19	31	14	10
Staff Admin Committee	55	4	22	13	16
Other Board Meetings	101	14	25	30	32
Total No. of Meetings	**247**	**43**	**82**	**60**	**62**
Total Cost (K)	**8,817,846**	**3,276,946**	**2,366,700**	**1,826,738**	**1,347,462**

b. Financial Statements

i. Under Funding of the Fund

In the Estimates of Revenue and Expenditure for the financial years ended 31 December 2012 to 2016, a total budget provision of K3,985,818,954 was made to cover grants and dismantling of arrears (Financing gap) against which amounts totalling K3,105,873,728 were released resulting in an under funding of K879,945,226.

ii. Inadequate Dependency Ratio

The dependency ratio measures how sustainable the Fund is by comparing the number of pensioners against the number of contributing members to the Fund. The acceptable standard dependency ratio for the Fund to operate and meet its benefit obligations to pensioners is one (1) pensioner to be supported by at least five (5) contributing members (1:5). As can be seen from the table below, the number of contributing members declined by 5,240 from 97,471 in 2012 to 92,231 in 2016 while that of the pensioners increased from 54,823 to 59,885 during the same period.

As shown in the table below, the dependency ratio for the period from 2012 to 2016 was below the acceptable ratio of 1:5.

PSPF Membership	2016	2015	2014	2013	2012
Contributing Members	92,231	93,060	92,510	94,538	97,471
Pensioners	59,885	52,552	53,282	57,720	54,823
Total Membership	**152,116**	**145,612**	**145,792**	**152,258**	**76,147**
Dependence Ratio (Contributor/Pensioner)	1:1.50	1: 1.77	1: 1.74	1: 1.64	1: 1.78

iii. Decline in Net Assets Available for Benefits

Net assets available for benefits during the year represents resources available to pay pensioners' benefits for the respective financial year ends. However, a review of the statement of changes in net assets revealed that the institution recorded decrease/deficits in net assets for the financial years ended 31st December 2013, 2014, 2015 and 2016 in amounts totalling K254,256,088, K3,752,034, K252,312,336 and K135,042,000 respectively. This resulted in a decline of net assets available for benefits from K748,869,551 in 2012 to K218,724,016 in 2015 representing a percentage fall of 455%. The decline in Net Assets Available for Benefits can be attributed to a sharp increase in Benefits Payable which increased by 52% from K871,009,000 in 2012 to K1,804,285,000 in 2015 which was not in proportion with total income. The total income only increased by 21% from K1,293,086,000 in 2012 to K1,631,562,000 in 2015. See table below.

Statement of Changes in the Net Assets	2016 K'000	2015 K'000	2014 K'000	2013 K'000	2012 K'000
Income from dealngs with members	1,262,365	1,449,632	1,388,308	1,238,584	1,221,123
Returns on Investments	104,443	181,930	177,185	158,801	71,963
Total Income	**1,366,808**	**1,631,562**	**1,565,493**	**1,397,385**	**1,293,086**
Benefits Payable	(1,311,611)	(1,804,285)	(1,493,741)	(1,583,259)	(871,009)
Administrative and Other Expenses	(97,038)	(79,590)	(75,504)	(68,383)	(64,069)
Total Expenditure	**(1,408,649)**	**(1,883,875)**	**(1,569,245)**	**(1,651,642)**	**(935,078)**
Increase(Decrese) in Net Assets for the Year	**(41,841)**	**(252,313)**	**(3,752)**	**(254,257)**	**358,008**
Net Assets/(Liabilities) available for benefits at start of the Year	176,883	471,036	474,788	729,044	390,861
Net Assets available for benefits at end of the Year	**135,042**	**218,723**	**471,036**	**474,787**	**748,869**

iv. Mismatch in Growth of Income from Member Contributions and Benefits Payable

For the period between 2012 to 2016, the benefits payable to the pensioners increased from K871,008,995 to K1,311,610,962 representing 51% increase whereas income from member contributions only increased by 3% from K1,221,123,123 in 2012 to K1,262,365,291 in 2016 thereby significantly contributing to a reduction of funds available to pay pensioners. See table below.

Statement of Changes in the Net Assets available for	Percentage Growth	Increase K'000	2016 K'000	2012 K'000
Income from Contributing Member	3%	41,242	1,262,365	1,221,123
Benefits Payable	51%	440,601	1,311,610	871,009

Further, it was observed that 71% of income from member contributions in 2012 went towards financing of benefits payable in 2012 where as for the period between 2013 to 2016 the income raised from dealings with members was not adequate to finance the benefits payable in that the benefits payable were in excess of total income from member contributions by 28%, 8%, 24% and 4% for the financial years ending 2013, 2014 and 2015 respectively. See table below.

Statement of Changes in the Net Assets Available for Benefits	2016 K'000	2015 K'000	2014 K'000	2013 K'000	2012 K'000
Income from Member Contributions	1,262,365	1,449,632	1,388,308	1,238,584	1,221,123
Benefits Payable	1,311,610	1,804,285	1,493,741	1,583,259	871,009
Supplas / (Deficit)	(49,245)	(354,653)	(105,433)	(344,675)	350,114
Percentage	**4%**	**24%**	**8%**	**28%**	**-29%**

v. Government Indebtedness- Pension Contributions

A review of the scheme's financial statements and correspondence between the Ministry of Finance and the Fund revealed that the Government owed the Fund K106,854,740 in 2012, K79,363,925 in 2013, K243,935,380 in 2014 and K337,553,303 in 2015 in respect of pension contributions, less interest, for both employer and employee.

As at 31st August 2017, the debt was K448,020,942 with interest charges amounting to K44,944,238 bringing the total debt to K492,965,180.

c. Operational Performance

i. Irregular Inclusion of Members to the Fund After Enactment of the NAPSA Act

In February 2002, the National Pension Scheme Authority (NAPSA) was formed, through an Act of Parliament which required among others, all public employees except members of the defense forces, engaged after February 2000, to belong to the scheme.

Contrary to the above requirement, the PSPF had introduced 29,996 new public service workers as members of the Fund between March 2000 and June 2015 who were not exempted by the NAPSA Act.

ii. Failure to Obtain Payment Schedules for Non-Account Holders

The PSPF pays out monthly pensions or annuities to retirees through financial institutions such as Banks, Building Societies and Zambia Postal Services. These funds are eventually paid to the beneficiaries through Direct Debit and Credit Clearing (DDACC) to account holders. Members who do not have bank accounts receive their monthly annuities over the counter from their respective registered paying Bank/Agents. In view of Non-Account holder members PSPF signed Memoranda of Understanding (MoU) with Bank/Agent, the Banks/Agents were to return all unclaimed pension monies for a period of six (6) months and payment schedules on which non account holding members had signed to PSPF.

However, contrary to the MoUs, five (5) Banks/Agents did not submit payment schedules to the Fund. In this regard, it could not be established whether the funds remitted to paying Agents for non-account holder in amounts totalling K13,240,988 were actually paid to the intended pensioners.

iii. Delayed Payment of Lump Sum

An analysis of lamp sum payment file revealed that the Fund had 1,952 cases that had taken more than twelve (12) months to process.

iv. Actuarial Reports 2012 and 2014 Analysis

According to Section 25 (1-3) of the Public Service Act, the Fund shall be valued by an actuary at intervals not exceeding three (3) years. The objective of the valuation is to access the performance of the Fund with regard to whether any surplus or deficiency is recorded among others. Depending on the outcome, the Board may cause the rates of the contribution payable by members to be increased or reduced. The Act further provides that the Actuary shall submit any report prepared by him to the Board which shall forthwith forward a copy to the President.

During the period under review, the Fund underwent two actuarial valuations, as at 31st December 2012 and as at 31st December 2014 at a combined total cost of K995,966. The objective of the actuarial contract were to:

- To assess the ongoing financial position of the Fund. In particular, to assess whether the Fund's assets adequately cover the accrued liabilities as at the valuation date and whether future contributions adequately cover the cost of benefits that will accrue after the valuation date;
- To assess the contribution rate required to fund for the liabilities accruing after the valuation date; and
- To make recommendations regarding any deficit that exists as at the valuation date.

The following were however observed from the results of both valuations:

i. Growing Financial Deficit of the Fund

A review of the Actuarial Report for the year ended 31st December 2014 revealed that the Fund is in a severely financially unsound position and that urgent action plan was required to remedy the situation. The valuation reveals that the Fund had a deficit of K41,174 million which represented an increase of 69 percent from a deficit of K24,633 million recorded in 2012. This deficit implied that the Fund is unable to meet its future financial obligation (paying pension benefits) to its members. See table below.

Actuarial Valuation of the Fund	31-Dec-14	31-Dec-12	Percentage
	Kmillion	Kmillion	Change
Actuarial Value of Assets	471	303	55%
Actuarial Liability	41,645	24,633	69%
Actuarial Suplus / (deficit)	(41,174)	(24,330)	69%
Funding of Deficit (Financing Gap)	621	718	(14%)
Percentage of Funding to Deficit	(-2)	(-3)	(49%)

ii. Failure to Adjust Contribution Rates

A review of the Actuarial Reports revealed that the total contribution rate required to cover the cost of benefits accruing in the future was 38.6% of pensionable salary as at 31st December 2012 while as of 31st December 2014, the rate needed to cover costs of pension benefits increased by 3.2 percent to 41.8 percent.

Future service required contribution rate of Pensionable Income	31-Dec-14	31-Dec-11
Total required contribution rate	41.80%	38.60%
Member contribution rate	7.50%	7.50%
Required employer contribution rate	34.30%	31.10%
Actual Employer Contributions	7.50%	7.50%
Deficit in Current Contributions	26.80%	23.60%

As can be seen from the table above, the recommended contribution rate in accordance with the actuarial reports as at 31st December 2014 was 41.80%. It was however observed that during the period under review, the members and the employer were only contributing 7.25% of pensionable salaries translating into current deficit in contributions of 26.8%. The total contributions being received of 14.5% of pensionable salaries for both the member and employer are therefore significantly below the required contributions.

iii. Failure to Finance Actuarial Deficit

Normally a pension fund would fund a deficit by means of additional contributions or a lump sum from the sponsoring employer or by means of benefit reductions or both. According to the Actuarial Report for the financial year ended 31st December 2014 recommendations, in order to ensure that the Fund be able to continue to pay the promised benefits over the long term, the deficit can either be removed by a lump sum payment of the total deficit of K41.174 billion plus interest from the valuation date to the actual date of payment) or can be removed by making additional contributions over time.

However, a review of financing gap from the Fund sponsor (Government) compared to benefits payable during the period from 31st December 2014 to 31st December 2016 revealed that the Fund was unable to cover its benefit obligation from financing gap from the sponsor as shown in the table below.

Details	2016 (K'000)	2015 (K'000)	2014 (K' 000)
Actual Financing Gap by GRZ	209,591	434,289	366,716
Benefits Payable	(1,311,611)	(1,804,285)	(1,493,741)
Deficit	(1,102,020)	(1,369,996)	(1,127,025)
Financing Deficit	84	76	75

As can be seen from the table above, the Funds deficit had continued to grow on an annual basis thereby worsening the actuarial deficit.

d. Investment Management and Performance

i. Investment in Excess of 20% of Net Asset Value

According to Section 29 of the Public Service Pensions Act, the Board may invest any moneys of the Fund not required to meet the current charges upon the Fund in any of the following ways.

- In any interest bearing account or institution which is governed by any written law of Zambia
- In stocks, securities or funds issued by or on behalf of the Government or in stocks, securities or funds guaranteed by the Government.

- In such other investment as may be approved generally or specifically by the Board.

However, the Board shall not invest assets in excess of twenty percent (20%) of its net asset value in any one form of investment.

It was however observed that, during the period from 2013 to 2015, the Fund had invested pension funds in excess of 20% of its net assets in five investment portfolios as shown in the table below.

Asset Investment in excess of 20% of Net Asset Value

Details	2015 K000		2014 K000		2013 K000		2012 K000	
Asset Potifolios	**Investment Amounts**	**% of Net Assets**	**Investment Amounts**	**% of Net Assets**	**Investment Amounts**	**% of Net Assets**	**Investment Amounts**	**% of Net Assets**
Equity Investments	293,201	134%	325,569	69%	277,209	58%	185,810	25%
Investment Property	127,192	58%	109,823	23%	105,766	22%	99,500	14%
Fixed Term Deposits	366,027	167%	290,434	62%	186,778	39%	175,515	24%
Microfanance	244,112	112%	212,316	45%	132,722	28%	26,465	4%
Home Finance	199,173	91%	177,998	38%	173,112	36%	199,032	27%
Total Assets	**1,229,705**		**1,116,140**		**875,587**		**686,322**	

ii. Equity Investments

A review of the investment annual reports for the period under review revealed that the Fund maintained an equity portfolio in seven (7) companies. According to the reports, the annualised effective return was as shown in the table below;

Equity Portifolio Performance

Year	Opening Balance	Closing Balance	Capital Gain / (loss)	Dividends / Interest	Total Income	Annualised Effective Return
2012	293,201,412	186,440,057	-106,761,355	7,511,202	-99,250,153	-45%
2013	185,808,338	279,638,939	93,830,601	12,560,621	106,391,222	57%
2014	279,638,939	333,156,386	43,254,635	13,540,673	56,795,308	20%
2015	325,568,793	293,201,412	-32,367,381	8,848,750	-23,518,631	-7%
2016	293,201,412	186,440,057	-106,761,355	7,511,202	-99,250,153	-45%
Average	**275,483,779**	**255,775,370**	**-21,760,971**	**9,994,490**	**-11,766,481**	**-4%**

The following was however observed:

- **Poor Performance of the Equity Portfolio**

  The average annualised effective return on the Equity Portfolio investment was reported at negative 4% which was less than the average annual inflation rate of 10.19% during the period under review.

- **Capital Loss on Equity Portfolio Investments – 2015 and 2016**

  The Fund Equity investment in various companies was eroded by Capital losses in amounts totalling K17,343,569, despite receiving dividends and interests over the period under review in amounts totalling K51,512,069. This resulted in a reduced total income of K34,168,500. However, a scrutiny of total income or loss in the equity investment revealed that the Funds income had reduced from K106,391,222 in 2013 to negative K116,219,960 in 2016. See table below.

Year	Opening Balance K	Closing Balance K	Capital Gain / (loss) K	Dividends / Interest K	Total Income K
2012	186,516,379	185,808,338	(708,041)	8,724,823	8,016,782
2013	185,808,338	279,638,939	93,830,601	12,560,621	106,391,222
2014	279,638,939	325,597,353	45,958,414	13,540,673	59,499,087
2015	325,568,793	293,201,412	(32,367,381)	8,848,750	(23,518,631)
2016	293,201,412	169,144,250	(124,057,162)	7,837,202	(116,219,960)
Total			**(17,343,569)**	**51,512,069**	**34,168,500**

iii. Failure to Turn Around Investment in Bisonite Zambia Limited

In Paragraph 15 of the Report of the Auditor General on the Accounts of Parastatal Bodies for the year ended 31st December 2011, mention was made of the PSPF's questionable investment in a private limited company, P G Bisonite.

It was mentioned in particular that the PSPF's continued investment in P G Bisonite was contrary to its mandate to ensure that the Fund is financially healthy by investing the contributions made by the members and on behalf of the members in viable projects that ensure a return on investments.

On 27th March 2012, the Board of Directors resolved to devise an exit strategy from this investment by revamping its operations within twelve (12) months. In this regard, a K2,006,778 (US$400,000) loan was approved to finance working capital and liquidate salary arrears.

A review of the situation in August 2017, revealed that the PSPF had not derived any returns and as at 31st August 2017 had not exited from the failed investment.

iv. Poor Management of Investment Properties

The Fund owns and manages twenty seven (27) properties situated in various residential and commercial areas within Lusaka that it offers for rent to both individuals and organisations.

The following were observed:

- **Weaknesses in the Collection of Rental Income**

  During the period under review, the Fund earned amounts totalling K19, 918,634 in respect of rental income out of which amounts totalling K17,447,240 were collected resulting in an average collection efficiency of 88 percent.

  It was however observed that, the collection efficiency had declined by 19 percentage points from 98 percent in 2012 to 79 percent in 2016. See table below.

Year	Earned Amount K	Collected Amount K	Uncollected Amount K	Collection Efficiency in %
2013	4,642,371	4,535,071	107,300	98
2014	4,657,350	4,031,245	626,105	87
2015	5,392,045	4,753,457	638,588	88
2016	5,226,868	4,127,467	1,099,401	79
Total	**19,918,634**	**17,447,240**	**2,471,394**	88

  It was further observed that 57% of the outstanding debt was owed by three (3) government institutions.

e. Irregularities in the Procurement of Standby Generator

On 28th May 2013, Savenda Zambia Limited was engaged to supply, install and commission 300KVA Standby Generator at a contract sum of K128,384 with a delivery period of four (4) to six (6) weeks. The installation of the equipment was to be done within two (2) weeks after delivery.

The terms of payment were as follows:

- ten (10) percent on signing the contract
- eighty (80) percent on receipt of the goods
- ten (10) percent after the date of acceptance of the goods

As at 31st August 2017, the contractor had been paid amounts totalling K115,546 representing 90 percent of the contract sum.

The following were observed:

- The Generator was only delivered in May 2014, forty six (46) months after the expected date of delivery.

- The contractor supplied a generator with wrong specifications as a 160KVA generator was supplied instead of a 300KVA generator.

As a result of the contractor's failure to meet the contractual obligations, on 15th August 2015, the Fund filed a claim in the Courts of Law so as to seek relief which included the refund of the 90 percent payment made, associated legal costs, interest on the payment made and any other relief that the Courts would deem necessary. However, at an Ordinary Procurement Committee meeting held on 11th November 2015, the committee resolved that the case be withdrawn so that the Fund could retain ownership of the generator with a view of disposing it of by public auction, to recoup the money paid on the generator. In this regard, following the auctioning of the generator, only K58,208 was recovered resulting in a loss of K57,338. The rationale to withdrawal the case from the courts of law was therefore questionable.

f. Decentralisation of PSPF Offices - Poor or No Connectivity in Decentralised Offices

On 12th September 2013, PSPF signed MOUs with Zambia National Pensioners Association (ZANAPA), Civil Servants and Allied Workers Union of Zambia (CSAWUZ) and Zambia National Union of Teachers (ZNUT) aimed at decentralising some work processes to various districts in order to improve access to pension services such as reduction of congestion at Head Office, improvement of access to service delivery and reduction of cost and inconvenience to clients travelling to Lusaka to follow up their cases. Further, the electronic payment system was also decentralised to various commercial banks and Post Offices that are closer to the Locality of PSPF clients. As at 31st December 2013, PSPF had nineteen (19) offices in ten (10) provinces.

A visit to decentralised offices in various districts revealed that although the procured Information and Communication Technology (ICT) equipment ranging from desk tops, servers, modems and telephone handsets to enable districts to access the central server from remote stations, it was however observed that all districts were unable to connect to the central server at the Fund headquarters in Lusaka. Further, enquiries with officers in the districts revealed that equipment had never provided access to the central server since they were installed in 2011.

Other observations are as tabulated below.

No	District	Organisation	Findings
1	**Kaoma**	**ZANAPA**	• Lack of Internet Connectivity for over one year • Lack of Telephone Communication for over one year • Lack of feedback from HQ on processed cases • Lack of prepaid envelopes for submitting cases to Head Office
2	**Mongu**	**CSAWUZ**	• Lack of Internet Connectivity for over one year • Lack of Telephone Communication for over one year
2		**ZANAPA**	• Lack of Internet Connectivity for over one year • Lack of Telephone Communication for over one year
3	**Sesheke**	**CSAWUZ**	• Lack of Internet Connectivity for over one year • Lack of Telephone Communication for over one year
4	**Livingstone**	**ZNUT**	• Lack of Internet Connectivity • Lack of Telephone Communication since 2013 • Lack of feedback from HQ on processed cases • Faulty UPS • Lack of prepaid envelopes for submitting cases to Head Office • Pensioners had challenges accessing the PSPF offices located on higher floors (6th Floor) as the elevator was not operational.
5	**Choma**	**ZANAPA**	• Lack of Internet Connectivity • Lack of feedback from HQ on processed cases • No photocopier • Vast catchment areas (Namwala, Sinazongwe, Chikanta, Pemba, Kalomo, Maambo and Chikankata)

			• Delay in change of pay points from Savings to Pension Accounts • Faulty UPS • Lack of prepaid envelopes for submitting cases to Head Office
6	**Petauke**	**CSAWUZ**	• Lack of Internet Connectivity since 2014 • Photocopier not functional since 2014 • Fax Machine not functional since 2009 • Water and electricity Bills have never been paid since 2014 • Lack of prepaid envelopes for submitting cases to Head Office
7	**Chipata**	**ZNUT**	• Challenges in accessing the database/system online despite there being internet connectivity. • Computer still using outdated operating system (Vista) • Feedback from HQ on submitted cases taking too long • Lack of prepaid envelopes for submitting cases to Head Office • Pensioners had challenges accessing the PSPF offices as they were located on higher floors (2nd Floor).
8	**Lundazi**	**ZNUT**	• Lack of telephone communication since January 2016 • Photocopier not functional • Challenges in accessing the database/system online despite there being internet connectivity • Computer using outdated operating system (Vista) • Lack of prepaid envelopes for submitting cases to Head Office
9	**Chinsali**	**CSAWUZ**	• Lack of Internet Connectivity since January 2014 • Lack of telephone communication since January 2013 • Photocopier not functional since 2014 • Non Functional Computer

No	District	Organisation	Findings
10	**Mpika**	**ZNUT**	• Lack of internet connectivity since January 2014 • Lack of telephone communication since 2014 • Lack of prepaid envelopes for submitting cases to Head Office
11	**Kasama**	**ZNUT**	• Lack of internet connectivity since January 2015 • Lack of telephone communication since January 2015 • Photocopier not functional since 2014 • Non Functional computer since December 2016 • Lack of prepaid envelopes for submitting cases to Head Office • Pensioners had challenges accessing the PSPF offices as they were located on higher floors (2nd Floor)
12	**Mansa**	**ZANAPA**	• Lack of internet connectivity • Lack of feedback from HQ on submitted cases • Lack of prepaid envelopes for submitting cases to Head Office
13	**Ndola**	**ZANAPA**	• Lack of internet connectivity since 2004 • Lack of prepaid envelopes for submitting cases to Head Office
14	**Kabwe**	**ZNUT**	• Challenges responding to clients cases from far areas due to limitation of PSPF operation to one day only per week • Non procurement of stationery for the office since 2016 • Offices are difficult to access by the pensioners as they are located on the second floor. Further, there is no provision for the physically challenged to access the offices.

The Road Transport and Safety Agency

Background

21. The Road Transport and Safety Agency was established under Section 3 of the Road Traffic Act No.11 of 2002 which repealed the National Road Safety Council Act and Parts V to XIV of the Road and Road Traffic Act and vested all the affairs of the National Road Safety Council and the Road Traffic Commission in the Road Transport and Safety Agency (RTSA). RTSA commenced operations on 14th May 2004 and defined its functions in relation to road safety, as the provision of a system of the road safety and traffic management; and promotion of road safety.

The purpose of the Road Transport and Safety Agency is to contribute to national economic development through the implementation of Government policy on road transport, traffic management and road safety. Some of its strategic objectives are as follows:

i. To effectively implement policy on transport, traffic management and road safety,

ii. To conduct effective road safety education,

iii. To coordinate road safety programmes effectively,

iv. To approve and monitor the effectiveness of road safety programmes undertaken by anybody, person or institution, and

v. To effectively formulate and conduct programmes to promote road safety in conjunction with stakeholders.

Board of Directors

The Road Transport and Safety Agency (RTSA) is managed by a Board of Directors in accordance with Act No. 11 of 2002 whose role is to effectively govern the affairs of RTSA for the benefit of its shareholders, and other constituencies, which include the Agency's employees, clients and the entire public with whom it does business.

The Board Chairperson is appointed by the Minister of Communication and Transport who represents the shareholders, the Government of the Republic of Zambia; and the vice chairperson is appointed by the members from among themselves. The members are nominated by their respective organisations and ministries. The members shall hold office for a period of three (3) years from the date of appointment and shall be eligible for re-appointment for one further term of three (3) years.

The Board consists of:

- A representative of the Pensions and Insurance Authority,
- A representative of the Passengers, Pedestrians and Cyclists Association,
- A representative of persons with disabilities recommended by the Ministry responsible for community development and social welfare,
- A representative of the Chartered Institute of Transport,
- A representative of Passenger Transport Association,
- A representative of the Truckers Associations,
- A representative of the Medical Council of Zambia,
- A representative of the Attorney General,
- A representative of the Ministry responsible for Communications and Transport,
- A representative of the Ministry responsible for Home Affairs,
- The Director of the Road Development Agency,
- The Director of the National Road Fund Agency, and
- One other person.

The members of the Board are appointed by the Minister responsible for Communication and Transport.

The Agency has four (4) sub-committees of the Board namely Technical Committee, Finance and Administration Committee, Audit Committee and Executive Committee.

Management and Staff

The day to day operations of RTSA is the responsibility of the Director and Chief Executive Officer who is assisted by the Deputy Director for Transport, Deputy Director for Safety and five (5) Heads of Department namely Road Safety, Road Transport, Finance and Administration, Internal Audit and Information Technology. The Agency also appoints, with the approval of the Minister responsible for Communications and Transport, such other staff as it considers necessary for the performance of its functions under the Road Traffic Act. The Director and all Staff are appointed on renewable three (3) year contracts except for the staff in grade RTSA 7 to RTSA 9 which includes assistant examiners, clerk office orderlies, drivers and watchmen who are appointed on a permanent basis.

Sources of Income

According to the first schedule Part II clause 9 of the Act, the funds of the Agency shall consist of such moneys as may:

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

Funding

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2013 to 2016, a total provision of K280,259,000 was made to cater for salaries and personnel related expenses against which amounts totalling K274,408,000 were released resulting in an under funding of K5,851,000 as shown in the table below.

Year	Authorised Provision K	Actual Releases K	Over/ (Underfunding) K
2016	69,647,000	64,353,000	5,294,000
2015	70,204,000	70,204,000	-
2014	70,204,000	70,204,000	-
2013	70,204,000	69,647,000	557,000
Total	**280,259,000**	**274,408,000**	**5,851,000**

In addition, RTSA made provisions in amounts totalling K656,135,000 for operations budget under the National Road Fund Agency against which amounts totalling K462,731,000 were released resulting in an under funding of K193,404,000 as shown in the table below.

Year	Authorised Provision K'000	Actual Releases K'000	Over/ (underfunding) K'000
2016	128,666	84,073	44,593
2015	178,100	148,629	29,471
2014	144,369	146,373	- 2,004
2013	205,000	83,656	121,344
Total	**656,135**	**462,731**	**193,404**

Review of Operations

A review of operations for the financial years ended 31st December, 2013 to 2016 revealed the following:

a. Board Related Expenses

i. Over Expenditure on Board Sitting Allowances

Section 4 (2) of the Road Traffic Act of 2002 stipulates that " the Agency shall meet for the transaction of business at least once every three (3) months at such places and times as the Chairperson may determine".

In 2015, amounts totalling K4,009,331 were spent on allowances and expenses for seventeen (17) meetings held by the Board against a budget of K1,971,250 resulting in an over expenditure of K2,038,081.

Further, there were no acquittal sheets for Board allowances paid out during the period under review in amounts totalling K1,504,305.

ii. Questionable Payment of Allowances

During the period under review, amounts totalling K228,855 were paid as allowances to Board members for activities such as marking of the roads, meeting the minister and meeting the Auditor General.

In their response dated 15th May 2017, management responded that the items relate to payments made in accordance with board conditions.

However, the board conditions of members availed for audit did not cover such payments.

b. Statement of Income

	2016 K'000	2015 K'000	2014 K'000	2013 K'000
Income				
Government Funding	64,353	70,204	70,204	69,647
NRFA Funding	84,073	148,629	146,373	83,656
Amortisation of Capital Grant	3,522	4,519	4,579	4,415
Interest Receivable and Other income	(688)	188	437	310
	151,260	**223,540**	**221,593**	**158,028**
Expenditure				
Staff related expenses	90,148	105,209	108,254	75,934
Administrative expenses	80,804	20,229	8,465	7,101
Operational Expenses	57,163	54,892	84,990	63,978
Depreciation	24,367	20,520	12,184	9,882
Vehicle running expenses	-	1,130	713	782
	252,482	**201,980**	**214,606**	**157,677**
Excess of Income Over Expenditure for the Period	**(101,222)**	**21,560**	**6,987**	**351**

Although the Agency had been recording an increase in excess of Income over expenditure, staff expenses continued to increase and accounted for more than 40% of the total expenses in the financial years ended 31st December, 2013, 2014, and 2015 with a decrease in 2016 of up to 36% of the total expenditure as tabulated below.

	2016	2015	2014	2013
Total Expenditure (K'000)	252,482	201,980	214,606	157,677
Staff Cost (K'000)	90,148	105,209	108,254	75,934
% of Staff Cost/Total Costs	36	52	50	48

Further, the administrative costs rose by 299% between 2013 and 2016 mainly due to penalties on accumulated Pay As You Earn (PAYE). See table below.

	2016	2015	2014	2013
Adminstrative Costs (K'000)	80,804	20,229	8,465	7,101
Annual increase (K'000)	60,575	11,764	1,364	
% Increase	299	139	19	0

c. Statement of Financial Position

	2016 K'000	2015 K'000	2014 K'000	2013 K'000
Non Current Assets				
Property Plant Equipment	241,512	225,101	124,692	42,054
	241,512	225,101	124,692	42,054
Current Assets				
Inventories	7,402	7,478	8,254	15,306
Receivables	3,611	9,745	44,206	13,249
Cash and Cash Equivalent	2,839	4,446	6,427	8,940
	13,852	21,669	58,887	37,495
Total Assets	255,364	246,770	183,579	79,549
CAPITAL RESERVES AND LIABILITIES				
Capital Fund	(59,520)	33,534	11,975	4,987
Capital and Reserves	-	7,799	7,799	7,799
Revaluation reserve	18,064	18,433	-	-
Capital Grant	2,698	6,220	10,739	14,150
	(38,758)	65,986	30,513	26,936
Non Current Liabilities				
Deferred liabilities	76,774	15,701	55,443	30,692
Other payables and short term provisions	217,348	165,083	97,623	21,921
	294,122	180,784	153,066	52,613
TOTAL CAPITAL RESERVE AND LIABILITIES	255,364	246,770	183,579	79,549

The current ratio is a liquidity ratio that measures an entity'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.

As can be seen from the Statement of Financial Position, the current liabilities were higher than the current assets for the years 2014 to 2016 and this led to a negative working capital. See table below.

	2016 K	2015 K	2014 K	2013 K
Current Assets	13852	21,669	58,887	37,495
Current Liabilities	217348	165,083	97,623	21,921
Working Capital	(203,496)	(143,414)	(38,736)	15,574
Current Ratio	**0.06 : 1**	**0.13 : 1**	**0.60 : 1**	**1.71 : 1**

In this regard, the current ratio degenerated from 1.71:1 in 2013 to 0.06:1 in 2016 which was below the recommended ratio of 2:1. This made it difficult for the Agency to meet its short term liabilities as they fell due as could be noted from the non-remittance of statutory obligations amounting to K62,573,212 accumulated over the period.

d. Non-Remittance of Statutory Contributions

During the period under review, amounts totalling K62,573,212 were deducted as Pay as You Earn (PAYE) from employees' emoluments. However, as at 31st August 2017, the amounts had not been remitted to the Zambia Revenue Authority (ZRA) and the Agency was charged penalties on PAYE amounting to K64,550,000.

e. Staff Related Matters

i. Irregular Lunch/Overtime Allowances

During the period from February 2014 to December 2016, lunch and overtime allowances in amounts totalling K210,491 were paid to thirteen (13) RTSA employees. However, Contrary to the Terms and Conditions of Service for RTSA Staff, Section 10.5, there was no evidence availed for audit to show that the duties were performed beyond the stipulated 16 km or proof that the officers worked outside normal working hours.

Further, there was no proof that prior authority had been obtained for officers to work overtime in accordance with Clause 7.6 of the RTSA's Conditions of Service.

ii. Outstanding Payment of Allowances to School and Traffic Wardens

The Agency works in conjunction with the school and traffic wardens in schools to ensure that road safety information is disseminated and help children cross the road. As a way of encouraging or motivating them, management resolved to pay allowances to the wardens. In this regard, as at 31st July 2017, the Agency was owing the wardens amounts totalling K4,249,500 in unpaid allowances.

In addition, there was no Board approval for management's decision to introduce the allowances.

f. Unaccounted for Stores

Contrary to Public Stores Regulation No. 16, various stores items costing K14,628,021 (Fuel - K1,189,674 and General Stores – K13,438,347) procured during the period under review were unaccounted for in that there were no receipt and disposal details.

g. Unvouched Expenditure

Contrary to Financial Regulations No. 45, 52 and 65, one hundred and forty four (144) payments totalling K5,469,800 paid during the period under review were unvouched in that the payment vouchers were either missing or not supported by relevant documents such as receipts.

h. Unretired Accountable Imprest

Contrary to Financial Regulation No. 96 (1) and (2), accountable imprest in amounts totalling K2,750,926 paid during the period under review had not been retired as at 31st August 2017.

i. Failure to Produce Activity Reports

During the period under review, amounts totalling K811,765 were paid to various officers to undertake tours for different activities. It was however observed that no reports were produced regarding the trips undertaken by the officers and there was no evidence in form of log books to show that the trips were undertaken.

j. Failure to Implement the Accident Information System - Procurement of Computers from Shreeji Limited

In 2009, RTSA embarked on a project for the development of an Accidents Information System. The Project which was funded by the World Bank was implemented by the Agency in conjunction with Zambia Police. On 2nd September 2015, the contract for the rollout of the Accident Information System was signed with a local consultant at a contract sum of K2,736,278 for a duration of three (3) months. As at the time of audit in March 2017, the whole amount had been paid.

Further to the above and between April 2014 and December 2016, various suppliers were engaged to supply equipment at a total cost of K861,096 as tabulated below.

Date	Supplier	Description of Equipment	Contract Amount K
29.04.2014	Shreeji Investments Limited	Procurement of One hundred and sixty (160) Desktop computers	580,438
28.08.2014	Savenda Management Services	Procurement of Two (02) Servers	93,780
01.12.2016	Reliance Technologies	Procurement of Thirty (30) Handheld Mobile devices (tablets)	96,048
01.12.2016	MTN Zambia	Procurement of Twenty eight (28) Internet Routers and 56 Data Sim Cards	90,830
Total			**861,096**

However, as at 31st August 2017, the project had not been implemented and no explanation was provided for the failure to roll out the Accident Information System.

k. Unaccounted for Stores – ICT Equipment

Contrary to Public Stores Regulation No. 16, nineteen (19) computers and nine (9) printers costing K89,989 and K72,662 respectively procured during the period under review were unaccounted for in that although records at Headquarters showed that the equipment was delivered to the various stations, physical verification at the station revealed that the equipment was not there. See table below.

Station	Description of items	Quantity	Price/unit K	Total K
Nakonde	Computers	4	4,736	18,945
Mpika	Computers	7	4,736	33,154
Livingstone	Computer	1	4,736	4,736
Chipata	Computers	5	4,736	23,681
Monze	Computers	2	4,736	9,473
TOTAL		19		**89,989**

Station	Description of items	Quantity	Price/unit K	Total K
Nakonde	Printers	2	8,074	16,147
Mpika	Printers	4	8,074	32,294
Livingstone	Printers	2	8,074	16,147
Choma	Printer	1	8,074	8,074
TOTAL		9		**72,662**

l. Unretired Accountable Imprest – Regional Offices

Contrary to Financial Regulation No. 96, accountable imprest in amounts totalling K5,036,448 paid during the period under review had not been retired as at 31st June 2017. See table below.

Unit	Amount K
Mongu	372,309
Livingstone	1,828,908
Choma	883,137
Chipata	720,277
Nakonde	464,140
Mpika	767,677
Kasama	3,300
Solwezi	5,000
Chingola	2,950
Total	**5,047,698**

The Rural Electrification Authority (REA)

Background

22. The Rural Electrification Authority (REA) was established under Rural Electrification Act No. 20 of 2003.

The functions of the Authority are to:

i. Administer and manage the Rural Electrification Fund;

ii. Develop, implement and update rural electrification master plans for systematic electrification of rural areas;

iii. Promote utilisation of available rural electrification technological options to enhance the contribution of energy to the development of agriculture, industry, mining and other economic activities in rural areas;

iv. Mobilise funds from within and outside Zambia in support of rural electrification;

v. Offer, on a competitive basis, the construction of rural electrification projects and periodically publish information on programs being carried out;

vi. Design and offer, on a competitive basis, to developers or operators, smart subsidies for capital costs on projects that are designed to supply energy for development of rural areas;

vii. In conjunction with stakeholders, develop mechanisms for operation of the grid extension networks for rural electrification and other rural energy supply systems;

viii. Recommend to Government policies for the enhancement of access to electricity by the rural population; and

ix. Undertake such other activities as are conducive or incidental to the performance of its functions under the Act

The Board of Directors

The Rural Electrification Authority Act states the following among others:

i. That the Authority shall be governed by the Board of Directors appointed by the Minister of Mines, Energy and Water Development,

ii. That board members shall sit at least once every three (3) months and that minutes of every meeting shall be kept,

iii. That board members are entitled to sitting allowances for every sitting.

The board members are appointed for a term of three (3) years and are eligible for re-appointment for a further term of three (3) years. The current REA Board of Directors was appointed in April, 2016.

The Board of Directors consists of seven (7) part-time members appointed by the Minister responsible for Energy as follows:

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

ii. The Permanent Secretary to the Ministry of Finance;

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

iv. A representative of the Economics Association of Zambia;

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

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

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

Management of the Authority

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

Sources of Funds

The sources of funds of the Authority are as follows:

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

ii. All electricity levy collected;

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

Funding

During the period under review, the Authority received income totalling K398,673,896. See table below.

Income	2016 K'	2015 K'	2014 K'	Total K'
Government Appropriations	134,048,876	70,707,000	61,181,570	204,755,876
International Donor Funding	-	103,950,011	-	103,950,011
Finance Income	6,131,002	5,823,443	-	11,954,445
Other Income	2,080,739	2,006,484	12,744,771	4,087,223
Total Income	**142,260,617**	**182,486,938**	**73,926,341**	**398,673,896**

Review of Operations

An examination of accounting and other records maintained at the Authority Headquarters and visits to selected project sites revealed the following:

a. Lack of a Board Charter

It was observed that during the period under review, the Authority did not have a Board Charter that defined the roles and responsibilities of the Board.

b. Inadequate Staffing Levels.

An analysis of staff establishment records for 2015 and 2016 revealed that out of seventy eight (78) positions, only fifty (50) had been filled as of June 2017. In this regard, the Authority had been operating without some key personnel such as; Manager - Planning and Development, Manager - Project Implementation, Chief Engineer - Power Distribution, Principal Engineer - Renewable Energy, Accountant - Financial Reporting, IT Officer and Technical Auditor.

c. Lack of Assets Transfer Policy

As part of the requirement for the Authority, all completed electricity and solar projects assets were to be transferred to ZESCO and beneficiary communities for continued ownership and maintenance of assets. However, it was observed that the Authority did not have an approved asset transfer policy for completed renewable energy and electricity projects. As of August 2017, the asset transfer policy was not in place.

d. Financial Performance - Statement of Comprehensive Income for the financial years ended 31st December 2014, 2015 and 2016

	2016 K'	2015 K'	2014 K'
Income			
Government Appropriations	134,048,876	70,707,000	61,181,570
International Donor Funding		103,950,011	
Finance Income	6,131,002	5,823,443	
Othe Income	2,080,739	2,006,484	12,744,771
Total Income	**142,260,617**	**182,486,938**	**73,926,341**
Expenditure			
Employee Costs	18,497,106	15,040,324	10,639,951
Transport, Travel, Subsistence	137,802	626,596	968,926
Rental Expense	2,157,963	1,117,223	1,227,470
Administration	11,114,669	8,055,700	7,164,673
Depreciation	3,764,942	2,986,216	1,779,281
Exhibitions and Publicity	1,172,031	860,617	565,704
Project studies &Consultancy	8,845,270	32,452,763	9,349,157
Total Expenditure	**45,689,783**	**61,139,439**	**31,695,162**
Surplus/Deficit	**96,570,834**	**121,347,499**	**42,231,179**

Although the Authority recorded surpluses of income in all the financial years under review, the income reduced from K182,486,938 in 2015 to K142,260,617 in 2016. The reduction was attributed to the absence of donor support in 2016.

e. Financial Position - Statements of Financial Position as at 31st December 2014, 2015 and 2016

	2016 K'	2015 K'	2014 K'
ASSETS			
Non- current assets			
Property and equipment	6,821,563	6,345,485	2,280,125
Capital work in progress	550,968,073	530,779,639	336,546,324
Investment	2,715,517	2,903,326	-
	560,505,153	**540,028,450**	**338,826,449**
Current Assets			
Receivables	18,431,502	11,609,674	1,810,013
Inventory	14,653,662	19,539,220	-
Cash and bank balances	40,834,002	42,022,684	194,263,140
	73,919,166	**73,171,578**	**196,073,153**
Total assets	**634,424,319**	**613,200,028**	**534,899,602**
FUNDS AND LIABILITIES			
Funds and Liabilities			
General fund	7,814,098	12,063,993	675,489
Rural Electrification fund	589,173,103	559,432,008	515,687,867
Total Funds	**596,987,201**	**571,496,001**	**516,363,356**
Non-Current liabilities			
Capital grants	587,498	1,211,531	0
Total non-current liabilities	**587,498**	**1,211,531**	-
Current liabilities			
Capital grants	617,049	937,365	
Payables	36,232,571	39,555,131	18,536,246
Total current liabilities	**36,849,620**	**40,492,496**	**18,536,246**
Total liabilities	**37,437,118**	**41,704,027**	**18,536,246**
Total Funds and Liabilities	**634,424,319**	**613,200,028**	**534,899,602**

The liquidity position of the Authority during the period under review was as shown below.

	2016 K'	2015 K'	2014 K'
Current Assets	73,919,166	73,171,578	77,867,413
Current Liabilities	36,849,620	40,492,496	20,341,872
Working Capital	**37,069,546**	**32,679,082**	**57,525,541**
Current Ratio:	**2.01:1**	**1.81:1**	**3.83:1**

As can be seen in the table above, the Authority recorded a positive working capital during the three (3) years under review although there was a reduction from K57,525,541 in 2014 to K32,679089 in 2015 and K37,069,546 in 2016. The current ratio was within the recommended perimeters meaning that the Authority was in a position to meet its obligations as they fell due.

f. Extension of Contracts - Works on Grid Line Extension and Sub - Stations

During the period under review, REA awarded nine (9) contracts to various contractors for the construction of grid line extensions and sub-stations in various parts of the country. It was however observed that there was poor contract management in that four (4) of the contracts were terminated and five (5) were extended to October and November 2017, periods ranging from eight (8) to eleven (11) months, due to poor performance of the contractors. See table below.

Name of Project	District and Province	Name of Contractor	Duration	Payment Details	Status
Mpepo	Mpika Muchinga	Northlands Equipment Ltd	Start: 4th May2016 End: 4th November 2016 (six months)	Contract price: K1,024,383.35, amount paid was K887,238.72 Balance as of December 2016 was K137,144.63.	Extended by eleven (11) months
Post Evaluation Survey of Completed Grid Extension Projects	Countrywide	Asco Limited	Start: 11th November 2013 End:31st December 2015	Contract sum: K1,412,068 Contractor was paid K944,223.80	The contract was terminated and a new consultant has been engaged to continue the project at a cost of K225,000 out which 20% (K45,000) has been paid. The extended period for the works is ending 30th November 2017.
Milenge III	Samfya Luapula	Yengatech Enterprise Ltd	Start:12th May 2016 End:12th March 2017 (10months)	Contract sum: K2,396,075.35 Contractor was paid K2,102,466.82 Balance as of December 2016 was K293,608.53	Extended by eight (8) months.

Name of Project	District and Province	Name of Contractor	Duration	Payment Details	Status
Chembe A	Chembe Luapula	Lawrence Harry Zambia Limited	Start:12th May 2016 End:12th March 2017 (10months)	Contract sum: K1,275,472.73 Contractor was paid K1,192,973 Balance as of December 2016 was K434,433.97	Extended by eight (8) months
Chembe B (Kala)	Kawambwa Luapula	Lawrence Harry Zambia Limited	Start:12th May 2016 End:12th March 2017 (10months)	Contract sum: K440,000.00 Contractor was paid K357,500 leaving a balance of K82,499	Extended by eight (8) months
Kaso/Kayambi	Mungwi Northern	Yengatech Enterprise Ltd	Start:4th May 2016 End:4th March 2017 (10months)	Contract sum: K1,388,866.86 Contractor was paid K1,360,534 leaving balance of K28,332	Extended by eight (8) months
Luampa Substation (2012)	Luampa Western	Earthrow Investments	Start: 2nd May 2013 End: 18th April 2014	Contract sum: K3,500,000 Contractor was paid K3,285,030 leaving a balance of K214,970	The contract was terminated and REA completed the works

Name of Project	District and Province	Name of Contractor	Duration	Payment Details	Status
Mongu / Kalabo Substation (Incl. Sikongo Grid Ext.) 2012	Kalabo Western	Two Third Voltcon Ltd	Start: 24th June 2013 End: 23rd August 2014	Contract sum: K12,473,414 Contractor was paid K9,813,789 leaving a balance of K2,659,626	The contract was terminated and a quotation has been from ZESCO Limited to complete the substation at a cost of K17,000,000.
Chinsali Substation 2012	Chinsali Muchinga	Chamb Investments Ltd	Start: 13th October 2013 End: 20th July 2015	Contract sum: K4,679,030.47 Contractor was paid K4,331,837.63 leaving a balance of K347,192.38	The contract was terminated and ZESCO has been engaged to complete the substation. The contract period for ZESCO is from 21st August 2014 to 31st October 2017

Workers Compensation Fund Control Board (WCFCB)

Background

23. In 1930, a Workmen's (Non-native) Compensation Ordinance No. 16 was established as a social security scheme for the protection of workers against occupational accidents and disease. Due to social and economic developments, amendments were made in 1944, 1963, 1972 and 1995 which resulted in the enactment of the Workers' Compensation Act, Cap 271 and Pneumoconiosis Compensation Act, Cap 217.

In 1999, Parliament repealed the Workers' Compensation Act, Cap 271 and Pneumoconiosis Compensation Act, Cap 217 in order to merge the two schemes which operated independently and replaced the two acts with Workers' Compensation Act No. 10 of 1999, Cap 271 of the Laws of Zambia.

Prior to the merger, the Workers' Compensation Board was responsible for accidents and scheduled diseases arising out of and in the course of employment while the Pneumoconiosis Compensation Board was responsible for lung diseases caused by silica in the mines.

Board of Directors

The Workers' Compensation Act No. 10 of 1999 gives powers to the Minister responsible for Labour and Social Security to appoint a Board of Directors consisting of the following members:

i. The Chairperson of the Board.

ii. Three (3) persons from associations representing employers.

iii. Three (3) persons from associations representing workers.

iv. Three (3) representatives from the Government and;

v. One person from an association of pensioners.

The tenure of office for board members is three (3) years from the date of appointment and members are eligible for re-appointment for a further term of three (3) years.

The role of the Board of Directors is to provide, among other matters, leadership for the Fund, formulation of policies and provision of strategic direction to management. The Board of Directors makes key decisions to ensure that it retains proper direction and control of the Fund. The Board also delegates certain decisions to the Executive Management.

In addition, the Board operates the in-house defined benefit scheme which was established in 1983. The scheme was initially administered by Zambia State Insurance Corporation until April, 1992 when the Board took over the running of the scheme. The objective of the scheme is to offer social security to the employees of the Board.

Management

The Board of Directors appoints a Commissioner who is responsible for the day-to-day operations of Workers' Compensation Fund Control Board (WCFCB) and is assisted by six (6) directors responsible for Claims and Pensions, Legal and Corporate Services, Human Resources and Administration, Fund Management, Finance, Audit and Services and other support staff.

Sources of Funds

According to the provisions of the Workers Compensation Act, the funds of the Workers Compensation Fund Control Board consist of:

i. The assessments paid by employers under the Act,

ii. Any moneys paid by employers to the Board under this Act,

iii. Any moneys paid as penalties imposed under this Act, other than penalties imposed by a court of law,

iv. Income and Interest from investments of the Fund including Property, Equity, GRZ Securities, Corporate Bonds, Term Deposits and Cash.

v. Borrowed money for all or any of the purpose of this Act, or in order to meet any unforeseen contingency or expenditure incurred in connection with the administration of this Act, or to meet any liquid deficiencies in the fund; and

vi. With the approval of the Minister, receive grants or loans from outside Zambia.

Review of Operations

A review of audited accounts, ICT systems and other relevant documents for the financial years ended 31st March 2013 to 2016 including physical inspection of infrastructure conducted in November 2016 revealed the following:

a. **Absence of the Board**

Section 11 of the Workers' Compensation Act provides that the Board shall be responsible for the administration of the Fund and for advising the Minister on any matters in connection with the Fund or the Workers' Compensation Act. It further provides that the Board shall direct the Commissioner for the effective administration of the Act, and after the conclusion of the financial year, report to the Minister on the administration of the Fund and the Act during the year.

A review of the records revealed that WCFCB had been operating without a Board of Directors from 21st December 2015 to 18th January 2017.

b. **Failure to Approve Internal Audit Charter**

Standard No. 1000 of the International Standards for the Professional Practice of Internal Auditing provides that the purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.

Contrary to the requirements of Standard No. 1000, WCFCB did not have an approved Internal Audit Charter during the period under review.

c. **Weakness in ICT systems management**

During the period under review, WCFCB operated three (3) Management Information Systems namely:

- **Pension Administration System (PAS)**

  The system had five (5) modules namely; Revenue, Claims, Pension, Payroll and Investments. It was used for administration of employers' assessments and revenue, employee claim and pension, pensioner's payroll and other investments. The system was running on Oracle 12c.

- **SunSystems**

  This is an off the shelf accounting package which is used for managing financial transactions. The Board was using SunSystems Version 5.

- **Dove Payroll System**

  This was used for processing staff payroll.

A review of WCFCB Management Information Systems revealed the following:

i. Wasteful Expenditure on the Procurement of Rental Module

On 15th May 2015, WCFCB signed a User Acceptance Certificate with RPC Data to confirm that all the requirements for implementation of the investment module were captured. The implementation cost was K25,342 ($3,500) for which the Board paid in full. Among the issues the investment module was supposed to do was rental receivable, service charges, property expenses.

It was however observed that on 8th August 2016, WCFCB acquired the sales invoicing modules from Ultimate Technology at a cost of K152,704 (US$15,300). It's questionable as to why management had to acquire the new rental module when they had already paid RPC data to implement the module.

In response, management indicated that they had to acquire the sales invoicing module on the SunSystem as the Pension Administration System (PAS) was not working to user expectation. However, a physical verification of both systems revealed that both systems performed the same functions, thus there was no justification for the procurement of the SunSystem rendering the expenditure wasteful.

ii. Lack of Direct Interface between Pension Administration System (PAS) and Sun System

According to the User Requirement Specifications, PAS was supposed to be interfaced with the Financials system in use at WCFCB, and with banking and/or payment agent systems as these become available. Additionally, the interface was supposed to be implemented in such a way that it is generated by users, without IT intervention.

Despite the vendor RPC Data being paid in full at a contract sum of K250,087,500 (US$526,500), the interface which the vendor was supposed to deliver as per user requirements specification was not fully implemented. The interface process required manual interventions as the data had to be manually uploaded to Sun System thus exposing the system to intentional manipulations.

Further, it is questionable as to why management had signed the user acceptance form acknowledging that the vendor had completed all the works to the Board's requirements when other issues such as the interface were not fully implemented.

In their response dated 31st May 2017, management stated that Sun-Systems Connect software had been bought to achieve a direct interface and the two vendors, Sun-Systems and PAS, have been engaged to provide a direct interface between the two systems.

However, it is questionable how management resolved to buy and install Sun-systems Connect Software to perform a function which RPC Data was fully paid for. In this regard, the expenditure on RPC Data was wasteful.

iii. Discrepancies between the Pension Administration System (PAS) and Accounting System

WCFCB had Pension Administration System (PAS) which was used to gather information on all assessment raised to employers which was then fed into the accounting system called Sun Systems upon which the financial statements are based.

The following were however observed:

- **Discrepancies in Assessment Raised**

  A comparison of the assessment raised between the Pension Administration System and the Sun Systems/ Financial Statement for the period under review revealed that the PAS showed assessments raised of K577,795,000 while the financial statements showed K581,999,000 resulting in an over statement of K4,204,000 in the financial statement as shown in the table below.

Comparison of Assessment Raised between PAS and Sun Systems/Financial Statements

Year	PAS Amount (K'000')	F/Statements Amount (K'000')	Difference Amount (K'000')
2015 -2016	227,509	228,144	635
2014 -2015	181,104	183,545	2,441
2013 -2014	169,182	170,310	1,128
	577,795	**581,999**	**4,204**

- **Discrepancies in Assessment Receivable**

  A comparison of the assessment raised between the Pension Administration System and the Sun Systems/ Financial Statement for the period under review revealed that the PAS showed assessment receivables of K487,998,000 while the financial statements showed K271,045,000 resulting in an understatement of K92,614,000 in the financial statement as shown in the table below.

Comparison of Assessment Receivable between PAS and Sun Systems/Financial Statements

Year	PAS Amount (K'000')	F/Statements Amount (K'000')	Difference Amount (K'000')
2015 -2016	166,414	143,718	(42,075)
2014 -2015	160,469	146,706	(13,763)
2013 -2014	161,115	124,339	(36,776)
	487,998	**271,045**	**(92,614)**

- **Discrepancies in Rental Income**

  A comparison of the assessment raised between the Pension Administration System and the Sun Systems/Financial Statement for the period under review revealed that the PAS showed assessment income of K22,682,000 while the financial statements showed K23,438,000 resulting in an over statement of K756,000 in the financial statements as shown in the table below:

Comparison of Rental Income between PAS and Sun Systems/Financial Statements

Year	PAS Amount (K'000')	F/Statements Amount (K'000')	Difference Amount (K'000')
2015 -2016	8,354	8,622	268
2014 -2015	7,867	8,355	488
2013 -2014	6,461	6,461	-
	22,682	**23,438**	**756**

Management had not provided the reconciliation of the differences as of June 2017.

d. Assessment Revenue Collected on Employers Without Assessment Raised

The WCFCB is expected to collect revenue on all employers after an assessment is conducted.

During the period under review, amounts totalling K4,408,844 were collected from one hundred and forty two (142) employers without any assessment being raised. The basis on which the collection was made was questionable thus raising the risk of understatement of revenue. See table below.

Financial Year	Amount K	No of Employers
2013-2014	1,307,383	29
2014-2015	1,278,085	59
2015-2016	1,823,376	54
TOTAL	**4,408,844**	**142**

e. Financial Performance

Statement of Comprehensive Income for the years ended 31st March

for the years ended 31st March	2015/16 K'000	2015/15 K'000	2013/14 K'000	2012/13 K'000
Revenue				
Assessments raised	**228,144**	**183,545**	**170,310**	**159,090**
Other Income				
Interest receivable	114,910	61,205	31,060	21,439
Interest on staff loans	205	187	180	185
Rent receivable	8,622	8,355	7,867	6,461
Penalties on employers' assessments	2,547	1,054	3,264	143
Dividends received	6,637	4,007	2,355	2,504
Profit on disposal of assets	682	-	2	108
Profit on exchange differences	741	2	4	-
Provision written back	3,233	442	-	-
Surplus on ILO Green Jobs Project	27			
Sundry income	710	51	82	26
Fair value gain	21,671	31,400	45,736	11,735
	159,985	**106,703**	**90,550**	**42,601**
Total income	**388,129**	**290,248**	**260,860**	**201,691**
Claims and pensions paid				
Claims paid - Accident Fund	(4,443)	(3,667)	(2,503)	(1,861)
Pensions paid - Pension Fund	(19,159)	(16,931)	(14,201)	(14,040)
	(23,602)	**(20,598)**	**(16,704)**	**(15,901)**
Total income after claims and pensions paid	**364,527**	**269,650**	**244,156**	**185,790**
Expenditure	(93,388)	(104,723)	(76,142)	(95,415)
	271,139	164,927	168,014	90,375
(Increase)/decrease in disaster reserve	(3,996)	-	-	-
(Increase)/decrease in data reserve	(24,493)	3,126	-	-
Surplus for the year before exeptional item	242,650	168,053	168,014	90,375
Exceptional item	(13,838)	-	-	-
Surplus for the year	228,812	168,053	168,014	90,375
Other Comprehensive income				
Items that will not be reclassified to profit or loss				
Gain (loss) on property revaluation	3,203	6,736	6,067	(20,689)
	3,203	**6,736**	**6,067**	**(20,689)**
Total comprehensive income for the year	**232,015**	**174,789**	**174,081**	**69,686**

A review of the statement of comprehensive income revealed the following:

i. Growth in Revenue

Total income from assessments and other sources increased by K186,438,000 from K201,691,000 during the financial year ended 31st March 2013 to K388,129,000 in the financial year ended 31st March 2016, representing an increase of 92%.

ii. Profitability

The surplus increased by K138,437,000 from K90,375,000 during the financial year ended 31st March 2013 to K228,812,000 in the financial year ended 31st March 2016, representing a 153% increase.

f. Financial Position

The financial position of WCFCB for the period under review was as shown in the table below.

Statement of Financial Position as at 31st March	2015/16 K'000	2014/15 K'000	2013/14 K'000	2012/13 K'000
ASSETS				
Non-Current Assets				
Property, plant and equipment	49,816	39,443	38,461	90,186
Investments	-	-	169,679	155,734
Investment property	244,560	209,540	160,075	70,417
Intangible assets	63	331		
Financial assets	152,953	165,706		
	447,392	**415,020**	**368,215**	**316,337**
Current Assets				
Financial assets	575,489	387,402	-	-
Inventories	322	313	285	335
Investments	-	-	274,547	172,927
Trade and other receivables	103,091	77,906	67,667	46,770
Retirement benefit asset	-	7,264	7,264	7,264
Cash and cash equivalents	27,458	18,119	14,248	4,554
	706,360	**491,004**	**364,011**	**231,850**
Total Assets	**1,153,752**	**906,024**	**732,226**	**548,187**
FUNDS AND LIABILITIES				
Funds				
Accumulated funds	939,175	709,542	540,831	372,328
Disaster reserve	4,000	4	4	4
Revaluation reserve	83,702	81,320	75,242	69,664
Data reserve	33,938	9,445	12,571	12,571
Investment reserve	50,106	50,106	50,106	50,106
	1,110,921	**850,417**	**678,754**	**504,673**
Liabilities				
Non-Current Liabilities				
Provisions	6,409	5,545	4,847	4,297
Current Liabilities				
Trade and other payables	29,469	41,829	37,165	27,648
Provisions	6,953	8,233	11,460	11,569
	36,422	**50,062**	**48,625**	**39,217**
Total Liabilities	**42,831**	**55,607**	**53,472**	**43,514**
Total Funds and Liabilities	**1,153,752**	**906,024**	**732,226**	**548,187**

The liquidity position of Workers' Compensation Control Board during the period 2013 to 2016 was as shown in the table below:

Financial year ended 31st March	2016	2015	2014	2013
Current Assts (K)	706,360	491,004	364,011	231,850
Current Liabilities (K)	36,422	50,062	48,625	39,217
Working Capital/Liquidity (K)	**669,938**	**440,942**	**315,386**	**192,633**
Current Ratio	19.38:1	9.8:1	7.48:1	5.9:1

As can be seen from the table above, the liquidity ratio improved from a working capital of K192,633 in the financial year ended 31st March 2013 to K669,938 in the financial year ended 31st March 2016. This resulted in an increase in the current ratio from 5.9 to 19.38 between the years 2013 to 2016. Although the working capital was positive, an analysis of the financial records revealed that Workers Compensation Fund Control Board was not efficient at collecting outstanding payments from its customers as can be seen from the table below.

Year ended 31 March	2015/16	2014/15	2013/14	2012/13
Total Receivables (K)	103,091,000	77,906,000	67,667,000	46,170,379
Revenue (K)	228,144,000	183,545,000	170,310,000	159,090,141
Receivables days	165 days	155 days	145 days	106 days

The Fund's receivable days increased from 106 days in the year ended 31st March 2013 to 145 days in 2014, 155 days in 2015 and 165 days in 2016. The inefficient debt collection also resulted in the Fund writing off significant amounts of bad debts during the period under review. In this regard, the bad debts written off were K22,760,343, K2,732,000, K22,613,000 for the years ended 31st March 2013, 2014 and 2015 respectively. It was also noted that despite the bad debt expense decreasing by 88% between 2013 and 2014, there was a significant increase of 728% between 2014 and 2015.

g. Costly Decision to Discontinue Monthly Pension Payments to Ex-employees

The WCFCB Collective Agreement (Clause 6.6) which covered the period from 1st April 2006 to 31st March 2008 provided that where an officer applied for early retirement or where management wished to retire an employee on disciplinary grounds and the Trust (Staff Pension Scheme) does not provide for early retirement, the Board shall pay proportionate retirement benefits under this clause for an employee who has served a minimum of twenty five (25) years or those who have attained fifty (50) years and who wish to retire early and this amount should be recovered from the scheme upon attainment of the retirement age of 55 years.

On 1st October 2007, seven employees left the Board and they qualified for monthly payments as stated under clause 6.6, and the Board commenced and continued paying proportionate retirement benefits until 1st May 2011, when the Board stopped paying them stating that the pension payments were not backed by law, pension scheme rules or indeed the conditions of service that regulated their employment with the Board. This decision was challenged in court, and the Board decided to settle the matter outside court by settling the unpaid pension in amounts totalling K121,673 with interest of K15,532 and complainant's legal fees of K25,000. In addition, the Board paid K47,357 to their lawyer. The payment of interest on unpaid pension benefits, lawyer and complainant's legal fees in amounts totalling K87,888 in August 2012, was as a result of wrong Board decision to stop paying the pension benefits.

h. Procurement, Construction and Management of Assets

i. Construction of Semi-Detached Houses at North Gate Gardens

On 18th May 2011, WCFCB entered into a contract with NHA-MKP estates for the construction of 40 x 3 bedroomed semi-detached houses at North Gate Garden next to SOS opposite the Olympic Youth Development Centre on the Great North Road situated on the remainder of stand number 34872 in Lusaka at a contract sum of Twenty Million Kwacha (K20,000,000).

The contract provided that the employer shall take vacant possession of the properties within twenty-four (24) months from the date of signing the contract (18th May 2011) in the following stages:

- Five (5) blocks of two houses per block after six months of signing the contract
- The next five (5) blocks of two houses per block after six months of handover of the first houses in (i) above.
- The next five blocks of two houses per block after six months of handover of houses in (ii) above.
- The next five blocks of two houses per block after six months of handover of houses in (iii) above.

On signing the contract, the Board made a down payment of 25% of the purchase price amounting to five million kwacha (K5 million) and as of July, 2012 amounts totalling K7,952,064,570 had been paid.

It was however observed that despite the contract providing for the delivery of all the flats by 18th May 2013, no flats had been handed to the WCFCB as of June 2017 as no certificate of completion and handover certificate was availed for audit scrutiny. This was despite the Board having paid amounts totalling K12,064,951 between 23rd June 2011 and 30th September 2012.

A review of the analysis performed by WCFCB revealed that the Board lost rental income in amounts totalling K7,315,380 and interest amounting to K2,184,692.

A physical inspection of the site also revealed that the twenty blocks of 2 houses per block were constructed without water and sewer networks and electrical installations.

ii. Car Park - Questionable Procurement/Idle Property

On 11th June 2014, the Board bought stand number 1215, situated between WCFCB and Savoy Hotel in Ndola to be developed as a car park. In this regard, the Board paid K175,556 to the vendor as consideration for the said land. However, the following were observed:

- There was no documented evidence to show that the Board followed procurement procedures relating to the purchase of the said land.
- The land in question is a subdivision and no title deed was availed for audit.
- Despite paying for the land meant for use as a car park, the Board continued renting another private car park for its fleet of motor vehicles. In this regard, management had paid rental charges in amounts totalling K117,276 to the owner of the private car park during the period July 2014 to March 2016.
- A physical inspection carried out in November 2016 revealed that the land was fenced off and that it was not in use, twenty eight (28) months after procurement

iii. Lack of Title Deeds

The Lands Act No. 29 of 1995 requires that institutions or individuals owning land should have or possess title deeds as proof of ownership. It was however observed that Worker's Compensation Fund Control Board had thirteen (13) properties without title deeds.

iv. Failure to Recover Rental Income

During the period under review, the Board failed to collect rental income in amounts totalling K4,138,812. Included in this amount were amounts totalling K1,962,417 owed by 218 tenants for a period of more than one year and K2,015,095 owed by 201 tenants for a period between one (1) month and twelve (12) months. As of June 2017, the position had not changed

v. Lack of Lease Agreements

A review of lease documents, revealed that, as of June 2017, a total of one hundred and sixty eight (168) tenants had not signed lease agreements for the property they were occupying.

Zambia Cargo and Logistics Limited

Background

24. Zambia Cargo and Logistics Limited formerly MOFED Tanzania Limited is a freight and forwarding service provider based in Dar es Salaam, Tanzania. It provides freight and forwarding services at the Dar es Salaam Port. The Zambia Cargo and Logistics Limited is wholly owned by the Government of the Republic of Zambia under the supervision of the Department of Maritime and Inland Waters in the Ministry of Transport and Communications.

The Board of Directors

The Company is governed by a Board of Directors consisting of not less than two (2) and not more than seven (7) members.

Management

The management of the Company is the responsibility of the Chief Executive Officer who is assisted by the Directors of Finance and Operations. The three (3) officers are recruited by the Board of Directors on three (3) year renewable contracts.

Sources of Funds

The Zambia Cargo and Logistics Limited receives its income from fees charged on customers' export and import of cargo, offloading, stacking and storage, stuffing into containers and delivering to the harbour, Tanzania International Container Terminals (TICTS).

During the period from 2013 to 2016, the Company generated income from container handling and Import Container Depot (ICD) Sales and other income in amounts totalling K152,686,766 (TSh30,577,807,392, US$15,740,903.75) as shown in the table below;

Source of Funding	2016 TSh	2016 TSh	2015 TSh	2014 TSh	Total TSh
Container Handling	3,753,033,000	4,494,991,650	5,170,792,673	8,945,769,149	22,364,586,472
ICD Sales	117,632,000	312,071,782	672,478,383	930,120,514	2,032,302,679
Storage charges and other incomes	2,197,541,000	998,134,651	1,841,995,578	1,143,247,012	6,180,918,241
Total Incomes	**6,068,206,000**	**5,805,198,083**	**7,685,266,634**	**11,019,136,675**	**30,577,807,392**

Review of Operations

A review of operations for the financial years ended 31st March 2014, 2015 and 2016 carried out in July 2017 revealed the following:

a. Underutilisation of Clearing License

Although the Company was issued with a clearing license in September 2013, the company had not handled any transactions apart from the fertiliser transaction with the Zambian Government despite incurring K979,193 (TSh196,097,954.90, US$100,947.69) in running the clearing section.

b. Internal Audit Unit

In April 2015, a total amount of K112,054 (US$11,552) was spent on accommodation, food and travel expenses for two (2) seconded staff (Principal Auditor and Internal Auditor) from Ministry of Transport to set up the Internal Audit Unit. However, as at 30th September 2017, the Unit was not operational.

c. Irregular Payment of Out of Pocket Allowance on Local Trips.

The Board Compensation Policy provides that "whenever the Company pays for accommodation and also all related meals, the Company will provide the Board Members concerned a subsistence allowance which is equivalent to half the prevailing night allowance rate paid to a Permanent Secretary or US$225 currently." However it was observed that between February 2015 and May 2016, the Company paid Board Members out of pocket allowance in Zambia at foreign rates of US$225 as opposed to half rate of the Permanent Secretary's local subsistence allowance which varies around K1,400 depending on his destination. In this regard, a total amount of US$9,704.00 was paid when the Board Members were only supposed to have been paid US$3,720 thus, the US$5,871.20 was irregularly paid.

On 13th February 2015, six of the Board Members and one Ministry Official were paid a total amount of US$5,238 at half rate of Subsistence Allowance of the permanent

Secretary traveling abroad which was US$225 and US$171 respectively, for three (3) to four (4) nights. The payment raised were for a Board of Directors Corporate Work Shop which was held between the 13th and 19th February 2015 in Livingstone contrary to the Board Compensation policy. Therefore the Board Members were over paid by US$3,858 as shown in the table below.

Name/Title	Incorrect Rate per Day Used US$	Correct Rate to have been used K	Correct Rate to have been used US$	Number of Days	Correct Subsistence to Have Been Received US$	Subsistence Received Amount US$	Variance Amount US$
Board Member	225	700	70	4	210	900	690
Board Member	225	700	70	3	210	675	465
Board Member	225	700	70	4	210	900	690
Board Member	225	700	70	4	210	900	690
Board Member	225	700	70	3	210	675	465
Board Member	225	700	70	3	210	675	465
Ministry Official	171	400	40	3	120	513	393
Total					1,380	5,238	3,858

d. Statement of Comprehensive Income for the Financial Years ended 31st December 2014, 2015 and 2016.

	31.03.16 Tsh	31.03.15 Tsh	Restated 31.03.14 Tsh
Sales			
Income	5,805,198,083	7,640,266,634	11,019,136,675
Direct Costs	(2,257,583,955)	(2,429,587,990)	(5,250,194,585)
Gross Profit	**3,547,614,128**	**5,210,678,644**	**5,768,942,090**
Other Income	459,544,258	234,163,212	379,170,869
Staff costs	(2,170,497,463)	(1,796,747,020)	(1,390,600,255)
Administration Expenses	(3,672,186,016)	(2,756,582,792)	(1,953,854,655)
Depreciation expenses	(677,860,926)	(732,836,944)	(650,608,678)
Audit Fees	(43,701,037)	(35,850,803)	-
Total	**(6,104,701,184)**	**(5,087,854,347)**	**(3,615,892,719)**
Finance Cost	(22,631,031)	-	-
Operating profit for the year	**(2,579,718,087)**	**122,824,297**	**2,153,049,371**
Tax Credit/(expense)	(135,241,337)	282,445,007	(590,681,891)
Profit for the year	**(2,714,959,424)**	**405,269,304**	**1,562,367,480**

The following were observed:

i. Failure to Meet Operational Targets

Zambia Cargo and Logistics has continuously failed to meet its operational targets. In the financial years 2014, the company failed to meet its projected sales targets by between 25% and 33% during the period under review.

In 2014, the company failed to meet its ICD operational target by 88%, which reduced to 86% in 2015. In the financial year 2016, the company did not meet its target by 69% while in the nine months ending 31st December, 2016, operational target was not met by 76%.

The Container Freight Station failed to meet its operational target in 2014 by 32%, 2015 by 35%, 2016 by 23%while in the nine months ending 31st December, 2016, operational target was not met by 23%. See table below.

Financial year	Component	Budget TSh	Actual TSh	Difference TSh	Percentage %
Nine month to 31.12.16	Sales (TZS)	7,245,142,800	6,050,525,496	1,194,617,304	16
	Container Freight Station (CFS) - Containers	14,976	11,558	3,418	23
	Import Container Depot (ICD) - Containers	810	197	613	76
2016	Sales (TZS)	8,027,930,400	5,805,198,083	2,222,732,317	28
	Container Freight Station (CFS) - Containers	21,480	16,642	4,838	23
	Import Container Depot (ICD) - Containers	1,272	397	875	69
2015	Sales (TZS)	11,443,843,200	7,640,266,634	3,803,576,566	33
	Container Freight Station (CFS) - Containers	35,412	22,928	12,484	35
	Import Container Depot (ICD) - Containers	9,480	1,364	8,116	86
2014	Sales (TZS)	14,628,088,000	11,019,136,675	3,608,951,325	25
	Container Freight Station (CFS) - Containers	24,564	16,788	7,776	32
	Import Container Depot (ICD) - Containers	6,540	815	5,725	88

ii. Deteriorating Sales and Subsequent Losses

As can be seen from the statement of comprehensive income above, the company's turnover or income had decreased from TSh11,019,136,675 (US$5,672,452.82) in 2014 to TSh7,640,266,634 (US$3,933,071.46) in 2015 and TSh5,805,198,083 (US$2,988,411.27) in March, 2016.

Although the sales were reducing, there was an increase in administration costs from TSh1,953,854,655 (US$1,005,809.14) in 2014 to TSh2,756,582,792 (US$1,419,093.10) in the financial year 2015. In 2016, operating expenses reached TSh3,672,186,016 (US$1,890,375.13) and the company recorded a loss of TSh2,714,959,424 (US$1,397,612.14).

iii. Excess Increase in Administrative Expenses

As can be seen from the Statement of Comprehensive Income, total expenses without depreciation charge increased from TSh3,344,454,910 (US$1,721,665.07) in 2014 to TSh4,589,180,615 (US$2,362,427.41) in 2015 and to TSh5,886,384,516 (US$3,030,204.58) in the financial year 2016 despite the company's deteriorating sales incomes.

Further, total administrative expenses were representing 104 % of the gross profit in 2016, 53% in 2015 and 34% in 2014 as tabulated below:

	2016	2015	2014
Gross Profit (TSh)	3,547,614,128	5,210,678,644	5,768,942,090
Administrative Cost (TSh)	3,672,186,016	2,756,582,792	1,953,854,655
% of Administrative Cost/ Gross Profit	**104**	**53**	**34**

Increase in administrative cost was attributed to the increase in the following:

- Provision for doubtful debt – this increased by TSh472,165,796 in 2014 due to management's failure to make any provisions on doubtful debts in the past. The amount increased further in 2016 to TSh1,282,545,317 from TSh884,478,057 in 2015.
- Bad Debts written off - this increased by TSh795,114,227 in 2016 due to management's failure to make any bad debt write offs in the earlier years.

iv. 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 gross 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

	2016	2015	2014
Turnover (TSh)	5,805,198,083	7,640,266,634	11,019,136,675
Profit/(Loss) for the year (TSh)	3,547,614,128	5,210,678,644	5,768,942,090
Gross Profit Margin (%)	61.11	68.20	52.35

As can be seen from the table above, the company did not generate gross profit to adequately cover operating expenses and Internal Capital. The gross profit reduced from TSh5,768,942,090 (US$2,969,747.34) in 2014 to TSh5,210,678,644

(US$2,682,363.39) in 2015 and TSh3,547,614,128 (US$1,826,247.77) in the financial year ended 31st March 2016.

e. Statements of Financial Position for the Financial Years ended 31st March, 2014, 2015 and 2016

	31.03.16 TSh	31.03.15 TSh	31.03.14 TSh
Non Current Assets			
Property, Plant & Equipment (Net)	3,149,588,648	**3,779,849,485**	**3,657,066,939**
Current Assets			
Inventories	120,125,071	63,160,550	13,212,067
Receivables and prepayments	1,541,588,433	3,633,199,295	5,379,873,815
Cash & bank equivalents	85,946,289	256,890,803	975,963,919
Deferred Tax	0	135,241,337	0
Total Current Assets	1,747,659,793	4,088,491,985	6,369,049,801
Non-current assets held for sale	118,464,441	118,464,441	0
Total Assets	**5,015,712,882**	**7,986,805,911**	**10,026,116,740**
Equity and Liabilities			
Equity			
Share Capital	100,000,000	100,000,000	100,000,000
General Reserves	464,523,190	464,523,190	464,523,190
Retained Earnings	1,960,291,731	4,675,251,155	5,640,756,294
Total Equity	2,524,814,921	5,239,774,345	6,205,279,484
Liabilities			
Non Current Liabilities			
Deferred Tax		0	147,203,670
Deferred Grant	789,704,974	830,346,887	870,988,800
	789,704,974	830,346,887	1,018,192,470
Current Liabilities			
Bank Overdraft	19,057,249	0	
Trade and other payables	1,227,471,297	1,216,371,356	1,205,540,631
Deferred Grants	40,641,913	40,641,913	40,641,913
Current tax payables	414,022,528	659,671,410	1,556,462,242
	1,701,192,987	1,916,684,679	2,802,644,786
Total Equity and Liabilities	**5,015,712,882**	**7,986,805,911**	**10,026,116,740**

The following were observed:

i. Capital and Reserves

A scrutiny of the company's Statement of Financial Position for the period under review revealed that retained earnings had declined from TSh5,640,756,294 (US$2,903,759.60) in 2014 to TSh4,675,251,155 (US$2,406,734.97) in 2015 and Tsh1,960,291,731 (US$1,009,122.83) in 2016. The erosion in retained earnings deprived the Company of necessary funds to improve its equipment base.

ii. Liquidity Position - Deteriorating Current and Quick Ratios

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 current ratio for the Company for the financial years ended 31st December 2014, 2015 and 2016 was 2.27:1, 2.13:1 and 1.03:1 respectively, which continuously deteriorated as shown in the table below. Consequently, the company may not be able to meet its short term obligations as they fall due.

	2016 TSh	2015 TSh	2014 TSh
Current Assets	1,747,659,793	4,093,491,985	6,369,049,801
Current Liabilities	1,701,192,987	1,921,684,679	2,802,644,786
Working Capital	46,466,806	2,171,807,306	3,566,405,015
Current Ratio	**1.03**	**2.13**	**2.27**
Quick Ratio	**0.91**	**2.02**	**2.26**

As can be seen from the table above, although both the current ratio and the quick ratio deteriorated in 2016, it was still within the tolerable parameters.

It was further noted that there was a sharp decline in working capital from TSh3,566,405,015 in 2014 to TSh46,466,806 in 2016. This may affect the company's ability to meet its current liabilities as they fall due.

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 for the Company was as shown in the table below;

ROCE = Net Operting Profit / Capital Employed

Year	**2016**	**2015**	**2014**
Actual ROCE	-0.8022	0.066	0.2163

The above scenario indicates that the Company was not efficiently generating profits from its capital employed as the ROCE deteriorated from 0.2163 in 2014 to negative 0.8022 in 2016.

iv. Overdraft Facility

In November 2016, the company entered into an overdraft facility with Stanbic Bank, Tanzania of up to US$460,000.

In addition, the company had also signed a lease agreement with Stanbic Bank for vehicle financing in 2017 of up to US$1,150,000. The interest on the overdraft was 8.5 % while the lease agreement was 9 %. Both commitments were secured by the company house on plot 316 Toure Drive, Kinondoic District Dar es Salaam.

The following were observed:

- The house submitted as security was a subject of a legal case in which the tenant had claimed among others the right to lease the house for an extended period of ten (10) years.
- The Company was operating on a bank overdraft from April 2016 to the time of audit in July 2017 ranging monthly between US$182,000 to US$262,232.95. The Company projections made to support the borrowing for the year ended 31st March 2017 indicated that the monthly income would be between US$240,661 and US$368,618 while a review of accounting records revealed that the company operated on an overdraft ranging from US$379,651 to US$460,000 during same period.

f. Penalty Payment Due to Delay in Paying Clearing Agents and Licence Fees

A review of the management letter by the external auditors revealed that according to section 13 of the Tanzanian Central Bureau Regulations of 2000, the clearing and forwarding agent in Tanzania shall be issued with a certificate of registration which shall be subject to renewal annually. However, in the years under review, there were persistent delays in paying renewal fees resulting in the company being charged penalties in amounts totalling TSh6,798,995 (US$3,500).

g. Staff Related Issues

i. Unfilled Positions

A review of staff establishment revealed that out of a total establishment of ninety two (92) posts, six (6) key positions such as Regional Manager – Zambia, Internal Auditor, Company Secretary, IT Manager and Director of Operations were vacant. Despite the

ZCL having conducted interviews for the positions of Company Secretary and Internal Auditor, the positions had not been taken up as at 30th September 2017.

ii. Legal Matters - Loss of Funds on Court Cases

During the period under review, the Company was sued by various companies and staff for various reasons. The cases were ruled in favour of the claimants. As such, ZCL limited lost amounts totalling TSh217,181,952 (US$111,801.35). See table below.

Date	Case	Amount Claimed & Paid TSh	Status
21/10/16	ZCL v Stanley Nyakunga and 39 others -case no413/2016	4,204,606	The company lost the case for payment of their salaries on allegations of an illegal strike
	ZCL v Hafidh Shabani and 8 others	34,539,051	the company lost the case and was ordered to pay terminal benefits
20/06/14	ZCL V Richard Andrew and 4 Others - case no1218	15,435,615	the company lost the case for payment of their salaries on allegations of stealing ten bundles of copper
14th August 2014	ZCL v Dar Snookers Ltd	163,002,682	the company lost the case on account of negligence in the performance of the CCTV contract
Total		**217,181,954**	

iii. Irregular Payment of Education Allowance

Clause 3.2.2 of the contracts of service for the Chief Executive Officer, Chief Operations Officer and Chief Financial Officer state that "the Company will contribute a maximum of US$500 per child per month up to a maximum of four (4) children up to the age of 21, of actual school fees of registered children /dependants attending bonafide schools".

- **Chief Operations Officer**

  During the period from May 2014 to February 2016, the Chief Operations Officer was paid education allowance for a period of thirty four (34) months in amounts totalling US$68,000 without evidence of actual school fees having been paid.

  Further, the officer was irregularly paid amounts totalling US$12,500 for the period from February 2015 to February 2017 in respect of a child that had attained the age of 21 years in January 2015.

- **Chief Executive Officer**

  It was observed that one of the registered dependants for whom the Chief Executive Officer was claiming the contribution was at New Mtendere Primary

School in Lusaka with fees of K800 and PTA of K300 which was less than US$500 but he continued claiming US$500. In this regard, amounts totalling US$11,100 paid to the office for the period under review were irregular.

- **Chief Finance Officer (CFO)**

  During the period April 2013 to March 2016, the Chief Finance Officer was paid education allowance for a period of 36 months in amounts totalling US$66,677.26 without evidence of actual school fees having been paid.

iv. Failure to Provide Limits on Rental Payments

The contracts of employment for Chief Finance Officer and Chief Operations Officer state that the company shall provide free accommodation without providing a cap on the maximum rental that should be paid. The following were noted:

- **Chief Finance Officer**

  The Chief Finance Officer was rented a fully furnished house at a cost of US$3850 per month for a period of thirty six (36) months in amounts totalling US$138,600. The free accommodation clause had no maximum capping hence making it prone to abuse by management.

- **Chief Operations Officer**

  Contrary to the provisions of the contract which states that the company shall provide free accommodation, the officer was rented a fully furnished house at a cost of US$3,000 per month. The free accommodation clause had no maximum capping hence that made it prone for abuse by management.

  It was noted however that in both the above cases, there was no cap on the maximum that was to be paid. Consequently the Company paid a total amount of US$108,000 over a period of thirty six (36) months.

v. Wasteful Expenditure - Payment in lieu of Notice

On 10th June 2016, Zambia Cargo and Logistics Limited made a payment to Indian Ocean Apartment of US$7,189 for three (3) months rent and US$1,050 as withholding tax being in lieu of notice for apartment rented on behalf of Director of Finance who had already separated with the company after non-renewal of his contract that expired on 13th March, 2016.

The failure by the Company to notify the landlord that the Officer was vacating the house rendered the expenditure wasteful.

vi. Irregular Payment Car Allowance – Regional Manager

During the period from 16th February 2015 to 17th January 2016 the Regional Manager –Zambia was paid car allowance at a rate of 20% of his basic salary per month (US$5,000) in amounts totalling US$1,000 as he claimed to have operated without a company car and was using his personal vehicle at that time. There was no evidence of such a payment in the conditions of services and the basis of how the rate of 20% used was arrived at rendering the payment irregular.

h. Procurement of Goods, Works and Services

i. Failure to Carry out Maintenance Works

In December 2016, Technology Concept was engaged to supply a fiber media converter, splice, enclose and maintain laptops and the Local Area Network (LAN) at a contract sum of TSh3,132,900 (US$1,612.76) with a delivery period of two (2) months. The contractor was paid in full.

However, as at 30th September 2017, the maintenance of the laptops and the LAN had not been done and the fiber media convertor had not been supplied.

ii. Failure to Adopt ICT Standards and Frameworks

There are several standards and frameworks, which are applicable internationally and generally used in the implementation, operation and auditing of Information and Communication Technology (ICT) environments. These standards can be adopted and customised to suit a particular institution. These include among others:

- Information System Audit and Control (ISACA), Standards and guidelines;
- Control objectives for Information and related Technologies (CoBIT),
- The Information Technology Infrastructure Library (ITIL),
- ISO 27001:2013 Information Security Management Systems,
- ISO/IEC 20000 – Information Technology Security Management Standard,

However, as at 30th September 2017, the Company had not adopted any ICT Standards and frameworks for managing its ICT operations.

iii. Lack of Installation Report - TANCIS

The Tanzania Customs Integrated System (TANCIS) is a system that aims to serve all stakeholders dealing in customs data transactions for import and export of cargo clearance in Tanzania. It links the shipping lines, port authority, clearing and forwarding, inland container depots, and banks to facilitate quick payment of customs fees and duties

On 26th June 2014, ZCL embarked on the staff training on installation and management of TANCIS system. In this regard, during the period under review, amounts totalling TSh3,901,500 (US$2,008.42) were spent on procurement of three (3) computers.

However, as at 30th September 2017, the system was not operational and the whereabouts of the computers was not known.

iv. Contract with Mining Agricultural and Construction Services Ltd for Repair of Liebherr Reach Stacker

On 5th January 2012, Mining Agricultural and Construction Services Ltd was hired to repair Liebherr Reach Stacker, the machine that was used for loading and off load cargo at Mukuba Depot. During the period from January 2014 to 31st July 2015 MOFED incurred labour charges, air travel costs, visa fees, daily rates, standard travel hour's costs to cater for Liebherr reach stacker Technician and spares in amounts totalling US$45,288. However, as at 30th September 2017, the machine was not operational.

i. Non-Current Assets

i. Lack of an Updated Non-Current Asset Register

ZAMCARGO Tanzania Limited Financial Regulations No. 6.8.8 (a) states that the company should maintain a Fixed Asset Register which should include among other things, name and description of the asset, date of acquisition/purchase, acquisition details, original cost of valuation, the serial number of the Asset, location, identification numbers, date and cost of major repairs, particulars of transfers, disposal and depreciation details.

However, the electronic asset register availed for audit was not updated in that the details were not showing what was procured, cost, the serial number of the asset, location, identification numbers, date and cost of major repairs, particulars of transfers, disposal and depreciation details.

ii. Lack of Title Deed for Plot Number 1616, MASAKI

As at 30th September 2017, the Company did not possess title deeds for the Property located at Plot Number 1616, Masaki occupied by the Chief Executive Officer. See picture below.

Plot 1616 Masaki

iii. Lack of Ownership Details for Leased Shed by Tanzania Port Authority

On 30th July 2012, the Zambian High Commissioner to Tanzania wrote to the Permanent Secretary, Ministry of Transport, Works, Supply and Communication on the lease of the Shed by Tanzania Ports Authority where it was revealed that Zambia had three (3) sheds in Mtwara, Tanzania, which were constructed by ZCCM and were run and managed by Zamcargo. It was further revealed that one (1) of the three (3) sheds at Mtwara Port had been leased by Tanzania Ports Authority (TPA) to a consortium of companies exploring for oil and gas in the area. The purpose of the inquiry was for MOFED to undertake a project to construct new storage facilities and refurbish the three existing sheds, undertake stock take of how many sheds were left by Zamcargo under ZCCM in the past years and also to find out how property changed hands and who was receiving the money for the leased shed, said to be 9,500 sq.s m3.

In June 2014, amounts totalling US$8,489 and TSh2,153,770 were spent as travel allowances for a team of two (2) board members and three (3) ZCL senior managers to visit Mtwara to verify how many sheds were left by Zamcargo under ZCCM, the lease with Tanzania Port Authority and who was receiving the money for the leased shed.

As at 30th September 2017, the matter had not been concluded.

iv. Failure to Replace Stolen Motor Vehicles

A review of minutes of asset disposal committee held on 28th August 2014 revealed that GEN Insurance compensated the Company a total amount of TSh88,900,000 for a motor vehicle T997 BSH Toyota Hilux belonging to MOFED (T) Limited which was stolen on 16th May 2012, at Kong owe, Temeke, Dar es Salaam

As at 30th September 2017, the car had not been replaced.

v. Failure to Dispose Obsolete Machinery

Section 3.1.1 and 3.1.2 of the Asset disposal policy states that each department shall be responsible for identification of obsolete, redundant and unserviceable assets which are no longer needed and shall send to the Secretary of Asset Disposal Committee with a list of assets recommended for disposal.

Although the Company's equipment was fully depreciated and obsolete, none of the departments had made any recommendations for disposals to the Secretary of Asset Disposal Committee.

vi. Loss of Government Land for a Dry Port – Nakonde

Mention was made in the report of the Auditor General on Parastatal bodies for the year ended 2011 on the questionable dealing at Nakonde Dry Port in which Nakonde District Council allocated 250,000 square metres (25) hectares of land to MoFED (T) Limited following the recommendation by the Ministry of Local Government and Cabinet Office to be used as a dry port. A review of the matter in July 2017 revealed that MoFED (T) Limited had lost the land through transfer to its partner ZAMESCO and had instead opted to apply for another piece of land on 16th September 2014. However, as at 31st August 2017, the land had not been issued.

The Zambia Institute of Mass Communications Education Trust

Background

25. The Zambia Institute of Mass Communication (ZAMCOM) was established as a training department of the Ministry of Information and Broadcasting Services in 1980. In 1991, it was transformed into a Statutory Board through an Act of Parliament. In 1996, it was incorporated into a Self-Financing Independent Educational Trust.

The Trust was established for the purpose of training regional media personnel, promoting research and the advancement of learning in mass communication in order to promote the development and appropriate utilisation of the media in Zambia and the region.

Board of Trustees

The Trust deed that establishes the Trust states that there shall be a Board of Trustees comprising seven (7) members which should include the Permanent Secretary responsible for information and broadcasting services, a director, a lawyer, a human resources specialist, an accountant, a print journalist and a broadcaster.

According to article 10 of the deed, the power to appoint and remove Trustees shall vest in the Board, provided that any appointment shall be upon recommendation of the Director. All Trustees other than the Director and the Permanent Secretary hold office for a period of three (3) years. Further, article 17 states that Trustees completing their term of office will be eligible for reappointment for a second consecutive term of office. However, no Trustee, other than the Director, may hold Office for three (3) consecutive terms.

According to the Act, the Board is supposed to meet quarterly and as need arises in a year to consider among other things the following:

i. To promote or carry out research

ii. To provide advice

iii. To publish or distribute information

iv. To cooperate with other bodies

v. To support, administer or set up other trusts

vi. To raise funds (but not by means of taxable trading)

vii. To borrow money and security for loans

viii. To acquire or hire property of any kind

ix. To let or dispose of any property of any kind

x. To make grants or loans of money and give to guarantees

Management

The day to day operations of the Trust is the responsibility of the Director who is appointed by the Board and is assisted by five (5) managers responsible for television, radio, print media, lodge and accounts.

Financing of the Trust

The Trust is financed by:

- Fees charged in respect of training courses, programmes, publications, seminars, consultancy and other services provided;
- Lease charges in respect of the hiring of facilities to third parties;
- Donations received from the Government of Zambia and other agencies in accordance with the agreements made between the Government of the Republic of Zambia and the donor agency or directly with the Trust;
- Donations from any other source subject to the approval of the Board;
- Income from investments and loans; and,
- Interest charged to debtors on overdue amounts.

Funding

In the Estimates of Revenue and Expenditure for the financial years ended 31st December 2014, 2015 and 2016, provisions in amounts totalling K1,451,760 were made to cater for various activities against which amounts totalling K1,451,754 were released.

In addition, ZAMCOM Educational Trust collected amounts totalling K17,468,033 from tuition and accommodation fees and other sources bringing the total income to K18,919,787. See table below.

Source	2016 K (Draft)	2015 K (Draft)	2014 K	Total K
GRZ	495,878	495,876	460,000	1,451,754
Tuition	1,503,810	2,100,097	1,927,492	5,531,399
Donor Funds	731,671	1,427,693	2,189,693	4,349,057
Lodge	2,188,714	1,997,475	2,423,846	6,610,035
Other	385,425	324,316	267,801	977,542
Total	**5,305,498**	**6,345,457**	**7,268,832**	**18,919,787**

Review of Operations

A review of accounting and other records maintained at the Trust for the years 2014 to 2016 carried out in July 2017 revealed the following:

a. Lack of a Risk Management Policy

It was observed that the Zambia Institute of Mass Communication Educational Trust did not have a documented risk management policy in place. As a result, no formal risk assessments had been carried out by the Institute in the years under review.

b. Lack of an Internal Audit Function

The role of an internal auditor in an organisation is to provide independent assurance on an organisation's risk management governance and assess whether the internal control processes are operating effectively.

Contrary to the ZAMCOM Audit and Risk Committee Terms of Reference paragraph V.3) and 12), there was no internal audit function at ZAMCOM during the period under review.

c. Failure to Produce Audited Financial Statements and Annual Reports

According to the Zambia Institute of Mass Communication Act No. 19 of 1996, the accounts of the Council shall be audited annually by independent auditors appointed by the Council with the approval of the Minister.

In addition, the Act states that within three (3) months of the accounting year end, the Trustees shall prepare Audited Financial Statements which will give a true and fair view of the performance and state of affairs of the Trust. The Audited Financial Statements shall be presented to the Annual General Meeting (AGM) of those members elected to attend the Annual General Meeting.

It was noted however that the Trust had not had their accounts audited since 2014. It was further observed that contrary to Article 45 of the ZAMCOM Annexure Constitution, the accompanying Trustees' Report on the performance of state of affairs and future outlook for the Trust for the financial years ended 2014, 2015 and 2016 had not been prepared.

Further, the Trust failed to submit annual reports to the Minister for the years ending 31st December 2014 to 2016 as of August 2017, contrary to section 20 of the ZAMCOM Act of 1991 which requires the Trust to submit to the Minister a report concerning the activities during the financial year.

d. Failure to Insure Trustees

Section 4.16 of the ZAMCOM Educational Trust Deed states that "the Trust will insure the Trustees against the cost of a successful defence to a criminal prosecution brought against them as Trustees or against personal liability incurred in respect of any act or omission which is or is alleged to be a breach of trust the act or omission was a breach of trust or breach of duty."

Contrary to the above clause, it was observed that no insurance cover had been taken for any Trustee, which may result in exposing the Trustees to possible future personal litigations, without due consideration that whatever act or omission committed was during the Trustee's performance of his/her fiduciary duty.

e. Lack of Appointment Letters for Board of Trustees

Contrary to the requirement of the ZAMCOM Educational Trust Deed, Section 6.1 which states that "The Trustees hereby appointed by the settler, accept office as such Trustees and agree to join this Deed for the purpose of declaring the trust interest and purpose thereof. Any subsequent Trustee shall be appointed by the current Trustees" and shall endorse or execute such deed or document as shall be necessary to invest in him or her the power to act as trustee. Any abuse of office by the Trustee may attract criminal prosecution or civil suit. A review of Board of Trustees files revealed the following:

- There were no appointment letters (either initial or subsequent) for three (3) Trustees
- There were no copies of acceptance letters in form of confirmation or acknowledgement of their appointments
- There were no renewal of appointments after expiry of tenure of office as indicated in the 67th Board meeting held on 23rd September 2016.

f. Non Payment of Statutory Contributions

During the period under review, ZAMCOM owed amounts totalling K17,490,887 in respect of statutory contributions as shown in the table below.

Details	Amount K
PAYE	1,018,354
NAPSA-Contribution	16,472,533
Total	**17,490,887**

As at 31st August 2017, the outstanding amounts had not been paid to relevant authorities.

g. Failure to Pay Outstanding Salary Arrears

Salaries from the period January 2013 to March 2016 in amounts totalling K1,158,871 for members of staff had not been paid by the Institution as shown in the table below.

Details	Amount K
Current Members of staff	898,601
Lecturers (Current)	147,930
Separated Staff	112,341
Total	**1,158,871**

h. Lack of Asset Identification Marks

Contrary to the ZAMCOM Accounting Policies and Procedure manual paragraph 11.3.3.3, assets valued at K15,555,395 had no unique asset identification marks which could be matched to the fixed asset register.

i. Unvouched Expenditure

Contrary to Financial Regulation Numbers 45, 52(1) and 65 of 2006, a total amount of K68,070 was unvouched in that it was either inadequately supported or the vouchers were missing.

j. Obsolete Studio Equipment

An inspection of the Studios for ZAMCOM revealed that the Institute was using analogue equipment. With the pending migration to digital transmission in October 2017 as set by the Zambia Information Communication Technology Authority (ZICTA), the Institute's studio equipment will be rendered obsolete.

Obsolete studio equipment

Zambia Medicines Regulatory Authority

Background

26. The Zambia Medicines Regulatory Authority (ZAMRA) was established as a corporate body under the Pharmaceutical Act No. 14 of 2004 which was later repealed and replaced by the Medicines and Allied Substances Act No. 3 of 2013.

The functions of the Authority are to:

- Ensure that medicines and allied substances being made available in Zambia conform to the required standards of safety, quality and efficacy throughout their chain of distribution/supply, sale and use;
- Grant pharmaceutical licenses and marketing authorisations;
- Inspect any premises used for the purpose of manufacturing, distribution, sale, importation or exportation of medicines and allied substances;
- Register and regulate pharmacies, health shops and agro-veterinary shops;
- Regulate and monitor the conduct of clinical trials.

Administration of the Authority

According to Part II 7 (1) to (4) of the Medicines and Allied Substances Act No. 3 of 2013, the Authority is governed by a board of directors consisting of the following fourteen (14) part-time members appointed by the Minister responsible for Health:

i. A representative of the Pharmaceutical Society of Zambia;

ii. A representative of the Medical Association of Zambia;

iii. A representative of the Health Professions Council of Zambia;

iv. A representative of the department of pharmacy of a higher education institution;

v. A representative of the School of Veterinary Medicine of a higher education institution;

vi. A representative of the pharmaceutical industry;

vii. A representative of the Ministry responsible for health;

viii. A representative of the Ministry responsible for commerce;

ix. A representative of the Ministry responsible for veterinary services;

x. A representative of the Ministry responsible for community development;

xi. A representative of the Veterinary Association of Zambia;

xii. A representative of the Attorney-General; and

xiii. Two other persons.

The Minister appoints the Chairperson of the Board from among the members while the Vice-Chairperson is elected by the members from amongst themselves. The Board members hold office for a period of three (3) years from the date of appointment and are eligible for re-appointment for another tenure.

The day-to-day running of the Authority is the responsibility of the Director General who is the Chief Executive Officer and is assisted by the Directors of Medicines Control, Laboratory Services and Corporate Services.

Sources of Funds

According to Part II 8(1) of the Act, the funds of the Authority shall consist of such moneys as may-

i. be appropriated to the Authority by Parliament for the purposes of the Authority;

ii. be paid to the Authority by way of fees, grants and donations; and

iii. otherwise vest in or accrue to the Authority.

Funding

During the financial years ended 31st December 2012, 2013, 2014, 2015 and 2016, the Authority generated revenue in amounts totalling K90,927,449 from various sources as shown in the table below.

Details	2016 K	2015 K	2014 K	2013 K	2012 K	Total K
Fees	29,456,782	21,091,947	11,182,929	12,117,212	7,993,212	81,842,082
Interest	1,353,514	600,410	795,450	828,323	688,127	4,265,824
Laboratory project funding(WHO)	-	105,925	30,420	12,944	600,000	749,289
EU funding of the HSSP Project	3,170,760	-	-	-	-	3,170,760
MSH Funding for Health Shop project	544,540	-	-	-	-	544,540
WHO	-	-	-	354,955	-	354,955
Total	**34,525,596**	**21,798,281**	**12,008,799**	**13,313,434**	**9,281,339**	**90,927,449**

In addition, the Authority was funded amounts totalling K6,932,200 from the Treasury against a total budgetary provision of K7,622,708. See table below.

Year	Provision K	Releases K	Underfunding K
2016	1,557,549	1,297,001	(260,548)
2015	1,557,550	1,297,001	(260,549)
2014	1,546,124	1,544,848	(1,276)
2013	1,530,816	1,403,248	(127,568)
2012	1,430,669	1,390,101	(40,568)
Total	**7,622,708**	**6,932,200**	**(690,508)**

Review of Operations

An examination of accounting and other records maintained at the Authority's Headquarters and selected stations for the financial years ended 31st December 2012, 2013, 2014, 2015 and 2016 carried out during the period from January to March 2017 revealed the following:

a. Failure to Fill Key Positions

Out of the authorised staff establishment of one hundred and twenty seven (127), eighty one (81) positions were filled, leaving forty six (46) vacancies. Included in the vacant positions, were that of Internal Auditor, Legal Officer and thirty (30) Inspectors.

b. Lack of a Communication Policy

According to the Act, the Authority shall serve and protect the public interest in all matters relating to the sale of medicines and allied substances. This shall be done through public awareness so as to sensitise the general public of their rights with regard to medicines and allied substances.

Contrary to the Act, the Authority did not have a Communication Policy during the period under review.

c. Failure to Maintain a Register of Pharmacies, Agro-veterinary and Health Shops

According to Part III Sections 31 (1) and 32 of the Act, the Authority was supposed to maintain a register of registered pharmacies, agro-veterinary and health shops. In addition, the Authority was supposed to publish annually, the names of all the pharmacies, agro-veterinary and health shops registered under the Act in a daily newspaper of general circulation in Zambia.

It was however observed that during the period under review, the Authority neither maintained a register nor published annually the names of registered pharmacies, agro-veterinary and health shops.

d. Failure to Inscribe 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 marks on an inconspicuous part of the object for easy identification, the Authority did not mark assets costing K1,659,369 procured during the period under review with unique identification marks.

e. Lack of Storage Space for Seized Medicines and Allied Substances

An inspection of Nakonde, Chirundu and Livingstone offices revealed that the stations did not have adequate storage space for seized medicines and allied substances.

f. Failure to Adopt ICT Standards and Frameworks

There are several standards and frameworks, which are applicable internationally and generally used in the implementation, operation and auditing of Information and Communication Technology (ICT) environments. These standards can be adopted and customised to suit a particular institution. These include among others:

- Ministry of Health ICT standards and Guidelines
- Information System Audit and Control (ISACA), Standards and guidelines;
- Control objectives for Information and related Technologies (CoBIT),
- The Information Technology Infrastructure Library (ITIL),
- ISO 27001:2013 Information Security Management Systems,
- ISO/IEC 20000 – Information Technology Security Management Standard,
- Generic Framework for Information Management

However, as at 30th September 2017, the Authority had not adopted any ICT Standards and frameworks for managing its ICT operations. In this regard, the Authority did not have an IT Strategy Committee, information security policy, disaster recovery plan and business continuity plan.

Zambia National Broadcasting Corporation

Background

27. The Zambia National Broadcasting Corporation (ZNBC) is a statutory corporation established by an Act of Parliament. The Corporation is wholly owned by the Government and its principal activity is to provide information, entertainment and education to the people of the Republic of Zambia.

Administration

According to the Zambia National Broadcasting Corporation Act No. 20 of 2002, ZNBC is governed by a Board of Directors which consists of nine (9) part time directors who are appointed by the Minister, subject to ratification by the National Assembly.

The Directors hold office for a period of three (3) years and may be re-appointed for another term of three (3) years. During the period under review, ZNBC had a Board that served until its retirement on 16th December 2016. An interim Board was appointed on 17th December 2016.

Management

The Board of Directors appoints the Director General and other Directors on a renewable three (3) year term.

The Director General is responsible for the day to day operations of the Corporation and is assisted by the Corporation Secretary and Directors in charge of Finance, Engineering and Technical Services, Programmes, Sales and Marketing and Human Resource and Administration.

Source of Funds

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

i. payable to the Corporation;

ii. appropriated by Parliament for the purpose of the Corporation;

iii. paid to the Corporation by way of grants or donations; and

iv. vest in or accrue to the Corporation.

During the period under review, the Corporation received funds from the Treasury and raised its revenue through sales of broadcasting airtime, collection of television licence fees and receipt of investment income as shown in the table below.

Source	31/12/2016 K	31/12/2015 K	12/31/2014 K
Programming and Advertising Income	78,527,438	76,259,343	75,739,946
Television Levy	25,748,073	23,471,676	21,067,180
Grant Received from Government of Zambia	1,300,000	894,304	2,406,745
Totals	**105,575,511**	**100,625,323**	**99,213,871**

Review of Operations

A review of operations of the Corporation for the financial years ended 31st December 2015 and 2016 revealed the following:

a. Failure to Appoint a Full Board of Directors

Section 4 (1) of the Zambia National Broadcasting Corporation Act states that "There shall be a Board of Directors which shall, subject to the provisions of this Act, control the operations of the Corporation." Section 4 (2) of the ZNBC Act states that "The Board shall consist of (a) a Chairman appointed by the Minister on such terms and conditions as the Minister thinks fit; and (b) not less than six or more than nine other Directors appointed by the Minister on such terms and conditions including remuneration and allowances as he thinks fit."

The tenure of the Board expired on 16th December 2016. However, as at 31st August 2017, the full Board had not been appointed. Instead, the Corporation was governed by an interim Board appointed on 17th December 2016. The interim Board was composed of two members contrary to the requirements of both the Act and Board Charter.

In this regard, with only two (2) Board members, it was not clear how Board matters such as establishment of quorums, adoption of minutes and attending to matters that need specialist committees such as the audit committee issues could be done.

b. Agreement Star Times

On 12th May 2016, ZNBC and Star Times Communication Network Technology Co. Ltd of China (Star Times) entered into an agreement to invest in and establish a joint venture limited liability company called Topstar Communications Company Ltd. ZNBC was to own 40% shareholding in the company while Star Times was to have 60% during the initial twenty five (25) years of the existence of the company. After the twenty five (25) years elapse, the shareholding would be revised. ZNBC will maintain 40%, Star Times will have 30%, Public Institutions 20% while the general public (Zambians) will have the remaining 10%.

The joint venture agreement defined the scope of the joint venture company as follows:

- Provision of digital television (TV) signal transmission service for TV stations and charge transmission fee
- Provision of decoders of Set-Top- Boxes (STBs) for every household with a TV set
- Providing to each subscriber, a basic television package of no less than twenty five (25) channels which include local TV and international programs, and charge a monthly maintenance subscription fee of US$3 tax exclusive
- Providing the very poor families identified by government as such at half price
- Providing two free channels for digital television universal access to viewers who fail to pay monthly maintenance subscription of US$3.

The following was observed:

i. Failure to Make Cash Contribution in Topstar Joint Venture

Article 4.1 stated that ZNBC was going to pay US$40,000 as initial capital contribution to Topstar. Further, article 4.2 provided that "… All of the Shareholders shall make their capital contribution in cash to effect the initial paid up capital of US$100,000 whereas both parties will discuss and agree on cash and/ or alternative contribution forms for the purpose of subsequent capital increase". However, ZNBC did not make such initial cash contribution as agreed. The Board of ZNBC observed at their meeting of 12th May 2016 that ZNBC did not have such money to contribute towards the venture. As at the time of audit in September 2017, there was no evidence that the amount had been settled.

ii. Weaknesses in the Joint Borrowing with Topstar Communications Company Ltd

On 26th December 2016, the Government of the Republic of Zambia signed a Preferential Buyer Credit Loan Agreement with China Eximbank under which the bank was to avail to the Government a credit facility of US$232,181,138.85. The Loan proceeds were to be used in the supply, delivery, installing and commissioning of a National Digital Terrestrial Television Broadcasting System in Zambia under Phase II and Phase III of the project. As a condition precedent to the agreement becoming effective, the Government was required to sign an on lending agreement with ZNBC and Topstar Communications Company Ltd, a company in which ZNBC is joint venture partner with Star Times, and avail the signed copies to the Eximbank of China.

On un-specified date, ZNBC and Topstar Communications Company Ltd jointly signed an on lending credit agreement with the Minister of Finance for the purpose of Financing Zambia National Digital Terrestrial Television Migration Project under the following terms:

- 36.5% of the loan proceeds amounting to US$84,746,610.75 were to be apportioned to Zambia National Broadcasting Corporation and the rest to Topstar Communications Company Ltd.
- ZNBC and Topstar Communications Company Ltd were to repay the loan at an interest rate of 2% per annum at fixed interest rate on principal amounts withdrawn and outstanding
- The loan repayment period was fixed at twenty (20) years with five (5) years grace period on repayment of principal amounts
- The principal amount would be repaid to the Government in equal semi-annual installments after the grace period.

The following were however observed:

- **Acquisition of Loan without Business and Repayment Strategy**

  Best practice requires that prior to acquiring a loan, an organisation should have a strategy for repayment of the loan which among others should stipulate the timeframe for receiving loan proceeds, their application, expected cash inflows and outflows, net present values, rates of return, payback period and market viability of the expected revenue sources.

  It was, however, observed that there was no such strategy regarding the loan that ZNBC acquired. In this regard, it was further observed that while the on-lending agreement required that the ZNBC and Topstar should make the first payment of interest on 15th July 2017 amounting to $2,321,811.39, the project works were still ongoing, resulting in failure to honor the first interest payment.

- **Failure to Produce Escrow Account Management Agreement**

  Article 4.02 of the on-lending agreement provided that ZNBC and Topstar Communications Company Ltd would establish and maintain two Escrow bank accounts. The two accounts would be used to collect and transfer the revenues generated under the Project and other incomes and apply them on loan repayments. Further, article 6.12 of the Government Loan Agreement with Eximbank of China provided that an Escrow Management Agreement would be signed by the Government, the Eximbank, ZNBC and Topstar Communications Company Ltd.

  However, as at the time of audit in September 2017, no such agreements had been signed. Further, neither the agreement between the Government and China Eximbank nor the on lending agreement specified which revenues and incomes would be left for the operations of ZNBC and which ones would be for loan repayments.

c. Financial Performance – Statement of Comprehensive Income

	December 2016 (Draft)	December 2015 (Draft)	December 2014
	K	K	K
Revenue	**106,575,511**	**100,625,323**	**99,213,871**
Other income	1,840,201	3,743,194	1,450,822
Programme expenses	(3,401,219)	(7,192,258)	(5,334,177)
Advertising promotion expenses	(532,866)	(1,162,097)	(2,283,947)
Administrative expenses	(166,600,802)	(177,262,907)	(222,603,323)
Other operating expenses	(4,839,500)	(30,259,824)	(74,554,796)
	(173,534,186)	**(212,133,892)**	**(303,325,421)**
Results from operating activities	**(66,958,675)**	**(111,508,569)**	(204,111,550)
Net financing income/(costs)	**50,420**	**(467,141)**	**(3,129,835)**
Share of profit of equity-accounted investees(net of income tax)	**7,073,500**	**20,904,753**	50,390,825
Loss before income tax	**(59,834,755)**	**(91,070,957)**	**(156,850,560)**

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

i. Negative Profit Margins

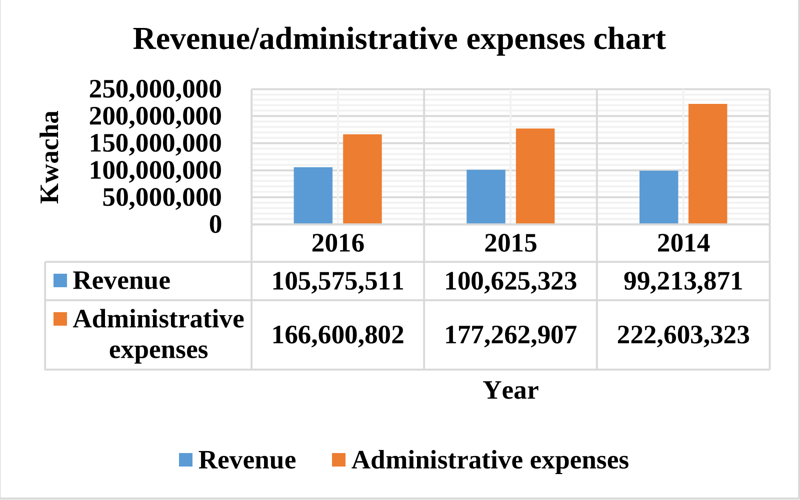
Profit margins measure the amount of profit per kwacha of revenue generated. A scrutiny of Statement of Comprehensive Income for the period under review revealed that ZNBC generated negative profit margins as tabulated below.

Net Profit Margin = Profit before income tax/Revenue x100

	Dec 2016	Dec 2015	Dec 2014
Loss before income tax (Kwacha)	(59,834,755)	-91,070,957	(156,850,560)
Revenue (Kwacha)	106,575,511	100,625,323	99,213,871
Net Profit Margins	**-56%**	**-91%**	**-158%**

As can be seen in the table above, the Corporation recorded negative net profit margins throughout the period under review due to sustained net losses incurred in the three (3) years. Although this ratio improved from negative 158% in 2014 to negative 91% in 2015 and negative 56% in 2016, the improvement was not adequate for the Corporation to record positive net profit margins.

Further, the Corporation's administrative expenses were higher than the revenue it generated as depicted in the chart below:

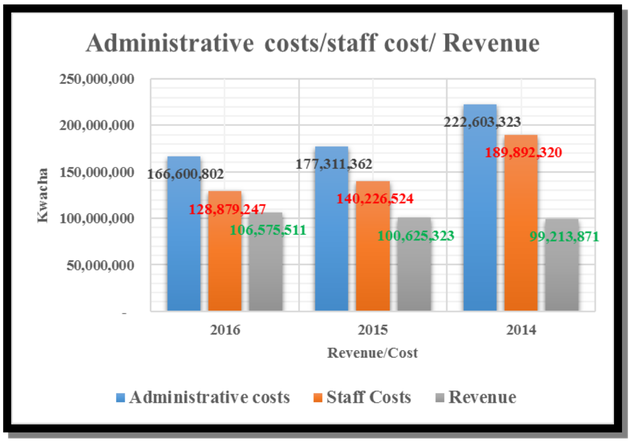


	2016	2015	2014
Revenue	105,575,511	100,625,323	99,213,871
Administrative expenses	166,600,802	177,262,907	222,603,323

As can be seen in the chart above, the administrative expenses were more than the revenue generated during the period under review. In 2014, ZNBC incurred K222,603,323 in administrative activities yet it generated revenue of K99,603,323 in the same year while in 2015 it incurred K177,262,907 compared with revenue of K100,625,323 and in 2016 generated K105,575,511 against administrative expenses of K166,600,802.

ii. Staff Cost Compared to Revenue Generated

An analysis of administrative costs revealed that much of it was made up of staff costs which were more than revenue generated in the period under review. See chart below:



As can be seen in the chart above, staff costs were more than the revenue generated and represented eighty one (81) percent of the administrative costs during the period under review. Despite recording an improvement in 2015 and 2016, the staff costs continued being more than the revenue generated.

d. Statement of Financial Position as at 31st December 2014 - 2016

	Dec 2016 (Draft) K	Dec 2015 (Draft) K	Dec 2014 K
Assets			
Non Current Assets			
Property and equipment	64,784,510	63,533,390	72,850,296
Investment	16,422,288	16,422,287	16,097,534
	81,206,798	**79,955,677**	**88,947,830**
Current Assets			
Inventories	739,639	505,432	471,416
Trade and other receivables	97,174,559	69,853,099	71,853,471
Prepayments	1,300,817	530,200	1,206,071
Cash at bank and in hand	4,328,591	6,226,248	5,427,290
	103,543,606	**77,114,979**	**78,958,248**
Total Assets	**184,750,404**	**157,070,656**	**167,906,078**
Funds, Grants & Liabilities			
Funds and Grants			
Capital fund	32,679	32,679	32,679
General reserve fund	(1,155,280,719)	-1,110,713,887	(1,019,642,930)
Capital grant fund	76,703,401	75,943,305	76,901,400
Non distributable reserves	15,000	15,000	15,000
	(1,078,529,639)	**(1,034,722,903)**	**(942,693,851)**
Liabilities			
Non Current Liabilities		0	
Capital grant	15,096,214	15,945,517	9,435,517
	15,096,214	**15,945,517**	**9,435,517**
Current Liabilities			
Loans and borrowings		0	0
Bank overdraft		109,307	9,402,389
Trade and other payables	**1,247,045,612**	**1,174,600,518**	1,090,623,806
Current tax liabilities	**1,138,217**	**1,138,217**	1,138,217
	1,248,183,829	**1,175,848,042**	**1,101,164,412**
Total Equity and Liabilities	**184,750,404**	**157,070,656**	**167,906,078**

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

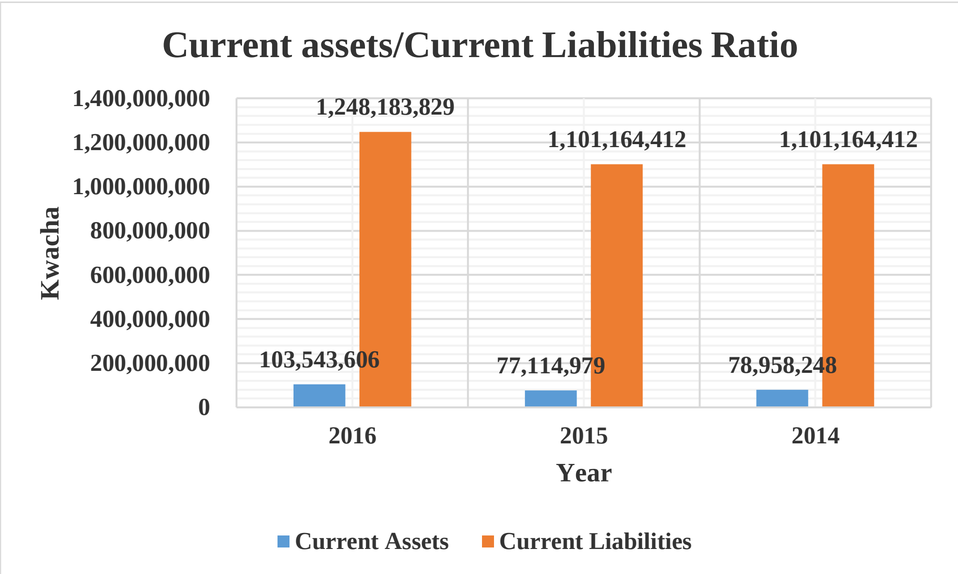
i. Current Ratio

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. A review of the current ratio for ZNBC is as shown in the table below.

Current ratio = Cuurent Assets/Current Liabilities

	2016 K	2015 K	2014 K
Current Assets	103,543,606	77,114,979	78,958,248
Current Liabilities	1,248,183,829	1,175,848,042	1,101,164,412
Current ratio	**0.083:1**	**0.066:1**	**0.007:1**

It can be seen in the table above, for every K1 current liability, the Corporation only had 9 ngwee current assets to settle it. See chart below.



As the chart above shows, the current liabilities exceeded the current assets. This was as a result of the Corporation not settling short term statutory obligations such as pension contributions and Pay As You Earn (PAYE) to the National Pension Scheme Authority (NAPSA) and the Zambia Revenue Authority (ZRA) respectively.

ii. Receivables Days

Receivables days measures how long on average the Corporation was taking to collect payments from its credit customers. The credit policy period for the Corporation during the period under review was forty five (45) days.

As shown in the table below, the Corporation's receivables days were consistently higher than the Corporation's policy of forty five (45) days.

	2015 K	2014 K
Net trade receivables	29,301,251	28,782,196
Revenue	100,625,323	99,213,871
Receivables days	106	106
Credit Period allowable - Days	45	45

In this regard, the Corporation was not efficient in collecting payments from its credit customers.

iii. Negative Equity

Equity is the total amount of owner's funds employed in financing an entity. It was observed that equity of ZNBC was negative throughout the period under review.

As can be seen in the Statement of Financial Position above, the negative working capital for the corporation was worsened over the three years from negative K942,693,851 in 2014 to negative K1,078,529,639 in 2016. The worsening negative working capital were generated by sustained accumulated losses throughout the period under review.

e. Financial Performance Analysis – Statement of Cash flows

During the period under review, the Statement of Cash flows were as shown below.

	Dec 2016 Draft K	Dec 2015 Draft K	Dec 2014 K
Operating activities			
Deficit for the year	(60,834,755)	(91,070,957)	(156,850,560)
Amortisation of capital grants	(89,204)	(958,095)	(821,191)
Interest income		(236,249)	(25,848)
Interest expense		148,904	2,008,876
Depreciation	5,968,490	11,481,376	7,088,639
Captalisation of assets from previous years		(627,738)	
Share of profit of equity	(7,073,500)	(20,904,753)	(50,390,825)
Profit on disposal	(521,845)	11,946	(52,129)
Provision written back		205,898	
	(62,550,814)	**(101,949,668)**	**(199,043,038)**
Changes in operating assets and liabilities			
Change in inventories	(237,120)	(34,016)	39,484
Change in receivables	5,154,221	2,000,372	(13,470,506)
Change in prepayments	5,965,308	675,871	(1,082,295)
Change in payables	49,168,462	83,976,712	178,276,984
	60,050,871	**86,618,939**	**163,763,667**
Cash generated from operations	**(2,499,943)**	**(15,330,729)**	**(35,279,371)**
Interest received	-	236,249	25,848
Interest paid	-	(148,904)	(2,008,876)
	-	**87,345**	**(1,983,028)**
Net cashflow from operating activities	**(2,499,943)**	**(15,243,384)**	**(37,262,399)**
Cash flows from investing activities			
Acquisition of property & equipment	(6,867,700)	(1,958,976)	(13,644,945)
Proceeds from sale of equipment	521,845	204,401	305,414
Dividends received	7,073,500	20,580,000	49,980,000
Net cash used in investing activities	**727,645**	**18,825,425**	**36,640,469**
Cash flows from financing activities			
Capital grant received	-	6,510,000	-
Repayment of short-term loan	-	-	(1,678,807)
Net cash from financing activites	-	**6,510,000**	**(1,678,807)**
Net increase in cash and cash equivalents	**(1,772,298)**	**10,092,041**	**(2,300,737)**
Cash and cash equivalent at the beginning	6,100,889	(3,975,100)	(1,674,363)
Cash and cash equivalent at the end	**4,328,591**	**6,116,941**	**(3,975,100)**

i. Failure to Generate Positive Cash flows from Operating Activities

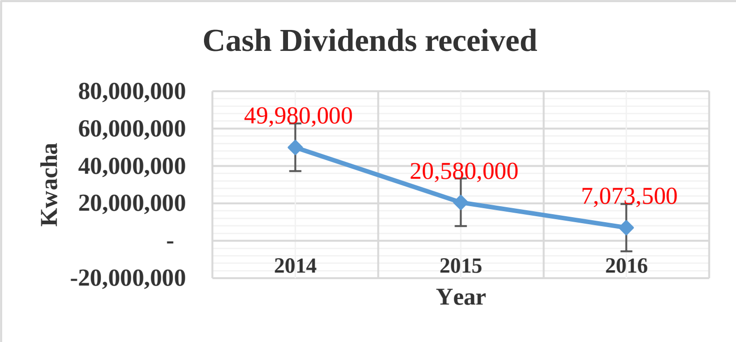
A scrutiny of the cash flow statement for the Corporation revealed that the Corporation recorded negative operating cash flows during the period under review. The cash flows improved from negative K37,262,399 in 2014 to negative K2,499,943 in 2016. The negative cash flows were attributed to operating losses.

ii. Analysis of Net Increase in Cash and Cash Equivalents

Although the Corporation generated net cash inflows for the year 2015 and 2016, a scrutiny of the statement of cash flows revealed that the net cash inflows generated did not come from operating activities but from the Government capital funding and dividends from associated company.

iii. Declining Cash Inflows from Investment in an Associate

During the period under review, cash inflow from dividends received from investment held in an associated company reduced from K49,980,000 in 2014 to K13,506,500 in 2016 as shown in the chart below.



f. Questionable Going Concern

Going concern is the ability of an entity to continue existing and providing services in the foreseeable future. The status of ZNBC as at 31st December 2016 as a going concern was questionable due to the following:

- The Corporation recorded a net loss of K59,834,755;
- The Corporation had negative accumulated funds (negative equity) amounting to K1,078,529,639;
- The Corporation had negative cash flows from operating activities amounting to K2,499,943; and
- The Corporation's current liabilities were higher than its current assets.

g. Non-Remittance of Statutory Contributions

It was observed that although the Corporation deducted Pay as You Earn (PAYE) and NAPSA contributions from its employees, the funds were not remitted to the relevant institutions. In this regard, the Corporation had unpaid statutory obligations to ZRA and NAPSA amounting to K458,824,474 as at 31st December 2016. See table below.

Name of Institution	Amount K
Zambia Revenue Authority (PAYE)	315,629,712
National Pension Scheme Authority (NAPSA)	143,194,762
Total	**458,824,474**

Further, the Corporation did not remit Value Added Taxes (VAT) in amounts totalling K552, 554,336 to Zambia Revenue Authority (ZRA).

Recommendations

28. In order for Government to maximise its wealth in investments in State Owned Enterprises (S.O.Es) and generate future wealth as well as achieve its social objectives and improve financial management and accountability in Statutory Bodies, the following are recommended respectively:

i. The Industrial Development Corporation should regularly monitor the performamce of SOEs to ensure that the objectives for which they are created are met,

ii. SOEs should devise and implement innovative and cost cutting measures to improve their operational efficiency to ensure self-sustainability,

iii. SOEs should ensure that statutory obligations to NAPSA and LASF are paid to secure the welfare of the employees,

iv. SOEs and other statutory bodies should ensure that their tax obligations to ZRA are paid,

v. Government should consider recapitalising viable SOEs and restructure those which are loss making,

vi. The Minister of Finance as the custodian of shareholding in the Industrial Development Corporation (IDC) and other State Owned Enterprises not under the shareholding of IDC should ensure that Corporate Governance Practices in the State Owned Enterprises are improved by ensuring among others that:

- Clear Board Charters are developed for all the State Owned Enterprises,
- State Owned Enterprises have Board of Directors at all times to drive their strategic direction,
- Boards of Directors have clear service contracts,
- Boards of Directors have clear calendars for Board meetings, and
- Boards have a robust process to evaluate their performance on a regular basis.

vii. SOEs should strengthen their internal control systems to reduce the risk of asset loss through unaccounted for revenue, unaccounted for stores and unretired imprest,

viii. Government should address the inability of the pension funds (LASF and PSPF) to pay pension obligations arising from declining number in contributing members, the mismatch betweeen contributions from members and benefits payable.

Conclusion

29. 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.

Acknowledgements

30. I wish to thank all my staff for their hard work during the course of the audits so as to ensure this report is produced despite having limited resources. I also wish to express my gratitude to the Secretary to the Treasury, the Accountant General and the Controlling Officers and their staff for their cooperation during the audit process. It is because of their cooperation that I was able to carry out the audits in an objective, efficient and effective manner.

Recommendations of the Public Accounts Committee (PAC) which have either not been Implemented or have been partially Implemented

31. 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 *(See Appendix 1below)* form part of the Report on the Accounts of Parastatal Bodies and Other Statutory Institutions for the Financial Year Ended 31st December 2016.

Appendix 1

Analysis of Closed and Outstanding Issues 2016

Para	**Name of Institutions**	**Total Issues Raised**	**Closed Issues**	**Outstanding Issues**	**Percentage Outstanding Issues (%)**
1	Chambeshi Water and Sewerage Company Limited (CHWSC)	40	2	38	95
2	Independent Broadcasting Authority (IBA)	4	0	4	100
3	The Judiciary	7	0	7	100
3	Kwame Nkrumah University	8	0	8	100
4	Lukanga Water and Sewerage Company Limited	19	1	18	95
5	The Mulungushi University	19	2	17	89
6	The Mulungushi Village Complex	20	1	19	95
7	The National Housing Authority	15	2	13	87
8	Nitrogen Chemicals of Zambia (NCZ)	34	0	34	100
9	Southern Water and Sewerage Company Limited	12	1	11	92
10	The Tanzania Zambia Railway Authority (TAZARA)	22	0	22	100
11	Tobacco Board of Zambia	5	1	4	80
12	Water Resources Management Authority (WARMA)	5	0	5	100
13	Zambia Forestry and Forest Industries Corporation Limited (ZAFFICO)	18	2	16	89
14	Zambia Revenue Authority (ZRA)	7	2	5	71
15	The Zambia Wildlife Authority (ZAWA)	23	20	3	13
16	ZSIC Group of Companies	13	1	12	92
	Totals	**298**	**35**	**263**	

Analysis of Closed and Outstanding Issues 2015

S/N	Details	Issues raised	Closed Issues	Outstanding Issues	Percentage Outstanding (%)
1	The Copperbelt University (CBU)	11	0	11	100
2	Competition and Consumer Protection Commission	13	10	3	23
3	Citizens Economic Empowerment Commission	5	1	4	80
3	Energy Regulation Board	4	0	4	100
4	Food Reserve Agency	6	1	5	83
5	Hotel and Tourism Training Institute (HTTI)	7	1	6	86
6	Judiciary	23	4	19	83
7	National Heritage Conservation Commission	40	16	24	60
8	North Western Water and Sewerage Company	66	22	44	67
9	National Youth Development Council	10	3	7	70
10	Road Development Agency	8	4	4	50
11	Rural Electrification Authority (REA)	6	3	3	50
12	TAZAMA Pipelines Limited	12	7	5	42
13	Water Resources Management Authority	6	3	3	50
14	Western Water and Sewerage Company	47	26	21	45
15	ZESCO Limited	22	0	22	100
16	Zambia National Broadcasting Corporation	29	10	19	66
17	Zambia Railways Limited	48	12	36	75
		399	**148**	**251**	

Analysis of Closed and Outstanding Issues 2014

S/N	Details	Issues raised	Closed Issues	Outstanding Issues	Percentage Outstanding (%)
1	The Copperbelt University (CBU)	29	19	10	34
2	Competition and Consumer Protection Commission	44	11	33	75
3	Citizens Economic Empowerment Commission	36	6	30	83
3	Energy Regulation Board	49	15	34	69
4	Food Reserve Agency	45	11	34	76
5	Hotel and Tourism Training Institute (HTTI)	53	11	42	79
6	Judiciary	46	10	36	78
7	National Heritage Conservation Commission	46	11	35	76
8	North Western Water and Sewerage Company	48	4	44	92
9	National Youth Development Council	36	6	30	83
10	Road Development Agency	32	12	20	63
11	Rural Electrification Authority (REA)	39	14	25	64
12	TAZAMA Pipelines Limited	38	14	24	63
13	Water Resources Management Authority	34	12	22	65
14	Western Water and Sewerage Company	31	13	18	58
15	ZESCO Limited	48	11	37	77
16	Zambia National Broadcasting Corporation	47	10	37	79
17	Zambia Railways Limited	51	11	40	78
	Totals	**924**	**273**	**651**	

Analysis of Closed and Outstanding Issues 2013

S/N	Details	Issues raised	Closed Issues	Outstanding Issues	Percentage Outstanding (%)
1	Development Bank of Zambia	18	12	6	33
2	Kafubu Water and Sewerage Company	13	7	6	46
3	Kitwe City council	6	6	0	0
3	Local Authorities Superannuation Fund	19	14	5	26
4	Luapula Water and Sewerage Company	11	5	6	55
5	Lusaka Water and Sewerage company	14	9	5	36
6	Mofed Tanzania	18	9	9	50
7	Mukuba Hotel	15	11	4	27
8	Nkana Water and Sewerage Company	14	10	4	29
9	Patents and Companies Registration Agency (PACRA	13	9	4	31
10	The Public Service Pension Fund Board (PSPFB)	17	8	9	53
11	Zambia National Building Society (ZNBS)	19	10	9	47
12	Zambia Postal Service Corporation (ZAMPOST)	16	14	2	13
13	Zambia Telecommunications Company Limited (ZAMTEL)	12	12	0	0
14	Zambia Consolidated Copper Mines Investments Holdings (ZCCM-IH) Plc	11	9	2	18
	Totals	**252**	**170**	**82**	

Analysis of Closed and Outstanding Issues 2012

S/N	Details	Issues raised	Closed Issues	Outstanding Issues	Percentage Outstanding (%)
1	Citizens Economic Empowerment Commission	9	5	4	44
2	Electoral Commission of Zambia	14	4	10	71
3	Judiciary	9	7	2	22
3	Mulungushi University	11	6	5	45
4	UNZA	8	2	6	75
5	ZAMNET Communications System	6	4	2	33
6	Times Printpak Zambia	14	4	10	71
7	Eastern Water and Sewerage Company	10	5	5	50
8	Lukanga Water and Sewerage Company	8	4	4	50
9	Southern Water and Sewerage Company	5	5	0	0
10	Indeni Petroleum Refinery	11	2	9	82
11	Nitrogen Chemicals of Zambia	12	9	3	25
12	National Airports Corporation	8	2	6	75
13	Zambia Railways	9	3	6	67
14	Zambia Bureau of Standards	12	6	6	50
15	Zambia Development Agency	13	5	8	62
16	National Pensions Scheme Authority	8	3	5	63
17	Zambia State Insurance Corporation	16	6	10	63
18	Zambia Wildlife Agency	14	3	11	79
	Totals	**236**	**106**	**130**	

Analysis of Closed and Outstanding Issues 2011

S/N	Details	Issues raised	Closed Issues	Outstanding Issues	Percentage Outstanding (%)
1	The Copperbelt University (CBU)	9	8	1	11
2	Electoral Commission of Zambia	12	10	2	17
3	Energy Regulation Board	9	5	4	44
3	Examination Council of Zambia	8	6	2	25
4	Food Reserve Agency	11	11	0	0
5	Mofed Tanzania	2	2	0	0
6	Mpulungu Harbour	9	6	3	33
7	Mweru and Bangwelu Waterways	15	12	3	20
8	Nkana Water and Sewerage Company	6	6	0	0
9	North Western Water and Sewerage Company	8	6	2	25
10	Administrator General and Official Receiver	8	8	0	0
11	Public Service Pension Fund	9	9	0	0
12	Rural Electrification Authority (REA)	13	11	2	15
13	TAZAMA Pipelines Limited	9	8	1	11
14	Western Water and Sewerage Company	8	5	3	38
15	Workers Compensation Fund Control Board	11	9	2	18
16	Zambia Daily Mail	10	8	2	20
17	Zambia Environmental Management Agency	9	9	0	0
18	Zambia National Broadcasting Corporation	6	6	0	0
19	Zambia Revenue Authority	15	13	2	13
	Totals	**220**	**187**	**33**	

Analysis of Closed and Outstanding Issues 2010

S/N	Details	Issues raised	Closed Issues	Outstanding Issues	Percentage Outstanding (%)
1	Administrator General and Official Receiver	8	6	2	25
2	Citizens Economic Empowerment Commission	6	5	1	17
3	Electoral Commission of Zambia	9	6	3	33
3	Examination Council of Zambia	5	3	2	40
4	Lusaka Water and Sewarage Company	5	3	2	40
5	MOFED Tanzania	4	3	1	25
6	Mulungushi International Conference Centre	6	5	1	17
7	National Housing Authority	8	4	4	50
8	National Institute of Public Administration	5	3	2	40
9	National Pensions Scheme Authority	6	4	2	33
10	National Savings and Credit Bank	6	4	2	33
11	Road and Transport Safety Agency	5	3	2	40
12	Tanzania Zambia Railways	9	6	3	33
13	Tobacco Board of Zambia	8	4	4	50
14	University Teaching Hospital	8	6	2	25
15	University of Zambia	11	6	5	45
16	Zambia National Building Society	15	10	5	33
17	ZAMPOST	6	5	1	17
18	Zambia Revenue Authority	6	4	2	33
19	ZAMTEL	8	6	2	25
20	ZESCO Limited	5	4	1	20
	Totals	**178**	**128**	**50**	

Analysis of Closed and Outstanding Issues 2009

S/N	Details	Issues raised	Closed Issues	Outstanding Issues	Percentage Outstanding (%)
1	Citizens Economic Empowerment Commission	6	6	0	0
2	Chipata School of Nursing	9	8	1	11
3	Judiciary	11	8	3	27
3	Local Authorities Superannuation Fund	6	4	2	33
4	National Economic Advisory Council	5	1	4	80
5	National Heritage Conservation Commission	5	4	1	20
6	National Savings and Credit Bank	11	9	2	18
7	Ndola Central Hospital	9	6	3	33
8	Nkana Water and Sewerage Company Limited	6	5	1	17
9	Road Transport and Safety Agency	9	4	5	56
10	State Lotteries Board	6	3	3	50
11	Tropic Diseases Research Centre	9	2	7	78
12	Zambia Institute of Mass Communication Education Trust	6	4	2	33
13	Zambia Public Procurement Authority	7	3	4	57
14	Zesco Limited	8	6	2	25
15	Zambia State Insurance Corporation	11	9	2	18
	Totals	**127**	**85**	**42**	